

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR

☐ (g) OF THE

SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended September 30, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE
SECURITIES EXCHANGE ACT OF 1934

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

For the transition period from to

Commission file number 1-14872

SAPPI LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of South Africa

(Jurisdiction of incorporation or organization)

48 Ameshoff Street

Braamfontein

Johannesburg 2001

Republic of South Africa

(Telephone: +27-11-407-8111)

(Address and telephone number of principal executive offices)

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

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

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

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

None

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

None

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

239,071,892 Ordinary Shares

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

YES ☒ NO ☐

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

YES ☐ NO ☒

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

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

YES ☒ NO ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

ITEM 17 ☐ ITEM 18 ☒

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

U.S. GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

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

YES ☐

NO ☒

*

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

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OUR USE OF TERMS AND CONVENTIONS IN THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

references to "PM" are to individual paper machines.

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

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

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

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

ACCOUNTING PERIODS AND PRINCIPLES

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

CURRENCY OF PRESENTATION AND EXCHANGE RATES

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

FORWARD-LOOKING STATEMENTS

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

The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

the highly cyclical nature of the pulp and paper industry;

the impact on our business of the global economic downturn;

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

any major disruption in production at our key facilities;

changes in environmental, tax and other laws and regulations;

adverse changes in the markets for our products;

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

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

adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;

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

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

These factors are fully discussed in this Annual Report. For further discussion on these factors, see "Item 3–Key Information–Selected Financial Data", "Item 3–Key Information–Risk Factors", "Item 4–Information on the Company", "Item 5–Operating and Financial Review and Prospects–Financial Condition and Results of Operations", "Item 10–Additional Information–Exchange Controls" and note 30 to our Group annual financial statements included elsewhere in this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the filing of this Annual Report and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

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

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

Year Ended September			
2008	2007	2006	2005
US\$ million, except per share data			

Group Income Statement Data:

Sales ⁽¹⁾	5,863	5,304	4,941	5,018
Operating profit (loss)	314	383	125	(109)
Net profit (loss)	102	202	(4)	(184)
Basic earnings (loss) per share (US cents)	45	89	(2)	(81)
Diluted earnings (loss) per share (US cents)	44	88	(2)	(81)

Dividends per share (US cents) ⁽²⁾	16	32	30	30
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Year Ended September			
2008	2007	2006	2005
US\$ million			

Group Balance Sheet Data:

Total assets	6,109	6,344	5,517	5,889
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Net assets	1,605	1,816	1,386	1,589
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Operating assets ⁽³⁾	5,794	5,919	5,219	5,452
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Total long-term borrowings	1,832	1,828	1,634	1,600
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Shareholders' equity	1,605	1,816	1,386	1,589
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Other Information:

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

EBITDA ⁽⁴⁾	688	758	517	315
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Weighted average number of ordinary shares in issue (in million) ⁽⁵⁾	228.8	227.8	226.2	225.8
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number of ordinary shares in issue at fiscal year end (in million) ⁽⁵⁾	229.2	228.5	227.0	225.9
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⁽¹⁾ Sales are defined in note 2.2.21 to our Group annual financial statements included elsewhere in this Annual Report.

- (2) The dividends per share were, in each case, declared after the end of the year indicated. The dividend for fiscal 2008 is payable on all ordinary shares in issue on November 28, 2008, which does not include ordinary shares issued in the Rights Offering. For further information on our dividend policy, see "Item 8–Financial Information–Dividend Policy".
- (3) Operating assets are defined in note 3 to our Group annual financial statements included elsewhere in this Annual Report.
- (4) In compliance with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled EBITDA to net profit rather than operating profit. As a result, our definition retains non-trading profit / loss and minority interest as part of EBITDA. EBITDA represents earnings before interest (net finance costs), taxation, depreciation and amortization. Net finance costs include: gross interest paid; interest received; interest capitalized; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful and commonly used measure of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.

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

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

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

Risk Factors

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

Risks Related to Our Industry

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

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

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

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

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

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

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

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

Worldwide economic conditions have recently experienced a significant downturn due to credit conditions impacted by the subprime mortgage crisis and other factors, including slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns, resulting in significant recessionary pressures and lower business and consumer confidence. Global demand for coated fine paper started to decline in the second half of fiscal 2008 and into fiscal 2009, and pulp demand and pulp prices decreased in the latter part of fiscal 2008 and into fiscal 2009. We may continue to experience a slowing in demand in all our major markets and downward pressure on pricing in many markets, which could adversely affect our business, results of operations and financial condition, including difficulties in maintaining previous operating performance. In anticipation of slowing demand, we took production down

time in December 2008 and we will consider taking further down time in fiscal 2009 to balance supply and demand. While the full impact of the downturn may not occur until 2009 or beyond, we cannot predict the timing or the duration of this or any other downturn in the economy.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Business

Our indebtedness may impair our financial and operating flexibility.

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

The level of our debt has important consequences, including:

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

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

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

we may be more leveraged than certain of our competitors;

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

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

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

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

Our ability to refinance our debt, incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments. In the third quarter of fiscal 2008, the global debt markets were subject to significant pressure triggered by the collapse of the sub-prime mortgage market in the U.S. This liquidity crunch continued through and worsened in calendar 2008, leading to unprecedented volatility in the financial markets, an acute contraction in the availability of credit, including in interbank lending, and the failure of a number of leading financial institutions. Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, have resulted in worsening general economic conditions. As a result, certain government bodies and central banks worldwide have undertaken unprecedented intervention programs, the effects of which remain uncertain. In addition, since 2006 the Group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) (currently BB / Stable) and Moody's (currently Ba2 / Stable). These adverse developments in the credit markets and in our credit rating, as well as other future adverse developments, such as further deterioration in the financial markets and a worsening of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be

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

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

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

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

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

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

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

Fluctuations in the value of currencies, particularly the Rand and the Euro, in relation to the US dollar, have in the past had and could in the future have a significant impact on our earnings in these currencies.

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

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

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

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

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

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

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

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

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

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

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

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

The selling prices of the majority of the products manufactured and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. In addition, we have been experiencing increasing costs of a number of raw materials due to global trends beyond our control. The global warming and carbon footprint imperatives are causing the increased use of sustainable, non-fossil fuel, sources for electricity generation. Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards,

especially during winter in the Northern hemisphere. In addition, the price of crude oil recently reached historically high levels. Although oil prices have since decreased, they are could return to high levels in the foreseeable future because of, among other things, political instability in the oil producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

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

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

Increased energy prices could adversely affect our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

unexpected losses of customers or suppliers of the Acquired Business;

challenges in integrating IT systems and administrative services;

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

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

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

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

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

difficulties in mitigating contingent and assumed liabilities.

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

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

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

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

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

Risks Related to Our Shares

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

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

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

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

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

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

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

BUSINESS OVERVIEW

Our Business

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

Business strategy

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

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

Investment Highlights

Ongoing industry rationalization in Europe

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

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

Efficient asset base

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

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

High level of economic pulp integration and expansion of pulpwood operations

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

volatility on our earnings. Two of the mills we acquired from M-real Corporation, Kirkniemi and Stockstadt, are also integrated pulp mills.

Leading market positions

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

Global presence

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

Focus on product innovation and customer service

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

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

Overview

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

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

The total consideration for the Acquisition was € 750 million and was subject to a deduction based on the amount of net debt of the Acquired Business at completion and an adjustment for the difference between the target working capital and the

actual working capital at completion. The Acquisition consideration represents a price of approximately € 400 per tonne of annual paper production capacity acquired.

We funded the consideration for the Acquisition as follows:

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

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

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

Acquired Business

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

Mills

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

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

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

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

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

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

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

EuroArt Plus—coated woodfree paper;

Tauro—uncoated woodfree paper; and

hardwood pulp.

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

Cento–uncoated woodfree multi-purpose printing paper;

Allegro–coated woodfree paper; and

Furioso–coated woodfree paper.

Coaters

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

Marketing and Distribution Rights

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

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

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

Supply Agreements

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

Ancillary Assets of the Acquired Business

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

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

Transferred Employees

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

The Pulp and Paper Industry

Overview

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

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

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

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

<u>Major Product Categories</u>	<u>Description and Typical Uses</u>
<i>Fine Paper:</i>	
Coated paper	Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include brochures, catalogues, corporate communications materials, direct mail promotions, educational textbooks, luxury advertising, magazine covers and upscale magazines.
Uncoated paper	Uses include business forms, business stationery, general printing paper, tissue and photocopy paper.

Speciality paper

Can be either coated or uncoated. Uses include bags, labels, packaging and release paper for casting textured finishes (e.g., artificial leather).

Packaging products:

Packaging paper	Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sack kraft (multi-walled shipping sacks) and machine glazed kraft (grocer's bags). Can be coated to enhance barrier and aesthetics properties.
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Groundwood products:

Newsprint	Manufactured from groundwood and bleached chemical pulp. Uses include advertising inserts and newspapers. Demand is highly dependent on newspaper circulation and retail advertising.
Coated groundwood / magazine paper	A coated groundwood fiber based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.

Pulp:

Paper pulp	Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fiber derived from wood. These cellulose fibers may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibers to leave cellulose fibers. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.
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Chemical cellulose

Manufactured by similar processes to paper pulp, but purified further to leave virtually pure cellulose fibers. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fiber products, including viscose staple fiber (rayon), solvent spun fiber (lyocell) and filament. It is also used in various other cellulose-based applications in the food, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders. The various grades of chemical cellulose are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the chemical cellulose is one of the key determinants of its suitability for particular applications with the purer grades of chemical cellulose generally supplied into the speciality segments.

Timber products:

Sawn timber for construction and furniture manufacturing purposes.

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

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

⁽¹⁾ 100 gsm sheets, RISI.

⁽²⁾ 60 lb. Coated Web, RISI.

⁽³⁾ 50 lb. Offset, RISI.

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

⁽⁵⁾ Selected indicative prices, Sappi.

Fine Paper

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

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

Our North American coated fine paper sales volume for fiscal 2007 was 31% in sheet form and 69% in reel form, and for fiscal 2008 was 24% in sheet form and 76% in reel form. The sheet volume is largely influenced by brochure and general commercial printing activities and printers using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal, and corporate annual reports, which result in heaviest demand during the first calendar quarter. Reels volume is

heavily influenced by catalogue activity, which is strongest in the third and fourth calendar quarters, text book activity, which is strongest in the second and third calendar quarters, and publication printer activity, which is not particularly seasonal. These printers principally use heatset web offset printing processes.

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

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

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

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

Groundwood Products

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

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

Packaging Products

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

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

Pulp

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

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

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

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

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

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

Timber Products

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

Business Review

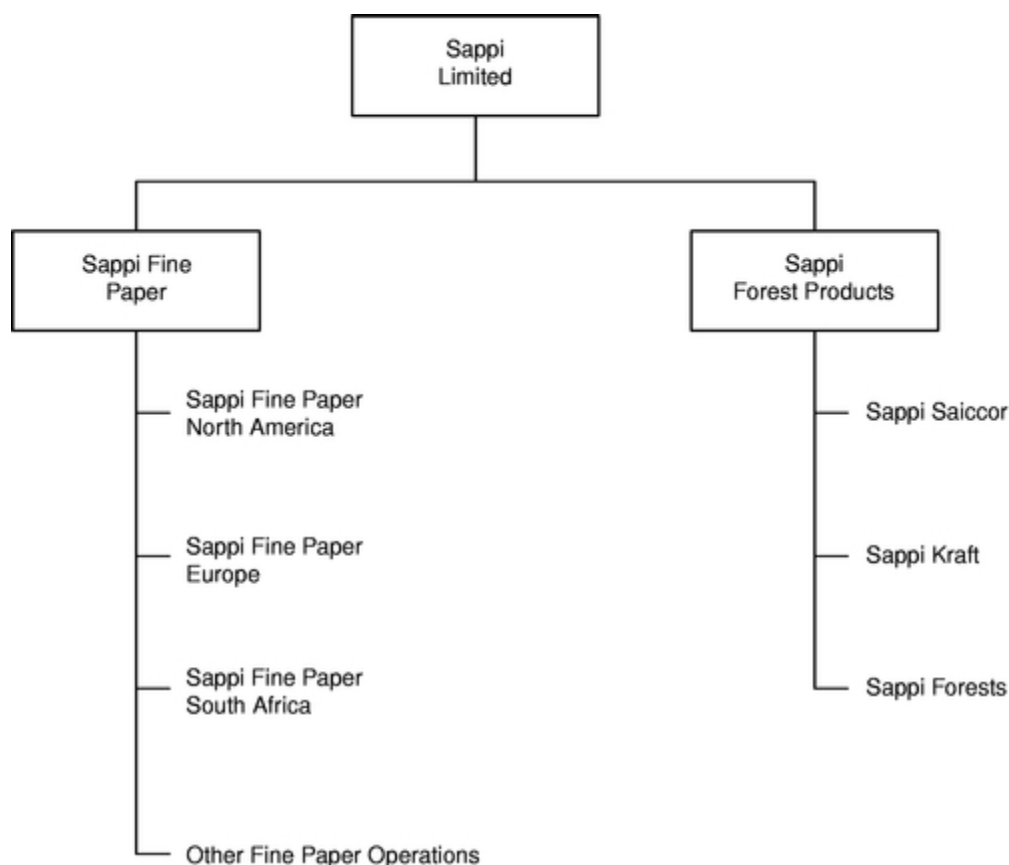
Sappi Fine Paper is our largest operating segment, accounting for approximately 65% of our sales volume for fiscal 2008 and approximately 63% of our sales volume in fiscal 2007. It has an aggregate annual paper production capacity of 4.4 million tonnes at 14 paper and related paper pulp mills in North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

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

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

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

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



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

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

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

On December 31, 2008, we acquired specific assets of M-real Corporation's coated graphic paper business, including four of M-real Corporation's graphic paper mills in Finland, Germany and Switzerland, with an aggregate annual production capacity

of 1.9 million tonnes, and three coaters from other M-real Corporation mills in Germany and Austria. See "The Acquisition of M-real Corporation's Coated Graphic Paper Business".

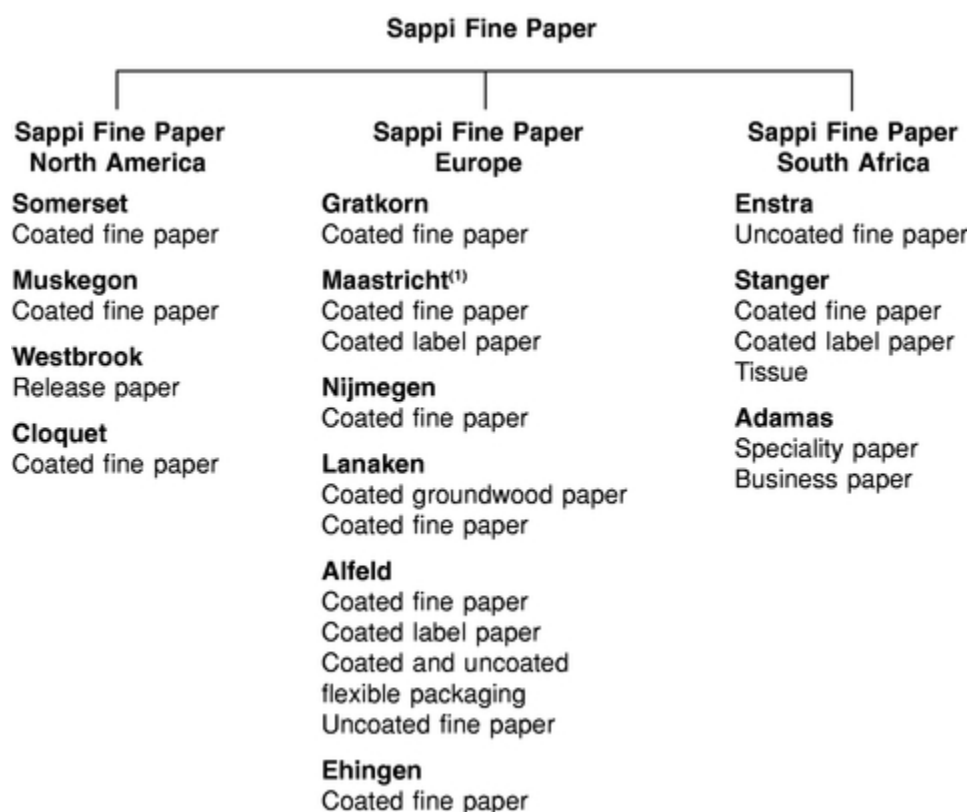
SAPPI FINE PAPER

Overview

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

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

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



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

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

	Annual Production Capacity			
	North America	Europe	South Africa	Total
Production capacity ('000s tonnes):				
Fine paper				
Coated ⁽¹⁾⁽⁵⁾	1,290	2,710	80	4,080
Uncoated ⁽²⁾	–	–	270	270

Total ⁽³⁾	1,290	2,710	350	4,350
Paper pulp	900	695	165	1,760
Percentage paper pulp integration ⁽⁴⁾	114%	48%	59% ⁽⁶⁾	65%

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

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

(3) Excludes Chinese joint venture tonnes.

(4) Includes pulp used internally and pulp sold.

(5) Includes 120,000 tonnes for the Blackburn mill which ceased production in October 2008 and 60,000 tonnes for the PM5 at Maastricht which ceased production in December 2008.

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

Facilities and Operations

Sappi Fine Paper North America

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

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

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

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

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

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

(2) Other consists primarily of market pulp.

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

Production capacity ('000s tonnes)	Mill Locations			
	Cloquet	Somerset	Muskegon	Westbrook
Paper	330	760	170	30

Number of paper machines	2	3	1	1
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Products

Paper	Coated fine paper	Coated fine paper	Coated fine paper	Casting release paper
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Market pulp	Bleached kraft pulp	Bleached kraft pulp	–	–
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Percentage pulp integration ⁽¹⁾	232%	94%	None	None
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Capital expenditures (October 2005-September 2008) (US\$ million)	37	141	10	20
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⁽¹⁾ Includes pulp sold to third parties.

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

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

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

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

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

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

Sappi Fine Paper Europe

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

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

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

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

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

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

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

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

⁽²⁾ Includes pulp sold to third parties.

Alfeld. The Alfeld mill is located to the south of Hannover, Germany, and its origins date back to 1706. It has a paper production capacity of approximately 370,000 tonnes and a pulp production capacity of approximately 125,000 tonnes per annum. It produces coated fine and speciality paper products, which are mainly coated and have a variety of finishes. In 1995 a major rebuild of Alfeld's PM 3 was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM

3 employs a fully integrated concept of in-line coating and calendaring. The Alfeld mill produces totally chlorine-free ("TCF") bleached sulphite pulp for its own use. In early 2002, a rebuild of Alfeld's PM 2 was completed. Alfeld spent approximately € 50 million on the rebuild of its PM 2.

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

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

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

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

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

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

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

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

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

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

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

Sappi Fine Paper South Africa

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

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

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

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

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

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

Percentage pulp integration	53%	54%	None
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Capital expenditures (October 2005-September 2008) (US\$ million)	18	13	9
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Enstra. The Enstra mill is the largest mill of Sappi Fine Paper South Africa, with a capacity of approximately 200,000 tonnes of elemental chlorine-free uncoated fine paper products per annum. In 1996, the Enstra mill completed a US\$ 96 million capital expenditure program. This program increased capacity by 50,000 tonnes per annum and has resulted in improved production efficiency and product quality. The product range at the Enstra mill caters to the business forms, scholastic, office, envelope and general printing industries. The mill has a capacity of 105,000 tonnes per annum of bleached hardwood pulp. The mill uses an oxygen bleaching process, which is a process that was developed at the mill in the 1970s and has since become the industry standard.

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

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

Marketing and Distribution

Overview

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

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

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

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

Sappi Fine Paper North America

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

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

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

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

Sappi Fine Paper Europe

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

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

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

Sappi Fine Paper South Africa

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

Customers

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

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

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

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

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

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

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

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

Competition

Overview

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

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

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

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

North America

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

Europe

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

Southern Africa

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

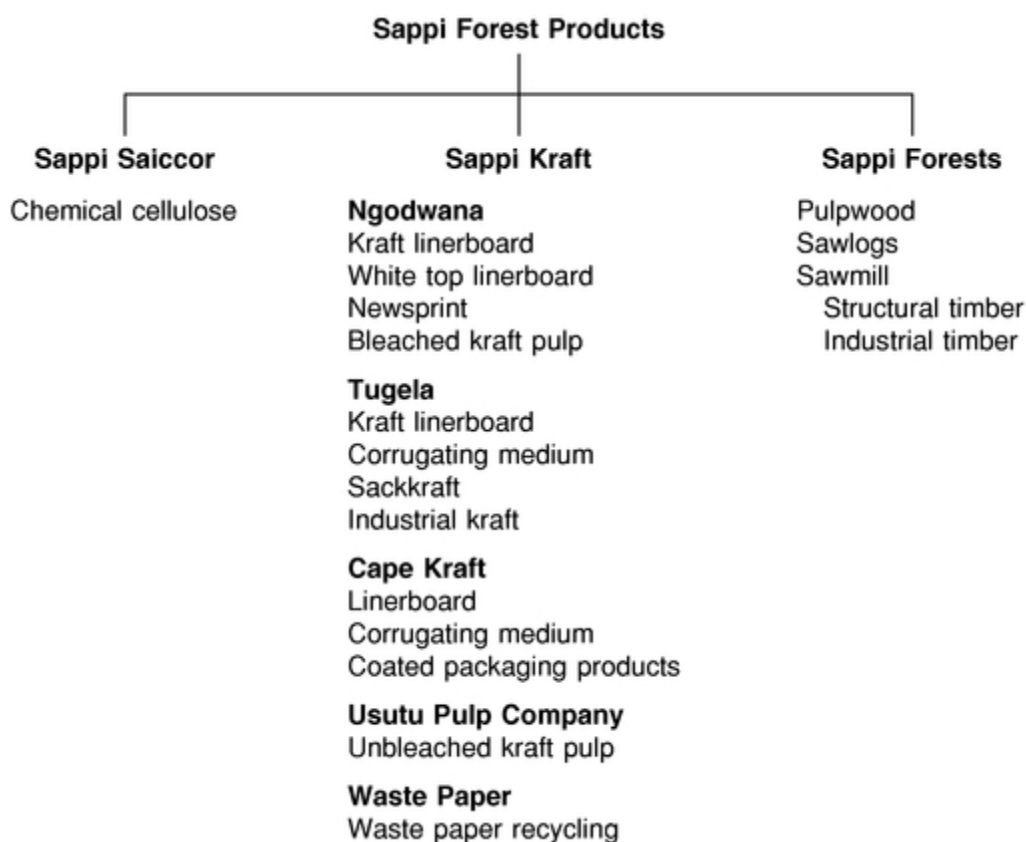
SAPPI FOREST PRODUCTS

Overview

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

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

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



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

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

⁽¹⁾ Includes newsprint and packaging products.

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

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

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

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

(1) Includes Sappi Saiccor capacity increase, which came on-line in September 2008.

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

(3) Represents 78,000 cubic meters.

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

Facilities and Operations

Sappi Saiccor

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

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

is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various ethers for the chemical industry. It is also used to manufacture cellophane film for use in a variety of packaging applications.

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

Sappi Kraft

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

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

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

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

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

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

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

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

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

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

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

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

Sappi Forests

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

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

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

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

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

Marketing and Distribution

Overview

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

Customers

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

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

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

Competition

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

SUPPLY REQUIREMENTS

Overview

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

North America

Wood

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

Pulp

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

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

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

Energy Requirements

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

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

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

Chemicals

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

Europe

Wood

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

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

The wood chips used in the Lanaken CTMP plant are purchased through Sapin S.A. ("Sapin"), a 50%-50% joint venture company operated together with Norske Skog. Sapin was initially formed on November 25, 1986, pursuant to a joint venture

agreement between the predecessors of Sappi Lanaken and Norske Skog. Under the agreement, as amended in September 2003, the parties agree to utilize Sapin exclusively to furnish the entire wood requirements of the joint venture partners' affiliated mills.

Pulp

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

Energy Requirements

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

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

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

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

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

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

Chemicals

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

Acquisition of coated graphic paper business from M-real Corporation

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

Southern Africa

Wood

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

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

Pulp

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

Energy Requirements

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

Chemicals

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

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Matters

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

dioxide ("CO₂") and other greenhouse gases ("GHG"), wastewater discharges and waste management. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. See note 33 to our Group Annual Financial Statements included elsewhere in this Annual Report for more information.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations. The State of Maine had its first hearing in December 2008 to determine whether it will require Sappi Fine Paper North America to install a fishway at its Cumberland mills dam on the Presumpscot River. A fishway on the Cumberland mills dam would trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland mills dam, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of these projects, if required, is estimated to be approximately US\$ 18 million. Previous settlement discussions with government agencies and environmental groups regarding the removal of the Cumberland mills dam were not successful. It is expected that a decision will be made by the State by June 2009.

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

Europe

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

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

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

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

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

South Africa

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

The Minister of Environment Affairs and Tourism considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMI's) in his department. The EMI's prioritized various sectors of industry and inspected

those sectors in the course of the past two years. In 2008, the EMI's focused attention on the pulp and paper sector, signaling more stringent enforcement for Sappi mills.

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

The primary South African environmental laws affecting our operations are:

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

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

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

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

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

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

Safety Matters

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

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

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

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

In South Africa, we must comply with a number of laws regulating workers' compensation for injuries and health and safety within the workplace, the most important of which is the Occupational Health and Safety Act and related regulations. Our South African businesses have instituted measurement for evaluating compliance with this legislation. Seven of the eight mills, as well

as Sappi Forests, are both OHSAS 18001:1999 and ISO 14001:2004 certified for health and safety management systems and environmental management systems, respectively.

ORGANIZATIONAL STRUCTURE

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

<u>Name</u>	<u>Trading Name</u>	<u>% Held</u>	<u>Country of Incorporation</u>	<u>Nature of Business</u>
<i>Southern Africa</i>				
Sappi Management Services (Pty) Ltd	Sappi Management Services.	100	South Africa	Management services
Sappi Manufacturing (Pty) Ltd	Sappi Manufacturing or Sappi Forest Products or Sappi Fine Paper or Sappi Saiccor or Sappi Kraft or Sappi Forests or Sappi Waste Paper	100	South Africa	Pulp and paper manufacturer and forestry operations
Usutu Pulp Company Ltd	Sappi Usutu	100	Swaziland	Pulp manufacturer and forestry operations
<i>America</i>				
S.D. Warren Company	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
Sappi Cloquet LLC	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
<i>Europe</i>				
Sappi Alfeld GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Austria Produktions GmbH and Co KG	Sappi Fine Paper	100	Austria	Pulp and paper manufacturer
Sappi Deutschland GmbH	Sappi Fine Paper	100	Germany	Sales and marketing

Sappi Ehingen GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Esus Beteiligungsverwaltungs GmbH	Sappi Fine Paper	100	Austria	Holding company
Sappi Europe SA	Sappi Fine Paper	100	Belgium	European head office
Sappi Holding GmbH	Sappi Holding	100	Austria	Holding company
Sappi International SA	Sappi International	100	Belgium	Treasury
Sappi Lanaken NV	Sappi Fine Paper	100	Belgium	Paper manufacturer
Sappi Lanaken Press Paper NV	Sappi Fine Paper	100	Belgium	Pulp and paper manufacturer
Sappi Maastricht BV	Sappi Fine Paper	100	Netherlands	Paper manufacturer
Sappi Nijmegen BV	Sappi Fine Paper	100	Netherlands	Paper manufacturer
Sappi Papier Holding GmbH	Sappi Papier Holding or Sappi Fine Paper	100	Austria	Pulp and paper manufacturer Treasury and holding company
Sappi Trading Pulp AG	Sappi Trading	100	Switzerland	Sales and marketing
Sappisure Försäkrings AB	Sappisure	100	Sweden	Captive Insurance company

Asia

Jiangxi Chenming Paper Co Ltd	Jiangxi Chenming	34	China	Operating Joint Venture
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PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

<u>Location</u>	<u>Use</u>	<u>Approximate Size⁽¹⁾</u>
<i>Sappi Limited</i>		
Johannesburg, South Africa	Sappi Headquarters ⁽²⁾	15,078 m ²
<i>Sappi Fine Paper</i>		
Sappi Fine Paper North America		
Boston, Massachusetts	Headquarters ⁽³⁾	34,928 sq ft
Skowhegan, Maine (Somerset mill)	Manufacturing facility: coated paper, softwood and hardwood pulp ⁽⁴⁾	2,659 acres
Muskegon, Michigan	Manufacturing facility: coated paper and a warehouse	123 acres
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility ⁽⁴⁾ Storage and shredding facility	305 acres
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp ⁽⁴⁾	1,038 acres
Allentown, Pennsylvania	Coated paper sheeting facility	30 acres

Dayton, New Jersey	Distribution center ⁽⁵⁾	14 acres
South Portland, Maine	Shared financial and customer service office ⁽²⁾	48,433 sq ft
Sappi Fine Paper Europe		
Brussels, Belgium	Headquarters ⁽⁶⁾	3,836 m ²
Gratkorn, Austria	Manufacturing facility: coated paper and pulp	98.8 ha
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	32.6 ha
Alfeld, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	33.3 ha
Ehingen, Germany	Manufacturing facility: coated paper and pulp	35.7 ha
Blackburn, England	Manufacturing facility: coated paper	36.0 ha
Wesel, Germany	Distribution center ⁽⁷⁾	62.1 ha
Sappi Fine Paper South Africa		
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp ⁽⁸⁾	582.7 ha
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp ⁽⁸⁾	55.4 ha
Adamas, South Africa	Manufacturing facility: uncoated paper and recycled packaging paper	7.2 ha
Sappi Forest Products		

Johannesburg, South Africa Headquarters⁽⁹⁾

Sappi Saiccor

Umkomaas, South Africa Manufacturing facility: chemical cellulose⁽⁸⁾ 159.4 ha

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

Sappi Forests

Barberton, South Africa (Lomati Sawmill)	Sawmill	24.6 ha
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- ⁽¹⁾ The approximate size measurement relates to, in the case of manufacturing and distribution facilities, the perimeter of the property on which the principal manufacturing or distribution facilities are situated and, in the case of offices, the interior office space owned or leased.
- ⁽²⁾ Subject to a lease expiring in 2015.
- ⁽³⁾ Subject to a lease expiring in 2011.
- ⁽⁴⁾ A portion of the equipment is subject to lease agreements.
- ⁽⁵⁾ Subject to a lease expiring in 2010.
- ⁽⁶⁾ Subject to leases expiring in 2016.
- ⁽⁷⁾ Of the total 62,140 m², 8,800 m² is subject to a lease that operates on a year-to-year basis. The remainder of the property is subject to a heritable building right ("Erbbaurecht").
- ⁽⁸⁾ Substantial assets are leased pursuant to capital lease agreements.

(9) Included under Sappi Limited headquarters.

Sappi Plantations

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

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

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

Company and Business Overview

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

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

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

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

Total	100%	100%	100%	100%	100%	100%
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Sappi Fine Paper has a total paper production capacity of 4.4 million tonnes per annum. Our group is one of the global market leaders in the coated fine paper business with a capacity of 3.4 million tonnes of coated fine paper per annum.

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

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

Beneficial Shareholding by Region

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

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

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

Principal Factors Impacting on Group Results

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

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

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

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

Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives

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

Completion of the Sappi Saiccor expansion project

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

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

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

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

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

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

Markets

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

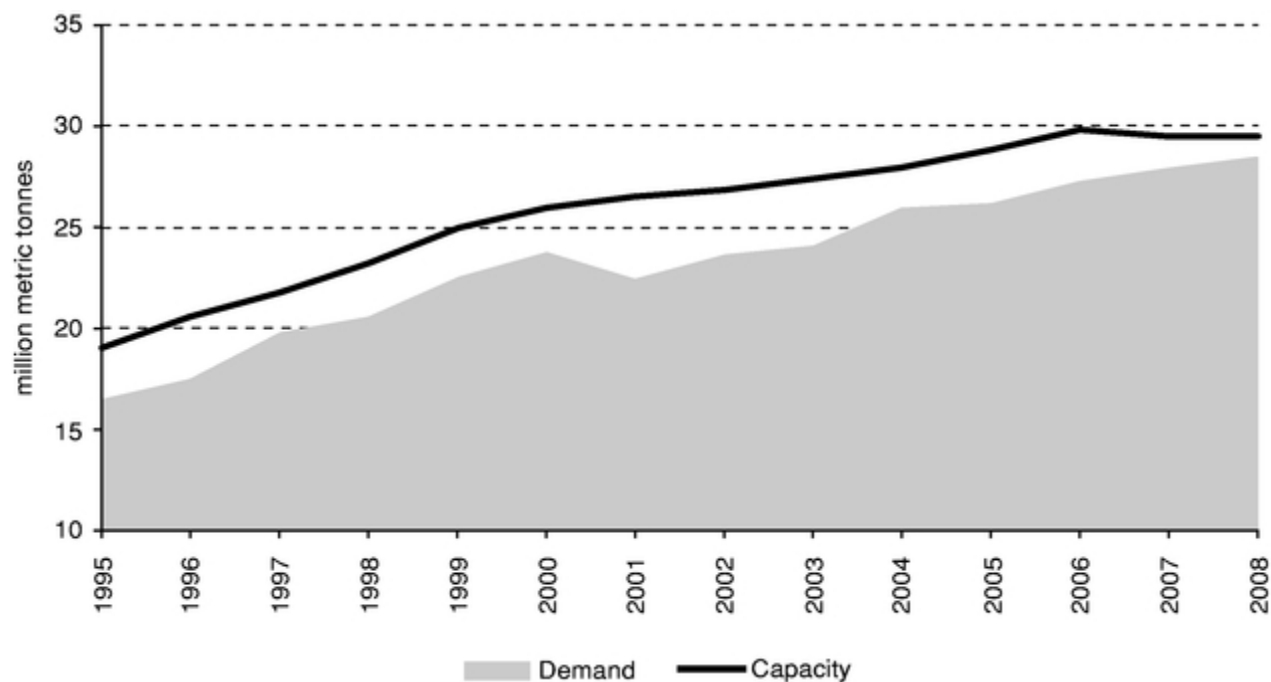
Worldwide economic conditions have recently experienced a significant downturn, resulting in significant recessionary pressures and lower business and consumer confidence. As a result, although the full impact of the downturn may not occur until later in the year, we may experience a slowing in demand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

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

Coated Fine Paper

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

Global Coated Fine Paper Market Balance



Source: EMGE.

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

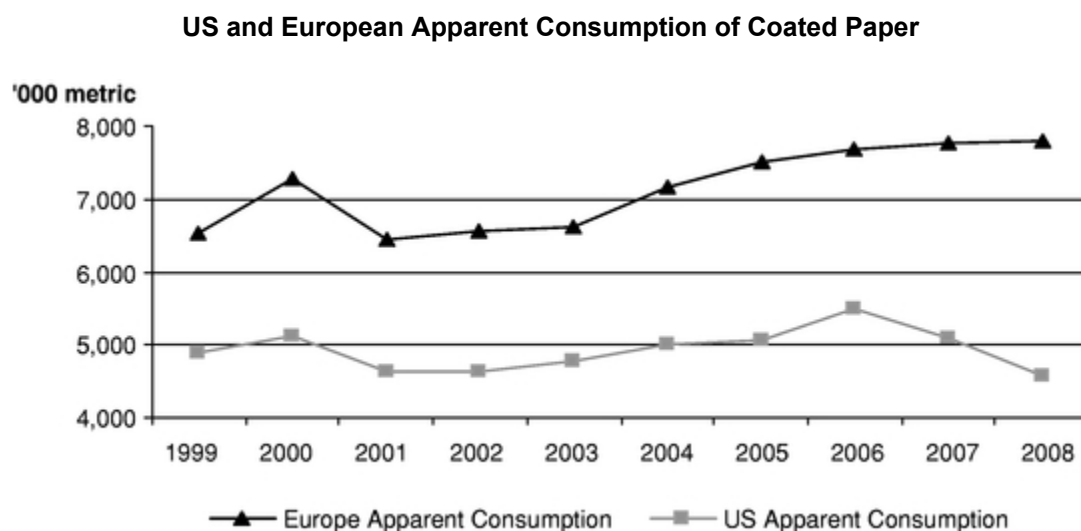
In North America the tight supply / demand conditions existed in fiscal 2006 as inventory throughout the supply chain dropped, giving rise to price increases. In total, North American apparent consumption grew by 8.6% in fiscal 2006 but declined by 7.2% in fiscal 2007. Apparent consumption further declined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

In Europe, demand for coated fine paper was flat in fiscal 2008 as compared to fiscal 2007. Demand grew by 1.4% in fiscal 2007 and 2.3% in fiscal 2006. Capacity utilization, including exports, was high in fiscal 2007 and fiscal 2008. Despite relatively flat

demand year-on-year and sharp increases in input costs, attempts to increase prices in the European market in fiscal 2007 and in fiscal 2008 were unsuccessful due to intense

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

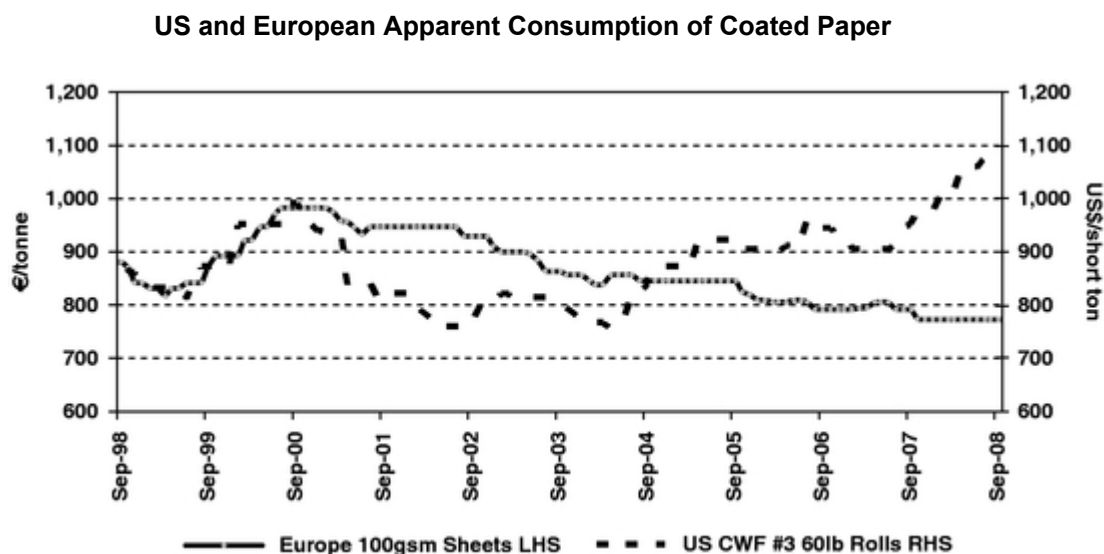
The graph below reflects apparent consumption for the United States and Europe. Apparent consumption is consumption as indicated by mill sales volumes, which ignores the impact of customer inventory and the reclassification of imports. The sales volume to customers is used as the indicator of demand,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



Source: AF&PA & Cepifine.

US short tonnes converted to tones.

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



Source: RISI (Resource Information System Inc).

Prices are list prices. Actual transaction prices could differ.

Coated Fine Paper–North America

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

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

Coated Woodfree Paper–Europe

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

Coated Magazine Paper–Europe

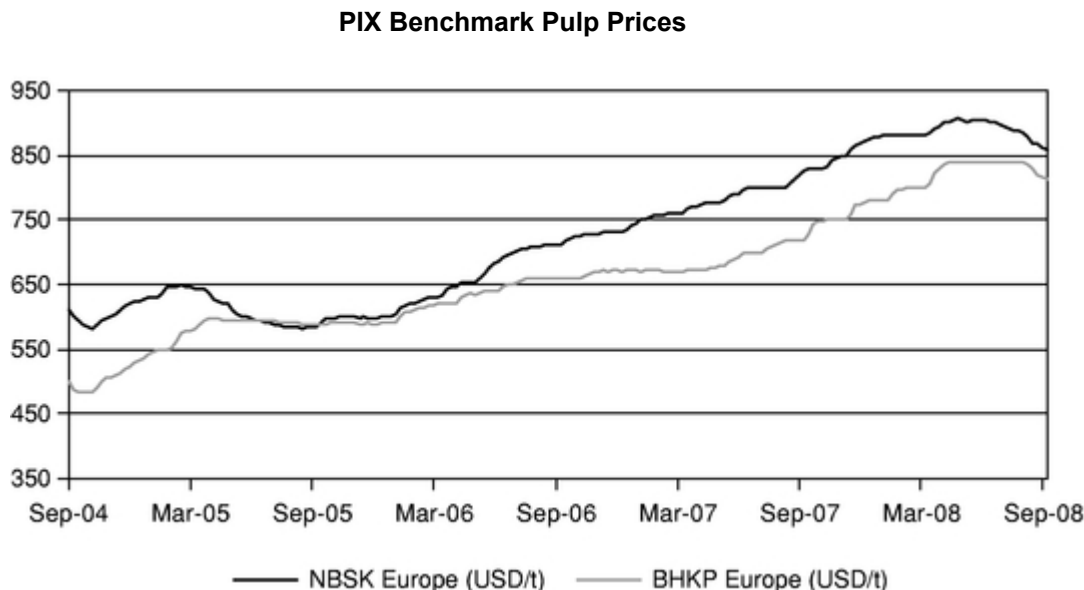
European deliveries of coated magazine paper increased by 1.5% in fiscal 2008 compared to fiscal 2007, while average market prices for coated magazine paper in Europe increased by 4.4%. In fiscal 2007, deliveries by producers of coated magazine paper increased approximately 2.3%. The price development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

Pulp

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

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

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



Source: PIX (Index from Foex Indexes Ltd).

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

Currency Fluctuations

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

The appreciation of the ZAR or the Euro against the US\$ tends to diminish the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US\$ has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US\$ has a negative effect on gross margins on exports and

such domestic sales which are priced relative to international US\$ prices. The appreciation of the US\$ has the opposite impact.
The Group's consolidated

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

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



Source: St. Louis Federal Reserve Bank.

US\$ 1 = ZAR, US\$ 1 = EUR.

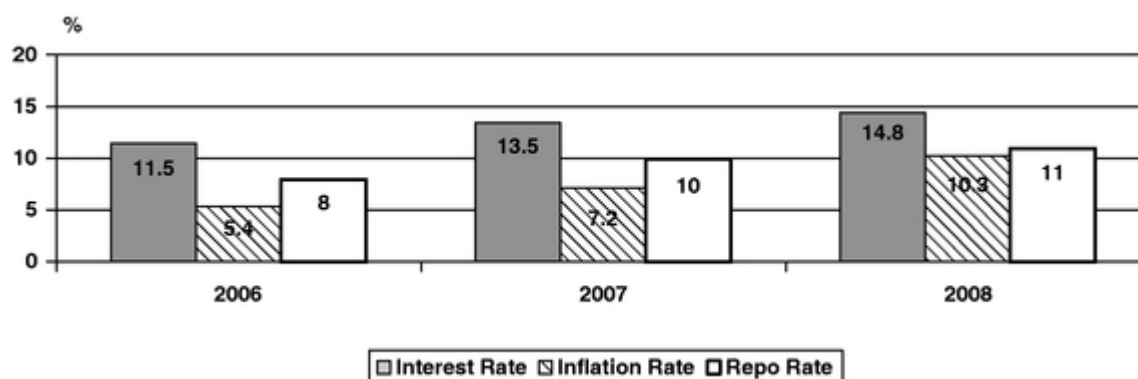
The profitability of certain of our South African operations are directly dependent on the ZAR proceeds of their US\$ exports. Prices in the local South African market are also influenced by pricing of foreign currency imports.

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

Inflation and Interest Rates

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

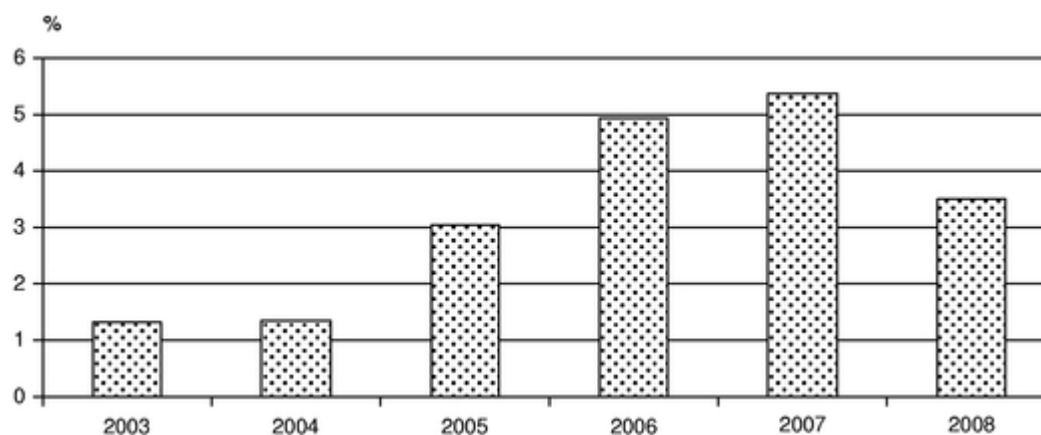
South African Inflation and Interest Rates



Source: Standard Bank South Africa.

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

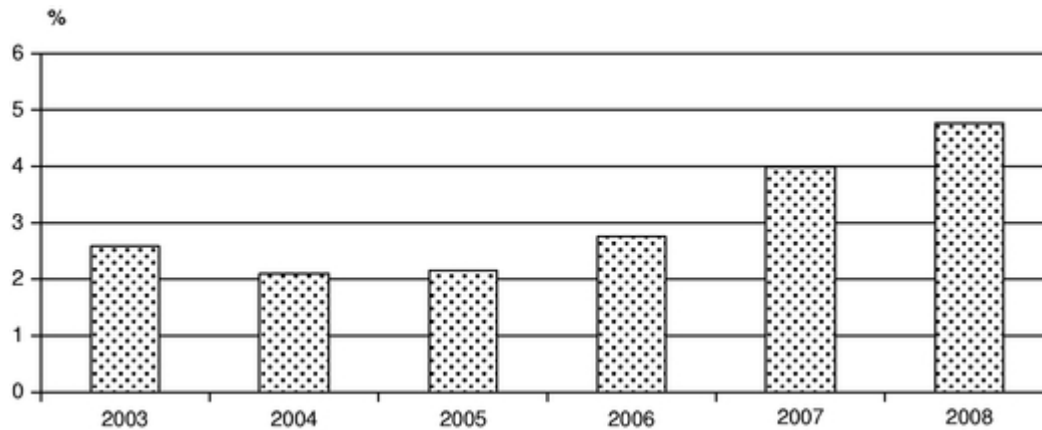
United States 3 Month Average Libor



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

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

European 3 Month Euribor



The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilize approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimized by means of hedge accounting, fair value accounting or other means.

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

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

South African Economic and Political Environment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Matters

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

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

Operating Results

Financial Condition and Results of Operations

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

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

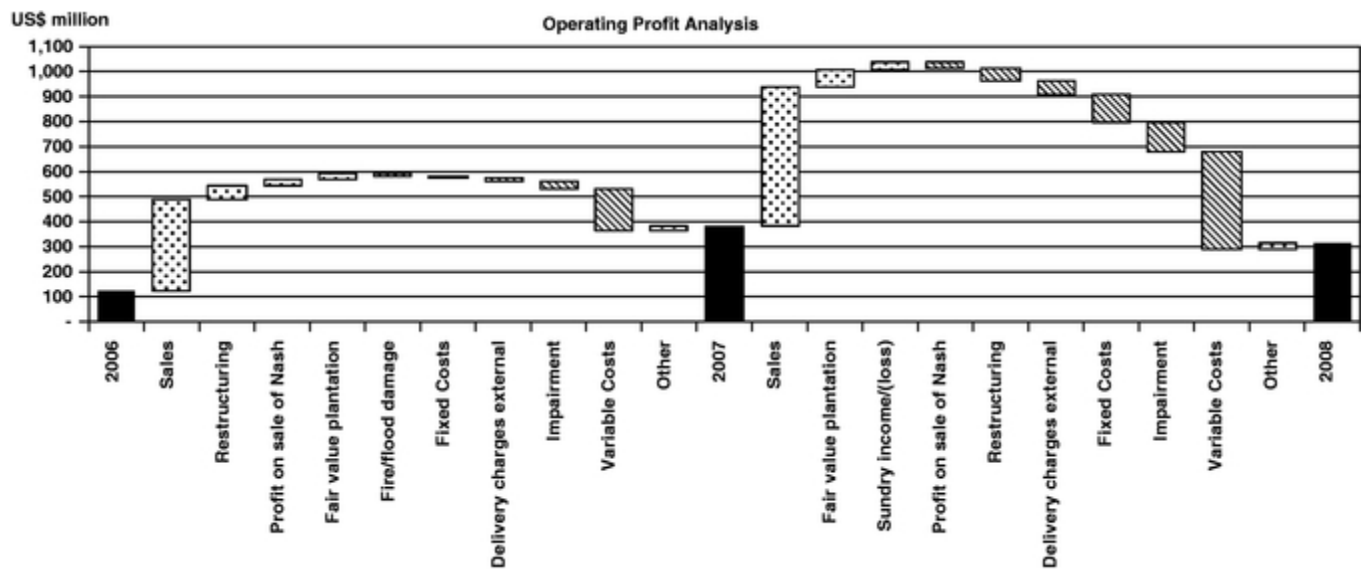
The analysis and discussion which follows should be read in conjunction with our Annual Financial Statements included elsewhere in this Annual Report.

Overview

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

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

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



Segment contributions to operating profit are as follows:

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

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

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

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

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

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

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

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

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

Sales

Group

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

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

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

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

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

Sales Variance Analysis vs. Previous Year	2008				2007				2006		
	Volume	Price	Exchange Rate	Total	Volume	Price	Exchange Rate	Total	Volume	Price	Exchange Rate
US\$ million											
Fine Paper											
North America	47	106		153	81	(9)		72	(7)	(12)	
Europe	51	(30)	312	333	39	(28)	183	194	21	(5)	(61)
South Africa	(11)	47	(14)	22	22	41	(31)	32	11	10	(19)
Total	87	123	298	508	142	4	152	298	25	(7)	(80)
Forest Products											
Pulp & Paper	(43)	123	(36)	44	9	159	(85)	83	(55)	95	(52)
Forestry	(2)	12	(3)	7	(28)	16	(6)	(18)	(11)	13	(5)
Total	(45)	135	(39)	51	(19)	175	(91)	65	(66)	108	(57)
Total	42	258	259	559	123	179	61	363	(41)	101	(137)

Sappi Fine Paper North America

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

Sappi Fine Paper Europe

In fiscal 2008, Sappi Fine Paper Europe experienced improved volumes (US\$ 51 million) as it continued to regain market share which, together with the impact of the strengthening of the Euro against the US\$ (US\$ 312 million) on the translation of sales into US\$, partly offset by a reduction in prices (US\$ 30 million), resulting in increased sales of US\$ 333 million. Average prices realized in US\$ terms in fiscal 2008 were US\$ 1,068 per tonne compared to US\$ 957 per tonne in fiscal 2007, and US\$ 896 per tonne in fiscal 2006. Pricing at Sappi Fine Paper Europe has been under pressure since fiscal 2005 due to strong competition for market share largely due to the weakening of the US\$ against the Euro and overcapacity in the market. The US\$ on average weakened to US\$ 1.51 / Euro in fiscal 2008 from US\$ 1.33 / Euro in fiscal 2007 and US\$ 1.23 / Euro in fiscal 2006. Volumes declined in fiscal 2006 due to loss of market share resulting from attempts to improve pricing. Recently announced

industry consolidation initiatives in Europe, as was the case for similar initiatives implemented in North America, may contribute to addressing the capacity imbalances which are adversely impacting the sustainability of the industry.

Sappi Fine Paper South Africa

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

Forest Products

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

Operating expenses

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

Operating Costs	2008				2007				2006	
	Costs US\$ million	Variance			Costs US\$ million	Variance			Costs US\$ million	US\$ / Tonne
		US\$ / Tonne	Value	%		US\$ / Tonne	Value	%		
Variable Costs										
Delivery	509	74	56	12	453	66	12	3	441	61
Manufacturing	3,073	449	388	14	2,685	391	169	7	2,516	349

Total Variable	3,582	523	444	14	3,138	457	181	6	2,957	410
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Fixed Costs	1,919	280	111	6	1,808	263	9	1	1,799	250
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Fair value plantation	(120)	(18)	(66)	122	(54)	(8)	(20)	(59)	(34)	(5)
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Impairment	119	17	119	–	2	–	31	–	(31)	(4)
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Restructuring	41	6	48	–	(7)	(1)	(57)	–	50	7
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Profit on sale of Nash	–	–	26	(100)	(26)	(4)	(26)	–	–	–
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Fire / flood damage	11	2	–	–	17	2	8	89	9	1
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Sundry income / (loss)	(6)	(1)	(29)	(126)	23	3	1	5	22	3
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Other	3	–	(25)	(114)	20	3	(22)	(93)	44	6
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Total	5,549	810	628	13	4,921	716	105	2	4,816	669
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See "–Overview" for the line items plantation fair value pricing adjustment, impairment, restructuring, profit on sale of the Nash mill and fire and flood damage. Variable and fixed costs are analyzed in more detail below.

Variable manufacturing costs

Group

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

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

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

Variable Cost Movement Analysis	2008				2007			
	Usage	Exchange Rate	Price	Total	Usage	Exchange Rate	Price	Total
US\$ million								
Wood	41	18	28	87	(43)	5	42	4

Energy	5	28	87	120	(7)	7	5	5
Pulp	(12)	52	39	79	(15)	25	50	60
Other	(19)	67	54	102	71	26	3	100
Total	15	165	208	388	6	63	100	169

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

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

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

Sappi Fine Paper North America

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

Sappi Fine Paper Europe

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

Sappi Fine Paper South Africa

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

Forest Products

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

Fixed costs

Group

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

2008	2007	2006
Variance	Variance	

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

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

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

Sappi Fine Paper North America

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

Sappi Fine Paper Europe

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

Sappi Fine Paper South Africa

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

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

Net Finance Costs

Annual finance costs may be analyzed as follows:

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

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

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

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

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

Taxation

<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>US\$ million</u>		

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

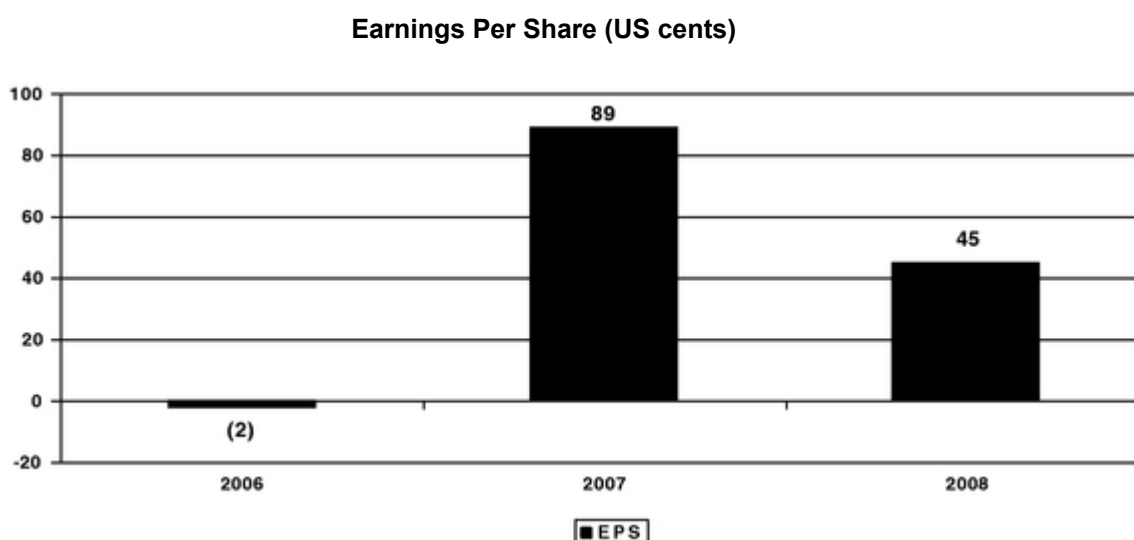
With a profit before taxation of US\$ 188 million, the total taxation charge to the income statement of US\$ 86 million results in an effective tax rate of 46% for fiscal 2008. The expected charge of US\$ 72 million was favorably impacted by tax rate reductions in South Africa. Tax relief was not taken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

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

Net Profit

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

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



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

Liquidity and Capital Resources

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

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

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

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

Cash Flow–Operations

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

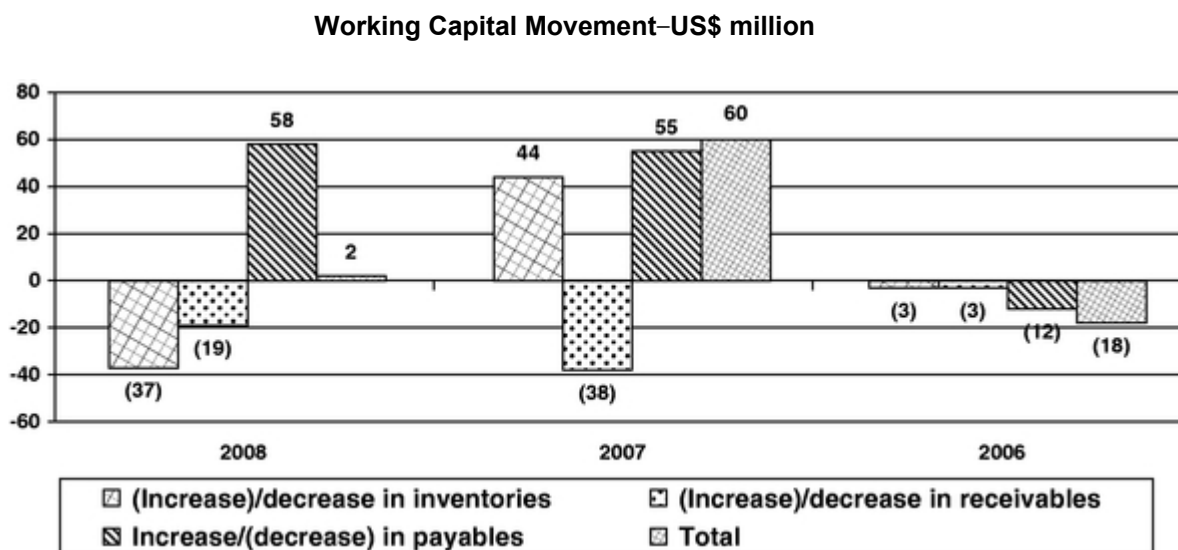
During fiscal 2008 we generated cash from operations of US\$ 623 million compared to US\$ 585 million in fiscal 2007 and US\$ 396 million in fiscal 2006. Improved operating profit has been one of the major contributors to improved cash flows in fiscal 2008 and fiscal 2007. Significant capital expenditures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

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

<u>Non-cash Items</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Depreciation	374	374	390
Fellings	80	70	74

Asset Impairments & closures	119	2	(14)
Plantation fair value–price	(120)	(54)	(34)
Plantation fair value–volume	(70)	(76)	(70)
Post employment benefits	(88)	(101)	(68)
Other non-cash items	14	(14)	(9)
	<u>309</u>	<u>201</u>	<u>269</u>

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



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

Investing

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

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

Capital Expenditure by region is as follows:

<u>Capital Expenditure by Region</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>US\$ million</u>		
Sappi Fine Paper North America	130	42	48

Sappi Fine Paper Europe	91	102	136
Sappi Fine Paper South Africa	9	12	19
Forest Products	274	285	99
Other	1	1	1
Total	505	442	303

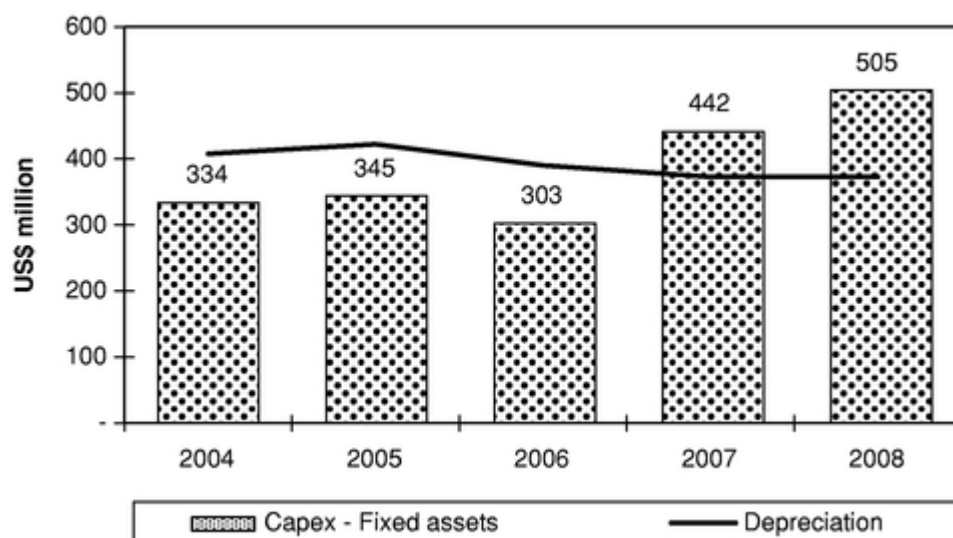
Capital expenditure excludes capitalized interest.

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

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

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

Investment in fixed assets versus depreciation



Capital Expenditure to Expand Operations

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

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

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

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

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

Financing

General

Debt is a major source of funding for the group.

<u>Gross Debt</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Long term interest bearing liabilities	1,832	1,828	1,634
Short term interest bearing liabilities	821	771	694
Bank overdraft	26	22	9
Gross interest bearing liabilities	2,679	2,621	2,337
	69		

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

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

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

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

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

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

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

Debt profile

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

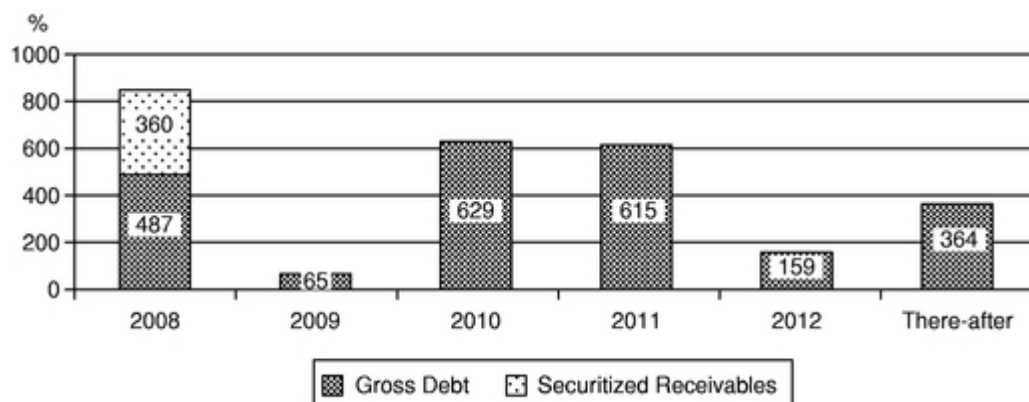
The make-up of our gross debt is set out in the table below:

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

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

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

2008–Debt Maturity Profile



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

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

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

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

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

Interest on Borrowings

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

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

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

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

Interest rate risk

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

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

Summary of Certain Debt Arrangements

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

Vendor Loan Notes

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

Revolving Credit Facility

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

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

The Revolving Credit Facility contains customary events of default, such as failure to make payment of amounts due, defaults under other agreements evidencing indebtedness, certain bankruptcy events and a cessation of business (as defined in the Revolving Credit Facility). The agreement also contains customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, mergers and

dispositions. Failure to comply with a covenant or the occurrence of an event of default could result in the acceleration of payment obligations under the Revolving Credit Facility. As of September 2008, we were in compliance with these covenants.

2002 Guaranteed Notes

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

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

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

Domestic Medium-Term Notes

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

Covenants

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

Our financial covenants require that:

- (i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 3.00:1;
- (ii) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the seven preceding quarters be not less than 3.50:1;
- (iii) The ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1; and

- (iv) With regard to Sappi Manufacturing (Pty) Ltd. and its subsidiaries only, the ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1, in each case as such terms are defined in the Revolving Credit Facility.

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

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

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

Credit ratings

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

Fitch South African national rating

Sappi Manufacturing (Pty) Limited AA- / F1+ / Stable (June 2008)

Moody's international rating

Sappi Papier Holding GmbH Ba2 / NP / Stable (September
(Supported by Sappi Limited guarantee) 2008)

Standard & Poor's international rating

Corporate Credit Rating BB / B / Stable (September
2008)

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

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

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

Leverage

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

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

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

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

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

Research and Development, Patents and Licenses, etc.

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

North America

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

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

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

Europe

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

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

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

We continue to focus on ways to produce differentiated products that reflect our corporate commitment to sustainable development while minimizing our carbon footprint.

Southern Africa

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

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

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

Off-Balance Sheet Arrangements

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

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

This financial guarantee contract is initially recognized at fair value. There is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short term instrument (maximum 90 days). Therefore, the fair value at inception is immaterial. Subsequently, the financial guarantee contract shall be measured at the higher of:

- (i) The amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and
- (ii) The amount initially recognized less any cumulative amortization.

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

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

Sappi Forest Products securitization facility. Sappi sells the majority of its ZAR receivables to a securitization vehicle managed by Rand Merchant Bank that issues commercial paper to finance the purchase of the receivables. Sappi retains a small proportion of the credit risk attached to each underlying receivable. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing

of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

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

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

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

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

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

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

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

Contractual Obligations

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

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

- (1) Includes interest obligations to maturity to service the debt. The principal debt is US\$ 2,653 million.
- (2) Operating leases are future minimum obligations under operating leases. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.
- (3) Unconditional Purchase Obligations are obligations to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts, relating to among others, timber and power).
- (4) The Other Long-Term Liabilities of US\$ 346 million (fiscal 2006 US\$ 384 million) on balance sheet, relate mainly to post-employment benefits, post-retirement benefits other than pensions obligations, workmen's compensation, and other items which do not have a payment profile. Refer to note 21 of our Group Annual Financial Statements included elsewhere in this Annual Report.
- (5) Capital commitments are commitments for which contracts have been entered into. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.

Share Buy Back

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

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

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

Dividends

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pensions and Post-retirement Benefits Other than Pensions

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

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

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

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

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

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

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

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

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

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

	<u>September 2008</u>		<u>September 2007</u>		<u>September 2006</u>	
	Fair		Fair		Fair	
Benefit	value		value		value	
Obligation	of plan		Obligation	of plan	Obligation	of plan
	<u>Assets</u>		<u>Assets</u>		<u>assets</u>	
	US\$ million					
Pensions	1,414	1,387	1,607	1,545	1,513	1,285

The South African**Surplus
Recognition
Restriction**

-	-	-	-	(41)	-
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Post-retirement**Benefits other
than pensions**

143	-	173	-	164	-
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Actual investment returns from the assets of the various regional funded pension plans during 2008 were lower than actuarial projections, which contributed to reduced asset levels as of September 2008. Overall, investment returns showed a loss of 5% or US\$ 74 million over the financial year and contributing to a total actuarial loss of US\$ 189 million.

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

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

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

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

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

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

Insurance

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

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

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

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

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

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A key assumption and estimation is the projected growth estimation over a period of eight to eighteen years per rotation. The inputs to our immature timber growth model are complex and involve estimations and judgments, all of which are regularly updated. Sappi established a long term sample plot network which is representative of the species and sites on which we grow

trees and the measured data from these permanent sample plots are used as input into our growth estimation. Periodic adjustments are made to existing models for new genetic material.

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

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

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

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

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

Post-employment benefits. The group accounts for its pension benefits and its other post retirement benefits using actuarial models. These models use an attribution approach that generally spreads individual events over the service lives of the

employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

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

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

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

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

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

Adoption of Accounting Standards in the Current Year

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

IFRS 7–Financial Instruments: Disclosures

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

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

IFRIC 10–Interim Financial Reporting

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

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

IFRIC 11–Group and Treasury Share Transactions

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

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

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

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

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

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

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

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

Potential Impact of Future Changes in Accounting Policies

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

Revised IAS 1–Presentation of Financial Statements

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

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

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

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

Reclassification adjustments relating to components of other comprehensive income.

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

IFRS 8–Operating Segments

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

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

IFRIC 12–Service Concession Arrangements

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

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

IFRIC 13–Customer Loyalty Programs

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

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

IFRIC 15–Agreements for the Construction of Real Estate

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

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

IFRIC 16–Hedges of a Net Investment in a Foreign Operation

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

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

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

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

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

Revision to IFRS 3: Business Combinations

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

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

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

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

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

Amendment to IFRS 2 Vesting Conditions and Cancellations

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

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

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

The amendment clarifies that:

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

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

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

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

Various improvements to IFRSs

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

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

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

Non-executive directors

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

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

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

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

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

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

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

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

Mr Healey joined the Sappi Limited board with effect from July 2004. He has held various senior financial positions in a career spanning 37 years. In 1995, Mr Healey became vice president and treasurer of Bestfoods, formerly CPC International Inc.

In 1997, he became executive vice president and chief financial officer of Nabisco Holdings Inc, one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Executive directors

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

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

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

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

Senior Management

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

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

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

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

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

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

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

Mr Rossi joined Sappi in 1989. Prior to accepting the position of Group Head Technology, Andrea held the roles of Project Director of the Sappi Saiccor Amakhulu Expansion project, Strategic Projects Director of Sappi Forest Products, Sappi Kraft

Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra mill, Project Director Enstra mill expansion, Project Manager for the Sappi Saiccor Mkomazi Expansion and Engineering Services for Sappi Management Services.

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

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

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003 he became the Director Logistics for Sappi Fine Paper Europe, reporting to the Chief Executive Officer of Sappi Fine Paper Europe. He was appointed as Group Head Procurement at Sappi Limited in January 2008.

Berend (Berry) John Wiersum (53) MA, Chief Executive Officer of Sappi Fine Paper Europe

Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Fine Paper Europe. Prior to joining Sappi, Berry was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director Kappa Packaging and member of the management board in Eindhoven (The Netherlands). He holds a masters degree in medieval & modern history from St. Andrews University Scotland.

Executive Officers

The Executive Directors and the people listed as senior management above are the Executive Officers of Sappi.

Board Practices

At every annual general meeting, as near as possible to, but not less than, one third of the directors are required to retire from office but are eligible for re-election. The directors to retire are those who have been longest in office since their last election, or as between directors who have been in office for an equal length of time since their last election, in the absence of agreement, determined by lot. In addition, the appointment of any director appointed since the last annual general meeting will be required to be confirmed. Any director so appointed will also retire at the meeting and be eligible for re-election.

Following the Board's decision to split the roles of Chairman and Chief Executive Officer, Jonathan Leslie was appointed as director and Chief Executive of Sappi Limited effective from April 2003 and Eugene van As was appointed as Non-Executive Chairman. However, subsequent to Mr Leslie's resignation in March 2006, at the request of the Board, Mr van As agreed to assume executive responsibilities for the Group until the appointment of a new chief executive. At the same time, Mr D.C. Brink was appointed senior independent director by the Board. Following Roeloff (Ralph) Boëttger's appointment as Chief Executive Officer from July 2007, Mr van As handed over his executive responsibilities to Mr Boëttger in August 2007.

The following table sets forth the terms of office of the Directors.

<u>Name</u>	<u>Start of term</u>	<u>Latest date of end of term</u>
Roeloff Jacobus Boëttger	2008	2013
David Charles Brink	2007	2009
Daniël Christiaan Cronjé	2008	2011
Meyer Feldberg	2007	2009
James Edward Healey	2007	2009
Deenadayalen Konar	2008	2011
Helmut Claus-Jürgen Mamsch	2007	2009
John David McKenzie	2008	2011

Karen Rohn Osar	2008	2011
Bridgette Radebe	2008	2011
Sir Nigel Anthony Russell Rudd	2007	2010
Franklin Abraham Sonn	2008	2009
Mark Richard Thompson	2007	2010

No retirement or other benefits arise from the retirement of Directors by rotation or on termination for any other reason.

Compensation

The non-executive directors fees are proposed by the Executive Committee and agreed by the Compensation Committee and approved by the Board, subject to final approval by shareholders. In addition to these non-executive directors fees, in fiscal 2008 Sappi compensated Mr E van As for consultation through the payment of US\$ 16,825 (ZAR 125,000). For fiscal 2007 Mr van As received compensation of US\$ 696,953 (ZAR 5 million).

See notes 34 to 36 to our Group annual financial statements contained elsewhere in this Annual Report for details, by director, on Directors' remuneration, Directors' service contracts, Directors' interests and Directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Plan.

See note 31 to our Group annual financial statements for details of payments to senior management which is reflected under related party interests.

Audit Committee

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

The Audit Committee consists of five independent non-executive directors of the Board (David Charles Brink, James Edward Healey, Deenadayalen Konar (Chairman), Helmut Claus Jürgen Mamsch and Karen Rohn Osar) and is directed by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The Audit Committee meets with senior management, which includes the Chief Executive Officer and the Chief Financial Officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the Committee and its Chairman. The Audit Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit Committee Chairman on a regular basis. The Audit Committee Chairman attends the annual general meeting. Deenadayalen Konar has been designated as the Audit Committee's financial expert.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis, and they meet at least four times per year.

Nomination and Governance Committee

The Nomination and Governance Committee of the Board consists of five independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group, David Charles Brink, Meyer Feldberg (Chairman), Sir Anthony Nigel Russell Rudd and Franklin Abraham Sonn). The Committee considers the composition of the Board, retirements and appointments of additional and replacement non-executive directors and makes appropriate recommendations to the Board. The Chief Executive Officer attends meetings by invitation.

Human Resources Committee

The Human Resources Committee of the Board consists of three independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group, and of the Human Resources Committee, James Edward Healey, Deenadayalen Konar and Bridgette Radebe). The responsibilities of the Committee are, among other things, to determine human resource policy and strategy. Human Resources Committees exist for all the company's major operating subsidiaries outside of southern Africa.

Compensation Committee

The Compensation Committee of the Board consists of five independent non-executive directors (David Charles Brink (Chairman), Meyer Feldberg, Helmut Claus-Jürgen Mamsch, John "Jock" David McKenzie and Sir Nigel Rudd). The responsibilities of the Committee are mainly to determine the remuneration and incentives in respect of the Chief Executive Officer and those executives reporting directly to the Chief Executive Officer.

Employees

The following table sets forth the number of employees as at the close of each fiscal year ended September.

	2008	2007	2006
Sappi Fine Paper			
North America	2,571	2,639	2,630
Europe	4,896	4,944	5,163
Southern Africa	1,870	1,896	1,910
Sappi Forest Products	5,575	5,358	5,251
Sappi Trading	153	154	154
Corporate Office	91	90	91
Total	<u>15,156</u>	<u>15,081</u>	<u>15,199</u>

North America

Approximately 61% of employees are represented by twelve collective bargaining agreements with seven different unions. The majority of Sappi North America's hourly employees are represented by the United Steelworkers (USW) union. The labor contracts with the USW expire in May 2009, November 2009, August 2010 and August 2011 respectively for the Cloquet, Muskegon, Somerset and Westbrook mills.

Sappi Fine Paper North America has experienced no work stoppage in the past seventeen years and believes that its relationship with its employees is satisfactory. While we hope to reach agreements with our unions when the contracts expire, in the event that agreements cannot be reached and a prolonged work stoppage that results in a curtailment of output ensues at any of these sites, our business could be negatively affected.

Europe

The European restructuring plan was introduced in fiscal 2006. The original number of employees expected to be impacted by this plan was 650. From a total of 650, 450 employees were expected to receive termination benefits. The remaining number of 200 employees was comprised of those who were employed on a contractual basis as well as employees nearing retirement. The number of employees expected to receive termination benefits was revised from 450 to 357 at September 2007 and further revised to 347 at the end of fiscal 2008 of which 333 have already been impacted. This restructuring is as a result of detailed diagnostics and redesign of our systems, processes and structures to improve cost efficiencies and to position our organization for growth.

Employees and their representative unions and work councils have been informed and consulted in line with statutory requirements and past practice. Social plans have been initiated at all sites.

A substantial number of Sappi Fine Paper Europe employees are represented by trade unions.

Sappi Fine Paper Europe is subject to industry-wide collective agreements that are in place with trade unions in Germany, Austria and Belgium and which relate to its employees in each of the relevant mills. At our mills in The Netherlands and in the United Kingdom, Sappi Fine Paper Europe has entered into shop-floor agreements with the respective trade unions. Overall labor relations have been very stable in each of these countries.

In addition to trade unions, Sappi Fine Paper Europe also consults with various local, national and European works councils. These work councils serve primarily in an advisory role. Sappi Fine Paper Europe is required, under certain circumstances, to keep the works councils informed of activities that affect the work force and to consult with one or more of the works councils before proceeding with a course of action. This is especially relevant for any major reorganization.

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

Southern Africa

In southern Africa, we operate within a unionized environment. There are five recognized unions, namely: Chemical, Energy, Paper, Printing, Wood Allied Workers' Union (CEPPWAWU); United Association of South Africa (UASA); Solidarity; South African Agricultural & Plantations Allied Workers Union (SAAPAWU); Swaziland Agricultural & Plantations Allied Workers Union (SWAPAWU). The unions act jointly via a Bargaining Council in most instances to leverage on collective power. At Usutu (Swaziland), union negotiations are conducted at plant level.

In South Africa, collective bargaining takes place under the auspices of the Bargaining Council for the Wood and Paper Sector. This council was registered in August 2006. The first round of negotiations under the newly registered Bargaining Council took place in 2007. These negotiations were concluded peacefully despite the frequency of strikes in various industries at large. The second round of negotiations under the auspices of the Bargaining Council commenced at the end of May 2008 and was concluded at the end of June 2008. Once again these negotiations were concluded without work stoppages despite tough economic conditions prevailing at that time. Negotiations at Usutu commenced in March 2008 and were completed in June 2008. These negotiations were preceded by negotiation training for both managers and unions which assisted in building the capacity and understanding of negotiators from both sides and is expected to yield positive results by improving relationships between the parties going forward.

Apart from Collective Bargaining on remuneration and conditions of employment at a central level, engagement takes place at company level and at plant level on initiatives designed to improve company performance.

In Southern Africa, we have developed a comprehensive program to address HIV prevention and health care. The aim is to minimize the impact of HIV / AIDS on employees through integrated response strategies that focus on prevention and treatment as well as empowering employees through knowledge and awareness of the pandemic.

Our HIV / AIDS response strategy places special emphasis on testing and counselling as a means of controlling the pandemic. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. Approximately 45% of our employees that are predicted HIV positive are registered on managed care programs. Industry norm figures indicate a registration rate on treatment programs of between 18.2% and 28%. We have been very successful in encouraging employees to join the voluntary counselling and testing programs and where appropriate, ensure the registration on treatment programs.

The Employment Equity Act (No. 55 of 1998) requires employers who employ 50 or more employees to implement affirmative action measures designed to ensure that suitably qualified persons from previously disadvantaged groups have equal

opportunities and are equitably represented in the workforce. The provisions of the Employment Equity Act which pertain to the prohibition of unfair discrimination, the monitoring by

employees and trade union representatives of compliance with the Act, the institution of legal proceedings concerning contraventions of the Act, the protection of employee rights and the formulation of codes of good practice and regulations pertaining to the Act were implemented on August 9, 1999. The implementation of the balance of the Act, dealing primarily with affirmative action measures, commenced on December 1, 1999. As required by the Act, we drafted employment equity plans after consultation with representative employee forums and has submitted the prescribed reports to the Department of Labour as from May 2000. In October 2008, we submitted an annual employment equity report and plan for the next two years.

The Skills Development Act (No. 97 of 1998), which came into force on September 10, 1999, provided an institutional framework to devise and implement workplace strategies in order to develop and improve the skills of the South African workforce. The financing of skills development is provided for under the Skills Development Levies Act by means of a levy / grant system.

The Skills Development Act, Skills Development Levies Act and the South African Qualifications Authorities Act (No. 58 of 1995), including amendments to the latter, have continued to receive significant attention during the past year. Equity forums established under the Employment Equity Act are mandated to serve as Learning Forums, and their constitutions, roles and responsibilities continue to be encouraged. The forums played a major role in preparing the Skills Plans submitted to the Forests Industries Education & Training Authority. A skills levy of 1%, specified in accordance with the Skills Development Levies Act, was paid via Internal Revenue to the Forest Industries Education and Training Authority. With the amendments to the National Skills strategy for 2005 to 2010, the grant amounts and claim processes have significantly changed to ensure agreement between management and employee representatives is attained and that a project driven approach to initiatives is encouraged.

The national education and training initiative for the Pulp and Paper Industry commenced in fiscal 2007 under the auspices of PAMSA (Paper Manufacturers Association of South Africa). Funding of learners has been obtained with an initial amount of US\$ 3.2 million allocated from the Central Government National Skills Fund. A further US\$ 1.5 million has been allocated to the Pulp and Paper Industry by the FIETA (Forest Industry Education and Training Authority). We plan to double our trainee and learnership complement over the next eighteen months through several initiatives, including sponsoring students from communities near our mills, providing employees with formal recognition of their acquired experience and promoting our industry as a career path for students.

Share Ownership

The Sappi Limited Share Incentive Trust ("Scheme")

We have offered a share purchase scheme to eligible officers and employees since 1979. During March 1997, The Sappi Limited Share Incentive Trust, as amended from time to time (the "Share Incentive Scheme"), was adopted at the Annual General Meeting of Sappi Limited. Under the Share Incentive Scheme, Officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered the opportunity to acquire shares ("Scheme Shares"), options to acquire shares ("Share Options") or rights and options to enter into agreements with the Sappi Limited Share Incentive Trust to acquire shares ("Allocation Shares"). Participants may also be given the opportunity to acquire a combination of Scheme Shares, Share Options and Allocation Shares.

The Sappi Limited Performance Share Incentive Trust ("Plan")

From the 2005 fiscal year we have also offered a performance share scheme to eligible officers and employees. Under the Sappi Limited Performance Share Incentive Trust (the "Performance Share Incentive Plan"), officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered Conditional Contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the Human Resources Committee or Compensation Committee of the Board ("Performance Criteria") applicable to each Conditional Contract are met or exceeded, then Participants are entitled to receive such number of shares as specified in

the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria entails a benchmarking of the company's performance against an appropriate peer group of companies.

For a detailed description of the Scheme, the Plan see note 29 to our Group annual financial statements included elsewhere in this Annual Report.

Directors and Senior Management

As of September, 2008, certain Directors and Senior Management of Sappi had been granted an aggregate of 339,954 Share Options, 348,500 Allocation Shares and 916,000 Performance Shares. None of the Directors and Senior Management of Sappi holds more than 1% of our issued share capital. See notes 34 to 36 to our Group Annual Financial Statements contained elsewhere in this Annual Report for details individually by director and for senior management, of participation in the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth certain information with respect to the ownership of the ordinary shares, R1.00 par value, of Sappi Limited by the shareholders of record of Sappi Limited as of November 30, 2008, holding 5% or more of the outstanding ordinary shares. This table does not reflect the rights issue as more recent shareholder information including the rights issue, is not readily available at the latest practical date.

<u>Name of Registered Holder</u>	<u>Number of Shares</u>	<u>Percentage</u>
Nedcor Bank Nominees Limited ⁽¹⁾	67,623,515	29.5
Standard Bank Nominees (Transvaal) (Proprietary) Limited ⁽¹⁾⁽²⁾	65,143,916	28.4
First National Nominees (Proprietary) Limited ⁽¹⁾	52,463,221	22.9
ABSA Nominees (Proprietary) Limited ⁽¹⁾	19,619,871	8.6
Industrial Development Corporation of South Africa Limited	15,420,640	6.7
All Directors and Executive Officers as a Group	78,619	0.03

⁽¹⁾ The registered holders have advised us that they hold shares for numerous clients.

⁽²⁾ Includes all the ADS shares which are held through the Standard Bank Nominees (Transvaal) (Proprietary) Limited.

The authorized share capital of Sappi Limited consisted of 325,000,000 shares as of September 28, 2008, and was increased to 1,325,000,000 on November 4, 2008. As of November 30, 2008, the issued share capital consisted of 239,071,892 shares. Due to shares bought back and being held in a subsidiary company, the issued share capital, less treasury shares, was 229,165,231 as of November 30, 2008. It is common in South Africa for shares to be held through nominees. As of November 30, 2008, the five largest shareholders of record (four of which are nominees) owned approximately 96% of the shares. We believe that, as of November 30, 2008, based on registered addresses and disclosure by nominee companies, 17% of our shares were held beneficially in North America, 68% of our shares were held beneficially in South Africa and 15% of our shares were held beneficially in Europe and elsewhere, excluding the shares owned by our subsidiaries.

On November 30, 2008, there were 39 registered holders of ADSs (including Cede & Co., the nominee for DTC) holding 8,958,805 ADSs, representing 3.9% of our issued share capital.

Pursuant to the Companies Amendment Act Number 37 of 1999, where securities of an issuer are registered in the name of a person and that person is not the holder of the beneficial interest in all of the securities held by the registered shareholder, the registered shareholder is obliged, at the end of every three-month period to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and price of securities issued by that issuer held on behalf of each such person. We have authorized JP Morgan Cazenove to conduct a monthly investigation into the beneficial ownership of Sappi Limited shares including those in nominee holdings. All beneficial holdings are investigated to determine whether there are any shareholders who hold 5% or more of our shares and these investigations have as of September 30, 2008, revealed the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

<u>Name of Shareholder</u>	<u>Number of Shares</u>	<u>Percentage</u>
Public Investment Commissioner (South Africa)	25,217,243	11.0
Industrial Development Corporation (South Africa)	15,420,640	6.7

Further, as a result of these investigations, we 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 30, 2008, the following fund managers were responsible for 5% or more of the issued share capital of Sappi Limited.

<u>Name of Fund Manager</u>	<u>Number of Shares Managed</u>	<u>Percentage</u>
Allan Gray Limited	56,985,946	24.9
Old Mutual Investment Group (SA)	19,977,297	8.7
Rand Merchant Bank	15,618,872	6.8

Under South African law, there is no obligation on the part of our shareholders to disclose to us arrangements or understandings that may exist between or amongst them with respect to the holding or voting of shares unless such arrangement or understanding constitutes an affected transaction under the Securities Regulation Code on Takeovers and Mergers. An "affected transaction" means, among other things, any transaction which has or will have the effect of vesting control of any company in any person or two or more persons acting in concert in whom control did not vest prior to such transaction or scheme. Control is defined with reference to a specified percentage, which is currently 35% of the entire issued share capital of a company. The major shareholders have no different voting rights.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to partially finance the Acquisition and related costs.

On December 31, 2008, a € 50 million equivalent in ZAR portion of the Acquisition consideration was funded through the issue of 11,159,702 ordinary shares of Sappi Limited to M-Real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights offering and other anti-dilutive protections.

All shareholdings stated above are prior to the rights issue to shareholders and therefore do not take into account the dilution effect.

Related Party Transactions

For information on related party transactions, see note 31 to our Group annual financial statements contained elsewhere in this Annual Report.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to partially finance the Acquisition and related costs.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See "Item 18–Financial Statements" and the F-pages for the Report of the Independent Auditors.

Legal Proceedings

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

North America

Since May 2004, a number of class and individual actions have been filed in Federal and state courts alleging that Sappi Limited and Sappi Fine Paper North America participated in a price fixing conspiracy with other manufacturers of publication paper. The cases assert violations of the Federal and state antitrust laws and state unfair competition statutes. These lawsuits seek treble damages and injunctive relief, as well as other costs associated with the litigation. In November 2006, the plaintiffs in the class action case brought on behalf of most direct purchasers dismissed Sappi Limited and Sappi Fine Paper North America without prejudice. The cases brought by certain of the individual direct purchasers and the indirect purchasers were also dismissed without prejudice during fiscal 2007.

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

South Africa

The Restitution of Land Rights Act (Act 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Claims under the Act were required to be filed on or before December 31, 1998 and are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. This process is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. To date, we have been notified of 27 formal Land Claims made in respect of portions of our plantations in the Mpumalanga area, and 37 others made in respect of portions of our plantations in KwaZulu-Natal. Four of the claims in KwaZulu-Natal are in the process of being settled. The remaining claims have not been finalized and are still under investigation by the Regional Land Claims Commissioner.

Dividend Policy

Our policy is to consider dividends on an annual basis and to declare cash dividends in US Dollars. We declared a dividend number 84 of 32 US cents per ordinary share for fiscal 2007. South African shareholders will be paid the Rand equivalent of the US Dollar denominated declaration. Taking into account recent factors including the rights offer to shareholders and the macro economic and global financial market conditions, the Sappi Board decided in November 2008 to rebase the dividend. On November 6, 2008, we announced a dividend in respect of ordinary shares of 16 US cent per share, which was paid on all ordinary shares in issue

on November 28, 2008 and paid on December 2, 2008, which was prior to the completion of the rights offer to shareholders.

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

In accordance with South African common law, dividends may be declared only out of distributable profits. Holders of American Depositary Receipts (ADRs) on the relevant record date will be entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the Deposit Agreement among us, The Bank of New York Mellon and the ADR holders (the "Deposit Agreement"). There is no restriction under South African exchange control regulations on the free transferability of cash dividends to non-resident shareholders or ADS holders. See "Item 10–Additional Information–Exchange Controls".

We are not currently obliged to withhold any form of tax on dividends paid to non-residents of South Africa. South African companies pay Secondary Tax on Companies ("STC") at the flat rate of 10% in respect of the amount of dividends declared by the company less certain dividends which accrue to the company during its relevant "dividend cycle". However, it has been proposed in 2008 that STC levied on South African tax resident companies declaring dividends will be replaced by a dividend withholding tax levied on the shareholders at a rate of 10%. This change is proposed to be introduced in 2009 but is dependent on the re-negotiation of a number of double tax agreements by South Africa to ensure that South Africa has the right to impose withholding tax of at least 5%. See "Item 10–Additional Information–Taxation".

Significant Changes

Subsequent to the end of fiscal 2008 Sappi acquired M-real Corporation's coated graphics paper business for € 750 million. See "Item 4–Information on the Company–Business Overview–The Acquisition of M-real Corporation's Coated Graphic Paper Business"; "Item 5–operating and Financial Review and Prospects–Acquisitions, Expansions, Restructurings and Cost Reduction Initiatives–Acquisition of M-real Corporation's coated graphic paper business"; and "Item 19–Exhibit 4.15".

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to partly finance the Acquisition and related costs.

On December 31, 2008, a € 50 million equivalent in ZAR portion of the Acquisition consideration was funded through the issue of 11,159,702 ordinary shares of Sappi Limited to M-Real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights offering and other anti-dilutive protections.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

The table below sets forth, for the periods indicated, the high and low prices of trading activity in the shares on the JSE, as reported by the JSE and adjusted for the dilution effects of the rights issue discussed below; and the high and low prices of trading activity in the ADSs on the New York Stock Exchange ("NYSE"), as reported by the NYSE and adjusted for the dilution effects of the rights issue discussed below.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to partly finance the Acquisition and related costs.

	Shares		ADSs	
	High ⁽¹⁾	Low ⁽¹⁾	High ⁽¹⁾	Low ⁽¹⁾
	(SA cents per share)		(\$ per ADS)	
Annual highs and lows				
Fiscal 2008	7,661	4,700	9.98	5.72
Fiscal 2007	8,824	6,263	12.24	7.88
Fiscal 2006	6,389	3,948	9.62	5.98
Fiscal 2005	6,008	3,675	9.41	6.00
Fiscal 2004	6,612	4,990	10.04	7.97
Quarterly highs and lows				
2009				
First quarter	5,403	2,668	6.41	2.18
2008				
Fourth quarter	5,964	4,555	7.71	5.72
Third quarter	7,661	5,938	9.76	7.24
Second quarter	6,422	4,768	9.00	6.61
First quarter	6,800	5,703	9.98	7.78
2007				
Fourth quarter	8,393	6,324	12.00	8.38
Third quarter	8,824	7,655	12.53	10.14
Second quarter	7,312	6,263	10.34	7.99
First quarter	7,566	6,263	10.79	7.88
Monthly highs and lows				
2008				
December	4,130	2,668	3.97	2.56
November	4,700	3,127	4.18	2.18
October	5,403	3,249	6.41	2.91
September	5,836	4,803	6.94	5.72
August	5,964	4,555	7.71	6.25
July	6,135	4,578	7.64	6.24

(1)

Historical share prices shown in the table above have been adjusted by 1.58 (an adjustment factor) for the effect of the issuance of 286,886,270 new ordinary shares of ZAR 1.00 each, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The adjustment factor applied to historical share prices was based on the theoretical ex-rights price ("TERP") calculation shown below.

TERP is the [(Number of new shares multiplied by the Subscription price) plus the (Number of shares held multiplied by the Ex-dividend share price)] all divided by the (Number of new shares plus the number of shares held prior to the rights offer).

The adjustment factor of 1.58 is calculated using the Pre-announcement price dividend by the TERP.

On January 15, 2009, the closing price for our shares on the JSE was 3,700 SA cents per share and the closing price of the ADSs on the NYSE was US\$ 3.60 per ADS.

Markets

The principal market for the ordinary shares of Sappi Limited is the JSE. The ordinary shares of Sappi Limited are also listed on the London Stock Exchange. On November 5, 1998, ADRs evidencing ADSs of Sappi Limited commenced trading on the NYSE under the symbol "SPP". The Bank of New York serves as depositary ("the Depositary") with respect to the ADSs. Prior to the commencement of trading of the ADSs on the NYSE, our ordinary shares were traded in the United States in the over-the-counter market pursuant to a sponsored unrestricted American Depositary Receipt facility established in 1994. Price data relating to that trading is not considered meaningful and has not been included in this Annual Report.

On October 26, 1999, Sappi and The Bank of New York amended the Deposit Agreement to change, with effect from October 27, 1999, the number of ordinary shares represented by each ADS from 10 ordinary shares per ADS to one ordinary share per ADS.

The JSE Limited

The JSE Limited (JSE) was formed in 1887 and provides facilities for the buying and selling of a wide range of securities, including equity, corporate debt securities, warrants in respect of securities, as well as Krugerrands. The JSE is a self-regulatory organization operating under the supervision of the South African Ministry of Finance, through the Financial Services Board and its representative, the Registrar of Stock Exchanges.

The market capitalization of South African equity securities was approximately US\$ 547 billion as at September 30, 2008. The actual float available for public trading is significantly smaller than the aggregate market capitalization because of the large number of long-term holdings by listed holding companies in listed subsidiaries and associates, the existence of listed pyramid companies and cross holdings between listed companies. Liquidity on the JSE (measured by reference to the total market value of securities traded as a percentage of the total market capitalization at the end of the period) was 48.7% for the 12 months ended September 30, 2008. As of the end of September 2008, there were 424 listed companies on the JSE.

Following the introduction of the FTSE / JSE free float indices, the FTSE / JSE All Share Index includes those companies that make up the top 99% of the total pre-float market capitalization of all companies listed on the JSE. The three main sectors in the market are Resources, Financials and Industrials. As of September 30, 2008, the All Share Index included 165 companies. The Resources Index, Industrial Index and Financial Index included 24, 93 and 48 companies respectively, and accounted for approximately 31%, 29% and 14%, respectively, of the total market capitalization of the JSE.

The JSE settles securities trades electronically through STRATE—(Share Transactions Totally Electronic). All trades are downloaded from the JSE SETS automated trading system to the JSE's Broker Deal Accounting (BDA) system, which manages the settlement status of every trade. The BDA system interfaces with STRATE's system which in turn interfaces with those of the custodian banks. The JSE's Settlement Authority monitors all trades from time of execution to settlement to ensure performance.

Shares may not be traded on the JSE unless they have been dematerialized through STRATE. Contractual, rolling settlement has been introduced by the JSE in order to increase the speed, certainty and efficiency of the settlement mechanism and to fall into line with international practices. While settlement on the JSE is currently made five days after each trade (T+5), the JSE in conjunction with STRATE is exploring with the industry how best to reduce the settlement period further (to T+3) without introducing undue risk.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

The following description is a summary of various provisions of the Memorandum ("Memorandum") and Articles of Association ("Articles") of Sappi Limited, the South African Companies Act (the "Companies Act") and the listings requirements of the JSE, which does not purport to be complete and is qualified in its entirety by reference to all of the provisions of those sources.

Sappi Limited is a public company incorporated in South Africa with registration number 1936/008963/06.

Purpose of the Company

Paragraph 3 of the Memorandum states that Sappi Limited is established, among other things, to manufacture, produce, buy, sell and deal in pulp, timber, paper, cardboard and other stated products.

Directors

In terms of the articles:

At every annual general meeting of Sappi Limited, as near as possible to, but not less than one third of the Directors (excluding any Director appointed after the conclusion of the preceding annual general meeting, the Executive Chairman, the Chief Executive Officer and the Managing Director) are required to retire from office but are eligible for re-election. The Directors to retire are those who have been longest in office since their last election or, as between Directors who have been in office for an equal length of time since their last election and, in the absence of agreement, those determined by lot. Any Director who has held office for three years since his last election is also required to retire at such annual general meeting. In addition, the appointment of any Director appointed after the conclusion of the preceding annual general meeting will require to be confirmed at the next annual general meeting, failing which the appointment will cease.

Except as set out in the following paragraph, a Director may not vote in respect of any contract or arrangement or any other proposal in which he has any material interest other than by virtue of his interest in ordinary shares or debentures or other securities of or otherwise in or through Sappi Limited. A Director will not be counted in the quorum at a meeting in relation to any resolution on which he is barred from voting.

A Director shall be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of Sappi Limited or any of its subsidiaries;

the giving of any security or indemnity to a third party in respect of a debt or obligation of Sappi Limited or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

any proposal concerning an offer of shares or debentures or other securities of or by Sappi Limited or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the

underwriting or sub-underwriting of these securities;

any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer, shareholder or otherwise; provided that he is not the holder of or beneficially interested in 1% or more of any class of the equity share capital of that company or of the voting rights available to shareholders of that company; and

any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval of the Commissioner of Inland Revenue for taxation purposes.

The remuneration of the Directors for their services as such shall be determined from time to time by a general meeting, save that in the discretion of the Board, there may in each year be paid out of the funds of Sappi Limited to, and divided among, the Directors who have held office during the year in respect of which the remuneration is to be paid, a sum, by way of remuneration for their services as Directors, not exceeding

ZAR 3 million (approximately US\$ 370,000), which remuneration shall be paid in such proportions as shall be determined by the Directors or a majority of them. If any Director is required to perform extra services or reside abroad or is otherwise specially occupied about Sappi Limited's business, he is entitled to receive remuneration to be fixed by the Directors (either in addition to, or in substitution for, the aforementioned remuneration). The Directors shall be paid all their traveling and other expenses properly and necessarily expended by them in and about the business of Sappi Limited.

The Directors may exercise all the powers of Sappi Limited to borrow money and to mortgage or charge its undertaking and property or any part thereof and to issue debentures, which may be issued at par, at a discount or at a premium, and other securities. The borrowings will be restricted so that, except with the previous sanction of an ordinary resolution of Sappi Limited in general meeting, the aggregate principal amount outstanding of all moneys borrowed by Sappi Limited and / or any of its subsidiaries will not at any time exceed an amount equal to 2.5 times the aggregate of the nominal amount of the issued share capital of Sappi Limited and the total of the amounts standing to the credit of the combined capital and revenue reserve accounts of Sappi Limited and its subsidiaries (including any share premium account, capital redemption reserve fund and retained surplus after deducting the amounts of any debit balance in the income statement but excluding sums set aside for taxation and amounts attributable to outside shareholders in subsidiaries), as shown in the latest consolidated balance sheet, adjusted as may be necessary in respect of any variation in the share premium account of Sappi Limited since the date of the latest audited balance sheet.

The Articles do not stipulate a retirement age for the directors but the Board has set a rule that Non-Executive Directors should retire at the end of the calendar year in which they turn 70. The retirement age of Executive Directors would depend on the terms of their particular conditions of employment.

The Articles do not require that Directors need to hold any shares in Sappi Limited to qualify as Directors of Sappi Limited.

Secretary

The Companies Act requires the directors of each public company to appoint a secretary who is permanently resident in South Africa, and who, in the opinion of the directors, has the requisite knowledge and experience to carry out the duties of a secretary of a public company.

The company secretary of Sappi is Sappi Management Services (Pty) Limited.

Disclosure of Interest in Shares

The Companies Act requires the disclosure of beneficial interests in the outstanding shares of a company. Where securities of an issuer are registered in the name of a person and that person is not the holder of the beneficial interest in all of the securities held by the registered shareholder, the registered shareholder is obliged, at the end of every calendar quarter, to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and class of securities issued by that issuer held on behalf of each such person. Moreover, an issuer of securities may, by notice in writing, require a person who is a registered shareholder of, or whom the issuer knows or has reasonable cause to believe to have a beneficial interest in, a security issued by the issuer, to confirm or deny whether or not such person holds that beneficial interest and, if the security is held for another person, the person to whom the request is made is obliged to disclose to the issuer the identity of the person on whose behalf a security is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of securities are obliged to establish and maintain a register of the disclosures described above and to publish in their annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of securities of that class issued by the issuer together with the extent of those beneficial interests.

Register of Members

Sappi Limited keeps a register of Shareholders in South Africa and Jersey, Channel Islands. Sappi Limited may keep a branch share register in any foreign country, subject to the approval of the South African Reserve Bank.

Share Capital

Our authorized share capital consists of 1,325,000,000 ordinary shares with a par value ZAR 1.00 per share following an increase from 325,000,000 to 1,325,000,000 on November 4, 2008, as approved by shareholder resolution on November 3, 2008. All our ordinary shares in issue rank *pari passu* with each other and are fully paid and not subject to calls for additional payments of any kind. Trading in our ordinary shares has been dematerialized under the terms of the STRATE initiative of the JSE, and the provisions of section 91A of the Companies Act relating to uncertified securities apply in respect of those shares which have been dematerialized.

The ADSs trade on the NYSE. The rights of holders of ADSs are governed by the Deposit Agreement pursuant to which the ADSs are issued and such rights differ in certain respects from the rights of holders of ordinary shares.

Dividends

Sappi Limited in a general meeting or the Board may, from time to time, declare a dividend to be paid to the registered holders of shares (the "Shareholders") in proportion to the number of ordinary shares held by them. No dividend on ordinary shares will bear interest. Dividends are declared payable to Shareholders registered as such on a date subsequent to the date of the declaration of the dividend as determined by the Board. This date may not be less than 14 days after the date of the publication of the announcement of the declaration of the dividend.

Sappi Limited in a general meeting may not declare a dividend in excess of the amount recommended by the Board. All unclaimed dividends may be retained by Sappi Limited, invested or otherwise utilized by the Board for the benefit of Sappi Limited until claimed; provided that dividends unclaimed after a period of twelve years may be declared forfeited by the Board. Forfeited dividends revert to Sappi Limited and may be dealt with by the Directors as they deem fit.

Any dividend or other amount payable to a Shareholder may be transmitted by electronic bank transfer or ordinary post to the address of the Shareholder recorded in the register or any other address the Shareholder may previously have given to Sappi Limited in writing. Sappi Limited will not be responsible for any loss in transmission.

Any dividend may be paid and satisfied, either wholly or in part, by the distribution of specific assets as the Board may at the time of declaring the dividend determine and direct.

It is Sappi Limited's policy to declare dividends in US dollars and the Board may at the time of declaring a dividend make such regulations as it may think fit in regard to the payment in any currency and rate of exchange. For further information on our dividend policy, see "Item 8–Financial Information–Dividend Policy".

Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the ordinary shares underlying the ADSs, subject to the terms of the Deposit Agreement. Cash dividends will be paid by the Depositary to holders of ADSs in accordance with the Deposit Agreement.

Voting Rights

Subject to any rights or restrictions attached to any class of shares, every Shareholder present in person, by authorized representative or by proxy, will have, on a show of hands, one vote only and, in the case of a poll, every Shareholder present in person, by authorized representative or by proxy, will have that proportion of the total votes in Sappi Limited which the aggregate amount of the nominal value of the shares held by that Shareholder bears to the aggregate of the nominal value of all the shares issued by Sappi Limited and, accordingly, since there is currently only one class of issued shares, one vote for every share held by him.

Issue of Additional Shares and Pre-emption Rights

Subject to the provisions of the Companies Act and the listings requirements of the JSE, Sappi Limited in a general meeting may issue, or may authorize the Board to issue, unissued shares.

Holders of shares have no pre-emptive rights under the Articles. Under the listings requirements of the JSE, however, any unissued shares of Sappi Limited must first be offered to existing Shareholders pro rata to their holdings of shares unless these shares are issued for the acquisition of assets or a specific or general approval is granted to the Directors at any general meeting authorizing the issue of shares for cash. Whenever Sappi Limited wishes to sell for cash shares held as treasury stock by a subsidiary of Sappi Limited, such use must comply with the listings requirements as if such use was a new issue of shares for cash.

Sappi Limited in a general meeting may upon the recommendation of the Board resolve to capitalize all or any part of the amount of the undivided profits, reserves resulting from a sale or revaluation of assets of Sappi Limited or premium created on the issue of any shares or debentures and may apply such sums in paying up unissued shares of Sappi Limited to be issued as fully paid capitalization shares to Shareholders.

Variation of Rights

Whenever the capital of Sappi Limited is divided into different classes of shares, the rights or restrictions attached to any class of shares in issue may be amended, varied, modified or cancelled by general meeting of Sappi Limited; provided that the consent in writing of the holders of at least three fourths of the issued shares of that class or of a special resolution passed at a separate general meeting of the holders of such shares is required if the amendment, variation, modification or cancellation will directly or indirectly adversely affect those rights or restrictions.

The rights or restrictions attached to any class of shares will not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be directly or indirectly adversely affected by the creation or issue of other shares ranking equally with them.

Distribution of Assets on Liquidation

If Sappi Limited is liquidated, whether voluntarily or compulsorily, the assets remaining after the payment of all the liabilities of Sappi Limited and the costs of winding-up shall be distributed among the Shareholders in proportion to the numbers of shares respectively held by them, subject to the rights of any Shareholders to whom shares have been issued on special conditions and subject to Sappi Limited's right to apply set-off against the liability, if any, of Shareholders for unpaid capital or premium. Furthermore, the liquidator, with the authority of a special resolution, may divide among the Shareholders, in specie or kind, the whole or any part of the assets, whether or not those assets consist of property of one kind or different kinds.

Share Repurchases and Capital Reductions

Subject to the provisions of the Companies Act and the listings requirements of the JSE, Sappi Limited may with the prior approval of a special resolution of its shareholders in general meeting—

acquire any shares issued by Sappi Limited on the basis that all or a portion of the price payable on such acquisition may be paid out of any funds of or available to Sappi Limited whether or not such payment results in a reduction of the issued share capital, share premium, reserves (including statutory non-distributable reserves), stated capital or any capital or redemption reserve fund of Sappi Limited;

authorize any subsidiary of Sappi Limited to acquire shares in Sappi Limited.

Subject to the provisions of the Companies Act and the listings requirements of the JSE, Sappi Limited may reduce its issued share capital, share premium, stated capital, reserves (including statutory non-distributable reserves) and / or capital

redemption reserve fund by way of an ordinary resolution of shareholders in general meeting and a resolution of directors. Similarly, subject to the provisions of the Companies Act and the requirements of the JSE, Sappi Limited may by way of an ordinary resolution of shareholders in general meeting and a resolution of directors make payments to its shareholders, whether or not such payments result in a reduction of the issued share capital, share premium, stated capital, reserves (including statutory non-distributable reserves) and / or any capital redemption reserve fund. An ordinary resolution of shareholders is not, however, required for the payment of dividends.

Changes in Capital or Objects and Powers of Sappi Limited

Subject to the provisions of the Companies Act, Sappi Limited may from time to time by special resolution:

increase, consolidate, sub-divide or cancel all or any part of its capital;

convert any of its shares, whether issued or not, into shares of another class;

convert all or any of its paid-up shares into stock and re-convert such stock into paid-up shares; or

convert any shares having a par value into shares having no par value and vice versa.

Rights of Minority Shareholders and Fiduciary Duties

Majority shareholders of South African companies have no fiduciary obligations under South African common law to minority shareholders. However, under the Companies Act, a shareholder may, under certain circumstances, seek relief from the court if he has been unfairly prejudiced by the company. The provisions in the Companies Act are designed to provide relief for oppressed shareholders without necessarily overruling the majority's decision. There may also be common law personal actions available to a shareholder of a company. The fiduciary obligations of Directors may differ from those in the United States and certain other countries. In South Africa, the common law imposes on Directors a duty to act with care and skill and a fiduciary duty to conduct the company's affairs in the best interests of the company.

General Meetings of Shareholders

Sappi Limited is obliged to hold an annual general meeting not more than nine months after the end of every financial year of Sappi Limited and within fifteen months after the date of the last preceding annual general meeting of Sappi Limited. The Board may, whenever it thinks fit, convene a general meeting and must do so on the request of 100 Shareholders or of Shareholders holding at the date of request not less than one-twentieth of the total voting rights of all Shareholders having a right to vote at general meetings of Sappi Limited.

Sappi Limited is required by law to provide at least 21 clear days' notice for any annual general meeting and for meetings at which special resolutions are proposed, and at least 14 clear days' notice for all other meetings.

Notice under the Articles must be given or served on any Shareholder or Director, as the case may be, either by delivery, electronic mail, facsimile or by sending it through the post. Any notice to Shareholders must simultaneously be given to the secretary or other suitable official of any recognized stock exchange on which the shares of Sappi Limited are listed in accordance with the requirements of that stock exchange. Every such notice shall be deemed, unless the contrary is proved, to have been received, if it is delivered, on the date on which it is so delivered, if it is sent by post, on the day on which it is posted, if it is sent by electronic mail, on the day it was sent or, if it is sent by facsimile, on the day on which it was successfully transmitted.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. The quorum for the passing of special resolutions is Shareholders holding in the aggregate not less than 25% of the total votes of all Shareholders entitled to vote at the meeting, present in person or by proxy. In all other cases, the quorum is three Shareholders present in person or by proxy and entitled to vote or, if a Shareholder is a body corporate, represented. If within ten minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition

of Shareholders, will be dissolved and, in all other cases, will stand adjourned to the same day in the next week, or if that be a public holiday, the next business day, at the same time and place. At the adjourned meeting, those Shareholders who are present or represented thereat shall constitute a quorum.

At a general meeting, a resolution put to the vote will be decided by a show of hands unless a poll is demanded by (1) the chairman, (2) not less than five Shareholders having the right to vote at such meeting, (3) a Shareholder or Shareholders representing not less than one tenth of the total voting rights of all Shareholders having the right to vote at the meeting or (4) in accordance with the Companies Act.

Resolutions will be carried by a majority of the votes recorded at the meeting except in the case of a special resolution which must be passed either, on a show of hands, by not less than 75% of the number of Shareholders entitled to vote who are present in person or by proxy or, where a poll has been demanded, by not less than 75% of the total votes to which the Shareholders present in person or by proxy are entitled. In the event of a tie, the chairman has the deciding vote if he is a Shareholder.

Annual Report and Accounts

The Board is required to keep such accounting records and books of account as are prescribed by the Companies Act. Generally, no Shareholder (other than a Director) has any right to inspect any accounting record book, account or document of Sappi Limited.

The Board is required, in respect of every financial year of Sappi Limited, to prepare annual consolidated financial statements of Sappi Limited and present them before the annual general meeting required to be held in that year.

The annual consolidated financial statements of Sappi Limited must, in conformity with generally accepted accounting practice in South Africa, fairly present the state of affairs and business of Sappi Limited and all its consolidated subsidiaries at the end of the financial year concerned and the profit or loss of Sappi Limited and all its consolidated subsidiaries for that financial year.

Transfer of Shares

All ordinary shares are free from any restriction under the Articles on the right to transfer. A Shareholder who holds his shares in dematerialized form will have an account with a Central Securities Depository Participant. Transfer of ownership of such shares will be effected by debiting the account from which transfer is effected and crediting the account to which transfer is effected. The transferor will be deemed to remain the holder of the shares until the name of the transferee is entered in the share register or relevant sub register of Sappi Limited in respect of these shares. Only Shareholders that have handed in their paper share certificates have an account with a Central Securities Depository Participant. Under the rules of the JSE Shareholders cannot sell their shares on the JSE until the shares have been dematerialized.

Rights of Shareholders

There are no limitations in the Memorandum or Articles and general limitations under South African law on the right of Shareholders to hold or exercise voting rights attaching to any ordinary shares in Sappi Limited.

Changes in Control

Any person acquiring shares of Sappi will (in addition to any regulatory and legal requirements outside South Africa) need to comply with the following to the extent applicable. Various transactions including, without limitation, those which result in a person or a group of persons acting in concert holding shares entitling the holder or holders to exercise or cause to be exercised 35% or more of the voting rights at meetings of Sappi Shareholders and those transactions entailing a disposal of the whole or substantially the whole of the undertaking of Sappi Limited or the whole or the greater part of its assets will be subject to the Securities Regulation Code on Takeovers and Mergers (the "Code") which is regulated by the Securities Regulation Panel. The Code imposes various obligations in such circumstances including the requirement of an offer to minority shareholders. A transaction will be subject to the approval of the competition authorities under the Competition Act No. 89 of 1998, as amended (the "Competition Act") if it results in the acquisition of "control", as defined in the Competition Act, and otherwise falls within the scope of the Competition Act. The Competition Act prevents a transaction falling within its scope from being implemented without the required approvals. To the extent applicable, the transaction will be subject to the listings requirements of the JSE.

Depending on the circumstances, approvals of the Exchange Control Department of the South African Reserve Bank and other applicable regulatory authorities may also be required.

Amendment of Memorandum or Articles

The Memorandum or Articles may only be amended by way of a special resolution, proposed at a general meeting of Shareholders at which Shareholders holding at least 25% of the total votes of all Shareholders entitled to vote thereat are present in person or by proxy, which is passed, on a show of hands, by not less than 75% of those present in person or by proxy or, on a poll, by not less than 75% of the total votes to which Shareholders present in person or by proxy are entitled.

South African Companies Bill, 2008

The South African Companies Bill, 2008 (the "Bill"), was passed by Parliament, on November 20, 2008 but at date of filing had not yet been signed into law by the State President. Once assented to by the State President and proclaimed, the Bill will replace the current Companies Act, 1973 (as amended), in its entirety. It is not currently known whether the State President will assent to the Bill as passed and if assented to, when it will be promulgated.

The aims and purposes of the Bill which are set out in the summary of the Bill, are to provide for, *inter alia*, the incorporation, registration, capitalization, organization and management of for-profit, and not-for-profit, companies; to define the relationships between companies and their respective shareholders or members and directors; to provide for equitable and efficient mergers, amalgamations and takeovers of companies, and for efficient rescue of failing companies; to provide appropriate legal redress for investors and third parties with respect to companies; to establish a commission and a takeover regulation panel to administer the requirements of the act with respect to companies, and a companies ombud to facilitate alternative dispute resolution and to review decisions of the commission and the takeover regulation panel, and a Financial Reporting Standards Council ("FRSC") to advise on requirements for financial record keeping and reporting by companies and to repeal the existing Companies Act and to provide for incidental matters.

The Bill introduces a number of new requirements that public companies, such as Sappi, need to comply with. In addition to the accountability requirements applicable to all companies, as set out in the Bill, public companies are, required to comply with additional and more onerous accountability requirements. These include *inter alia*:

- (a) the appointment of a company secretary, who must be knowledgeable and experienced as a company secretary and who must be a permanent resident of South Africa;
- (b) the appointment, at its annual general meeting, of an auditor who must, in the opinion of the company's audit committee, be 'independent' of the company. The same individual is prohibited, from serving as the auditor (or designated auditor, as the case may be) for more than five consecutive years. Auditors whose appointment endures for two or more consecutive years and then terminates are prohibited from being appointed as the auditors of that company again for a period of at least two further financial years;
- (c) the appointment, at every annual general meeting of an audit committee, which must comprise of at least three members who are independent directors of the company and who will be required to comply with minimum qualification requirements as prescribed by the Minister of Trade and Industry, from time to time. The main functions of the audit committee are, *inter alia*, to: nominate for appointment the auditor of the company, who in the opinion of the committee, is 'independent' of the company; determine the auditor's fees and terms of engagement and to make submissions to the company's board concerning the company's accounting policies, financial control, records and reporting.

Financial Statements

The Bill introduces the requirement that all financial statements provided by a company, (including annual financial statements) must, *inter alia*, comply with the standards prescribed by the Minister of Trade and Industry, after consultation with the FRSC, a sixteen-member body established in terms of the Bill. The Bill stipulates that the financial statements of public companies must comply with IFRS. Financial reporting standards, applicable to public companies, may be issued by the Minister of Trade and Industry by publication in the Government Gazette from time to time on the advice of the FRSC. The financial reporting standards under the Bill are more onerous than the current standards. The FRSC must ensure that financial reporting standards accord with IFRS and promote issued and consistent accounting practices.

Under the Bill, a public company and each of its directors or officers who knowingly is a party to the preparation, approval, dissemination or publication of any financial statements (including annual financial statements) which are materially false or misleading or which do not otherwise comply with the requirements set out in the Bill, will be guilty of an offense. It is also an offense for any person to be a party to the preparation, approval, publication, issue or supply of a financial report that is false or misleading in a material respect if such person knows or ought reasonably to suspect that it is false or misleading.

Material Contracts

On September 25, 2007, Sappi Manufacturing issued a second tranche of ZAR 1 billion (US\$ 146 million) Senior Unsecured Fixed Rate Notes ("the second tranche") under the Program at a fixed interest rate of 10.64%. The interest on the securities issued under the second tranche is payable semi-annually on April 14 and October 14 of each year, commencing on April 14, 2008. The securities issued under the second tranche mature on October 14, 2011. Sappi Manufacturing has also agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. With regard to the second tranche only, should a change of control event (more than 50% of the voting rights of Sappi Manufacturing be acquired by any party other than a subsidiary of Sappi Limited) *and* a negative rating event (a downgrade of Sappi Manufacturing's national credit rating, currently at AA-, of below A-) occur, then the holders of the securities may within 60 days after the public announcement of the change of control having occurred, they can by way of an extraordinary resolution require the redemption of the notes. The securities, which are listed on the Bond Exchange of South Africa, were not registered under the United States Securities Act of 1933, as amended or any state securities laws. The securities were offered and sold outside the United States in accordance with Regulation S under the Securities Act, and were not offered and sold within the United States.

On September 29, 2008 Sappi entered into an agreement with M-real Corporation to acquire their coated graphics paper business for € 750 million. See "Item 4–Information on the Company–Business Overview–The Acquisition of M-real Corporation's Coated Graphic Paper Business"; and "Item 19–Exhibit 4.15".

On September 29, 2008 Sappi entered into a vendor loan note agreement with M-real Corporation for € 220 million to partly finance the acquisition of the coated graphics paper business acquired from M-real Corporation. See "Item 5–operating and Financial Review and Prospects–Acquisitions, Expansions, Restructurings and Cost Reduction Initiatives–Acquisition of M-real Corporation's coated graphic paper business"; and "Item 19–Exhibit 4.18"

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to pay partly finance the Acquisition and related costs.

Exchange Controls

Introduction

South Africa's exchange control regulations provide for restrictions on the exporting of capital and for various other exchange control matters. Transactions between residents of the Common Monetary Area (comprising the Republic of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland), on the one hand (including corporations), and non-residents of the Common Monetary Area, on the other hand, are subject to these exchange control regulations which are enforced by the Exchange Control Department of the South African Reserve Bank (Excon).

The present exchange control system in South Africa is used principally to control capital movements. South African companies are generally not permitted to export capital from South Africa or to hold foreign currency or foreign assets without the

approval of the South African exchange control authorities. Foreign investment by South African companies is also restricted. As a result, a South African company's ability to raise and deploy capital outside the Common Monetary Area is restricted. The granting of loans from outside

South Africa to Sappi Limited or its South African subsidiaries and their ability to borrow from non-resident sources is regulated.

The South African authorities have expressed a commitment to a phased liberalization of exchange controls and have relaxed certain exchange controls over recent years.

Some of the more salient exchange control regulations regarding South African corporations are as follows:

South African corporations wishing to establish new approved foreign ventures are permitted to transfer funds abroad for this purpose. There is no limit to the amount of funds which may be transferred except that the foreign investment may only be acquired and such funds may only be transferred abroad once Excon has approved the type of foreign investment, which it will only do if the foreign investment accords with its foreign investment criteria (applicable at the relevant time), and with regard to larger foreign investments Excon may require capital outflows to be staggered in order to manage the potential impact on the foreign exchange market. Excon-approved investments no longer require the South African investor to exercise control (namely 50% plus one share) over the foreign investment but require at least 10% of the voting rights and compliance with other conditions.

South African corporations which have been granted approval to transfer funds abroad for purposes of acquiring an approved foreign investment are entitled to retain abroad foreign dividends which relate to the operation of the approved foreign investment and any foreign dividend which may have been repatriated to South Africa after 26 October 2004, may thereafter be transferred abroad again, at any time and for any purpose other than for purposes of a non-resident (which is directly or indirectly controlled by a South African resident) using such funds to reinvest into the South African market.

Controls on current account transactions, with the exception of certain discretionary expenses, have been abolished and are dealt with by authorized dealers in terms of the Exchange Control Rulings.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents in respect of fixed and ascertained foreign exchange commitments covering the movement of goods.

It is not possible to predict whether existing exchange controls will be abolished, continued or modified by the South African Government in the future.

Sales of Shares

Under present South African exchange control regulations, our ordinary shares and ADSs are freely transferable outside the Common Monetary Area between non-residents of the Common Monetary Area. In addition, the proceeds from the sale of shares on the JSE on behalf of shareholders who are not residents of the Common Monetary Area are freely remittable to such shareholders (other than former residents of South Africa). Share holdings of non-residents must however be endorsed with the words "non-resident".

Dividends

There is no restriction under South African exchange control regulations on the free transferability of cash dividends to shareholders or ADR holders who have never been resident in South Africa. Dividends declared to a former resident of South Africa out of capital gains, or out of income earned from normal trading activities prior to the date of emigration, must be placed to the credit of a blocked account with a South African authorized dealer in foreign exchange. Dividends declared out of income earned from normal trading activities subsequent to the date of emigration are, however, remittable. See "–Taxation" and "Item 8–Financial Information–Dividend Policy". South African emigrants' blocked assets are to be unwound and such emigrants

are entitled, on application to the South African Reserve Bank, and subject to an exiting schedule and an exit charge of 10% to exit such blocked assets from South Africa.

It is our policy to declare cash dividends in US dollars. We declared a dividend (number 85) of 16 US cents for fiscal 2008. South African shareholders are paid the Rand equivalent of the US dollar denominated declaration. Shareholders on the UK registry are paid the UK pounds sterling equivalent of the US dollar denominated declaration and ADS holders are paid in US dollars. Holders of ADSs on the relevant record date

are entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the Deposit Agreement. Subject to exceptions provided in the Deposit Agreement, cash dividends are paid by the Depositary to holders of ADSs in accordance with the Deposit Agreement. The Depositary charges holders of ADSs, to the extent applicable, taxes and other governmental charges and specified fees and other expenses, for any cash distributions made pursuant to the Deposit Agreement, other than distributions of cash dividends. See "Item 8–Financial Information–Dividend Policy".

Subject to exceptions relating to former residents of South Africa, shareholders who are not residents of the Common Monetary Area who are in receipt of script dividends and who elect to dispose of the relevant shares may remit the proceeds arising from the sale of the relevant shares.

Taxation

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Securities under the laws of their country of citizenship, residence or domicile. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date hereof, all of which laws and interpretations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

South Africa

The following discussion represents the views of Werksmans, our South African counsel.

General

The discussion below is based on current legislation. The Revenue Laws Amendment Bill 80 of 2008 ("the Bill") was recently tabled. The promulgation of the Bill as legislation may impact on what is stated below.

Basis of Income Taxation

South Africa has a dual income tax system in terms of which residents are taxed on their worldwide income and non-residents are taxed on their South African source (or deemed source) income. Certain categories of income and activities are exempt from taxation.

Residence, in the case of natural persons, is established either by being ordinarily resident in South Africa or by satisfying a physical presence test in terms of which they become residents by virtue of their being physically present in South Africa for certain prescribed periods of time. In the case of legal entities, residence is established by virtue of incorporation or formation, or having a place of effective management, in South Africa. Excluded from the definition of "resident" are persons or entities which are, in terms of double taxation agreements entered into by South Africa, deemed to be exclusively a resident of another country.

A double taxation treaty between South Africa and the United States ("the Treaty") came into effect during 1997 and was promulgated under Government Notice R. 1721 (Government Gazette 18553) on December 15, 1997.

In terms of the Treaty, an individual will, subject to the tie-breaker rules, only be a South African resident if he or she is ordinarily resident in South Africa. A company that is a resident of both South Africa and the United States will be deemed to be a resident of the country in which it is incorporated for purposes of the Treaty.

Dividends received by or accruing to persons from South African tax resident companies are generally exempt from tax. The exemption does not, however, apply in the case of a dividend which constitutes or forms part of any consideration in respect of the disposal of shares to a South African registered company in terms of a share buy-back where those shares were held as trading stock.

Withholding Tax on Dividends

Sappi Limited is not currently obliged to withhold any form of tax on dividends paid to non-residents of South Africa. However, the Bill contains a proposal to replace the Secondary Tax on Companies ("STC"), levied on South African tax resident companies declaring dividends and described later, with a dividend

withholding tax levied on the shareholders at a rate of 10%. The replacement is proposed to become effective in late 2009 or early 2010, but is dependant on the renegotiation of a number of double tax agreements by South Africa to ensure that South Africa has the right to impose a withholding tax of at least 5%. The Treaty generally limits the withholding tax to 5% of the gross amount of the dividends if the beneficial owner of the shares is a company holding directly at least 10% of the voting stock of the company paying the dividends and to 15% of the gross amount of the dividends in all other cases. It should, however, be noted that the Treaty limits the benefits thereof to only certain residents of South Africa and the United States.

Under the proposed legislation, a dividend tax of 10% will be levied on any dividend paid by a company resident in South Africa. In general terms, a dividend is defined as any amount transferred by a company to a shareholder in relation to a share held by the shareholder constituting a distribution of profits. However, it should be noted that a distribution of capital may, in certain circumstances, constitute a dividend. The Bill also contains a proposal to, commensurate with the replacement of STC, broaden the definition of a dividend. In this regard, a dividend will, essentially constitute any amount transferred to a shareholder in relation to a share that does not constitute a reduction of contributed tax capital. The term 'contributed tax capital' is a proposed defined term that will essentially comprise the share capital and share premium of a company, excluding certain amounts that constitute capitalized profits that did not give rise to a dividend or arose from transactions in respect of which tax relief was granted.

Secondary Tax on Companies ("STC")

This tax is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant "dividend cycle". "Dividend cycle" means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

The Bill contains a grandfather clause which, for a period of five years from the replacement of STC, provides for the utilization of STC credits against the dividend withholding tax.

The imposition of STC effectively means that a dual corporate tax system exists in South Africa comprising a normal income tax and STC. Liability for STC is determined independently from normal income tax. Accordingly, a company without a normal tax liability may have a liability for STC, and vice versa, and may be liable for both normal tax and STC. The nominal value of capitalization shares awarded to shareholders as part of the equity share capital of a company by transferring reserves or undistributed profits to the company's equity share capital do not incur STC and it has become common practice for listed South African companies to offer capitalization shares forming part of the equity share capital of a company in lieu of cash dividends. The capitalization shares must carry the right to participate to an unlimited extent in the dividends or capital of the company in order to constitute equity share capital. However, any amount transferred from reserves (excluding any share premium account not consisting of capitalized profits) or undistributed profits to the equity share capital of a company is, in principle, deemed to be profits available for distribution to shareholders and may constitute a dividend (i.e., be subject to STC) on a subsequent partial reduction or redemption of capital, or upon reconstruction or liquidation of the company. Capitalization shares which do not qualify as equity shares and are awarded by a transfer of reserves or undistributed profits (other than that portion of the share premium account not consisting of capitalized profits) are regarded as dividends and, as such, attract STC. Foreign dividends generally do not serve to reduce a company's STC liability.

Income Tax and Capital Gains Tax

Profits derived from the sale of shares in a company will generally only be subject to income tax (at a corporate rate of 28% and a maximum individual rate of 40% based on a sliding scale) in South Africa if the seller carries on business in South Africa as a share dealer, and the profits are realized in the ordinary course of that business.

Capital Gains Tax was introduced with effect from October 1, 2001 into the Income Tax Act 58 of 1962 by way of the incorporation of the Eighth Schedule therein ("Eighth Schedule"). In terms of the Eighth Schedule, all South African tax residents are liable to pay capital gains tax on the disposal of a capital asset. An asset is

widely defined and includes assets that are movable, immovable, corporeal or incorporeal and rights or interests in such property, but excludes certain limited items.

Non-residents of South Africa will not be subject to capital gains tax except in respect of the disposal of immovable property situated in South Africa (or any interest or right in such immovable property) and any assets attributable to a permanent establishment of that non-resident in South Africa. Profits derived from the sale of South African shares held by non-residents as long-term investments will generally not be subject to capital gains tax in South Africa. However, the sale of South African shares held by a non-resident will attract capital gains tax in the event that the shares comprise an asset of that non-resident's permanent establishment in South Africa, or if the non-resident shareholder (alone or together with any connected persons) holds more than 20% of the issued equity share capital of the South African company and more than 80% of the net asset value of that company is attributable to immovable property situated in South Africa. An American Depository Share will be regarded as an equity share for the purpose of Capital Gains Tax in South Africa.

The Treaty only permits the imposition of South African tax on capital gains of a United States resident seller from the sale of shares where such shares constitute an equivalent interest to a United States real property interest, form part of the business property of a permanent establishment which the seller has in South Africa or pertain to a fixed base available to the seller in South Africa for the purpose of performing independent personal services.

Companies will be liable to Capital Gains Tax on 50% of the net capital gain. At the current corporate tax rate of 28%, the effective tax rate on net capital gains will therefore be 14%. Natural persons are also entitled to an annual exclusion of R16,000 in respect of capital gains (R120,000 in the year of death). Natural persons are liable to Capital Gains Tax on 25% of the net capital gain, resulting in an effective tax rate of 10% at a maximum marginal rate of 40%.

Duty on the Shares

On a subsequent change of beneficial ownership of the shares, South African securities transfer tax ("STT") is generally payable in respect of transactions involving the transfer of shares at 0.25% of the consideration. STT is payable regardless of whether the transfer is executed within or outside South Africa.

Transfers of ADSs will also be subject to STT.

United States

Introduction

This section, which represents the views of Cravath, Swaine & Moore LLP, our US counsel, summarizes the material US Federal income tax consequences to holders of our ordinary shares and ADSs as of the date of this Annual Report. The summary applies to you only if you hold our ordinary shares or ADSs, as applicable, as a capital asset for tax purposes (that is, for investment purposes). The summary does not cover US state or local or non-US law. This summary is based in part upon representations of the Depositary made to Sappi and the assumption that each obligation in the Deposit Agreement and any related agreements will be performed in accordance with its terms. In addition, this summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds our ordinary shares or ADSs as part of a straddle or a hedging, integrated, constructive sale or conversion transaction for tax purposes;

US holder (as defined below) whose functional currency for tax purposes is not the US dollar;

a person liable for alternative minimum tax; or

a person that owns, or is treated as owning, 10% or more of any class of our ordinary shares.

For purposes of the discussion below, you are a "US holder" if you are a beneficial owner of our ordinary shares or ADSs who or which is:

an individual US citizen or resident alien;

a corporation, or entity taxable as a corporation, that was created under US law (federal or state); or

an estate or trust whose worldwide income is subject to US Federal income tax.

If you are not a US holder, you are a "non-US holder" and the discussion below titled "US Federal Income Tax Consequences to non-US Holders" will apply to you.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisor.

US Federal Income Tax Consequences to US Holders

ADSs. In general, for US Federal income tax purposes, US Holders of ADSs will be treated as the beneficial owners of the ordinary shares underlying those ADSs.

Distributions. The gross amount of any distribution (other than in liquidation), including the fair market value of all distributions of ordinary shares whenever a holder may elect to receive cash distributions in lieu of ordinary share distributions, that you receive with respect to our ordinary shares or ADSs (before reduction for South African income tax, if any, withheld from such distributions) generally will be included in your gross income on the day on which you, in the case where you own ordinary shares, or the Depositary, in the case where you own ADSs, receive the distribution. This distribution will be taxed to you as a dividend (that is, ordinary income) to the extent such distribution does not exceed our current or accumulated earnings and profits, as calculated for US Federal income tax purposes ("E&P"). Dividends received by an individual US holder during taxable years before 2011 will generally be taxed at a maximum rate of 15%, provided certain holding period requirements and other conditions are satisfied. Dividends received by an individual US holder for taxable years after 2010 will be subject to tax at ordinary income rates. To the extent any distribution exceeds our E&P, the distribution will first be treated as a tax-free return of capital to the extent of your adjusted tax basis in our ordinary shares or ADSs, as applicable, and will be applied against and reduce such basis dollar-for-dollar (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such ordinary shares or ADSs). To the extent that such distribution exceeds your adjusted tax basis, the distribution will be taxed as gain recognized on a sale or exchange of our ordinary shares or ADSs, as applicable. See "Sale or Other Disposition of Company Ordinary Shares and ADSs", below. Because we are not a US corporation, no dividends-received deduction will be allowed to a corporate US holder with respect to dividends paid by us.

Distributions on the ordinary shares and ADSs are expected to be made by us in US dollars, to the extent necessary. In the event that distributions on the ordinary shares and ADSs are made by us in Rand, any dividends paid in Rand generally will be included in your gross income in a US dollar amount calculated by reference to the exchange rate in effect on the day you, in the case of ordinary shares, or the Depositary, in the case of ADSs, receive the dividend. It is anticipated that the Depositary will, in the ordinary course, convert Rand received by it as distributions on the ADSs into US dollars. To the extent that the Depositary

does not convert the Rand into US dollars at the time that you are required to take the distribution into your gross income for US Federal income tax purposes, you may recognize foreign currency gain or loss, taxable as ordinary income or loss, on the later conversion of the Rand into US dollars. The gain or loss recognized will generally be based upon the difference between the exchange rate in effect when the Rand are actually converted and the "spot" exchange rate in effect at the time the distribution is taken into account and any such gain or loss will generally be treated as United States source income for US foreign tax credit purposes.

Dividends paid by us will generally be treated as foreign source income for US foreign tax credit limitation purposes. Subject to certain limitations, US holders may elect to claim a foreign tax credit against their US

Federal income tax liability for South African tax withheld (if any) from dividends received in respect of our ordinary shares or ADSs, as applicable. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid by us in respect of our ordinary shares or ADSs, as applicable, generally will be "passive income" or, in the case of certain types of US holders, general income, and therefore any US tax imposed on these dividends cannot be offset by excess foreign tax credits that you may have from foreign source income not qualifying as "passive income" or "general income", respectively. Additional limitations on the credit apply to individual US holders receiving dividends if the dividends are eligible for the 15% maximum tax rate on dividends described above. US holders that do not elect to claim a foreign tax credit may instead claim a deduction for South African tax withheld (if any).

Sale or Other Disposition of Company Ordinary Shares and ADSs. Subject to the discussion of "passive foreign investment companies" below, generally speaking, in connection with the sale or other taxable disposition of our ordinary shares or ADSs, as applicable:

you will recognize gain or loss equal to the difference (if any) between:

the US dollar value of the amount realized on such sale or other taxable disposition; and

your adjusted tax basis in such ordinary shares or ADSs;

any gain or loss will be capital gain or loss and will be long-term capital gain or loss if your holding period for our ordinary shares or ADSs, as applicable, is more than one year at the time of such sale or other taxable disposition;

long-term capital gains recognized by individual US holders during taxable years before 2011 will generally be taxed at a maximum rate of 15%;

any gain or loss will generally be treated as having a United States source for United States foreign tax credit purposes; and

your ability to deduct capital losses (if any) is subject to limitations.

If you are a cash basis US holder who receives foreign currency (e.g., Rand) in connection with a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, the amount realized will be based on the US dollar value of the foreign currency received with respect to such ordinary shares or ADSs, as determined on the settlement date of such sale or other taxable disposition.

If you are an accrual basis US holder, you may elect the same treatment required of cash basis taxpayers with respect to a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service. If you are an accrual basis US holder and do not elect to be treated as a cash basis taxpayer (pursuant to the Treasury Regulations applicable to foreign currency transactions) for this purpose, you may have a foreign currency gain or loss for US Federal income tax purposes because of differences between the US dollar value of the foreign currency received prevailing on the date of the sale or other taxable disposition of our ordinary shares or ADSs, as applicable, and the date of payment. Any such currency gain or loss

generally will be treated as ordinary income or loss and would be in addition to gain or loss, if any, that you recognized on the sale or other taxable disposition of our ordinary shares or ADSs, as applicable.

South African securities transfer tax will be payable on a subsequent registration of transfer of ordinary shares. See "–South Africa–Duty on the Shares". STT will not be a creditable tax for US foreign tax credit purposes, but will be deductible. In the case of an individual US holder, such deduction will be subject to specified limits on the deductibility of investment expenses.

Passive Foreign Investment Company. US holders (who are not tax-exempt) would be subject to a special, adverse tax regime (that would differ in certain respects from that described above) if we were or were to become a passive foreign investment company for US Federal income tax purposes. Although the determination of whether a corporation is a passive foreign investment company is made annually, and thus may be subject to change, we do not believe that we are, nor do we expect to become, a passive foreign investment company. Notwithstanding the foregoing, we urge you to consult your own US tax advisor

regarding the adverse US Federal income tax consequences of owning the stock of a passive foreign investment company and of making certain elections designed to lessen those adverse consequences.

US Federal Income Tax Consequences to Non-US Holders

Distributions. If you are a non-US holder, you generally will not be subject to US Federal income tax on distributions made on our ordinary shares or ADSs unless:

you conduct a trade or business in the United States; and

the dividends are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to US Federal income tax on a net income basis in respect of income from our ordinary shares or ADSs, as applicable, such dividends are attributable to a permanent establishment that you maintain in the United States).

If you fail the above test, you generally will be subject to tax in respect of such dividends in the same manner as a US holder, as described above. In addition, any effectively connected dividends received by a non-US corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Sale or Other Disposition of Company Ordinary Shares and ADSs. If you are a non-US holder, you will not be subject to US Federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, unless:

your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to US Federal income tax on a net income basis in respect of gain from the sale or other disposition of our ordinary shares or ADSs, as applicable, such gain is attributable to a permanent establishment maintained by you in the United States) or

you are an individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and either:

your gain is attributable to an office or other fixed place of business that you maintain in the United States; or

you have a tax home in the United States.

Effectively connected gains realized by a non-US corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

Payments and sale proceeds in respect of our ordinary shares or ADSs, as applicable, that are made in the United States or by a US related financial intermediary may be subject to US information reporting rules. You will not be subject to "backup" withholding of US Federal income tax provided that:

you are a corporation or other exempt recipient; or

you provide a taxpayer identification number (which, in the case of an individual, is his or her social security number) and meet other information reporting and certification requirements.

If you are a non-US holder, you generally are not subject to information reporting and backup withholding, but you may be required to provide a certification of your non-US status in order to establish that you are exempt. You may be subject to information reporting and backup withholding if you sell your ordinary shares or ADSs through a US broker and you are not eligible for an exemption. You may be subject to information reporting, but not backup withholding if you sell your shares or ADSs through a broker with certain connections with the US and you are not eligible for an exemption.

Amounts withheld under the backup withholding rules may be credited against your US Federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service.

Documents on Display

The documents concerning Sappi Limited referred to in this Annual Report may be inspected at the registered office of Sappi Limited at 48 Ameshoff Street, Braamfontein, Johannesburg, Republic of South Africa.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal quantitative and qualitative disclosures about market risks (that is, the risk of loss arising from adverse changes in market rates and prices) to which Sappi is exposed are:

Market Risk

Interest rate risk. We are exposed to interest rate risk as we borrow at both fixed and floating interest rates.

Currency risk. We are exposed to economic, transaction and translation currency risks.

Commodity risk. We are exposed to commodity risk from price volatility and threats to security of supply.

See "Note 30 to our Group annual financial statements included elsewhere in this Annual Report."

Credit Risk

Credit risk. We are exposed to credit risk in relation to trade receivables, cash deposits and financial investments.

See "Note 30 to our Group annual financial statements included elsewhere in this Annual Report."

Liquidity Risk

Liquidity risk. We are exposed to liquidity risk in that we may be unable to meet our current and future financial obligations as they fall due.

See "Note 30 to our Group annual financial statements included elsewhere in this Annual Report."

Other Risks

Plantation risk. We are exposed to fair value fluctuations on plantations, as well as to fire, hazardous weather, disease and other damages to our plantations. See "Item 5–Operating and Financial Review and Prospects–Critical Accounting Policies and Estimates–Plantations."

Discount rates. We are exposed to the discount rate fluctuations in calculation post employment benefit liabilities. See "Item 5–Operating and Financial Review and Prospects–Critical Accounting Policies and Estimates–Plantations, Post-Employment Benefits."

For additional descriptions of these risks, see notes 2, 10, 16, 20, 27 and 28 to our Group annual financial statements included elsewhere in this Annual Report.

Commodity Price Risk

The selling prices of the majority of products manufactured and purchase prices of many raw materials used generally fluctuate in line with commodity cycles. Prices of chemical cellulose generally follow those of paper pulp, although the cycle is generally less volatile. As a result, the sale of chemical cellulose also tends to act as a natural hedge for paper pulp. Our total pulp production capacity is approximately 92%, including the Acquired Business, of our total pulp requirements. However, there are differences between the types of pulp required in our paper making operations and the grades of pulp we produce, as well as regional differences. We are therefore a buyer as well as a seller of paper pulp. Other than maintaining a high level of pulp integration, no hedging techniques are applied. For a description of our level of pulp integration, see "Item 4–Information on the Company–The Pulp and Paper Industry–Pulp", "Item 4–Information on the Company–Sappi Fine Paper", "Item 4–Information on the Company–Supply Requirements" and "Item 5–Operating and Financial Review and Prospects–Markets". Despite our present relatively high level of pulp integration on a Group-wide basis, in the event of significant increases in the prices of pulp on a Group-wide basis, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report (the "Evaluation Date") Sappi's management (with the participation of its Chief Executive Officer and Chief Financial Officer), conducted an evaluation pursuant to Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, Sappi's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, such disclosure controls and procedures (which include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Sappi in the reports it files or submits under the Exchange Act is accumulated and communicated to Sappi's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure) were effective to provide reasonable assurance that information required to be disclosed by Sappi in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Management's Report on Internal Control over Financial Reporting

Management of Sappi, together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. Sappi's internal control over financial reporting is a process designed under the supervision of the chief executive and chief financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Sappi's financial statements for external reporting purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As of September, 2008, we conducted assessment of the effectiveness of Sappi's internal control over financial reporting based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, we determined that Sappi's internal control over financial reporting as of September 2008 is effective. We also determined that there were no material weaknesses as of this date.

(c) Attestation Report of the Independent Registered Public Accounting Firm

To the board of directors and shareholders of Sappi Limited:

We have audited the internal controls over financial reporting of Sappi Limited and its subsidiaries (the "Company") to determine that the Company maintained effective internal control over financial reporting as of September 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial

reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, testing and

evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 2008, based on the criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended September 2008 of the Company and our report dated January 26, 2009 expressed an unqualified opinion on those financial statements and the related financial statement schedule included in Schedule 1.

/s/ Deloitte & Touche

Per M J Comber

Partner

January 26, 2009

Deloitte & Touche–Registered Auditors

Buildings 1 and 2, Deloitte Place

The Woodlands, Woodlands Drive, Sandton

Johannesburg, South Africa

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer

GM Pinnock Audit DL Kennedy Tax and Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance

CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request.

(d) Changes in internal control over financial reporting

There were no changes in internal control over financial reporting during the reporting period.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Dr Deenadayalen Konar qualifies as an audit committee financial expert on the Audit Committee of Sappi Limited. The Board determined that Dr Konar acquired the required attributes by way of education, practical experience, practice as a registered accountant and auditor, and participation as a member of the audit committees of significant entities that have applied International Financial Reporting

Standards. See Item 6 for a description of Dr Konar's background and relevant experience. Dr Konar is an independent Non-Executive Director of Sappi.

ITEM 16B. CODE OF ETHICS

We have adopted the Sappi Code of Ethics (the "Code") that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer and Group Financial Manager (such officers, collectively, the "senior officers"). We believe the Code constitutes a "code of ethics" as defined in Item 16B of Form 20-F.

We have filed a copy of the Sappi Limited Code of Ethics as an exhibit.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal independent auditor fees paid for the year ended September 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Audit fees ⁽¹⁾	6	5
Tax services ⁽²⁾	1	2
Acquisition related services ⁽³⁾	3	–
	<u>10</u>	<u>7</u>

(1) Audit-fees consist of assurance and related services that are reasonably related to the performance of the audit or review of the Group's financial statements.

(2) Tax services are fees for professional services performed with respect to tax compliance, tax advice and tax planning. This includes advice on tax aspects of Group acquisitions, disposals, reorganizations, and financing, as well as analysis of the impact on the Group for changes to tax laws in various countries.

(3) Acquisition related services fees relate to services provided with respect to the Acquired Business.

Audit Committee Pre-Approval Policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee of our board of directors, which concluded that the provision of such services by the independent accountants was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for specific audit committee pre-approval, prior to engagement, of any services, other than audit services covered by the annual engagement letter. In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested and the amount.

Requests or applications for services that require specific separate approval by the audit committee are required to be submitted to the audit committee by both management and the independent accountants, and must include a detailed description

of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants.

Pre-approval may be granted either by the audit committee or its chairman or any member of the audit committee to whom this authority has been delegated by the audit committee. Where pre-approval is granted by an individual member of the audit committee, the matter is tabled for noting at the next meeting of the full Sappi Limited audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASER

During the 2008 fiscal year no Sappi Limited share repurchases were made.

Sappi stated its intention, on November 9, 2000, to acquire Sappi shares through a wholly owned Sappi subsidiary, subject to applicable stock exchange and legal limitations. Sappi has been given approval at its annual general meetings of shareholders, including the meetings held on March 3, 2008 and March 5, 2007, to purchase its shares up to a maximum of 10% of the issued ordinary share capital in any one financial year. The general authority is subject to the Listings Requirements of the JSE Limited and the Companies Act No. 61 of 1973 of South Africa, as amended, and is granted until the next annual general meeting. Some of the repurchased shares, have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. As Sappi has recently concluded a rights offer, it is unlikely that the company will seek shareholder approval for the purchase of Sappi Limited shares in the near future.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The New York Stock Exchange (NYSE) requires compliance with its corporate governance rules. The application of these NYSE rules is restricted for foreign companies, recognizing that such companies have to comply with domestic requirements. As a foreign private issuer, Sappi must comply with four NYSE corporate governance rules:

Satisfy the audit committee requirements of the Securities and Exchange Commission (SEC);

Chief Executive Officer must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of Section 303(A) of the Sarbanes-Oxley Act of 2002;

Provide a brief description of any significant difference between its corporate governance practices and those followed by US companies under the NYSE listing standards, and

Maintain a publicly accessible website that includes a printable version of its audit committee charter and the description of significant differences in corporate governance practices mentioned above. In accordance with new NYSE rules, Sappi continues to make available on its website its Annual Reports on Form 20-F.

As Sappi is listed on the JSE Limited in Johannesburg, Sappi is required to comply with the King Report on Corporate Governance for South Africa–2002. Although there are differences between the King Report and the NYSE corporate governance rules, Sappi believes it is in compliance with the King Report and has voluntarily adopted corporate governance practices comparable in all significant respects to the requirements of the NYSE corporate governance rules.

PART III

ITEM 17. FINANCIAL STATEMENTS

Sappi Limited is furnishing financial statements pursuant to the instructions of Item 18 of Form 20-F.

ITEM 18. FINANCIAL STATEMENTS

The Group annual financial statements and schedules together with the Report of the Independent Auditors are included as the "F" pages to this Annual Report.

ITEM 19. EXHIBITS

- Memorandum and Articles of Association of Sappi Limited, as amended and restated on March 4, 1999.
- 1.1 Incorporated by reference to Exhibit 1.1 to the Registration Statement on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.
- Special Resolution of Sappi Limited dated March 2, 2000 pursuant to the South African Companies Act effecting certain amendments to the Articles of Association of Sappi Limited. Incorporated by reference to Exhibit 1.2 to the Registration Statement on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.
- 1.2
- Specimen Ordinary Share Certificate, incorporated by reference to Exhibit 2.1 to the Registration Statement on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.
- 2.1
- Amended and Restated Deposit Agreement among Sappi Limited, The Bank of New York, as depositary, and the Owners from time to time of American Depositary Receipts dated October 26, 1999. Incorporated by reference to Exhibit 2.2 to the Registration Statement on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.
- 2.2
- Form of American Depositary Receipt (included in Exhibit 2.2).
- 2.3
- Long-term debt instruments not exceeding 10% of our total assets. Sappi Limited undertakes to provide the Securities and Exchange Commission with copies upon request.
- 2.6
- Special Resolution of Sappi Limited dated November 3, 2008 pursuant to the South African Companies Act, increasing the authorized share capital of Sappi Limited from 325,000,000 ordinary shares of ZAR 1.00 each to 1,325,000,000 ordinary shares of ZAR 1.00 each.*
- 2.7
- Ordinary Resolution of Sappi Limited dated November 3, 2008: a) authorizing Sappi Limited to acquire the coated graphic paper business from M-real Corporation; and b) pursuant to the South African Companies Act, authorizing the directors of Sappi Limited to allot and issue Settlement shares to M-real Corporation in terms of the Master Agreement for the acquisition.*
- 2.8
- Sappi Limited Share Incentive Scheme.*
- 4.1
- Form of Deed of Amendment to The Sappi Limited Share Incentive Scheme dated January 19, 1998 between Sappi Limited, David Charles Brink and Thomas Louw de Beer.*
- 4.2
- Second Deed of Amendment to The Sappi Limited Share Incentive Scheme dated March 9, 2000 between Sappi Limited, David Charles Brink and Thomas Louw de Beer.*
- 4.3
- Third Deed of Amendment to The Sappi Limited Share Incentive Scheme dated December 10, 2004 between Sappi Limited, David Charles Brink and Meyer Feldberg.*
- 4.4
- Credit Facility, dated May 7, 2003, among Sappi Papier Holding AG as borrower, Sappi International S.A. as guarantor, Bank Austria Creditanstalt AG as mandated lead arranger and agent and various financial institutions as lenders.*
- 4.10
- Resolution passed by the members of the Human Resources Committee of Sappi Limited on amendments to the Sappi Limited Share Incentive Scheme, incorporated by reference to Exhibit 4.11 to the Annual
- 4.11

- 4.12 An amendment dated November 18, 2005, to the Credit Facility, dated May 7, 2003 as described in 4.10, incorporated by reference to Exhibit 4.12 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 20, 2005.

- Multi-Currency Revolving Credit Facility, dated June 29, 2005, among Sappi Papier Holding GmbH ("SPH"), Sappi International S.A. ("SISA") and Sappi Trading Pulp AG as borrowers and BNP Paribas, J P Morgan PLC, SG Corporate and Investment Banking, as mandated lead arrangers and the additional financial institutions named therein, incorporated by reference to Exhibit 4.13 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 20, 2005.
- 4.13
- The Sappi Limited Performance Share Incentive Plan, dated March 7, 2005 between Sappi Limited, David Charles Brink, and Meyer Feldberg (as Trustees), incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of Sappi Limited filed with the Securities and Exchange Commission on December 15, 2004.
- 4.14
- Master Business and Share Sale and Purchase Agreement, relating to the sale and purchase of the M-real Corporation coated graphic paper business, between M-real Corporation and others and Sappi Limited and others dated September 29, 2008.*
- 4.15
- Lock-up Deed between M-real Corporation and Sappi Limited dated September 29, 2008.*
- 4.16
- Guaranteed Unsecured Loan Note between M-Real Corporation as lender; Sappi Papier Holding GmbH as borrower; Sappi Limited, Sappi International S.A. and Sappi Trading Pulp A.G. as guarantors; dated September 29, 2008.*
- 4.17
- 6.1 Computation of Earnings per Share, incorporated by reference to note 7 of the notes to the Group annual financial statements included elsewhere in this Annual Report.
- 7.1 An explanation of other ratios and definitions used in this Annual Report, incorporated by reference to notes 2 and 3 of the notes to the Group annual financial statements included elsewhere in this Annual Report.
- 8.1 List of significant subsidiaries, incorporated by reference to "Item 4–Information on the Company–Organizational Structure" included elsewhere in this Annual Report.
- 11.2 Sappi Limited Code of Ethics.*
- 12.1 Certification of Roeloff Jacobus Boëttger, Chief Executive Officer of Sappi Limited pursuant to Exchange Act Rule 13a-14(a).*
- 12.2 Certification of Mark Richard Thompson, Chief Financial Officer of Sappi Limited pursuant to Exchange Act Rule 13a-14(a).*
- 13.1 Certification of Roeloff Jacobus Boëttger, Chief Executive Officer of Sappi Limited and Mark Richard Thompson, Chief Financial Officer of Sappi Limited pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 15.1 Consent of independent registered public accounting firm.*

* Filed herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SAPPI LIMITED

By: /s/ ROELOFF BOËTTGER
Name: Roeloff Boëttger
Title: *Chief Executive Officer*

By: /s/ MARK THOMPSON
Name: Mark Thompson
Title: *Chief Financial Officer*

Date: January 26, 2009

Group Annual Financial Statements

[Report of the Independent Auditors to the Board of Directors and Shareholders of Sappi Limited](#) [F-2](#)

[Group Income Statements for the years ended September 2008, 2007 and 2006](#) [F-3](#)

[Group Balance Sheets at September 2008 and 2007](#) [F-4](#)

[Group Cash Flow Statements for the years ended September 2008, 2007 and 2006](#) [F-5](#)

[Group Statements of Recognized Income and expense for the years ended September 2008, 2007 and 2006](#) [F-6](#)

[Notes to the Group Annual Financial Statements](#) [F-10](#)

Group Annual Financial Statement Schedule

[Schedule I–Condensed Company Financial Statements](#) [S-1](#)

REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the board of directors and shareholders of Sappi Limited:

We have audited the accompanying consolidated balance sheets of Sappi Limited and its subsidiaries (the "Company") as of September 2008 and 2007 and the related consolidated statements of income, recognized income and expense and cash flows for each of the three years in the period ended September 2008 and related financial statement schedule included in Schedule 1. These financial statements and related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Sappi Limited and its subsidiaries at September 2008 and 2007 and the results of their operations and cash flows for each of the three years in the period ended September 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated January 26, 2009, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche

Per M J Comber

Partner

January 26, 2009

Deloitte & Touche-Registered Auditors

Buildings 1 and 2, Deloitte Place

The Woodlands Office Park, Woodlands Drive, Sandton

Johannesburg, South Africa

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer

GM Pinnock Audit DL Kennedy Tax and Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance

CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request

SAPPI

GROUP INCOME STATEMENT

for the year ended September 2008

	<u>Note</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
		US\$ million		
Sales		5,863	5,304	4,941
Cost of sales	4	5,016	4,591	4,419
Gross profit		847	713	522
Selling, general and administrative expenses	4	385	362	367
Other operating expenses (income)	4	165	(22)	29
Share of (profit) loss from associates and joint ventures	13	(17)	(10)	1
Operating profit	4	314	383	125
Net finance costs	5	126	134	130
Finance costs		181	173	162
Finance revenue		(38)	(21)	(26)
Finance cost capitalized		(16)	(14)	(2)
Net foreign exchange gains		(8)	(13)	(7)
Net fair value loss on financial instruments		7	9	3

Profit (loss) before taxation		188	249	(5)
Taxation charge (benefit)	6	86	47	(1)
Profit (loss) for the year		102	202	(4)
Weighted average number of ordinary shares in issue (millions)		228.8	227.8	226.2
Basic earnings (loss) per share (US cents)	7	45	89	(2)
Diluted earnings (loss) per share (US cents)	7	44	88	(2)
Dividends per share (US cents)—declared after year-end	8	16	32	30

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SAPPI
GROUP BALANCE SHEET
at September 2008

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		US\$ million	
Assets			
Non-current assets			
		<u>4,408</u>	<u>4,608</u>
Property, plant and equipment	9	3,361	3,491
Plantations	10	631	636
Deferred tax assets	11	41	60
Goodwill and intangible assets	12	7	7
Joint ventures and associates	13	124	112
Other non-current assets	14	168	165
Derivative financial instruments	30	76	137
		<u>1,701</u>	<u>1,736</u>
Current assets			
Inventories	15	725	712
Trade and other receivables	16	698	653
Derivative financial instruments	30	4	7

Cash and cash equivalents		274	364
Total assets		6,109	6,344
Equity and liabilities			
Shareholders' equity		1,605	1,816
Ordinary share capital and share premium	17,18	707	825
Non-distributable reserves	18,19	124	114
Foreign currency translation reserve	18	(121)	9
Retained earnings	18	895	868
Non-current liabilities		2,578	2,612
Interest-bearing borrowings	20	1,832	1,828
Deferred tax liabilities	11	399	385
Derivative financial instruments	30	1	15
Other non-current liabilities	21	346	384
Current liabilities		1,926	1,916
Interest-bearing borrowings	20	821	771
Overdraft		26	22
Derivative financial instruments	30	24	28

Trade and other payables		959	952
Taxation payable		54	125
Provisions	22	42	18
		<hr/>	<hr/>
<i>Total equity and liabilities</i>		6,109	6,344
		<hr/> <hr/>	<hr/> <hr/>

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SAPPI

GROUP CASH FLOW STATEMENT

for the year ended September 2008

	<u>Note</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
		US\$ million		
Cash retained from operating activities		355	388	160
Cash generated from operations	23.1	623	585	396
–Decrease (increase) in working capital	23.2	1	60	(17)
Cash generated from operating activities		624	645	379
–Finance costs paid	23.3	(139)	(183)	(164)
–Finance revenue received		13	21	26
–Taxation paid	23.4	(70)	(27)	(13)
Cash available from operating activities		428	456	228
–Dividends paid		(73)	(68)	(68)
Cash utilized in investing activities		(494)	(364)	(287)
Investment to maintain operations		(239)	(38)	(144)
–Replacement of non-current assets	23.5	(250)	(116)	(160)
–Proceeds on disposal of non-current assets	23.6	7	50	4

–Decrease in other non-current assets		4	28	12
		<u> </u>	<u> </u>	<u> </u>
Investment to expand operations		(255)	(326)	(143)
		<u> </u>	<u> </u>	<u> </u>
–Additions of non-current assets		(255)	(326)	(143)
		<u> </u>	<u> </u>	<u> </u>
Cash effects of financing activities		49	98	(21)
		<u> </u>	<u> </u>	<u> </u>
Proceeds from interest-bearing borrowings*		2,077	806	925
		<u> </u>	<u> </u>	<u> </u>
Repayment of interest-bearing borrowings*		(2,032)	(719)	(793)
		<u> </u>	<u> </u>	<u> </u>
Increase (decrease) in bank overdrafts		4	11	(153)
		<u> </u>	<u> </u>	<u> </u>
Net movement in cash and cash equivalents		(90)	122	(148)
		<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at beginning of year		364	224	367
		<u> </u>	<u> </u>	<u> </u>
Translation effects		–	18	5
		<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	23.7	274	364	224
		<u> </u>	<u> </u>	<u> </u>

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

SAPPI

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended September 2008

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Pension fund assets recognized (not recognized)	–	45	(43)
Actuarial gains on pension and other post-employment benefit liabilities	7	101	100
Fair value adjustment on available for sale financial instruments	–	1	–
Deferred taxation on above items	(1)	(21)	(10)
Exchange differences on translation	(262)	151	(189)
Net (expense) income recorded directly in equity	(256)	277	(142)
Profit (loss) for the year	102	202	(4)
Total recognized (expense) income for the year	(154)	479	(146)

SAPPI

GROUP INCOME STATEMENT IN RANDS CONVENIENCE TRANSLATION

for the year ended September 2008

	2008	Unaudited 2007	2006
	ZAR million		
Sales	43,559	38,051	32,630
Cost of sales	37,266	32,936	29,183
Gross profit	6,293	5,115	3,447
Selling, general and administrative expenses	2,860	2,597	2,423
Other operating expenses (income)	1,226	(158)	192
Share of (profit) loss from associates and joint ventures	(126)	(72)	7
Operating profit	2,333	2,748	825
Net finance costs	937	962	858
Finance costs	1,345	1,241	1,069
Finance revenue	(282)	(151)	(172)
Finance cost capitalized	(119)	(100)	(13)
Net foreign exchange gains	(59)	(93)	(46)
Net fair value loss on financial instruments	52	65	20
Profit (loss) before taxation	1,396	1,786	(33)

Taxation charge (benefit)	638	337	(7)
Profit (loss) for the year	758	1,449	(26)
Weighted average number of ordinary shares in issue (millions)	228.8	227.8	226.2
Basic earnings (loss) per share (SA cents)	334	638	(13)
Diluted earnings (loss) per share (SA cents)	327	631	(13)
Dividends per share (SA cents)–declared after year end	156	209	220

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

SAPPI

GROUP BALANCE SHEET IN RANDS CONVENIENCE TRANSLATION

at September 2008

	Unaudited	
	2008	2007
	ZAR million	
Assets		
Non-current assets	35,594	31,662
Property, plant and equipment	27,140	23,988
Plantations	5,095	4,370
Deferred tax assets	331	412
Goodwill and intangible assets	57	48
Joint ventures and associates	1,001	770
Other non-current assets	1,356	1,133
Derivative financial instruments	614	941
Current assets	13,735	11,928
Inventories	5,854	4,892
Trade and other receivables	5,636	4,487
Derivative financial instruments	32	48
Cash and cash equivalents	2,213	2,501

Total assets	49,329	43,590
Equity and liabilities		
Shareholders' equity	12,961	12,478
Non-current liabilities	20,817	17,947
Interest-bearing borrowings	14,794	12,561
Deferred tax liabilities	3,222	2,645
Derivative financial instruments	8	103
Other non-current liabilities	2,793	2,638
Current liabilities	15,551	13,165
Interest-bearing borrowings	6,630	5,298
Overdraft	210	151
Derivative financial instruments	194	192
Trade and other payables	7,744	6,541
Taxation payable	436	859
Provisions	337	124
Total equity and liabilities	49,329	43,590

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

SAPPI

GROUP CASH FLOW STATEMENT IN RANDS CONVENIENCE TRANSLATION

for the year ended September 2008

	Unaudited		
	2008	2007	2006
	ZAR million		
Cash retained from operating activities	2,638	2,783	1,057
Cash generated from operations	4,586	4,234	2,650
–Decrease (increase) in working capital	7	430	(112)
Cash generated from operating activities	4,593	4,664	2,538
–Finance costs paid	(1,033)	(1,313)	(1,083)
–Finance revenue received	97	151	172
–Taxation paid	(520)	(194)	(86)
Cash available from operating activities	3,137	3,308	1,541
–Dividends paid	(499)	(525)	(484)
Cash utilized in investing activities	(3,669)	(2,611)	(1,896)
Investment to maintain operations	(1,775)	(272)	(952)
–Replacement of non-current assets	(1,857)	(832)	(1,057)
–Proceeds on disposal of non-current assets	52	359	26

–Decrease in other non-current assets	30	201	79
Investment to expand operations	(1,894)	(2,339)	(944)
–Additions of non-current assets	(1,894)	(2,339)	(944)
Cash effects of financing activities	364	703	(138)
Proceeds from interest-bearing borrowings*	15,431	5,782	6,109
Repayment of interest-bearing borrowings*	(15,097)	(5,158)	(5,237)
Increase (decrease) in bank overdrafts	30	79	(1,010)
Net movement in cash and cash equivalents	(667)	875	(977)
Cash and cash equivalents at beginning of year	2,501	1,741	2,336
Translation effects	379	(115)	382
Cash and cash equivalents at end of year	2,213	2,501	1,741

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

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended September 2008

1. BUSINESS

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

The group is composed of its Sappi Fine Paper and Sappi Forest Products business units. Sappi Fine Paper has manufacturing and marketing facilities in North America, Europe, Southern Africa and Asia and produces mainly high quality branded coated fine paper. It also manufactures uncoated graphic and business paper, coated and uncoated speciality paper, and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. Sappi Forest Products, based in Southern Africa, produces commodity paper products, pulp, chemical cellulose and forest and timber products for Southern Africa and export markets. The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside our core operating regions of North America, Europe and Southern Africa. All sales and costs associated with Sappi Trading are allocated to our two reporting segments.

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

- International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB; and
- the requirements of the South African Companies Act of 1973.

The financial statements are presented in United States Dollars (US\$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million.

The financial statements are prepared on the historical-cost basis, except for certain financial assets and liabilities and plantations that are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all the group entities.

(i) Fiscal year

The group's financial year end is on the Sunday closest to the last day of September.

Accordingly the last three financial years ended as follows:

28 September 2008 (year ended September 2008) (52 weeks)

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

30 September 2007 (year ended September 2007) (52 weeks)

01 October 2006 (year ended September 2006) (52 weeks)

The financial years commenced as follows:

01 October 2007 (October 2007)

02 October 2006 (October 2006)

03 October 2005 (October 2005)

(ii) Underlying concepts

The financial statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by an accounting standard or interpretation.

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

Prior period errors are retrospectively restated if material.

2.2 Accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

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

Monetary and non-monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date. Non-monetary assets (plantations) denominated in foreign currencies that are stated at fair value are translated into the functional currency of the group's individual operations at foreign exchange rates ruling at the reporting date.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognized in the income statement in the period in which they arise.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-dollar functional currencies are translated at the closing rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in equity. These translation differences are recognized in profit or loss for the period on disposal of the foreign operation.

The functional currency of the European business is EURO, the Southern African business is ZAR and the North American business is US Dollars. Other minor companies in the group may have different functional currencies depending on the business environment in which they operate.

Goodwill and fair value adjustments arising on the acquisition of a non-dollar functional currency entity are treated as assets and liabilities of the entity and are translated at the closing rate.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

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

	Rate at		
	Sep 08	Sep 07	Sep 06
ZAR to one US\$	8.0751	6.8713	7.7738

GBP to one US\$	0.5421	0.4885	0.5340
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EUR to one US\$	0.6843	0.7007	0.7891
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	Average annual rate		
	Sep 08	Sep 07	Sep 06
ZAR to one US\$	7.4294	7.1741	6.6039

GBP to one US\$	0.5049	0.5072	0.5560
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EUR to one US\$	0.6638	0.7499	0.8120
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2.2.2 Group accounting**(i) Subsidiary undertakings and special-purpose entities**

The group financial statements include the assets, liabilities and results of the company and subsidiary undertakings (including special-purpose entities) controlled by the group. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal or cessation of control.

Intragroup balances and transactions, and profits and losses arising from intragroup transactions, are eliminated in the preparation of the group financial statements. Unrealized losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and Joint ventures

The results and assets and liabilities of associates and joint ventures are incorporated in the group's financial statements using the equity method of accounting. The share of the associates' or joint venture's retained income, which is the profit after tax, is determined from their latest financial statements. The carrying amount of such investments is reduced to recognize any impairment in the value of individual investments. When the group's share of losses exceeds the carrying amount of the associate or joint venture, the carrying amount is reduced to nil, inclusive of any debt outstanding, and recognition of further losses is discontinued, except to the extent that the group has incurred or guaranteed obligations in respect of the associate or joint venture.

Where an entity within the group transacts with an associate or joint venture of the group, unrealized profits and losses are eliminated to the extent of the group's interest in the relevant associate or joint venture.

Investments in associates and joint ventures held with the intention of disposing thereof within 12 months are accounted for as non-current assets held for sale.

(iii) Goodwill

The excess between the cost of the business combination and the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill in the balance sheet.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

Goodwill is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortized but tested for impairment annually or more frequently where there is an indication of impairment.

Goodwill is tested for impairment based on an allocation to one or more cash-generating units (CGUs) in which the synergies from the business combinations are expected. Each CGU containing goodwill is tested annually for impairment. An impairment loss is recognized whenever the carrying amount of an asset or its CGU exceeds its recoverable amount.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis. Impairment losses relating to goodwill are not reversed.

Critical areas of judgement and the use of estimates involving goodwill are included in section 2.3 of the accounting policies.

2.2.3 Environmental expenditures and liabilities

Environmental expenditure that pertains to current operations or relates to future revenues are expensed or capitalized, consistent with the company's capitalization 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 recognized in profit and loss for the period.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations. Amounts accrued do not include third-party recoveries. 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.

2.2.4 Financial instruments**(i) Initial recognition**

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

(ii) Initial measurement

All financial instruments are initially recognized at fair value plus transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability except for those classified as 'fair value through profit and loss'.

Financial instruments carried at fair value through profit and loss are measured at fair value on transaction date. All transaction costs are immediately written off in the income statement.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)***(iii) Subsequent measurement***

Subsequent to initial measurement, financial instruments are either measured at fair value or amortized cost, depending on their classification:

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

Financial instruments at fair value through profit or loss consist of items classified as held for trading. The group has not designated any financial instruments as at fair value through profit or loss.

Non-trading financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortized cost.

Held-to-maturity financial assets

Held-to-maturity financial assets are measured at amortized cost, with interest income recognized in profit and loss for the period.

The group does not presently have any held to maturity financial assets.

Loans and receivables

Loans and receivables are carried at amortized cost, with interest revenue recognized in profit and loss for the period. The majority of the group's receivables are included in the loans and receivables category.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with any gains and losses recognized directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are removed from equity to the income statement on debt instruments when they arise.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts, are treated as separate derivatives and recognized on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with unrealized gains and losses reported in profit or loss.

(v) Derecognition

The group derecognizes a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognized when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)***(vi) Impairment of financial assets*****Loans and receivables**

An impairment is recognized when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is charged to the income statement.

Available-for-sale financial assets

When there is objective evidence that an available for sale financial asset is impaired, the cumulative unrealized gains and losses previously recognized in equity are removed from equity and recognized in profit or loss even though the financial asset has not been derecognized.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases due to an objective event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed in profit or loss for the period. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

(vii) Derivatives and hedge accounting

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

Hedging relationships are of three types:

Fair value hedges

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognized in profit or loss. The changes in the fair value of the hedging instrument and the hedged item is recognized in net finance costs in profit or loss.

Cash flow hedges

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 recognized directly in shareholders' equity and the ineffective portion is recognized in income.

The gains or losses, which are recognized directly in shareholders' equity, are transferred to income in the same period in which the hedged transaction affects income. Any ineffectiveness related to cash flow hedges is recognized in the profit or loss for the period.

The group does not currently apply cash flow hedge accounting.

Hedge of a net investment in a foreign operation

The group does not currently have any hedges of net investments in foreign operations.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to profit or loss for the period.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

Critical areas of judgement and the use of estimates involving hedge accounting are included in section 2.3 of the accounting policies.

(viii) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is an intention of settling on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the balance sheet, with the exception of those relating to hedges, which are disclosed in accordance with the profit or loss effect of the hedged item.

(ix) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest rate method taking into account the expected timing and amount of cash flows.

(x) Other

Dividends from investments and gains or losses on the sale of investments are recognized in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the group and the costs associated with the transaction or service can be measured reliably.

2.2.5 Government grants

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

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

2.2.6 Intangible assets***(i) Research activities***

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

(ii) Development activities

Expenditure on engineering projects, computer software and other development activities, is capitalized if these projects and activities are technically and commercially feasible and the group has sufficient resources to complete development.

Computer development expenditure is amortized only once the relevant software has been commissioned. Intangible assets are stated at cost less accumulated amortization and impairment losses. Intangible assets, which have not yet been commissioned, are stated at cost less impairment losses.

Amortization of engineering projects, computer software and development costs is charged to profit or loss on a straightline basis over the estimated useful lives of these assets, not exceeding five years. Subsequent expenditure relating to computer software is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)**(iii) Patents**

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

2.2.7 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of an impairment or the reversal of a previously recognized impairment.

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

Should there be any indications of impairment, the recoverable amounts of the assets are estimated. These impairments, where the carrying value of an asset exceeds its recoverable amount, or the reversal of a previously recognized impairment, are recognized in profit or loss for the period.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value-in-use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realization of the asset.

For an asset whose cash flows are largely dependent on those of other assets the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

When an asset previously tested as part of a larger CGU is no longer expected to contribute to the future cash flows of this CGU or is no longer in use, the applicable asset is evaluated on a stand-alone basis.

A previously recognized impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior periods.

Critical areas of judgement and the use of estimates involving asset impairments are included in section 2.3 of the accounting policies.

2.2.8 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, distribution and selling.

Cost is determined on the following basis:

First in first out (FIFO): finished goods

Weighted average: raw materials, work in progress and consumable stores

The specific identification basis is used to arrive at the cost of items that are not interchangeable.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)**2.2.9 Leases****(i) The group as lessee**

Leases in respect of which the group bears substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

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

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

Leases in respect of which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments made under operating leases are charged to income on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease are considered separately for the purpose of lease classification.

If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, where the building is a finance lease, unless it is clear that both elements are operating leases.

2.2.10 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale within 12 months rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

The entire asset or disposal group must be available for immediate sale in its present condition and the sale should be highly probable, with an active programme to find a buyer and the appropriate level of management approving the sale. The group does not currently have any discontinued operations.

2.2.11 Provisions

Provisions are recognized when the group has a legal or constructive obligation arising from past events that will probably be settled. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a

pretaxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The following specific policies are applied:

A provision for onerous contracts is recognized when the expected benefits to be derived by the group from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

A provision for restructuring is recognized only if the group has created a detailed formal plan and raised a valid expectation, among those parties directly affected, that the plan will be carried out, either

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

by having begun implementation or by publicly announcing the plan's main features. Future operating costs or losses are not provided for.

Critical areas of judgement and the use of estimates involving provisions are included in section 2.3 of the accounting policies.

2.2.12 Pension plans and other post-retirement benefits**(i) Post-employment benefits–pensions**

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

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

The group's policy is to recognize actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in the consolidated statement of recognized income and expense. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to operating profit. The expected return on plan assets and the expected increase during the period in the present value of plan liabilities are included in investment income and interest expense.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in the income statement when the group is demonstrably committed to the curtailment or settlement. Past service costs are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the vesting period of those benefits.

The net liability recognized in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognized asset is limited to the net total of past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Contributions in respect of defined-contribution plans are recognized as an expense in profit or loss as incurred.

(ii) Post employment benefits–medical

The projected unit credit method is used in determining the present value of post employment medical benefits. 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. Experience adjustments and plan amendments in respect of existing employees are treated in a similar manner as described in the preceding paragraph, in the statement of recognized income and expenditure.

(iii) Workmen's compensation insurance

Sappi Fine Paper North America has a combination of self-insured and insured workers' compensation programs. 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.

Critical areas of judgement and the use of estimates involving pension plans and other post-retirement benefits are included in section 2.3 of the accounting policies.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)**2.2.13 Plantations**

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. Fair value is determined using the present value of expected future cashflows for immature timber and the standing value method for mature timber. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between eight to eighteen years. In the Southern African region softwood less than eight years and hardwood less than five years is classified as immature timber. All changes in fair value are recognized in the period in which they arise.

The fair value of immature timber calculation takes into account; unadjusted current market prices, estimated projected growth over the rotation period for the existing immature timber volumes in metric ton, cost of delivery and estimated maintenance costs up to the timber becoming mature. The standing value for mature timber is based on unadjusted current market prices in available markets and estimated timber volumes in metric tons less cost of delivery.

Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, being harvesting, loading, transport and allocated fixed overheads.

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

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

Sappi directly manages plantations established on its own land that the company either owns or leases from a third party. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognized as silviculture costs in cost of sales (see note 4.1).

Critical areas of judgement and the use of estimates involving plantations are included in section 2.3 of the accounting policies.

2.2.14 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists.

Owner-occupied investment properties and properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the group's accounting policy. Depreciation

commences, on the same basis as other property assets, when the assets are ready for their intended use. The group currently does not hold any investment properties.

Subsequent expenditure is capitalized when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalized to the cost of the item of owner-occupied property and equipment and the part replaced is derecognized. All other expenditure is recognized in profit or loss as an expense when incurred.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

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

Critical areas of judgement and the use of estimates involving property, plant and equipment are included in section 2.3 of the accounting policies.

2.2.15 Segment reporting

The primary business segments are Sappi Fine Paper and Sappi Forest Products. On a secondary segment basis, significant geographic regions have been identified based on the location of the productive assets, being Asia, Southern Africa, Europe and North America.

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

2.2.16 Share-based payments**(i) Equity-settled share-based payment transactions with employees**

The services received in an equity-settled share-based payment transaction with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and an employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognized in profit or loss for the period in full on grant date with a corresponding increase in equity.

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

(ii) Measurement of fair value of equity instruments granted

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

2.2.17 Shareholders' equity

(i) Share capital

Share capital issued by the company is recorded as the proceeds received, net of direct issue costs.

Ordinary and preference share capital is classified as equity, if the shares are non-redeemable by the shareholder and any dividends are discretionary.

Shares repurchased by the issuing company are cancelled.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)***(ii) Treasury shares***

When share capital recognized as equity is repurchased by the company or other members of the group, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity.

Shares repurchased by group companies are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is presented as a deduction from total equity.

(iii) Dividends

Dividends are recognized as distributions within equity in the period in which they are payable to shareholders. Dividends for the year that are declared after the balance sheet date are disclosed in the dividends note. Taxation costs incurred on dividends are recognized in the period in which the dividend is declared.

2.2.18 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognized in profit or loss except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

(i) Current taxation

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

Secondary Tax on Companies (STC) is a South African Income Tax, that arises from the distribution of dividends and is recognized at the same time as the liability to pay the related dividend.

(ii) Deferred taxation

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

A deferred taxation asset is recognized to the extent that it is probable that future taxable income will be available against which the unutilized taxation losses and deductible temporary differences can be used. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Critical areas of judgement and the use of estimates involving taxation are included in section 2.3 of the accounting policies.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)**2.2.19 Borrowing costs**

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

Capitalization of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

2.2.20 Cost of sales

When inventories are sold, the carrying amount is recognized as part of cost of sales. Any write down of inventories to net realizable value and all losses of inventories or reversals of previous write downs or losses are recognized in cost of sales in the period the write down, loss or reversal occurs.

2.2.21 Revenue

Revenue from the sale of goods (sales) is recognized when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable. Trade and settlement discounts, rebates and customer returns given are included in sales.

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

2.2.22 Emission trading

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

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

Where the group has allowances that exceed actual emissions and the excess allowances are sold to parties outside the group, a gain is recognized in profit or loss for the period.

2.2.23 Black Economic employment (BEE) deal

The group has entered into a transaction that introduces empowered black ownership to the group's land portfolio in South Africa. This empowerment transaction has resulted in our empowerment partner obtaining an undivided 25% interest of this land portfolio via a swap arrangement for the continued right of use of the land. This transaction was based on the current fair value of the 25% undivided interest in the share of the land.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

In terms of the agreement, both Sappi and the empowerment partner have issued preference shares, for the purchase of undivided share of land and the continued right of use of the land respectively, the terms of which require payment of dividends on an annual basis. Sappi's liability for dividends will vary in relation to the value of 25% of the undivided share of the land not paid for by redemption of the preference shares issued to the empowerment partner.

The group has recognized a financial derivative liability in terms of IAS 39: Financial Instruments Recognition and Measurement. The liability is initially recognized at fair value. Subsequently the liability will continue to be measured at fair value with changes in fair value recognized in profit or loss in each financial reporting period.

2.3 Critical accounting policies and estimates

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

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

Asset impairments

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

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

Goodwill impairment testing is conducted at reporting unit levels of our business and is based on a cash flow based valuation model to determine the fair value of the cash generating unit. The assumptions used in estimating future cash flows were based upon our business forecasts and incorporated external information from industry sources, where applicable. Actual outcomes could vary significantly from our business forecasts. Changes in certain of these estimates could have a material effect on the estimated fair value of the reporting

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

unit. In addition to the judgments described in the preceding paragraph that are necessary in estimating future cash flows, significant judgments in estimating discounted cash flows also include the selection of the pre-tax discount rate (weighted average cost of capital) and the terminal value (net present value at end of period where there is a willing buyer and seller) multiple used in our valuation model. The discount rate used in our valuation model considers a debt and equity mix, a market risk premium, and other factors consistent with valuation methodologies. The terminal value multiple used in our valuation model considered the valuations for comparable companies.

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

Property, plant and equipment

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives or the term of the relevant lease, where shorter. The useful lives and residual values of property, plant and equipment are reviewed on an annual basis and are revised when the current estimate is different from the existing estimate.

For material items of property, plant and equipment an internal engineer is used to assist in determining the remaining useful lives and residual values. Management believes that the assigned values and useful lives, including the underlying assumptions have been adequately considered and consistently applied. Different assumptions and assigned useful lives could have an impact on the reported amounts.

Taxation

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

The group then assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not likely, a deferred tax asset is not recognized. In recognising deferred tax assets the group considers profit forecasts including the effect of exchange rate fluctuations on sales and external market conditions. Where it is probable that a position may be successfully challenged by revenue authorities, a tax provision is raised for the tax on the probable adjustment. Management's judgement is

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

required in determining the provision for income taxes, deferred tax assets and liabilities. Deferred tax assets have been recognized where management believes there are sufficient taxable temporary differences or convincing other evidence that sufficient taxable profits will be available in future to realize deferred tax assets. Although the deferred tax assets which have been recognized are considered realizable, actual amounts could be reduced if future taxable income is not achieved. This can materially affect our reported net income and financial position.

Hedge accounting for financial instruments

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

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

Refer to note 30.6 of the Group Annual Financial Statements contained elsewhere in this Annual Report for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

Plantations

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

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

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

A key assumption and estimation is the projected growth estimation over a period of eight to eighteen years per rotation. The inputs to our immature timber growth model are complex and involve estimations and judgements, all of which are regularly

updated. Sappi established a long term sample plot network which is representative of the species and sites on which we grow trees and the measured data from these permanent sample plots are used as input into our growth estimation. Periodic adjustments are made to existing models for new genetic material.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

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

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

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

For further information see note 10 of our group annual financial statements.

Post-employment benefits

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

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)**for the year ended September 2008****2. ACCOUNTING POLICIES (Continued)**

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

Provisions

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

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

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

IFRS 7–Financial Instruments: Disclosures

The group has adopted IFRS 7 Financial Instruments: Disclosures. This has resulted in the financial instrument disclosures previously required by IAS 32 Financial Instruments: Presentation and Disclosure being replaced by those required under IFRS 7.

Adoption of this standard had no impact on the reported profits or financial position of the group.

IFRIC 10–Interim financial reporting

The interpretation addresses an apparent conflict between the requirements of IAS 34–interim financial reporting and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. The interpretation concludes that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

IFRIC 11–Group and treasury share transactions

This interpretation addresses two issues. The first is whether the transactions should be accounted for as equity-settled or as cash-settled share-based payment arrangements, and the second where a share-based payment transaction involves two or more entities within the same group.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

IAS 1–Amendment to International Accounting Standard 1–Presentation of financial statements: capital disclosures

The amendment requires the group to disclose information that will enable users of its financial statements to evaluate the group's objectives, policies and processes of managing capital.

Adoption of this standard had no impact on the reported profits or financial position of the group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures–Reclassification of Financial Instruments

This amendment permits an entity to reclassify some financial instruments out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The implementation of this amendment did not have a material impact on the group's reported results or financial position.

2.5 Potential impact of future changes in accounting policies

The following standards, interpretations and significant amendments or revisions to standards which have been issued but which are not yet effective and which are applicable to Sappi, have not been applied in these financial statements:

Revised IAS 1–Presentation of financial statements

The main changes from the previous standard require that an entity must present:

all non-owner changes in equity (that is, "comprehensive income")–either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income);

a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy; retrospectively or makes a retrospective restatement;

income tax relating to each component of other comprehensive income; and

reclassification adjustments relating to components of other comprehensive income.

This revised standard is effective for our September 2010 year end.

IFRS 8–Operating segments

This standard introduces the concept of an operating segment; it expands the identification criteria for segments of an entity and the measurement of segment results. This statement will allow an entity to align its operating segment reporting with the internal identification and reporting structure.

The standard first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

IFRIC 12–Service concession arrangements

The interpretation serves to clarify the treatment of arrangements whereby a government or other body grants contracts for the supply of public services—such as roads, energy distribution, prisons or hospitals—to private operators. The objective of this IFRIC is to clarify aspects of accounting for service concession arrangements.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 13–Customer loyalty programmes

This interpretation addresses accounting by entities that grant loyalty awards to customers who buy other goods or services. The interpretation deals with the accounting treatment of the obligations to provide free or discounted goods or services granted under such a programme.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 15–Agreements for the Construction of Real Estate

The Interpretation provides guidance on when and how to apply IAS 11 Construction Contracts and IAS 18 Revenue to real estate construction agreements before construction is complete.

The interpretation first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

IFRIC 16–Hedges of a Net Investment in a Foreign Operation

The Interpretation clarifies the accounting for net investment hedges and it provides guidance on the following issues:

which foreign currency risks qualify for hedge accounting, and what amount can be designated;

where within the group the hedging instrument can be held; and

what amount should be reclassified to profit or loss when the foreign operation is disposed of.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

Revision to IFRS 3: Business Combinations

The standard introduces a comprehensive revision of some of the aspects of business combination accounting by restricting options or allowable methods. The revised standard aims to achieve greater consistency in business combination accounting among entities applying IFRS.

The revised standard will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

2. ACCOUNTING POLICIES (Continued)

Amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Investments in joint ventures

As part of the IASB's revision to IFRS 3 Business Combinations, IAS 27, IAS 28 and IAS 31 were also amended.

The amendments first become applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of these on the group.

Amendment to IFRS 2 Vesting conditions and cancellations

The amendment clarifies the definition of vesting conditions and provides guidance on the accounting treatment of cancellations by other parties.

The amendment will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement on eligible hedged items

The amendment clarifies that:

inflation can only be designated as a hedged risk or portion, if it is a contractually-specified portion of the cash flows of a recognized financial instrument;

the time value of a purchased option used as a hedging instrument is not a risk or a portion of a risk present in a hedged item, and would cause ineffectiveness if the entire option is designated as a hedging instrument; and

a risk-free or benchmark interest rate portion of the fair value of a fixed rate financial instrument will normally be separately identifiable and reliably measurable, and hence may be hedged.

The amendment first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Various improvements to IFRSs

A number of standards have been amended as part of the IASB's improvement project. We are assessing the impact of these amendments on the group.

3. SEGMENT INFORMATION

For management purposes, the group has two reporting segments which operate as separate business units: Sappi Fine Paper and Sappi Forest Products. These divisions are the basis on which the group reports its primary segment information. Sappi Fine Paper produces coated and uncoated fine paper and speciality paper grades. Sappi Forest Products produces commodity paper products, pulp, forest and timber products. The secondary segments have been determined by the geographical location of the production facilities: North America, Europe and Southern Africa.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (refer note 2.2).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

3. SEGMENT INFORMATION (Continued)

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 eliminations			Group		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
	US\$ million											
External sales ⁽¹⁾	4,764	4,256	3,958	1,099	1,048	983	–	–	–	5,863	5,304	4,941
Inter-segment sales	677	602	504	657	658	517	(1,334)	(1,260)	(1,021)	–	–	–
Total sales	5,441	4,858	4,462	1,756	1,706	1,500	(1,334)	(1,260)	(1,021)	5,863	5,304	4,941
Segment result ⁽²⁾	34	119	(49)	273	264	175	7	–	(1)	314	383	125
Share of profit (loss) of equity investments	2	3	1	5	3	(1)	10	4	(1)	17	10	(1)
Depreciation	300	298	321	73	75	68	1	1	1	374	374	390
Amortization and fellings	–	1	2	80	70	74	–	–	–	80	71	76
Asset impairments	82	2	6	37	–	3	–	–	–	119	2	9
Asset impairment reversals	–	–	–	–	–	(40)	–	–	–	–	–	(40)
Other non-cash expenses (including fair value adjustment on plantations)	151	(11)	62	(150)	(117)	(131)	(58)	(14)	(58)	(57)	(142)	(127)
Capital expenditures	216	158	203	290	299	99	1	1	1	507	458	303
Total assets ⁽⁶⁾	3,724	3,931	3,810	2,049	2,096	1,419	336	317	288	6,109	6,344	5,517

Operating assets ⁽³⁾⁽⁶⁾	3,678	3,836	3,726	1,972	1,984	1,407	144	99	86	5,794	5,919	5,219
Operating liabilities ⁽⁴⁾	706	682	639	241	251	178	78	66	45	1,025	999	862
Net operating assets ⁽⁵⁾⁽⁶⁾	2,955	3,121	3,049	1,721	1,654	1,188	39	21	19	4,715	4,796	4,256
Property, plant and equipment	2,353	2,503	2,478	1,008	988	669	–	–	2	3,361	3,491	3,149

	Sappi Fine Paper									Sappi Forest Products			Corporate and other			Group		
	North America			Europe			Southern Africa			Southern Africa								
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
	US\$ million																	

Sales ⁽¹⁾	1,664	1,511	1,439	2,720	2,387	2,194	380	358	325	1,099	1,048	983	–	–	–	5,863	5,304	4,941
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Segment result ⁽²⁾	92	22	(16)	(64)	88	(27)	6	9	(6)	273	264	175	7	–	(1)	314	383	125
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Capital expenditures	125	44	48	82	102	136	9	12	19	290	299	99	1	1	1	507	458	303
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Operating assets ⁽³⁾	1,285	1,263	1,334	2,226	2,371	2,196	167	202	196	1,972	1,984	1,407	144	99	86	5,794	5,919	5,219
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Net operating assets ⁽⁵⁾	1,087	1,031	1,108	1,758	1,941	1,796	110	149	145	1,721	1,654	1,188	39	21	19	4,715	4,796	4,256
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Property, plant and equipment	879	864	926	1,363	1,502	1,428	111	137	124	1,008	988	669	–	–	2	3,361	3,491	3,149
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(1) Sales where the product is manufactured.

(2) Segment result is operating profit (loss).

- (3) Operating assets consist of property, plant and equipment, plantations, non-current assets (excluding deferred taxation) and current assets (excluding cash).
- (4) Operating liabilities consist of trade payables, other payables, provisions and derivative financial instruments.
- (5) Net operating assets consist of operating assets less operating liabilities, adjusted for taxation payable and dividends payable.
- (6) Corporate region includes the group's treasury operations and the investment in the Chinese joint venture.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

3. SEGMENT INFORMATION (Continued)

Sales by geographical location of customers

	2008	2007	2006
	US\$ million		
North America	1,716	1,559	1,502
Europe	2,319	2,078	1,972
Southern Africa	883	789	750
Asia and other	945	878	717
	<u>5,863</u>	<u>5,304</u>	<u>4,941</u>

4.1 Operating profit

	2008		2007		2006	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
	US\$ million					
Operating profit has been arrived at after charging (crediting): Raw materials, energy and other direct input costs*	3,073	–	2,685	–	2,516	–
Wood (includes felling adjustment) ⁽¹⁾	722	–	635	–	631	–

Energy	558	–	438	–	433	–
Chemicals	898	–	676	–	658	–
Pulp	791	–	623	–	563	–
Other variable costs	104	–	313	–	231	–
Fair value adjustment on plantations ⁽¹⁾						
Growth	(70)	–	(76)	–	(70)	–
Price	(120)	–	(54)	–	(34)	–
Employment costs	864	153	809	116	769	109
Depreciation	350	24	350	24	362	28
Delivery charges	509	–	453	–	441	–
Maintenance	252	–	235	–	226	–
Other overheads*	158	–	189	–	209	–
Marketing and selling expenses	–	105	–	91	–	86
Administrative and general expenses	–	103	–	131	–	144
	5,016	385	4,591	362	4,419	367

(1) Fair value adjustment on plantations.

* Costs included in Raw materials in 2007 have been reallocated to Other overheads of US\$ 58 million (2006: US\$ 31 million).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

4.1 Operating profit (Continued)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Changes in volumes			
Fellings	80	70	74
Growth	(70)	(76)	(70)
	<u>10</u>	<u>(6)</u>	<u>4</u>
Plantation price fair value adjustment	(120)	(54)	(34)
	<u>(110)</u>	<u>(60)</u>	<u>(30)</u>
Silviculture costs (included within cost of sales)	50	41	43
Leasing charges for premises	16	16	15
Leasing charges for plant and equipment	32	43	44
Remuneration paid other than to employees of the company in respect of:	33	31	44
–technical services	15	15	10
–administration services	18	16	34
Auditors' remuneration:	10	7	9
–audit and related services	6	5	7

–tax planning and tax advice	1	2	2
–Acquisition related services**	3	–	–
Government grants towards environmental expenditure	(1)	–	(1)
Research and development costs	34	34	34
Amortization	–	1	2
Cost on derecognition of loans and receivables*	22	15	12

* The cost on sale of trade receivables relates to the derecognition of trade receivables in terms of the securitization programme in South Africa and to the sale of letters of credit in Hong Kong.

** These costs are included in other non-current assets in note 14.

4.2 Employment cost

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Wages and salaries	921	816	813
Defined contribution plan expense (refer note 27)	23	18	10
Pension costs (refer note 27)	9	20	(1)
Post employment benefit other than pensions expense (refer note 28)	14	13	12
Share-based payment expense	10	5	6
Other	40	53	38
	<u>1,017</u>	<u>925</u>	<u>878</u>

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

4.3 Other operating expenses (income)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Net asset impairment (reversal)	119	2	(31)
(Profit) loss on sale and write-off of property, plant and equipment	(5)	(24)	13
Restructuring provisions raised (released) and closure costs (refer note 22)	41	(11)	44

5. NET FINANCE COSTS

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Gross interest and other finance costs on liabilities carried at amortized cost	181	173	162
–Interest on bank overdrafts	4	8	11
–Interest on redeemable bonds and other loans	174	161	143
–Interest cost on finance lease obligations	3	4	8
Finance revenue received on assets carried at amortized cost	(38)	(21)	(26)
–Interest on bank accounts	(22)	(3)	(8)
–Interest revenue on other loans and investments	(16)	(18)	(18)

Interest capitalized to property, plant and equipment	(16)	(14)	(2)
Net foreign exchange gains	(8)	(13)	(7)
Net fair value loss on financial instruments	7	9	3
-Loss on intercompany non hedged loans	2	7	4
-Amortization of cost of de-designated hedges	5	2	2
-Hedge ineffectiveness			
-(gain) loss on hedging instrument (derivative)	(30)	(14)	14
-loss (gain) on hedged item	30	14	(17)
	<u>126</u>	<u>134</u>	<u>130</u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

6. TAXATION CHARGE (BENEFIT)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Current taxation:			
–Current year	23	44	8
–Prior year over provision*	(19)	(7)	(3)
–Other company taxes	2	1	–
Deferred taxation: (refer note 11)			
–Current year**	89	36	(6)
–Prior year (over) under provision	–	(8)	1
–Attributable to tax rate changes	(9)	(19)	(1)
	<u>86</u>	<u>47</u>	<u>(1)</u>

* Primarily relates to the expiration of statute of limitations in various jurisdictions

** Includes Secondary Tax on Companies (STC) ⁽¹⁾	<u>7</u>	<u>8</u>	<u>9</u>
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Due to the utilization of previously unrecognized tax assets, the deferred taxation expense for the year has been reduced by	<u>19</u>	<u>11</u>	<u>24</u>
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⁽¹⁾ The imposition of Secondary Tax on Companies (STC) effectively means that a dual corporate taxation system exists in South Africa comprising a normal income taxation and STC. Liability for STC is determined independently from normal income taxation and is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant

"dividend cycle". "Dividend cycle" means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

In addition to income taxation expense charges to profit and loss, a deferred taxation charge of US\$ 1 million (2007: US\$ 18 million; 2006: US\$ 13 million) has been recognized directly in equity (refer note 11).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

6. TAXATION CHARGE (BENEFIT) (Continued)

Reconciliation of the tax rate

	2008	2007	2006
	US\$ million		
Profit (loss) before taxation	188	249	(5)
Profit-making regions	560	424	268
Loss-making regions	(372)	(175)	(273)
Taxation at the average statutory tax rate	72	68	(13)
Profit-making regions at 30% (2007: 28%; 2006: 28%)	167	119	75
Loss-making regions at 26% (2007: 29%; 2006: 32%)	(95)	(51)	(88)
Net exempt income and non-tax deductible expenditure	(51)	(34)	(24)
Effect of tax rate changes	(9)	(19)	(1)
Deferred tax asset not recognized	103	49	54
Utilization of previously unrecognized tax assets	(19)	(11)	(24)
Secondary Tax on Companies (STC)	7	8	9

Prior year adjustments	(19)	(15)	(2)
Other taxes	2	1	–
Taxation charge (benefit)	86	47	(1)
Effective tax rate for the year	46%	19%	15%

Our effective tax rate reflects the benefits from reduced tax rates in South Africa (2008: US\$ 9 million; 2007: nil; 2006: nil), Germany (2008: nil; 2007: US\$ 19 million; 2006: nil) and the Netherlands (2008: nil; 2007: US\$ 2 million; 2006: US\$ 1 million). The corporate tax rate in South Africa was reduced from 29% in 2007 to 28% in 2008. The corporate tax rate in Germany was reduced from 38% in 2006 to 30% in 2007. In the Netherlands the corporate tax rate was reduced from 31.5% in 2005 to 29.6% in 2006 and 25.5% in 2007. In addition a taxation charge of US\$ 2 million was recognized in 2007 as a result of the substantively enacted STC rate adjustment from 12.5% to 10% (effective date: 01 October 2007). The deferred tax asset not recognized in the current year is primarily relating to the restructuring and impairment charges recognized in Europe for which no relief is expected.

On 06 November 2008, the directors declared a dividend (number 85) of 16 US cents per share (US\$ 37 million) to be paid to shareholders on 02 December 2008 (refer note 8). The estimated STC on this dividend at a rate of 10% is US\$ 4 million which will fully utilize our STC credits of US\$ 2 million (refer note 11).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

7. EARNINGS PER SHARE AND HEADLINE EARNINGS PER SHARE

Basic earnings per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

	2008			2007			2006		
			Earnings			Earnings			Earnings
	Profit	Shares	per share	Profit	Shares	per share	Loss	Shares	per share
	US\$ million	millions	US cents	US\$ million	millions	US cents	US\$ million	millions	US cents
Basic EPS calculation	102	228.8	45	202	227.8	89	(4)	226.2	(2)
Share options and performance shares under Sappi Limited Share Trust	-	2.3	-	-	2.7	-	-	-	-
Diluted EPS calculation	102	231.1	44	202	230.5	88	(4)	226.2	(2)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR 94.08 (2007: ZAR 114.42; 2006: ZAR 82.90) and exclude the effect of certain share options granted under the Sappi share incentive scheme as they would be anti-dilutive.

The number of share options not included in the weighted average number of shares (as they would have been anti-dilutive) are 2.3 million (September 2007: 0.8 million; September 2006: 4.2 million).

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. This is a JSE Limited required measure.

Reconciliation between net profit (loss) for the year and headline earnings:

	2008			2007			2006		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
US\$ million									
Attributable earnings (loss) to ordinary shareholders	188	86	102	249	47	202	(5)	(1)	(4)
(Profit) loss on sale and write-off of property, plant and equipment	(5)	–	(5)	(24)	(6)	(18)	14	5	9
Impairment (reversals) of plant and equipment	119	–	119	2	–	2	(31)	–	(31)
Headline earnings (loss)	302	86	216	227	41	186	(22)	4	(26)
Weighted average number of ordinary shares in issue (millions)			228.8			227.8			226.2
Headline earnings (loss) per share (US cents)			94			82			(11)
Diluted weighted average number of shares (millions)			231.1			230.5			226.2
Diluted headline earnings (loss) per share (US cents)			93			81			(11)

* Headline earnings—as defined in circular 8 / 2007 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a listing requirement of the JSE Limited to disclose headline earnings per share.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

8. DIVIDENDS

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Dividend number 84 paid on 08 January 2008:			
32 US cents per share (2007: 30 US cents per share;			
2006: 30 US cents per share), net of dividends	(73)	(68)	(68)
attributable to treasury shares			

On 06 November 2008, the directors declared a dividend (number 85) of 16 US cents per share (US\$ 37 million) which was payable to shareholders on 02 December 2008. This dividend was declared after year end and was not included as a liability in these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

	<u>2008</u>	<u>2007</u>
	US\$ million	
Land and buildings		
At cost	1,457	1,429
Accumulated depreciation and impairments	845	810
	<u>612</u>	<u>619</u>
Plant and equipment*		
At cost	7,056	6,928
Accumulated depreciation and impairments	4,448	4,225
	<u>2,608</u>	<u>2,703</u>
Capitalized leased assets**		

At cost	751	773
Accumulated depreciation and impairments	610	604
	141	169
Aggregate cost	9,264	9,130
Aggregate accumulated depreciation and impairments	5,903	5,639
Aggregate book value	3,361	3,491

* Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure in a separate class of assets.

** Capitalized leased assets consist primarily of plant and equipment.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement of property, plant and equipment is reconciled as follows:

	Land and Buildings	Plant and Equipment	Capitalized leased assets	Total
	US\$ million			
Net book value at September 2006	582	2,359	188	3,129
Additions ⁽¹⁾	19	437	2	458
Disposals	(3)	(2)	–	(5)
Depreciation	(33)	(312)	(29)	(374)
Impairment	–	(2)	–	(2)
Translation difference	54	223	8	285
Net book value at September 2007	619	2,703	169	3,491
Additions ⁽¹⁾	59	446	2	507
Disposals	–	(6)	–	(6)
Depreciation	(34)	(316)	(24)	(374)
Impairment	(13)	(106)	–	(119)
Translation difference	(19)	(113)	(6)	(138)

Net book value at September 2008	612	2,608	141	3,361
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(1) Additions include capitalized interest of US\$ 16 million (2007: US\$ 14 million) capitalized at 10% (2007: 9.5%).

Details of land and buildings are available at the registered offices of the respective companies who own the assets (refer note 24 for details of encumbrances).

September 2008

Usutu Mill

Usutu mill is an unbleached pulp mill and forms part of the Sappi Forest Products reporting segment. In August 2008, forest fires caused by severe weather conditions resulted in the loss of approximately 28% of the mill's fibre supply, resulting in insufficient fibre for the mill to continue operating in the long term under its current regime. An impairment loss of US\$ 37 million has been recognized as a result. The recoverable amount of the various assets has been determined on the basis of value in use. The value in use was established using a pre-tax real discount rate of 3.6%.

Blackburn and Maastricht mills

Maastricht and Blackburn mills form part of Sappi Fine Paper Europe. Maastricht mill produces coated fine and label paper while Blackburn produces coated fine and board paper. Due to the ongoing increases in input costs and the overcapacity in the European market, Blackburn mill and Maastricht Paper Machine No. 5 have been unable to produce acceptable returns on investment, despite significant efforts to curb costs and improve profitability. Production at Blackburn mill ceased on 17 October 2008. No alternative to the closure of the mill was found during the employee representative consultation process, which ended on 11 November 2008. In respect of Paper Machine No. 5 at Maastricht mill, consultations and social plan negotiations with works council and unions were concluded in early October 2008.

Production on Paper Machine No. 5 at Maastricht mill will cease around mid December 2008. A non-cash impairment charge of US\$ 78 million has been recognized as a result of these closures. The recoverable amount of the assets at both sites has been determined on the basis of value in use. The value in use was calculated using a pre-tax real discount rate of 6.1%.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

10. PLANTATIONS

	<u>2008</u>	<u>2007</u>
	US\$ million	
Fair value of plantations at beginning of year	636	520
Gains arising from growth	70	76
Fire, hazardous weather and other damages	(10)	(13)
Gains arising from fair value price changes	120	54
Harvesting–agriculture produce (fellings)	(80)	(70)
Translation difference	(105)	69
Fair value of plantations at end of year	<u>631</u>	<u>636</u>

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

Sappi owns approximately 369,000 (2007: 369,000) hectares of plantation directly and indirectly manages a further 166,000 (2007: 184,000) hectares. 389,000 (2007: 409,000) hectares of this land is forested with approximately 35 million (2007: 37 million) standing tons of timber.

As Sappi manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the groups own production or sales. Estimated volume changes on a rotational basis, amount to approximately five million tons per annum.

Sappi owns plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations.

With regard to indirectly managed plantations, Sappi has several different types of agreements with over 3,600 different independent farmers. The agreement depends on the type and specific needs of the farmer and the areas planted. These agreements range in time from one to more than twenty years. In certain circumstances we provide loans to the farmers, which

are disclosed as accounts receivable in the group balance sheet (these loans are considered immaterial to the group). If Sappi provides seedlings, silviculture and / or technical assistance, the costs are expensed when incurred by the group.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

11. DEFERRED TAX

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
	US\$ million			
Other liabilities, accruals and prepayments	(106)	6	(100)	16
Inventory	2	–	2	1
USA alternative minimum taxation credit carry forward	11	–	11	–
Unutilized Secondary Tax on Companies (STC) credits ⁽¹⁾	2	–	10	–
Tax loss carry forward	389	27	379	19
Property, plant and equipment	(163)	(254)	(168)	(234)
Plantations	(11)	(162)	(12)	(165)
Other non-current assets	35	–	37	–
Other non-current liabilities	(118)	(16)	(99)	(22)
	41	(399)	60	(385)

⁽¹⁾ Refer note 6 "Taxation charge (benefit)" for a description of STC credits.

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognized on the balance sheet

The recognized deferred tax assets relate mostly to unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilization are taken into account.

Unrecognized deferred tax assets

Deferred tax assets are not recognized for carry-forward of unused tax losses when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The unrecognized deferred tax assets relate to the following:

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Other non-current liabilities	29	31
Tax losses	538	475
Property, plant and equipment	24	–
	<u>591</u>	<u>506</u>

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

11. DEFERRED TAX (Continued)

Attributable to the following tax jurisdictions:

	<u>2008</u>	<u>2007</u>
	US\$ million	
Belgium	6	2
Netherlands	20	2
United Kingdom	75	59
United States of America	188	190
Swaziland	27	19
South Africa	2	2
Austria	273	232
	<u>591</u>	<u>506</u>
Expiry after five years	165	155
Indefinite life	426	351
	<u>591</u>	<u>506</u>

The following table shows the movement in the unrecognized deferred tax assets for the year

	<u>2008</u>	<u>2007</u>
	US\$ million	
Balance at beginning of year	506	465

Unrecognized deferred tax assets originating during the current year	89	6
Prior year adjustments	4	8
Rate adjustments	—	(6)
Movement in foreign exchange rates	(8)	33
	<u> </u>	<u> </u>
Balance at end of year	591	506
	<u> </u>	<u> </u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

11. DEFERRED TAX (Continued)

Reconciliation of deferred tax

	<u>2008</u>	<u>2007</u>
	US\$ million	
Deferred tax balances at beginning of year		
Deferred tax assets	60	74
Deferred tax liabilities	(385)	(336)
	<u>(325)</u>	<u>(262)</u>
Deferred taxation charge for the year (refer note 6)	(89)	(28)
Other liabilities, accruals and prepayments	(11)	(37)
Inventory	–	(4)
Utilization of Secondary Tax on Companies (STC) credits	(7)	(8)
Tax loss carry forward	19	29
Property, plant and equipment	(37)	15
Plantations	(29)	(13)
Other non-current assets	(2)	2
Other non-current liabilities	(22)	(12)

Amounts recorded directly against equity	(1)	(18)
Rate adjustments	9	19
Translation differences	48	(36)
Deferred tax balances at end of year	(358)	(325)
Deferred tax assets	41	60
Deferred tax liabilities	(399)	(385)

Secondary Tax on Companies (STC)

STC is levied on South African companies at a rate of 10% with effect from 01 October 2007 (previously 12.5%) on net dividends declared.

Current and deferred tax are measured at the tax rate applicable to undistributed income and therefore only take STC into account to the extent that dividends have been received or paid.

On declaration of a dividend, the company includes the STC on this dividend in its computation of the income taxation expense in the period of such declaration.

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Undistributed earnings that would be subject to STC	895	868
Tax effect if distributed	81	79
Available STC credits at end of year	2	10

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

12. GOODWILL AND INTANGIBLE ASSETS

	2008				2007			
	Goodwill	Licence Fees	Patents	Total	Goodwill	Licence Fees	Patents	Total
	US\$ million							
Cost net of accumulated amortization and impairment at beginning of year	4	3	–	7	4	3	1	8
Amortization	–	–	–	–	–	–	(1)	(1)
Net carrying amount	4	3	–	7	4	3	–	7
Cost (gross carrying amount)	4	3	21	28	4	3	21	28
Accumulated amortization and impairment	–	–	(21)	(21)	–	–	(21)	(21)
Net carrying amount	4	3	–	7	4	3	–	7

13. JOINT VENTURES AND ASSOCIATES*

	2008	2007
Cost of equity investments	99	106

Share of post-acquisition profit, net of distributions received	14	1
Foreign currency translation effect	11	5
	124	112
Summarized financial information in respect of the group's equity investments is set out below:		
Total assets	659	641
Total liabilities	338	376
Net assets	321	265
Group's share of equity investments net assets	124	106

	2008	2007	2006
Sales	902	749	331
Profit (loss) for the period	46	20	(4)
Group's share of equity investments' profit (loss) for the period	17	10	(1)

Jiangxi Chenming

During 2005 Sappi acquired 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) in a joint venture arrangement. Jiangxi Chenming is established in the People's Republic of China and is principally engaged in the manufacturing and sales of paper and paper products. The annual financial statements of Jiangxi Chenming are to 31 December of each year. The last audited financials were to 31 December 2006.

Umkomaas Lignin (Pty) Ltd

A joint venture agreement between Sappi and Borregaard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The annual financial statements of Umkomaas

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

13. JOINT VENTURES AND ASSOCIATES* (Continued)

Lignin (Pty) Ltd are to 31 December of each year which is the year end of Borregaard. The last audited financials were to 31 December 2007.

Sapin S.A.

A joint venture agreement located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The annual financial statements of Sapin S.A. are to 31 December of each year. The last audited financials were to 31 December 2007.

Papierholz Austria GmbH

A joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The annual financial statements of Papierholz Austria GmbH are to 31 December of each year. The last audited financials were to 31 December 2007.

VOF Warmtekracht

A joint venture agreement located in the Netherlands between Sappi and Essent for a co-generation electricity and steam producing plant. The annual financial statements of VOF Warmtekracht are to 31 December of each year. The last audited financials were to 31 December 2007.

Timber IV

In 1998, our interests in timberlands located in Maine and certain equipment and machinery were sold to a third party timber company, Plum Creek Timberlands LLP, in exchange for cash of US\$ 3 million and three promissory notes receivable in the aggregate amount of US\$ 171 million. In 1999, Sappi contributed these promissory notes to a special purpose entity (SPE). The promissory notes were pledged as collateral for the SPE to issue bonds to investors in the amount of US\$ 156 million. This has been partially repaid as described below. The SPE is bankruptcy remote and serves to protect the investors in the notes from any credit risk relating to Sappi Limited by isolating cash flows from the Plum Creek notes receivable. The structure was set up to raise funding using the promissory notes as collateral in a manner that would not result in either debt or the Plum Creek Timberlands LLP notes being reflected on balance sheet. This would not be the case if we monetised the promissory notes through an issuance of secured notes directly or by an entity that was required to be consolidated in our financial statements under the applicable accounting principles. In 2001, Sappi contributed its interest in the SPE to a limited liability company in exchange for 90% of the outstanding limited liability membership interest. All voting control of the limited liability company is controlled by an unrelated investor and therefore has not been consolidated by Sappi in its financial statements. The SPE is not consolidated in our financial statements because we have taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. Sappi's investment in the SPE is US\$ 11 million as of September 2008 (2007: US\$ 11 million).

The Limited Liability Company Agreement dated 04 May 2001 between Sappi and the unrelated investor was revised in 2007 as follows:

- a waiver has been granted for any administrative breach in respect of past distributions to the extent that they may have violated return of capital restrictions; and
- an allowance was made for the distribution to the members, prior to 04 May 2007 of amounts received by the Company in respect of the bond that was due in February 2007.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

13. JOINT VENTURES AND ASSOCIATES* (Continued)

The SPE may not be liquidated prior to repayment of the bonds it issued. The first tranche of the bonds matured on 11 February, 2007. The SPE distributed to the limited liability company the net proceeds (US\$ 6 million) for the first repayment receivable (US\$ 71 million) and the bonds (US\$ 65 million). The limited liability company distributed these proceeds to its members. The remaining bonds mature in 2 further tranches on 11 February, 2009, and 11 February, 2011. Sappi may not redeem its investment in the SPE (via its ownership interest in the limited liability company) prior to complete repayment of the bonds issued by the SPE and our investment has a subordinate interest to the payment of the outstanding bonds. We have not guaranteed the obligations of the SPE and the holders of the notes payable issued by the SPE have no recourse to us.

The annual financial statements of Timber IV are to 30 September of each year. The results are unaudited.

The directors believe that the book values of the joint ventures and associates equate to the market values.

* Where the year ends of joint ventures and associates are different to Sappi's, the management accounts are used for the periods to Sappi's year end.

14. OTHER NON-CURRENT ASSETS

	<u>2008</u>	<u>2007</u>
	US\$ million	
Loans to the Sappi Limited Share Incentive Trust participants	6	8
Financial assets*	22	25
Post-employment benefits–pension asset (refer note 27)	117	118
Acquisition costs**	10	–
Other loans	13	14
	<u>168</u>	<u>165</u>

* Details of investments are available at the registered offices of the respective companies.

** Acquisition costs relate to the proposed acquisition of M-real's coated graphic paper business (refer note 32). These costs have been capitalized as management deems it probable that the acquisition will be completed during fiscal 2009.

15. INVENTORIES

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Raw materials	163	145
Work in progress	62	58
Finished goods	324	328
Consumable stores and spares	176	181
	<u>725</u>	<u>712</u>

The charge to the group income statement relating to the write down of inventories to net realizable value amounted to US\$ 11 million (2007: US\$ 12 million and 2006: US\$ 19 million). An amount of US\$ 1 million (September 2007: US\$ 1 million and September 2006: US\$ 1 million) in respect of the finished goods inventory write-down for the prior year was reversed in the current year due to changing market conditions.

The cost of inventories recognized as an expense and included in cost of sales amounted to US\$ 4,552 million (September 2007: US\$ 4,150 million and September 2006: US\$ 3,984 million).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

16. TRADE AND OTHER RECEIVABLES

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Trade accounts receivable, gross	579	566
Provision for impairment	(5)	(13)
Trade accounts receivable, net	574	553
Prepayments and other receivables	124	100
	698	653

Management rate the quality of the trade and other receivables, which are neither past due nor impaired, periodically against its own internal credit rating parameters. The quality of these trade receivables at balance sheet date were rated at the top range of our parameters.

The carrying amount of US\$ 698 million (2007: US\$ 653 million) represents the group's maximum credit risk exposure.

Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.

16.1 Reconciliation of the provision for impairment

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Opening balance	13	17
Impairment provision created	3	–
Impairment provision reversed	(9)	–
Bad debts written off	(2)	(4)

Closing balance	5	13
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An allowance has been made for estimated irrecoverable amounts from the sale of goods of US\$ 5 million (2007: US\$ 13 million). This allowance has been determined by reference to past default experience.

16.2 Analysis of amounts past due

September 2008

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not impaired	Impaired	Total
Less than 7 days overdue	15	–	15
Between 7 and 30 days overdue	18	–	18
Between 30 and 60 days overdue	6	–	6
More than 60 days overdue	7	5	12
	46	5	51

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

16. TRADE AND OTHER RECEIVABLES (Continued)

September 2007

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not impaired	Impaired	Total
Less than 7 days overdue	16	–	16
Between 7 and 30 days overdue	12	–	12
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	2	6	8
	<u>32</u>	<u>6</u>	<u>38</u>

All amounts due which are beyond their contractual repayment terms are reported to regional management on a regular basis. Any provision for impairment is required to be approved by the regional credit controller. All provisions for impairment greater than US\$ 50,000 are required to be approved by regional management. The group has a provision of US\$ 5 million (2007: US\$ 6 million) against trade receivables that are past due. The group holds collateral of US\$ 17 million (2007: US\$ 14 million) against these trade receivables that are past due.

	2008	2007
	US\$ million	
The group has granted facilities to customers to buy on credit for the following amounts:		
Less than and equal to US\$ 0.5 million	280	302
Less than US\$ 1 million but equal to or greater than US\$ 0.5 million	246	408

Less than US\$ 3 million but equal to or greater than US\$ 1 million	426	453
Less than US\$ 5 million but equal to or greater than US\$ 3 million	207	200
Equal to or greater than US\$ 5 million	812	444
	<u>1,971</u>	<u>1,807</u>

16.3 Fair Value

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

16.4 Trade receivables pledged as security

Trade receivables with a value of US\$ 415 million (2007: US\$ 415 million) have been pledged as collateral for amounts received from the banks in respect of the securitization programme. The value of the associated liabilities at year end amounted to US\$ 360 million (2007: US\$ 354 million). The group is restricted from selling and repledging the trade receivables that have been pledged as collateral for the liability.

16.5 Off balance sheet structures

Letters of credit discounting

To improve the group working capital, the group sells certain Letters of Credit to ABN AMRO Hong Kong and DBS bank (London) every month end at a discount on a non recourse basis.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

16. TRADE AND OTHER RECEIVABLES (Continued)**"Scheck-Wechsel"**

The Scheck-Wechsel is a financial guarantee supplied to the bank of certain trade receivables who wish to obtain a loan to finance early payment of trade receivables thereby benefiting from an early settlement discount. By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer. This financial guarantee contract falls under the scope of IAS 39 Financial instruments.

This financial guarantee contract is initially recognized at fair value. At inception the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short term instrument (maximum 90 days). Therefore the fair value is zero at inception. Subsequently the financial guarantee contract is measured at the higher of:

- (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and
- (ii) the amount initially recognized less any cumulative amortization.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37 a contingent liability of US\$ 20 million (2007: US\$ 20 million) has been disclosed in this respect.

Trade Receivables Securitization

To improve our cash flows in a cost-effective manner, we sell all eligible trade receivables on a non-recourse basis to special purpose entities (SPEs) that are owned and controlled by third party financial institutions. Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading sell their trade receivables on a recourse basis whilst Sappi Forest Products sell their trade receivables on a non-recourse basis. These SPEs are funded in the commercial paper market and are not limited to transactions with us but securitize assets on behalf of their sponsors for a diverse range of unrelated parties. We have a servicing agreement with the entities acquiring our receivables, acting as servicers for the collection of cash and administration of the trade receivables sold.

Sappi Forest Products securitization facility

Sappi sells the majority of its ZAR receivables to a securitization vehicle managed by Rand Merchant Bank that issues commercial paper to finance the purchase of the receivables. Sappi retains a small proportion of the credit risk attached to each underlying receivable. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

We have no obligation to repurchase any receivables which may default and do not guarantee the recoverability of any amounts apart from a small portion on a proportionate basis over and above the first tier loss provisions. The total amount of trade receivables sold at the end of September 2008 amounted to US\$ 194 million (September 2007: US\$ 144 million). Details of the securitization programme at the end of fiscal 2008 and 2007 are disclosed in the tables below.

If this securitization facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of our first tier loss amounts. There are a number of events which may trigger termination of the facility, amongst others, an

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

16. TRADE AND OTHER RECEIVABLES (Continued)

amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally however, future trade receivables would be recorded on balance sheet until a replacement agreement was entered into.

Details of the securitization facility at September are set out below:

<u>Bank</u>	<u>Currency</u>	<u>Value</u>	<u>Facility</u>	<u>Discount charges</u>
2008				
Rand Merchant Bank	ZAR	ZAR 1,568 million	Unlimited*	Linked to 3 month JIBAR
2007				
Rand Merchant Bank	ZAR	ZAR 993 million	Unlimited*	Linked to 3 month JIBAR

* The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the securitization vehicle.

Details of the on-balance sheet securitization facilities that are applicable to Sappi Fine Paper are described in note 20.

A significant portion of the group's sales and accounts receivable are from major groups of customers. Two (2007: two) of the group's major customers, represent more than 10% of our sales during the year ended September 2008. These sales were recorded in Sappi Fine Paper. The sales for the year ended September 2008 amounted to US\$ 1,242 million (two customers 2007: US\$ 1,143 million). The trade receivables balance, net of securitization, outstanding on balance sheet at September 2008 was US\$ 83 million (September 2007: two customers US\$ 49 million). Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivable financial instruments represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers world-wide.

The group has the following amounts due from single customers:

<u>2008</u>			<u>2007</u>		
<u>No of customers</u>	<u>US\$ m</u>	<u>Percentage</u>	<u>No of customers</u>	<u>US\$ m</u>	<u>Percentage</u>

Greater than or equal to US\$ 10 million	6 122	21%	7 106	19%
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Greater than or equal to US\$ 5 million	9 62	11%	11 70	13%
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Less than US\$ 5 million	1,713 390	68%	1,788 377	68%
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1,728	574	100%	1,806	553	100%
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None of the trade receivables, with balances of equal to or greater than US\$ 5 million as at year end have breached their contractual maturity terms. No impairment charges have been recognized in respect of customers who owe the group more than US\$ 5 million. Refer note 30 for further details on credit risk.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

17. ORDINARY SHARE CAPITAL AND SHARE PREMIUM

	<u>2008</u>	<u>2007</u>
	US\$ million	
Authorized share capital:		
325,000,000 (September 2007: 325,000,000) shares of ZAR 1 each		
Issued share capital:		
239,071,892 (September 2007: 239,071,892) shares of ZAR 1 each	28	34
Share premium	679	791
	<u>707</u>	<u>825</u>

Included in the issued ordinary shares above are 9,906,661 (September 2007: 10,600,811) shares held as treasury shares by group entities, including The Sappi Limited Share Incentive Trust (the Scheme). These may be utilized to meet the requirements of the Scheme.

The movement in the number of treasury shares is set out in the table below:

	<u>Number of shares</u>	
	<u>2008</u>	<u>2007</u>
Treasury shares at beginning of year (including Scheme shares)	10,600,811	12,077,861
Treasury shares issued to participants of the Scheme	(694,150)	(1,477,050)
–Share options (per note 29)	(452,200)	(1,046,800)
–Allocation shares (per note 29)	(273,750)	(450,650)

-Scheme shares forfeited, released and other	31,800	20,400
	<hr/>	<hr/>
Treasury shares at end of year	9,906,661	10,600,811
	<hr/> <hr/>	<hr/> <hr/>

Sappi has a general authority to purchase its shares up to a maximum of 10% of the issued ordinary share capital in any one financial year. This was ratified at the annual general meeting of shareholders on 3 March 2008. The general authority is subject to the Listings Requirements of the JSE Limited and the Companies Act No 61 of 1973 of South Africa, as amended and expires at the next annual general meeting.

Included in the 85,928,108 unissued shares and in the 239,071,892 issued shares are a total of 19,000,000 shares which may be used to meet the requirements of the Scheme and / or The Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan the maximum number of shares which may be acquired in aggregate by the Scheme and / or the Plan and allocated to participants of the Scheme and / or the Plan from time to time is 19,000,000 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and / or any rights or capitalization issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorized but unissued share capital such number of shares (together with any Treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and / or the Plan) as shall then be required in terms of the Scheme and / or the Plan. Authority to use treasury shares for the purposes of the Scheme and / or the Plan was granted by shareholders at the annual general meeting held on 7 March 2005.

Since March 1994, 6,752,522 (September 2007: 8,223,372) shares have been allocated to the Scheme participants and paid for and 5,772,812 (September 2007: 5,980,162) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 3,961,100 (September 2007: 3,928,400) shares have been allocated and remain unpaid for to the Plan participants.

Shares allocated and accepted more than ten years ago are added back to the number of shares that the Scheme and / or the Plan may acquire.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

17. ORDINARY SHARE CAPITAL AND SHARE PREMIUM (Continued)

Subsequent to year end, Sappi Limited launched a fully underwritten rights offer (refer note 32 for further details).

Transfer to distributable reserves	–	–	–	–	(13)	–	13	–
Share-based payment	–	–	–	–	5	–	–	5
Transfers to Sappi Limited Share Incentive Trust	1.5	–	14	14	–	–	–	14
Total recognized income	–	5	91	96	13	42	328	479
Dividends–US\$ 0.30 per share*	–	–	–	–	–	–	(68)	(68)

<i>Balance–September 2007</i>	228.5	34	791	825	114	9	868	1,816
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Transfer from distributable reserves	–	–	–	–	8	–	(8)	–
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Share-based payments	–	–	–	–	10	–	–	10
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Transfers to Sappi Limited Share Incentive Trust	0.7	–	6	6	–	–	–	6
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Total recognized expense	–	(6)	(118)	(124)	(8)	(130)	108	(154)
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Dividends–US\$ 0.32 per share*	–	–	–	–	–	–	(73)	(73)
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<i>Balance–September 2008</i>	229.2	28	679	707	124	(121)	895	1,605
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*

Dividends relate to the previous financial year's earnings but were declared subsequent to year-end.

Capital Risk Management

The capital structure of the group consists of:

- issued share capital and premium and accumulated profits disclosed in note 17 and 18 respectively;
- debt, which includes interest bearing borrowings and obligations due under finance leases disclosed under note 20; and
- cash and cash equivalents.

The group's capital management objective is to achieve an optimal weighted average cost of capital while continuing to safeguard the group's ability to meet its liquidity requirements (including capital expenditure commitments), repay borrowings as they fall due and continue as a going concern.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdraft less cash and cash equivalents) to total capitalization (shareholders equity plus net debt).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

18. RECONCILIATION OF CHANGES IN EQUITY (Continued)

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During fiscal 2008 and 2007 we were in compliance with the financial covenants relating to the material loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2007.

19. NON-DISTRIBUTABLE RESERVES

	2008	2007
	US\$ million	
Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975	1	1
Capitalization of distributable reserves	13	15
Legal reserves in subsidiaries	75	66
Share-based payment reserve	35	32
	<u>124</u>	<u>114</u>

	2008					2007				
	Capital reduction	Capitalization reserve	Legal reserves	Share- based payment reserve	Total	Capital reduction	Capitalization reserve	Legal reserves	Share- based payment reserve	Total
	US\$ million									
Opening balance	1	15	66	32	114	1	13	71	24	109
Transfer from	–	–	8	–	8	–	–	–	–	–

retained
earnings

Released to retained earnings	-	-	-	-	-	-	-	(13)	-	(13)
Share-based payment expense	-	-	-	10	10	-	-	-	5	5
Translation difference	-	(2)	1	(7)	(8)	-	2	8	3	13
	<u>1</u>	<u>13</u>	<u>75</u>	<u>35</u>	<u>124</u>	<u>1</u>	<u>15</u>	<u>66</u>	<u>32</u>	<u>114</u>

The amounts recorded as "Capitalization 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.

20. INTEREST-BEARING BORROWINGS

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Secured borrowings		
-Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	468	457
-Capitalized lease liabilities (refer note 24 for details of encumbered assets)	29	41
Total secured borrowings	497	498
Unsecured borrowings	2,156	2,101
Total borrowings (refer note 30)	2,653	2,599
Less: Current portion included in current liabilities	821	771
	1,832	1,828

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

	<u>2008</u>	<u>2007</u>
	US\$ million	
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2008	–	771
2009*	821	19
2010	65	69
2011	629	623
2012	615	619
2013 (September 2008: thereafter)	159	498
Thereafter	364	–
	<u>2,653</u>	<u>2,599</u>

* Included in the US\$ 821 million reflected as short-term payable in 2009 is US\$ 360 million debt relating to securitization funding (2008: US\$ 354 million included in US\$ 771 million) which has the character of a short-term revolving facility but is expected to run until 2012 under the existing contractual arrangements. A further amount of US\$ 297 million (2007: US\$ 142 million) is the utilization under our revolving credit facility, and while rolled on a short term basis the facility has a maturity date of May 2010.

Capitalized lease liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from 5 to 10 years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2008, the aggregate amounts of minimum lease payments and the related imputed interest under capitalized lease contracts payable in each of the next five financial years and thereafter are as follows:

	2008			2007		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
	US\$ million					
Payable in the year ended September:						
2008	–	–	–	13	(3)	10
2009	10	(3)	7	12	(5)	7
2010	4	(2)	2	5	(3)	2
2011	4	(2)	2	5	(2)	3
2012	5	(2)	3	5	(1)	4
2013 (September 2007: thereafter)	5	(1)	4	18	(3)	15
Thereafter	12	(1)	11	–	–	–
Total future minimum lease payments	40	(11)	29	58	(17)	41

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2008.

	Currency	Interest rate ⁽⁹⁾	Principal amount outstanding	Balance sheet value	Security / Cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US\$	Variable ⁽⁷⁾	US\$ 500 million	US\$ 490 million ^(2,3,6)	Unsecured	June 2012	No financial covenants
Public bond	US\$	Variable ⁽⁷⁾	US\$ 250 million	US\$ 239 million ^(2,3,6)	Unsecured	June 2032	No financial covenants
Town of Skowhegan	US\$	Variable ⁽⁷⁾	US\$ 35 million	US\$ 35 million ⁽⁶⁾	Land and Buildings (partially)	October 2015	No financial covenants
Town of Skowhegan	US\$	Variable ⁽⁷⁾	US\$ 28 million	US\$ 28 million ⁽⁶⁾	Land and Buildings (partially)	November 2013	No financial covenants
Michigan Strategic Fund and City of Westbrook	US\$	Variable ⁽⁷⁾	US\$ 44 million	US\$ 45 million ⁽⁶⁾	Land and Buildings (partially)	January 2022	No financial covenants
Public bond	ZAR	Fixed	ZAR 1,000 million	ZAR 1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR 1,000 million	ZAR 999 million	Unsecured	October 2011	No financial covenants
Bravura / Sanlam	ZAR	Fixed	ZAR 109 million	ZAR 109 million	Unsecured	November 2012	No financial covenants
Bravura / Sanlam	ZAR	Fixed	ZAR 108 million	ZAR 108 million	Unsecured	January 2013	No financial covenants
Bravura / Sanlam	ZAR	Fixed	ZAR 27 million	ZAR 27 million	Unsecured	March 2013	No financial covenants

Secured loans

State Street Bank ⁽¹⁰⁾	EUR	Variable	EUR 150 million	EUR 150 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalization ⁽⁵⁾
State Street Bank ⁽¹⁰⁾	US\$	Variable	US\$ 73 million	US\$ 73 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalization ⁽⁵⁾
State Street Bank ⁽¹⁰⁾	US\$	Variable	US\$ 68 million	US\$ 68 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalization ⁽⁵⁾

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

	Currency	Interest rate ⁽⁹⁾	Principal amount outstanding	Balance sheet value	Security / Cession	Expiry	Financial covenants
Capitalized leases							
Standard Bank	ZAR	Fixed	ZAR 45 million	ZAR 47 million ⁽¹⁾	Plant and Equipment	October 2008	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR 169 million	ZAR 169 million ⁽¹⁾	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
BNP Paribas Syndication	EUR	Variable	EUR 100 million	EUR 100 million		November 2008	No financial covenants
BNP Paribas	EUR	Variable	EUR 25 million	EUR 25 million		November 2008	No financial covenants
Österreichische Kontrollbank	EUR	Variable	EUR 58 million	EUR 58 million ^(1,8)		March 2009	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	EUR 400 million	EUR 399 million ^(2,6,8)		December 2010	EBITDA to net interest and net debt to capitalization ⁽⁵⁾
ABN AMRO	US\$	Fixed	US\$ 21 million	US\$ 21 million		May 2009	No financial covenants
Österreichische Kontrollbank	US\$	Fixed	US\$ 38 million	US\$ 38 million ^(2,6,8)		June 2010	EBITDA to net interest and net debt to capitalization ⁽⁵⁾
BNP Paribas Syndication	CHF	Variable	CHF 165 million	CHF 165 million ^(2,8)		November 2008	EBITDA to net interest and net debt to capitalization ⁽⁵⁾
Nedbank	ZAR	Fixed	ZAR 349 million	ZAR 349 million ⁽¹⁾		January 2011	No financial covenants

Commerzbank	ZAR	Fixed	ZAR 147 million	ZAR 147 million ⁽¹⁾	March 2010	No financial covenants
Calyon	ZAR	Variable	ZAR 55 million	ZAR 55 million ^(1,4)	October 2009	EBITDA to net interest and net debt to capitalization
RZB Bank	EUR	Fixed	EUR 7 million	EUR 7 million	December 2009	No financial covenants

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

The analysis of the currency per debt is:

	Local currency	US\$ million
US\$	1,038	1,038
Swiss Franc	165	151
EURO	747	1,091
ZAR	3,009	373
		2,653

A detailed reconciliation of total interest bearing borrowings has been performed in note 30.

- (1) The value outstanding equals the total facility available.
- (2) In terms of the agreement, limitations exist on liens, sale and leaseback transactions and mergers and consolidation. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.
- (3) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the June 2012 and 2032 public bonds (the "Securities") in whole or in part at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 25 basis points, with respect to the 2012 Securities, and 30 basis points, with respect to the 2032 Securities, together with, in each case, accrued interest on the principal amount of the securities to be redeemed to the date of redemption.
- (4) The financial covenant relates to the financial position of Sappi Manufacturing, a wholly owned subsidiary of Sappi Limited.
- (5) Financial covenants relate to the Sappi Limited Group.

- (6) The principal value of the loans / bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.
- (7) Fixed rates have been swapped into variable rates. These swaps are subject to hedge accounting in order to reduce as far as possible the fair value exposure. Changes in fair value of the underlying debt which are attributable to changes in credit spread have been excluded from the hedging relationship.
- (8) A limitation exists on the disposal of assets. Sappi Limited must maintain a majority in Sappi Papier Holding GmbH Group.
- (9) The nature of the variable rates for the group bonds is explained in note 30 to the financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.
- (10) Trade receivables have been securitized for the amounts outstanding.

Other restrictions

As is the norm for bank loan debts, a portion of Sappi Limited's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of Sappi Limited consolidated liabilities might eventually become payable on demand.

During fiscal 2008 and 2007 we were in compliance with the financial covenants relating to the material loans payable. Regular monitoring of compliance with applicable covenants occurs. If there is a possible breach of a financial covenant in the future, negotiations are commenced with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The group undertakes several trade receivable securitization programs due to the cost effectiveness of such structures. These structures, with the exception of the South African scheme, are treated as on balance sheet, with a corresponding liability (external loan) being recognized and corresponding interest is recognized as finance cost.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

The trade receivables are legally transferred, however most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a consequence based on the risks and rewards evaluation these securitizations do not qualify for de-recognition under IAS 39.

Further detail of the value of trade receivables pledged as security for these loans is included in note 16 of the financial statements.

Sappi Fine Paper North America

Sappi sells the majority of its US\$ receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement includes a 3% deferred purchase price plus a letter in the amount of US\$ 18 million that relates to the uninsured portion of those obligors with concentrations above 3% (Sappi, as servicer of the receivables, is responsible for the collection of all amounts that are due from the customer). The rate of discounting charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries.

Sappi Fine Paper Europe

Sappi sells the majority of its receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement is calculated by deducting a deferred purchase price of 14%. Sappi is responsible for the collection of all amounts that are due from the customer. The rate of discounting that is charged on the receivables is EURIBOR (European Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Sappi Trading

Sappi sells the majority of its US\$ denominated receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement is calculated by deducting a deferred purchase price of 14%. A letter of credit is issued by Sappi to Galleon Capital LLC as a guarantee for funding of excess concentrations if this would be the case. Sappi is responsible for the collection of all amounts that are due from the customer. The rate of discounting that is charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Non-utilized facilities

The group monitors its availability to funds on a weekly basis. The group treasury committee determines the amount of unutilized facilities to determine the headroom which it currently operates in. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

20. INTEREST-BEARING BORROWINGS (Continued)

Non-utilized committed facilities

	<u>Currency</u>	<u>Interest rate</u>	<u>2008</u>	<u>2007</u>
			US\$ million	
Commercial Paper*	ZAR	Variable (JIBAR)	25	1
Syndicated loan**	EUR	Variable (EURIBOR)	580	713
			605	714

* Commercial paper program sponsored by Investec for a committed liquidity facility of ZAR 200 million for each further issue. The remainder of the unutilized portion of the total ZAR 1 billion program facility has been included under uncommitted facilities disclosed below.

** Syndicated loan with a consortium of banks with BNP Paribas as agent with a remaining revolving facility available of EUR 397 million, which are subject to net finance cost cover and debt to total capitalization ratio financial covenants which relate to the Sappi Limited Group.

These committed facilities represent amounts that the group could utilize. The syndicated loan facility matures in May 2010 and the commercial paper facility is ongoing without a precise maturity date. We have paid a total commitment fee of US\$ 1 million (2007 US\$ 2 million) in respect of the syndicated loan facility.

Non-utilized uncommitted facilities

<u>Geographic region</u>	<u>Currency</u>	<u>Interest rate</u>	<u>2008</u>	<u>2007</u>
Southern Africa	ZAR	Variable (JIBAR)	205	150
Group Treasury–Europe	EUR	Variable (EURIBOR)	143	277
Europe	EUR	Variable (EURIBOR)	130	–
Europe	USD	Variable (LIBOR)	–	69
			478	496

Total non-utilized facilities excluding cash	1,083	1,210
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	<u>1,083</u>	<u>1,210</u>
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Fair value

The fair value of all interest bearing borrowings is disclosed in note 30 on financial instruments.

21. OTHER NON-CURRENT LIABILITIES

	<u>2008</u>	<u>2007</u>
	US\$ million	
Post-employment benefits—pension liability (refer note 27)	144	144
Post-employment benefits other than pension liability (refer note 28)	141	181
Long-term employee benefits	6	10
Workmen's compensation	7	6
Long service awards	18	19
Land restoration obligation	16	16
Deferred income	4	1
Other	10	7
	<u>346</u>	<u>384</u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

22. PROVISIONS

	<u>2008</u>	<u>2007</u>
	US\$ million	
Summary of provisions:		
<i>Restructuring provisions</i>	41	16
<i>Other provisions</i>	1	2
Balance at September*	42	18

* These are all current liabilities.

	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other restructuring	Total
<i>Restructuring provisions</i>				
Balance at September 2006*	40	–	1	41
Increase in provisions	6	–	1	7
Utilized	(16)	–	(1)	(17)
Released during the year	(17)	–	–	(17)
Other movements	(1)	–	–	(1)

Translation effect	3	–	–	3
Balance at September 2007*	15	–	1	16
Increase in provisions	23	5	19	47
Utilized	(8)	–	–	(8)
Released during the year	(4)	–	–	(4)
Other movements	1	–	(10)	(9)
Translation effect	–	(1)	–	(1)
Balance at September 2008*	27	4	10	41

* These are all included in current liabilities.

Restructuring plans

Sappi Fine Paper Europe

Regional Restructuring: The regional restructuring plan was introduced in fiscal 2006. The original number of employees expected to be impacted by this plan was 650. From a total of 650, 450 employees were expected to receive termination benefits. The remaining number of 200 employees was comprised of those who were employed on a contractual basis as well as employees nearing retirement. The number of employees expected to receive termination benefits was revised from 450 to 357 at September 2007 and further revised to 347 at the end of fiscal 2008 of which 333 were already impacted. The total provision relating to the restructuring plan at the end of fiscal 2008 is approximately US\$ 5 million (2007: US\$ 15 million).

Blackburn Mill: During the financial year ended September 2008, Sappi Fine Paper Europe announced that it had entered into a consultation process with employee representatives with a view to cease production at Blackburn Mill which had an annual production capacity of 120,000 tons of graphic coated fine paper. Whilst various ancillary production and selling activities are ongoing, the mill ceased production of paper in October 2008, and on 11th November 2008, the consultation process with employee representatives came to an end resulting in 95 employees being made redundant. A further 34 employees are expected to be made redundant

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

22. PROVISIONS (Continued)

by the end of March 2009. A provision of US\$ 23 million relating to severance, retrenchment and other related closure costs has been raised.

Maastricht Mill: During the financial year ended September 2008, Sappi Fine Paper Europe announced that it had entered into a consultation process with employee representatives with a view to shutting down one of its coated paper machines with an annual production capacity of 60,000 tons of graphic coated fine paper at Maastricht Mill. Negotiations with Unions and the Works Council were concluded in October 2008. Cessation of production is expected to occur in December 2008 and to affect 175 employees. A provision of US\$ 24 million relating to severance, retrenchment and other related closure costs has been raised.

Sappi Fine Paper North America

Muskegon Mill: In 2007 Sappi Fine Paper North America completed its plan of restructuring the Muskegon Mill. The total number of remaining employees who were expected to be affected by the restructuring plan was 23 at the beginning of fiscal 2007. All these employees were impacted by the plan by the end of the year. Approximately half of the provision of US\$ 1 million that remained at the end of fiscal 2006 was utilized to provide severance and related costs and the remainder was reversed.

Regional head office: All the remaining activities of the restructuring plan relating to the regional head office were completed during fiscal 2007.

23. NOTES TO THE CASH FLOW STATEMENT

23.1 Cash generated from operations

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Profit (loss) for the year	102	202	(4)
Adjustment for:			
–Depreciation	374	374	390
–Fellings	80	70	74

–Amortization	–	1	2
–Taxation charge (benefit)	86	47	(1)
–Net finance costs	126	134	130
–Other asset impairments (reversals) and write-offs	119	2	(14)
–Fair value adjustment gains and growth on plantations	(190)	(130)	(104)
–Post employment benefits funding	(88)	(101)	(68)
–Other non-cash items	14	(14)	(9)
	<u>623</u>	<u>585</u>	<u>396</u>

23.2 Increase in working capital

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
(Increase) decrease in inventories	(38)	44	(3)
Increase in receivables	(19)	(38)	(3)
Increase (decrease) in payables	58	54	(11)
	<u>1</u>	<u>60</u>	<u>(17)</u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

23. NOTES TO THE CASH FLOW STATEMENT (Continued)

23.3 Finance costs paid

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Gross interest and other finance costs	(181)	(173)	(162)
Net foreign exchange gains	8	13	7
Net loss on marking to market of financial instruments	(7)	(9)	(3)
Non-cash movements included in items above	41	(14)	(6)
	<u>(139)</u>	<u>(183)</u>	<u>(164)</u>

23.4 Taxation paid

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Amounts unpaid at beginning of year	(125)	(101)	(120)
Translation effects	7	(12)	9
Amounts charged to the income statement	(6)	(38)	(5)
Reversal of non-cash movements	–	(1)	2
Amounts unpaid at end of year	<u>54</u>	<u>125</u>	<u>101</u>

Cash amounts paid	(70)	(27)	(13)
	<u> </u>	<u> </u>	<u> </u>

23.5 Replacement of non-current assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Property, plant and equipment	(250)	(116)	(160)
	<u> </u>	<u> </u>	<u> </u>

23.6 Proceeds on disposal of non-current assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Book value of property, plant and equipment disposed of	2	23	2
Profit on disposal	5	27	2
	<u>7</u>	<u>50</u>	<u>4</u>

23.7 Cash and cash equivalents

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	US\$ million		
Cash and deposits on call	221	354	218
Money market instruments	53	10	6
	<u>274</u>	<u>364</u>	<u>224</u>

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

24. ENCUMBERED ASSETS

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalized leases or suspensive sale agreements are as follows:

	<u>2008</u>	<u>2007</u>
	US\$ million	
Land and buildings	17	24
Plant and equipment	4	28
Trade receivables	415	415
	<u>436</u>	<u>467</u>

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment and the assets purchased are encumbered as security for the outstanding liability until such time as the liability is discharged.

A significant portion of the assets at Cloquet mill are subject to several long-term, cross-border leases assumed at the time of its acquisition in May 2002. Under the lease arrangements, the previous owner sold assets to an unrelated third party, leased the assets back, and made an upfront lease payment. As a result, no future lease payments are required under the agreement.

Sappi has the right to acquire full ownership of these assets at the end of the lease term. Early termination of the lease may occur under three different scenarios; namely, under Scenario A, payment would be made by Sappi as a result of the following events: voluntary early termination, termination due to default and total loss of plant and equipment without substitution; under Scenario B, payment would be made by Sappi as a result of changes in statute rendering the agreement illegal or unenforceable; and under Scenario C, the lease naturally expires or early termination is triggered by the lessor. As at September 2008 the termination value of this lease is approximately US\$ 8 million (September 2007: US\$ 10 million).

Refer to note 9 for details on property, plant and equipment.

25. COMMITMENTS

	<u>2008</u>	<u>2007</u>
	US\$ million	
Capital commitments		

Contracted but not provided	76	188
Approved but not contracted	130	249
	<u>206</u>	<u>437</u>
Future forecasted cashflows of capital commitments:		
2008	–	389
2009	154	33
2010	35	15
Thereafter	17	–
	<u>206</u>	<u>437</u>

The capital expenditure is expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

25. COMMITMENTS (Continued)

Lease commitments

Future minimum obligations under operating leases:

	<u>2008</u>	<u>2007</u>
	US\$ million	
Payable in the year ended September:		
2008	–	112
2009	28	14
2010	14	10
2011	9	5
2012	4	2
2013 (September 2007: thereafter)	2	2
Thereafter	35	–
	<u>92</u>	<u>145</u>

Future minimum obligations under operating leases include the following two significant arrangements:

Sale and Lease Back of the Somerset Paper Machine: In 1997 we sold one of our paper machines at our Somerset Mill for US\$ 150 million and entered into a leaseback arrangement. This transaction diversified our sources of funding and provided a longer-term horizon to our repayment profile. This qualified as an operating lease under the applicable accounting principles. The lease term expired after 15 years, and an option was available to either return the paper machine; renew the lease for at least 2 years, but for no longer than 80% of its remaining useful life; or repurchase it at its fair market value at the end of the lease term. On January 29, 2008, we exercised our purchase option under the lease agreement to buy back Somerset Paper Machine No. 3 for approximately US\$ 75 million. Lease payments made during fiscal year 2008 amounted to US\$ 7.6 million.

Westbrook Cogeneration Agreement: In 1982 a cogeneration facility was installed adjacent to our Westbrook Mill at a cost of US\$ 86 million, to supply steam and electricity to the mill on a take-or-pay basis. We took the position that this was an operating lease. An unrelated investor owned the facility. In July 2007, we notified the lessor of our intent to purchase the asset in accordance with the terms of the agreement at the end of the Basic Term (July 15, 2008) at its fair market value and on 29 August 2008, we purchased the facility for approximately US\$ 10 million. Lease payments in fiscal 2008 amounted to US\$ 4.8 million.

Environmental matters: Further information on capital commitments relating to environmental matters can be found in note 33.

26. CONTINGENT LIABILITIES

	<u>2008</u>	<u>2007</u>
	US\$ million	
Guarantees and suretyships	38	43
Other contingent liabilities	7	26

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivables.

Other contingent liabilities mainly relate to taxation queries to which certain group companies are subject. The decrease in contingent liabilities reflects management's revised estimate of losses which could arise from

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

26. CONTINGENT LIABILITIES (Continued)

taxation queries to which certain group companies are subject. These amounts have been recognized as current income tax liabilities.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that they are not expected to have a material effect on the group's consolidated financial position, results of operations or cash flows.

27. POST-EMPLOYMENT BENEFITS-PENSIONS***Defined contribution plans***

The group operates eleven defined contribution retirement benefit schemes covering all qualifying employees. The assets of the schemes are held separately from those of the group in funds under the control of trustees. In addition the group participates in a country-wide union scheme open to eligible employees in South Africa.

The total cost charged to the income statement of US\$ 23 million (September 2007: US\$ 18 million, September 2006: US\$ 10 million) represents contributions payable to these schemes by the group based on the rates specified in the rules of these schemes. As at September 2008, US\$ 2 million (September 2007: nil, September 2006: nil) was due in respect of the current reporting period that had not yet been paid over to the schemes.

Defined benefit plans

The group operates eight large defined benefit pension plans plus a number of smaller plans. This includes plans closed to new entrants as well as plans closed for future accrual for existing members. Those plans, open to new entrants or future accrual, cover all qualifying 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. In North America benefits are based on a 'multiplier' and years of service for most schemes, which historically has increased from time to time. With the exception of our German and Austrian plans (which are unfunded), 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. As at September 2008, the number of active members in schemes is approximately 8,000.

Actuarial valuations of the European and North American funds are performed annually. An actuarial review is performed annually for the South African and United Kingdom funds, with an actuarial valuation being performed on a tri-annual basis.

Group companies have no other significant post-employment benefit liabilities except for the following:

- health care benefits provided to persons in North America and in South Africa (refer note 28).

- jubilee (long service award schemes) provided in continental Europe and an early retirement plan in Belgium, totalling \$23 million (included within other non-current liabilities in note 21).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

27. POST-EMPLOYMENT BENEFITS–PENSIONS (Continued)

All obligations and assets were measured at the end of this financial year.

2008				2007			
Southern Africa	Europe (incl UK)	North America	Total	Southern Africa	Europe (incl UK)	North America	Total

US\$ million

***Change in
present
value of
defined
benefit
obligation***

Defined benefit obligations at beginning of year	305	889	413	1,607	256	819	438	1,513
--------------------------------------------------------------	-----	-----	-----	-------	-----	-----	-----	-------

Current service cost	8	12	6	26	10	11	7	28
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Past service cost	–	1	–	1	–	–	1	1
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Interest cost	24	47	26	97	24	39	25	88
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Plan participants' contribution	4	–	–	4	4	–	–	4
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Actuarial loss (gain) experience	11	(2)	7	16	(16)	7	(4)	(13)
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Actuarial (gain) loss assumptions	(11)	(127)	(51)	(189)	20	(37)	(30)	(47)
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Gain on curtailment and settlement	-	(1)	-	(1)	-	-	-	-
---------------------------------------------	---	-----	---	-----	---	---	---	---

Benefits paid	(26)	(50)	(23)	(99)	(27)	(44)	(24)	(95)
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Translation difference	(44)	(4)	-	(48)	34	94	-	128
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Defined benefit obligation at end of year	271	765	378	1,414	305	889	413	1,607
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Present value of wholly unfunded obligations	-	114	3	117	-	129	3	132
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Present value of wholly and partly funded obligations	271	651	375	1,297	305	760	410	1,475
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

27. POST-EMPLOYMENT BENEFITS-PENSIONS (Continued)

	2008				2007			
	Southern Africa	Europe (incl UK)	North America	Total	Southern Africa	Europe (incl UK)	North America	Total
	US\$ million							
Change in fair value of plan assets								
Fair value of plan assets at beginning of year	398	763	384	1,545	295	661	329	1,285
Expected return on plan assets	36	46	33	115	32	39	27	98
Actuarial (loss) gain on plan assets	(30)	(93)	(66)	(189)	40	(14)	15	41
Employer contribution	9	32	34	75	11	41	37	89
Additional employer contribution	–	1	–	1	–	1	–	1
Plan participants' contribution	4	–	–	4	4	–	–	4
Benefits paid	(26)	(50)	(23)	(99)	(27)	(44)	(24)	(95)

Translation difference	(59)	(6)	–	(65)	43	79	–	122
Fair value of plan assets at end of year	332	693	362	1,387	398	763	384	1,545
Surplus (deficit)	61	(72)	(16)	(27)	93	(126)	(29)	(62)
Unrecognized past service cost	–	–	–	–	–	–	1	1
Recognized pension plan asset (liability)	61	(72)	(16)	(27)	93	(126)	(28)	(61)
Periodic pension cost recognized in income statement								
Current service cost	8	12	6	26	10	11	7	28
Past service cost	–	1	–	1	–	–	–	–
Fund administration costs	–	–	–	–	1	–	–	1
Interest cost	24	47	26	97	24	39	25	88
Expected return on plan assets	(36)	(46)	(33)	(115)	(32)	(39)	(27)	(98)

Amortization of past service cost	-	-	1	1	-	-	1	1
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Gain on curtailment and settlement	-	(1)	-	(1)	-	-	-	-
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Net periodic pension (credit) cost charged to cost of sales and selling, general and administrative expenses	(4)	13	-	9	3	11	6	20
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

27. POST-EMPLOYMENT BENEFITS-PENSIONS (Continued)

	2008				2007			
	Southern Africa	Europe (incl UK)	North America	Total	Southern Africa	Europe (incl UK)	North America	Total
	US\$ million							
Actual return (loss) on plan assets	6	(47)	(33)	(74)	74	26	42	142
Actual return (loss) on plan assets (%)	1.3	(6.2)	(9.0)	(5.0)	25.0	3.9	12.9	11.0
Amounts recognized in the statement of recognized income and expense								
Actuarial (losses) gains	(30)	36	(22)	(16)	36	16	49	101
Pension asset surplus release	–	–	–	–	45	–	–	45
Cumulative actuarial gains and losses recognized in the statement of	52	(98)	(81)	(127)	82	(134)	(59)	(111)

**recognized
income and
expense**
Actuarial
gains (losses)

**Weighted
average
actuarial
assumptions
at balance
sheet date:**

Discount rate (%)	9.00	6.90	7.60	8.25	5.30	6.30
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Compensation increase (%)*	6.45	3.10	3.50	6.24	3.05	3.50
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Expected return on assets (%)	9.40	6.75	8.25	9.66	6.00	8.25
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**Weighted
average
actuarial
assumptions
used to
determine
periodic
pension
cost:**

Discount rate (%)	8.25	5.30	6.30	8.50	4.65	5.75
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Compensation increase (%)*	6.24	3.05	3.50	6.00	3.30	3.50
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Expected return on assets (%)	9.66	6.00	8.25	10.50	5.60	8.25
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* Weighted average of schemes that use a compensation increase assumption.

Illustrating sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate
	US\$ million			
2008				
(Decrease) Increase in defined benefit obligation	(141)	167	37	(34)
(Decrease) Increase in aggregate of current service cost and interest cost	(2)	7	–	–
2007				
(Decrease) Increase in defined benefit obligation	(175)	213	35	(43)
(Decrease) Increase in aggregate of current service cost and interest cost	(6)	8	–	–

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

27. POST-EMPLOYMENT BENEFITS–PENSIONS (Continued)

	2008	2007
Pension plan liability is presented on the balance sheet as follows:		
Pension liability (refer note 21)	144	144
Pension asset (refer note 14)	(117)	(118)
Pension liability (included in other payables)	–	35
	<u>27</u>	<u>61</u>

In determining the expected long term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

Peer data and historical returns are reviewed to check for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

2008			2007		
Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
%					

**Weighted average
target asset
allocation by region**

Equity	40.2	37.6	38.0	40.0	21.1	48.0
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Debt Securities	43.8	58.7	22.0	44.0	65.6	22.0
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Real Estate	0.0	0.0	0.0	0.0	1.1	0.0
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Other	16.0	3.7	40.0	16.0	12.2	30.0
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***Weighted average
actual asset
allocation by region***

Equity	24.9	34.4	35.0	55.0	23.1	38.2
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Debt Securities	51.8	49.6	22.0	30.0	63.6	23.2
-----------------	------	------	------	------	------	------

Real Estate	0.0	3.9	0.0	0.0	1.5	0.0
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Other	23.2	12.1	43.0	15.0	11.8	38.6
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

27. POST-EMPLOYMENT BENEFITS–PENSIONS (Continued)

Expected benefit payments for pension benefits are as follows:

	Southern Africa	Europe (incl UK)	North America	Total
	US\$ million			
Payable in the year ending September:				
2009	10	42	22	74
2010	11	45	22	78
2011	11	47	23	81
2012	12	47	24	83
2013	12	50	26	88
Years 2014- 2018	68	258	152	478

The expected company contributions for 2009 are US\$ 76 million.

Aggregate total of present value of the defined benefit obligation, fair value of assets and the surplus or deficit in the defined benefit plans for the current annual period and for the previous four annual periods (ignoring unrecognized adjustments):

	2008	2007	2006	2005	2004
	US\$ million				
Defined benefit obligations	1,414	1,607	1,513	1,589	1,420
Fair value of assets	1,387	1,545	1,285	1,222	1,081

(Deficit)	(27)	(62)	(228)	(367)	(339)
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Aggregate gains and losses arising on plan liabilities and plan assets

for the current annual period and for the previous four annual periods:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Plan liabilities gains (losses)	173	60	73	(141)	(35)
Plan assets (losses) gains	(189)	41	27	82	26
Net (losses) gains	(16)	101	100	(59)	(9)

**Reconciliation of gains and losses to
Group Statement of Recognized
Income and Expenses**

Net (losses) from pensions	(16)
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Net gains from post employment benefits other than pensions (note 28)	23
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Net gains to Group Statement of Recognized Income and Expenses	7
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

28. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The group sponsors two defined benefit post-employment plans that provide certain health care and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Actuarial valuations of all the plans are performed annually.

The North American and the South African post-employment obligations were measured at the end of the financial year.

The following schedule provides the plans' funded status and obligations for the group:

2008			2007		
South Africa	North America	Total	South Africa	North America	Total
US\$ million					

***Change in present value of
defined benefit obligation***

Defined benefit obligations at beginning of year	78	95	173	61	103	164
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Current service cost	2	2	4	1	2	3
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Past service cost	–	–	–	–	(2)	(2)
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Interest cost	6	5	11	6	5	11
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Actuarial (gain) loss experience	(1)	(10)	(11)	(6)	(3)	(9)
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Actuarial (gain) loss assumptions	(4)	(8)	(12)	13	(4)	9
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Benefits paid	(3)	(7)	(10)	(6)	(6)	(12)
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Translation difference	(12)	–	(12)	9	–	9
Defined benefit obligation at end of year	66	77	143	78	95	173
Present value of wholly unfunded obligations	66	77	143	78	95	173
Unrecognized past service credit	–	(5)	(5)	–	(6)	(6)
Recognized post employment benefit liability	(66)	(82)	(148)	(78)	(101)	(179)

Periodic post-employment benefit cost recognized in income statement

Current service cost	2	2	4	1	2	3
Interest cost	6	5	11	6	5	11
Amortization of past service credit	–	(1)	(1)	–	(1)	(1)
Gain on curtailments & settlements	–	–	–	–	(1)	(1)
Net periodic post-employment benefit cost charged to cost of sales and selling, general and administrative expenses	8	6	14	7	5	12

Amounts recognized in the statement of recognized income and expense

Actuarial gains (losses)	5	18	23	(7)	7	–
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***Cumulative actuarial gains
and losses recognized in
the statement of
recognized income and
expense***

Actuarial losses	(19)	(13)	(32)	(24)	(31)	(55)
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

28. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

	2008			2007		
	South Africa	North America	Total	South Africa	North America	Total
			%			

Weighted average actuarial assumptions at balance sheet date:

Discount rate	9.00	7.60		8.25	6.30	
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Health care cost trend initial rate	7.00	9.00		6.75	9.50	
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which gradually reduces to an ultimate rate of	7.00	5.00		6.75	5.00	
------------------------------------------------	------	------	--	------	------	--

over a period of (years)	–	4		–	5	
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Weighted average actuarial assumptions used to determine periodic benefit cost:

Discount rate	8.25	6.30		8.50	5.75	
---------------	------	------	--	------	------	--

Health care cost trend initial rate	6.75	9.50		6.50	10.00	
-------------------------------------	------	------	--	------	-------	--

which gradually reduces to an ultimate rate of	6.75	5.00		5.60	5.00	
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over a period of (years)	–	5		–	5	
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Illustrating Sensitivity

The discount rate and health care cost trend rate can have a significant effect on the amounts reported. The table below illustrates the effect by changing key assumptions:

	1% increase in discount rate	1% decrease in discount rate	1% increase in health care cost trend rate	1% decrease in health care cost trend rate
--	------------------------------------------	------------------------------------------	-----------------------------------------------------------	-----------------------------------------------------------

2008

(Decrease) Increase in defined benefit obligation	(14)	16	13	(11)
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(Decrease) Increase in aggregate of current service cost and interest cost	(1)	1	1	(1)
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2007

(Decrease) Increase in defined benefit obligation	n/a	n/a	14	(10)
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(Decrease) Increase in aggregate of current service cost and interest cost	n/a	n/a	1	(1)
----------------------------------------------------------------------------	-----	-----	---	-----

Post-employment benefits other than pension liabilities are presented on the balance sheet as follows:

	<u>2008</u>	<u>2007</u>
	<u>US\$ million</u>	
Post-employment benefits other than pension liability (refer note 21)	141	181
Post-employment benefits other than pension included in other payables (receivables)	7	(2)
	<u>148</u>	<u>179</u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

28. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Expected benefit payments for other than pension benefits are as follows:

	<u>South Africa</u>	<u>North America</u>	<u>Total</u>
Payable in the year ending September:			
2009	3	9	12
2010	3	9	12
2011	3	8	11
2012	4	8	12
2013	4	8	12
Years 2014- 2018	20	32	52

The expected employer contribution for 2009 is US\$ 11 million.

Aggregate total of present value of the defined benefit obligation in the post retirement medical plans for the current annual period and for the previous four annual periods (ignoring unrecognized adjustments):

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Defined benefit obligations	143	173	164	178	172

Aggregate gains and losses arising on plan liabilities for the current annual period and previous four annual periods:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Plan liabilities gains (losses)	23	–	(1)	–	(8)

29. SHARE-BASED PAYMENTS

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

At the annual general meeting of shareholders held on 7 March 2005, shareholders adopted The Sappi Limited Performance Share Incentive Trust (Plan) in addition to The Sappi Limited Share Incentive Trust (Scheme) which had been adopted on 5 March 1997, and fixed the aggregate number of shares which may be acquired by all participants under the Plan together with the Trust at 19,000,000 shares, which constitute 7.9% of the issued share capital of Sappi Limited.

The Sappi Limited Share Incentive Trust (Scheme)

Under the rules of the Scheme, participants may be offered the opportunity to acquire ordinary shares (Scheme shares). This entails that Scheme shares are sold by the Scheme to participants on the basis that ownership thereof passes to the participant on conclusion of the contract but the purchase price is not payable immediately. Scheme shares are registered in the name of the participants and will be pledged in favour of the Scheme as security for payment of debt. Subject to certain limitations, a participant's outstanding share debt will bear interest at such rate as determined by the board of directors. Dividends on Scheme shares are paid to the Scheme and will be applied in the payment of such interest. Scheme shares may only be released to participants as described below.

Under the rules of the Scheme, participants may be offered options to acquire ordinary shares (Share options). This entails that employees are offered options to purchase or subscribe for shares. Each share option will confer to the holder the right to purchase or subscribe for one ordinary share. This is based on the terms and conditions of the Scheme. Share options may only be released to participants as described below.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

Under the rules of the Scheme, participants may be granted options to enter into agreements with the company to acquire ordinary shares (Allocation shares). These options need to be exercised by the employee within 12 months, failing which the option will automatically lapse. The exercise of the option must be accompanied by a deposit (if any) as determined by the board of directors of Sappi (the board). The participant will be entitled to take delivery of and pay for Allocation shares which are subject to the rules as described below.

Certain managerial employees are eligible to participate in the Scheme. The amount payable by a participant for Scheme Shares, Share Options or Allocation Shares is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorized the grant of the opportunity to acquire relevant Scheme Shares, Share Options or Allocation Shares, as the case may be, to a participant. Pursuant to resolutions of the board passed in accordance with the rules of the Scheme, Scheme Shares may be released from the Scheme to participants, Share Options may be exercised by participants and Allocation Shares may be delivered to participants as follows for allocations prior to November 2004:

- (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;
- (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;

and for allocations subsequent to November 2004 as follows:

- (i) 25% 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 50% 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 75% of the total number of shares after three years have elapsed from the date of acceptance by the participant of the grant; and

(iv) the balance of the shares after four 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 annual general meeting held on 2 March 2000, the Scheme provided that Share Options will lapse, among other reasons, if they remain unexercised after the tenth anniversary of the acceptance and that Scheme Shares and Allocation Shares must be paid for in full by participants by no later than the tenth anniversary of the acceptance. However, the annual 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 Scheme of Participants will be accelerated in the event of a change of control of the company, as defined in the Scheme, 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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

determine the future employment conditions of the group's employees or (b) unless the change of control is initiated by the board. Participants are 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.

The Scheme provides that appropriate adjustments are to be made to the rights of Participants in the event that the group, inter alia, undertakes a rights offer, a capitalization issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who will be officers and other employees of the company may be awarded conditional contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the Human Resources Committee or Compensation Committee of the Board (Performance Criteria) applicable to each Conditional Contract, are met or exceeded, then Participants shall be entitled to receive such number of shares as specified in the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria shall entail a benchmarking of the company's performance against an appropriate peer group of companies.

If the board determines that the Performance Criteria embodied in a Conditional Contract have not been satisfied or exceeded, the number of shares to be allotted and issued and / or transferred to a Participant under and in terms of such Conditional Contract shall be adjusted downwards.

Provision is made for appropriate adjustments to be made to the rights of Participants in the event that the company, inter alia, undertakes a rights offer, is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital if, (a) the company undergoes a change in control after an Allocation date other than a change in control initiated by the board itself, or (b) the person / s (or those persons acting in concert) who have control of the company as at an Allocation date, take / s any decision, pass / es any resolution and / or take / s any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution and / or action, the company is obligated to notify every Participant thereof on the basis that such Participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which he / she would have been entitled to had the Performance Criteria been achieved.

Allocations (number of shares)

	2008	2007
During the year the following offers were made to employees:		

Share Options	925,700	—
Share Options Declined	(14,000)	—
Performance shares**	730,000	1,713,000
Performance Share Declined	—	(1,500)
Restricted shares**	—	45,000
	<u>1,641,700</u>	<u>1,756,500</u>

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2008 and 2007:

	Scheme Shares***	Restricted Shares	Share options ⁽¹⁾	Performance shares ⁽²⁾	Weighted average exercise price (ZAR)*	Allocation Shares ⁽¹⁾	Weighted average exercise price (ZAR)*	Total Shares
Outstanding at September 2006	1,535,362	12,500	4,503,450	1,892,400	85.09	1,930,500	90.82	9,874,212
–Offered and accepted	–	45,000	–	1,711,500	–	–	–	1,756,500
–Paid for / released	(92,700)	(47,500)	(1,046,800)	–	64.88	(450,650)	61.86	(1,637,650)
–Returned, lapsed and forfeited	–	–	(327,700)	(286,500)	52.54	(71,300)	124.94	(685,500)
Outstanding at September 2007	1,442,662	10,000	3,128,950	3,317,400	49.01	1,408,550	98.20	9,307,562
–Offered and accepted	–	–	911,700	730,000	52.02	–	–	1,641,700
–Paid for / released	(90,800)	–	(452,200)	–	63.47	(273,750)	–	(816,750)

-Returned, lapsed and forfeited	(31,800)	-	(355,750)	(96,300)	93.76	(29,350)	-	(513,200)
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Back into Trust	31,800	-	-	-	147.20	-	-	31,800
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Outstanding

at

September 2008	1,351,862	10,000	3,232,700	3,951,100	46.00	1,105,450	98.20	9,651,112
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Exercisable at

September 2006	595,750	-	2,525,750	-	85.69	1,436,950	86.55	4,558,450
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Exercisable at

September 2007	587,600	-	2,104,550	-	96.21	1,196,650	99.71	5,800,130
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Exercisable at

September 2008	491,300	-	1,906,330	5,000	96.97	1,032,300	110.22	3,434,930
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* The share options are issued in South African Rands.

** Restricted shares (awarded on an ad-hoc basis to certain individuals on various terms and conditions) and performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

*** The number of Scheme shares, which are not subject to credit sales amounts to 855,662 (2007: 823,862).

(1) Issued in terms of the Scheme.

(2) Issued in terms of the Plan.

The fair value of Scheme shares held at September 2008 was US\$ 8.7 million (September 2007: US\$ 12.5 million).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

The following table sets out the number of share options outstanding at the end of September, excluding the scheme shares:

	2008	2007	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
19 January 1998	–	30,100	Time	(i)	19 January 2008	19.90
14 December 1998	48,300	79,700	Time	(i)	14 December 2008	22.10
03 February 1999	1,000	1,000	Time	(i)	03 February 2009	22.35
21 December 1999	–	284,800	Time	(i)	21 December 2007	53.85
15 January 2001	213,800	243,200	Time	(i)	15 January 2009	49.00
15 August 2001	–	5,000	Time	(i)	15 August 2009	75.90
04 February 2002	7,000	7,000	Time	(i)	04 February 2010	131.40
28 March 2002	623,000	662,000	Time	(i)	28 March 2010	147.20
30 January 2003	–	250,000	Time	(i)	30 January 2011	115.00
13 February 2003	743,800	813,300	Time	(i)	13 February 2011	112.83
30 December 2003	150,250	155,500	Time	(i)	30 December 2011	79.25
14 January 2004	630,700	801,800	Time	(i)	14 January 2012	79.25

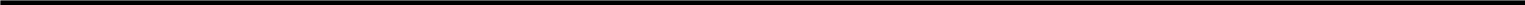
25 March 2004	1,000	1,000	Time	(i)	25 March 2012	86.60
26 March 2004	–	3,000	Time	(i)	26 March 2012	87.50
13 December 2004	1,029,500	1,200,100	Time	(i)	13 December 2012	78.00
13 December 2004	148,000	148,000	Performance	13 December 2008	N/A	–
13 December 2005	1,413,800	1,462,900	Performance	13 December 2009	N/A	–
08 August 2006	50,000	50,000	Performance	08 August 2010	N/A	–
15 January 2007	5,000	5,000	Performance	31 December 2007	N/A	–
15 January 2007	5,000	5,000	Performance	31 December 2008	N/A	–
15 January 2007	5,000	5,000	Performance	31 December 2009	N/A	–
29 January 2007	50,000	50,000	Performance	29 January 2011	N/A	–
31 May 2007	1,419,300	1,456,500	Performance	31 May 2011	N/A	–
01 June 2007	–	10,000	Performance	01 June 2011	N/A	–
02 July 2007	100,000	100,000	Performance	02 July 2011	N/A	–
10 September 2007	10,000	10,000	Time	10 September 2008	N/A	–
10 September 2007	25,000	25,000	Performance	10 September 2011	N/A	–
12 December 2007	610,600	–	Time	12 December 2011	12 December 2015	91.32
12 December 2007	525,000	–	Performance	12 December 2011	N/A	–

19 March 2008	279,200	–	Time	19 March 2012	19 March 2016	98.80
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19 March 2008	205,000	–	Performance	12 March 2012	N/A	–
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<u>8,299,250</u>	<u>7,864,900</u>
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(i) These vest over four or five years depending on the date of allocation.



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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

The following assumptions have been utilized to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 32	Issue 32	Issue 32	Issue 33	Issue 33	Issue 33
Date of grant	12 Dec 07	12 Dec 07	12 Dec 07	19 Mar 08	19 Mar 08	19 Mar 08
Type of award	Normal Option	Performance	Performance	Normal Option	Performance	Performance
Share Price at grant date	ZAR 90.00	US\$ 14.22	US\$ 14.22	ZAR 94.98	US\$ 11.64	US\$ 11.64
Strike Price of share	ZAR 91.32	–	–	ZAR 98.8	–	–
Vesting Period	4 years	4 years	4 years	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related- relative to peers	Cash Flow Return on Net Assets relative to peers	Proportionately over time	Market related- relative to peers	Cash Flow Return on Net Assets relative to peers
Expected life of options (years)	8 years	n/a	n/a	8 years	n/a	n/a
Market related vesting conditions	n/a	Yes	No	n/a	Yes	No
Percentage expected to vest	n/a	39.4%	100%	n/a	41.8%	100%
Number of shares offered	633,000	525,000	525,000	282,900	205,000	205,000
Volatility	30.5%	32.4%	n/a	30.8%	33.0%	n/a

Risk free discount rate	11.6% (US yield)	5.3% (US yield)	n/a	11.8% (US yield)	2.7% (US yield)	n/a
Expected dividend yield	2.29%	2.11%	2.11%	2.34%	2.75%	2.75%
Expected percentage of issuance	95%	95%	95%	95%	95%	95%
Model used to value	Binomial	Modified binomial	Market price	Binomial	Modified binomial	Market price
Fair value of option	ZAR 43.75	ZAR 53.13	ZAR 70.22	ZAR 41.70	ZAR 52.07	ZAR 68.68

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Share options, allocation shares, restricted shares and performance shares to executive directors, which are included in the above figures, are as follows:

	2008 Number of options / shares	2007 Number of options / shares
At beginning of year	249,000	633,000
Share Options, Restricted Shares and Performance Shares granted	90,000	–
Share Options and Allocation Shares exercised / declined	–	(90,000)
Shares removed on resignation or retirement of directors	–	(394,000)
Shares brought in on appointment of director	–	100,000
At end of year	339,000	249,000

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

29. SHARE-BASED PAYMENTS (Continued)

The following table sets forth certain information with respect to the 339,000 Share Options and performance Shares granted by Sappi to executive directors:

<u>Issue date</u>	<u>Number of options / shares</u>	<u>Expiry date</u>	<u>Exercise price (ZAR)</u>
15 January 2001	3,000	15 January 2009	49.00
28 March 2002	15,000	28 March 2010	147.20
13 February 2003	15,000	13 February 2011	112.83
30 December 2003	18,000	30 December 2011	79.25
13 December 2004	18,000	13 December 2012	78.00
13 December 2004*	6,000	13 December 2008	—
13 December 2005*	24,000	13 December 2009	—
08 August 2006*	50,000	08 August 2010	—
02 July 2007*	100,000	02 July 2011	—
12 December 2007*	90,000	12 December 2011	—
	<u>339,000</u>		

* Performance shares.

Refer to note 36 for further information on Directors participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

30. FINANCIAL INSTRUMENTS

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The principal risks to which Sappi is exposed through financial instruments are:

- a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
 - interest rate risk
 - foreign exchange risk
 - commodity price and availability risk
- b) credit risk
- c) liquidity risk

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

Sappi's Group Treasury is comprised of two components: Sappi International, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Commodity risk and credit risk (insofar as it relates to trade receivables) are primarily managed regionally but are co-ordinated on a group basis.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to the financial instruments and risks referred to in this note.

a) Market risk**Interest rate risk**

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilize approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimized by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The table below provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents discounted 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 2008 and thereafter are based on the yield curves for each respective currency as published by Reuters on 28 September 2008. The information is presented in US\$, which is the group's reporting currency.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

A detailed analysis of the group's borrowings is presented in note 20.

	Expected maturity date						Total Carrying Value	2008 Fair Value	2007 Carrying Value	2007 Fair Value
	2009	2010	2011	2012	2013	2014+				
US\$ equivalent in millions										
US Dollar										
Fixed rate	21	38	–	–	–	–	59	58	55	56
Average interest rate (%)	4.00	4.49	–	–	–	–	4.31		5.01	
Variable rate ⁽¹⁾⁽²⁾	142	–	–	487	–	350	979	885	946	947
Average interest rate (%)	4.08	4.18	4.18	6.84	4.18	7.33	6.61		7.39	
Euro										
Fixed rate	6	6	584	2	2	3	603	582	716	721
Average interest rate (%)	5.97	6.05	4.61	2.45	3.64	1.84	4.62		4.69	
Variable rate ⁽³⁾	488	–	–	–	–	–	488	488	297	297
Average interest rate (%)	4.43	–	–	–	–	–	4.43		3.98	
Rand										
Fixed rate	7	20	45	126	157	11	366	350	399	408

Average interest rate (%)	9.46	8.70	8.84	10.65	9.64	11.28	9.88		9.81	
Variable rate ⁽⁴⁾	6	1	–	–	–	–	7	7	44	44
Average interest rate (%)	10.67	10.67	–	–	–	–	10.67		9.84	
Swiss Franc										
Fixed rate										
Average interest rate (%)										
Variable rate	151	–	–	–	–	–	151	151	142	142
Average interest rate (%)	3.26	–	–	–	–	–	3.26		3.3	
Total										
Fixed rate	34	64	629	128	159	14	1,028	990	1,170	1,184
Average interest rate (%)	5.43	5.94	4.91	10.55	9.57	9.05	6.47		6.46	
Variable rate	787	1	–	487	–	350	1,625	1,531	1,429	1,429
Average interest rate (%)	4.19	10.67	–	6.84	–	7.33	5.66		6.36	
Fixed and variable	821	65	629	615	159	364	2,653	2,521	2,599	2,613
Current portion							821	821	771	764
Long term portion							1,832	1,700	1,828	1,898
Total interest-bearing borrowings (refer note 20)							2,653	2,521	2,599	2,662

The fair value of non-current borrowings is estimated by Sappi based on the rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognized pricing services for notes, exchange debentures and revenue bonds.

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis regarding interest rate risk for additional information regarding Sappi's rating.

- (1) Includes fixed rate loans where fixed-for-floating rate swap contracts have been used to convert the exposure to floating rates. Some of the swaps do not cover the full term of loans.
- (2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
- (3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
- (4) The Rand floating interest rates are predominately based on the Johannesburg Inter-bank Agreed Rate (JIBAR).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 2.45% and 11.28% (depending on currency). At September 2008, 39% of Sappi's borrowings were at fixed rates of interest, and 61% were at floating rates. Floating rates of interest are based on LIBOR for USD borrowings, on EURIBOR for Euro denominated borrowings and on JIBAR for ZAR borrowings. 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 volatility in interest rates in South Africa. During 2008 domestic interest rates have increased from 10.26% to 12.05% for the 3-month JIBAR.

Sappi uses interest rate options, caps, swaps and interest rate and currency swaps as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period. The group has designated certain derivatives as hedges of fixed rate debt in a documented hedging strategy.

Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period. The hedge relationship has been assessed as highly effective on a quarterly basis. Changes in the fair value of the underlying debt, attributable to changes in the credit spread are excluded from the hedging relationship.

The group has determined at inception and in subsequent periods that the derivatives are highly effective in offsetting fair value exposure of the debt being designated as hedged. Because only interest rate risk is designated as being hedged, credit risk related to the hedged debt is excluded from the group's assessment of the hedge being highly effective. The carrying value of the hedged debt is adjusted to reflect only changes in fair value related to changes in interest rates. This is offset by the change in fair value of the derivative instrument, which reflects changes in fair value related to both interest rate risk and credit risk.

At September 2008 Sappi had in total seven US\$ interest rate swap contracts, converting fixed rates to floating rates, outstanding for a total amount of US\$ 856.6 million and the swaps had a positive total fair value of US\$ 18.7 million (2007: seven contracts, total amount US\$ 856.6 million, negative fair value US\$ 10 million) and an interest rate and currency swap (IRCS) contract outstanding for the amount of US\$ 233 million with a positive fair value of US\$ 56.8 million. This swap converts future US\$ cash flows into GBP and fixed

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

US\$ interest rates into fixed GBP interest rates (2007: US\$ 350 million with a fair value of US\$ 137 million). See details of the swaps in the table below:

<u>Instrument</u>	<u>Interest Rate</u>	<u>Maturity date</u>	<u>Nominal value</u>	<u>Fair value* favorable (unfavorable)</u>
US\$ million				
Interest rate swaps:				
	6.75% to variable (LIBOR)	June 2012	250	4
	6.75% to variable (LIBOR)	June 2012	200	2
	6.75% to variable (LIBOR)	June 2012	50	1
	7.50% to variable (LIBOR)	June 2012	250	6
	5.90% to variable (LIBOR)	November 2013	28	1
	7.38% to variable (LIBOR)	July 2014	44	2
	6.65% to variable (LIBOR)	October 2014	35	2
Interest rate and currency swaps:	US Dollar 6.30% into Pound Sterling 6.66%	December 2009	233	57
Total				75

* This refers to the carrying value.

The fair value of interest rate swaps and IRCS is the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date, taking into account current interest rates and the current creditworthiness of the counterparties considering the specific relationships of Sappi group with those counterparties.

Summary sensitivity analyzes external interest rate derivatives

The following is a sensitivity analysis of the impact on the income statement in US Dollars due to the change in fair value of interest rate derivative instruments due to changes in the interest rate basis points (bps). The sensitivity analysis of floating rate debt, including fixed rate debt swapped into floating rates, is carried out separately (see below).

Interest rate currency swap

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-50 bps GBP-LIBOR-6M	56.8	57.9	1.1	1.9
+50 bps GBP-LIBOR-6M	56.8	55.8	(1.0)	(1.8)

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-50 bps USD-LIBOR-3M	56.8	56.0	(0.8)	(1.4)
+50 bps USD-LIBOR-3M	56.8	57.7	0.9	1.6

The IRCS covers an intra-group loan from a GBP-reporting Sappi entity of US\$ 233 million, maturing in tranches between December 2008 and 2009. The derivative converts fixed USD interest payments of 6.30% into fixed GBP interest income of 6.6%, as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both the inherent exchange rates and interest rates. Fair value

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

changes of the derivative caused by currencies are neutralised by currency changes in the underlying intra-group loan.

At 28 September 2008 the fair value of the derivative amounted to US\$ 56.8 million ("Base Value" in the table above), of which US\$ 51.1 million was due to the exchange rate movement between inception and the reporting date. This amount is compensated by the opposite movement of the underlying loan and therefore has no impact on the income statement. The portion of the fair value due to interest rate movements, which has impacted the income statement, amounts to a negative value of US\$ 2.3 million. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR curve would have on the fair value. An increase in the USD LIBOR adds to the fair value, as does a decrease of the GBP LIBOR. When the GBP and the USD interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions this would have an impact of approximately US\$ 2 million for a shift of 50 bps.

Since the inception of the instrument, the largest shift in opposite directions experienced over a twelve-month period was 3.14%, due to a decrease in USD rates of 2.56% and an increase in the GBP rates of 0.58%. Applied to the fair value as per 28 September 2008, this would have resulted in a negative change in fair value of US\$ 5.8 million.

Interest rate currency swap

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-256 bps USD-LIBOR-3M	56.8	52.2	(4.6)	(8.1)
+58 bps GBP-LIBOR-6M	56.8	55.6	(1.2)	(2.1)
Total			(5.8)	

The interest rate swaps (fixed to floating) applied to the US\$ 750 million bonds issued by Sappi Papier Holding (SPH) and to the US\$ 106 million bonds issued by SD Warren show the following sensitivity to a 50 bps interest rate change on a tenor of 4 years for the Sappi Papier Holding bonds and 6 years for the SD Warren bonds:

IRS–Sappi Papier Holding

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-50 bps USD-LIBOR-3M	(750.7)	(749.6)	1.1	(0.1)
+50 bps USD-LIBOR-3M	(750.7)	(751.7)	(1.0)	0.1

IRS-SD Warren

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-50 bps USD-LIBOR-3M	(106.8)	(106.6)	0.2	(0.2)
+50 bps USD-LIBOR-3M	(106.8)	(107.0)	(0.2)	0.2

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

The largest change in the 3-month USD interest rates since inception of the swaps in a twelve month period was a 2.56% decrease. Applied to the fair value as per September 2008, the net impact on the SPH bonds would have been a US\$ 5.5 million gain and for the SD Warren bonds a US\$ 1.0 million gain.

IRS–Sappi Papier Holding

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-256 bps USD-LIBOR-3M	(750.7)	(745.2)	5.5	(0.7)

IRS–SD Warren

<u>Scenario name</u>	<u>Base Value</u>	<u>Scenario Value</u>	<u>Change</u>	<u>% Change</u>
-256 bps USD-LIBOR-3M	(106.8)	(105.8)	1.0	(0.9)

The above analysis measures the impact on the income statement that a change in fair value of the interest rate derivatives would have, if the specified scenarios were to occur.

Sensitivity analysis of interest rate risk–in case of a credit rating downgrade of Sappi

The following table shows the sensitivity of securitization debt to changes in the group's own credit rating. It is worth noting that the change in value of the securitization debt is included in the sensitivity analysis of floating rate debt in the table below.

<u>Securitization in Europe and Hong Kong</u>	<u>Notional</u>	<u>Impact on Income statement of downgrade below BB credit rating</u>
Europe	219.9	0.11
Hong Kong	73.5	0.04

Sub-total	293.4	0.15
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Impact calculated on total portfolio amounts to:

0.05%

The pricing of the securitization contracts in Europe and Hong Kong would be impacted as set out in the table above if the company were to be downgraded below the current rating. The US securitization arrangement would not be impacted by a possible downgrade, as there are sufficient other credit enhancements to mitigate the co-mingling risk.

All other external debt would not be impacted by a possible downgrading of Sappi.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Sensitivity analysis of interest rate risk of floating rate debt—in '000 USD

	Total	Fixed rate	Floating rate	Impact on I / S of 50 bps interest
	US\$ million			
Total debt	2,653.3	1,028.5	1,624.9	8.1

Ratio fixed / floating to total debt 39% 61%

The floating rate debt represents 61% of total debt. If interest rates were to increase (decrease) by 50 bps the finance cost on floating rate debt would increase (decrease) by US\$ 8.1 million.

Currency risk

Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency, such as payments under foreign currency long and short term loan liabilities, purchases and sales of goods and services, capital expenditure purchases and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts; and
- Translation exposure arises when translating the groups assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. On consolidation this gives rise to translation exposure which is not hedged.

In managing currency risk, the group first makes use of internal hedging techniques, with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts and currency options. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Currency risk analysis

In the preparation of the currency risk analysis the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

	Total	Total in Scope	USD	EUR	ZAR	GBP	Other (converted into USD)
2008							
Financial assets							
Other non-current assets	168	44	2	5	37	–	–
Long term derivative financial instruments*	76	76	(223)	–	–	299	–
Trade and other receivables	698	626	287	275	22	32	10
Current derivative financial instruments*	4	4	1	–	–	3	–
Cash and cash equivalents	274	274	82	101	91	–	–
		1,024	149	381	150	334	10

Financial liabilities

Non-current interest-bearing borrowings	1,832	1,832	875	597	360	–	–
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Derivative financial instruments*	1	1	–	–	1	–	–
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Current interest-bearing borrowings	821	821	164	494	12	–	151
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Overdraft	26	26	–	10	2	4	10
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Current: derivative financial instruments*	24	24	24	–	–	–	–
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Trade and other payables	959	756	196	297	239	8	16
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	3,460	1,259	1,398	614	12	177
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Foreign exchange gap	(2,436)	(1,110)	(1,017)	(464)	322	(167)
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	Total	Total in Scope	USD	EUR	ZAR	GBP	Other (converted into USD)
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2007

Financial assets

Other non-current assets	165	36	1	6	29	–	–
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Long term derivative	137	137	(356)	–	–	493	–
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financial
instruments*

Trade and other receivables	653	600	295	201	27	32	45
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Current derivative financial instruments*	7	7	7	–	–	–	–
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Cash and cash equivalents	364	364	79	108	174	–	3
		1,144	26	315	230	525	48

Financial liabilities

Non-current interest-bearing borrowings	1,828	1,828	851	576	401	–	–
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Derivative financial instruments*	15	15	12	3	–	–	–
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Current interest-bearing borrowings	771	771	162	425	42	–	142
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Overdraft	22	22	7	8	1	2	4
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Current: derivative financial instruments*	28	28	26	–	2	–	–
--------------------------------------------	----	----	----	---	---	---	---

Trade and other payables	952	816	214	341	252	6	3
		3,480	1,272	1,353	698	8	149

Foreign exchange gap		(2,336)	(1,246)	(1,038)	(468)	517	(101)
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*

The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

The above table does not indicate the group's foreign exchange exposure, it only shows the financial instruments assets and liabilities classified per underlying currency.

The group's foreign currency forward exchange contracts at September 2008 are detailed below.

		2008		2007	
		Contract amount (Notional amount)	Fair value* (unfavourable) favourable	Contract amount	Fair value* (unfavourable) favourable
		US\$ million			
Foreign currency					
Bought: US Dollar		2	–	33	(2)
Euro		13	–	27	–
ZAR		11	–	–	–
Sold: US Dollar		(168)	(3)	(173)	7
Euro		(735)	(17)	(875)	(25)
ZAR		–	–	(89)	(4)
		(877)	(20)	(1,077)	(24)

* This refers to the fair value.

The fair value of foreign currency contracts has been computed by the group based upon the market data valid at September 2008.

All forward currency exchange contracts are valued at fair value with the resultant profit or loss included in the net finance costs for the period.

Forward exchange contracts are used to hedge the group from potential unfavourable exchange rate movements that may occur on recognized financial assets and liabilities or planned future commitments.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2009.

As at the year end there was an open exposure of US\$ 35.6 million which has since been hedged.

Sensitivity analysis—in USD gain (loss)

<u>Base currency</u>	<u>Exposure</u>	<u>+10%</u>	<u>-10%</u>
EUR	(28.8)	(2.6)	3.2
GBP	1.3	0.1	(0.1)
USD	13.0	1.2	(1.4)
ZAR	(24.4)	(2.2)	2.7
Other currencies	3.3	0.3	(0.4)
Total	(35.6)	(3.2)	4.0

Based on the exposure as at September 2008, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US\$ 3.2 million (increase of 10%) or a gain of US\$ 4.0 million (decrease of 10%).

During 2008 we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$ 173.4 million which were used as an overlay hedge of export sales. Since these

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

contracts have all matured before 28 September 2008, these constitute non-representative positions. The total impact on the income statement amounts to a loss of US\$ 2.7 million.

Commodity risk

Commodity risk arises mainly from price volatility and threats to security of supply.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

The group manages security of supply by establishing alternate sources of supply and focusing on products and processes that allow the use of alternative commodities. Sappi examines its supply and quality risk on an ongoing basis with the view to continuously improve its commodity management practices.

During 2008 we have not contracted any derivatives with respect to commodities.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade debtor management is the responsibility of regional management and is co-ordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the credit worthiness of potential and existing customers in line with the credit policies and procedures. Appropriate collateral is obtained to minimize risk. Exposures are monitored on an ongoing basis utilizing various reporting tools which highlight potential risks.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

Quantitative disclosures on credit risk are included in note 16 of the annual financial statements.

A large percentage of our trade receivables are credit insured.

Hedge accounting

The group has the following fair value hedges which qualify for hedge accounting:

Bonds at fixed interest rates for a total notional amount of US\$ 856 million are hedged by seven external interest rate swaps (IRS). These IRS with a positive fair value of US\$ 18.7 million convert the USD fixed interest rates into floating 6-month LIBOR set in arrears. The hedged risk is designated to be the interest rate risk arising from fluctuations in the US LIBOR swap curve. The effect of this transaction is to convert fixed rate debt into floating rate debt.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

In fiscal 2005 the hedge was de-designated at the end of March, April and June 2005 respectively and was only re-designated in June 2005. During this period, hedge accounting was interrupted for a certain number of deals. The changes in fair value of the bonds until the moment of de-designation are amortized over the remaining life of the hedge.

In fiscal 2007 Sappi decided to replace its valuation and hedge effectiveness tool by the REVALHedgeRx Module (see description hereunder). At the same time it was decided to switch from the Volatility Variance Method (VVM) to the linear regression analysis as the statistical test, which is an appropriate alternative to test hedge effectiveness of a fair value hedge.

A change in the hedge effectiveness measurement methodology requires the de-designation of the existing hedge relationship. Simultaneously a re-designation of the same hedge relationship was carried out, however this has catered for a revised hedge effectiveness measurement methodology. There was no material impact on the income statement as a result of this change.

As the swaps were contracted some time after the issuance of the underlying bonds, at the time of designating the hedge relationship it was required to mark-to-market the bonds for the hedged risk (ie for changes in the benchmark interest rate) in order to determine the hedged fair value at inception of the hedge (create an initial fair value benchmark) which was different to the face value as market conditions had changed since the bonds were issued. All future hedge adjustments to the carrying value of the bonds are based on changes in the fair value of this benchmark due to changes in the benchmark interest rate. The bonds are remeasured for changes in the benchmark interest rate and the swaps are revalued for changes in their fair value on a monthly basis and show movements in line with changing market conditions. Over the life of the bonds, the hedged fair value benchmark will revert to the face value of the bonds (the repayment amounts), whereas the hedging swaps will revert to a final fair value of zero. The carrying value of the bonds, including the effect of hedge accounting, will at maturity be equal to the sum of (1) the face value and (2) the total change in the initial hedged fair value (fair value benchmark), which will be different to the effective amount to be repaid (the face value). Therefore Sappi decided in fiscal 2007 to amortize the mismatch between the initial fair value benchmark and the face value payable at maturity in order to recognize the income statement impact over the remaining period until maturity, instead of recognising the difference only at maturity.

The following is an analysis of the impact on pre-tax profit and loss from the period:

<u>(without brackets favourable)</u>	<u>2008</u>	<u>2007</u>
	<u>US\$</u>	<u>US\$</u>
	<u>million</u>	<u>million</u>
De / re-designation	–	–
Amortization*	(5)	(2)
Residual ineffectiveness	–	–

–gain on hedging instruments	30	14
–loss on hedged item	(30)	(14)
Total	(5)	(2)

* The outstanding amount on the balance sheet to be amortized over the next five years corresponds to US\$ 27.9 million.

Sappi uses the REVALHedgeRx module (REVAL), a web based application providing treasury and risk management solutions supplied by Reval.Com, Inc., a financial technology company based in New York to assess both the prospective and the retrospective effectiveness of the fair value hedge relationship.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test and, was highly effective in a retrospective hedge effectiveness test.

The number of data points used to measure effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back dated at the inception date by creating a proxy trade. Actual historical 3-month USD LIBOR curves are used to generate net present values of the proxy trades. As time passes, REVAL will update the regression by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test the same past data (i.e. actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used for the retrospective test.

Changes in fair value will represent period-to-period changes in "clean" fair value (accruals of interest excluded).

During September and October 2006, Sappi entered into firm commitments for the purchase of equipment in foreign currency. These commitments were hedged for foreign exchange risk by forward exchange contracts and were designated as a fair value hedge. The hedged risk was designated to be the foreign currency risk arising from fluctuations in the foreign currency rates relating to the purchase of equipment.

The fair value hedge was accounted for as follows:

The hedging instrument was recorded at fair value in the balance sheet with changes in fair value recorded through the income statement. The full fair value method is used to calculate the changes in fair value of the hedging instrument. At maturity of the foreign exchange contract the related cash flows were booked at the spot rate of that day according to IAS 21.

The firm commitment (hedged item) was not recognized in the balance sheet at inception of the hedge because it was an executory contract for the future delivery of equipment. Only the subsequent changes in fair value of the commitment attributable to the hedged risk are recorded on the balance sheet and through the income statement.

In 2008, Sappi took delivery of the purchased equipment. Hedge accounting has been discontinued in the 2008 fiscal year. The portion of the hedge that was determined to be effective has been included on the balance sheet as part of the cost of purchase for the equipment.

c) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows;

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

- managing its working capital and capital expenditure;
- ensuring the availability of a minimum amount of short term borrowing facilities at all times, to meet any unexpected funding requirements; and
- ensuring appropriate long-term funding is in place to support the group's long term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 20.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

Liquidity risk management– September 2008	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0 - 6	6 - 12	1 - 2	2 - 5	> 5	
			months	months	years	years	years	
			US\$ million					
			Financial assets					
Other non-current assets	44	44	12	–	14	5	6	37
Long term derivative financial instruments	76	76	38	10	37	–	1	86
Receive leg			186	35	211	127	8	567
Pay leg			(148)	(25)	(174)	(127)	(7)	(481)
Trade and other receivables	626	626	609	17	–	–	–	626
Current derivative financial instruments	4	4	5	–	–	–	–	5

Receive leg			335	-	-	-	-	335
Pay leg			(330)	-	-	-	-	(330)
Cash and cash equivalents	274	274	257	17	-	-	-	274
			921	44	51	5	7	1,028
Financial liabilities								
Interest-bearing borrowings	1,832	1,719	57	55	186	1,658	762	2,718
Derivative financial instruments	1	1	-	-	-	-	1	1
Pay leg			-	-	-	-	1	1
Receive leg			-	-	-	-	-	-
Other non-current liabilities			-	-	-	-	-	-
Interest-bearing borrowings	821	821	709	128	-	-	-	837
Overdraft	26	26	26	-	-	-	-	26
Current derivative financial instruments	24	24	23	-	-	-	-	23
Pay leg			578	-	-	-	-	578
Receive leg			(555)	-	-	-	-	(555)
Trade and other payables	756	756	695	42	-	-	-	737
			1,510	225	186	1,658	763	4,342
Liquidity gap			(589)	(181)	(135)	(1,653)	(756)	(3,314)

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management– September 2007	Total financial assets and liabilities	Fair value of financial instruments	0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
			US\$ million					
Financial assets								
Other non-current assets	36	36	12	–	9	2	12	35
Long term derivative financial instruments	137	137	50	4	51	47	(1)	151
Receive leg			180	15	183	187	15	580
Pay leg			(130)	(11)	(132)	(140)	(16)	(429)
Trade and other receivables	600	607	604	3	–	–	–	607
Current derivative financial instruments	7	7	9	–	–	–	–	9
Receive leg			312	–	3	–	–	315
Pay leg			(303)	–	(3)	–	–	(306)
Cash and cash equivalents	364	364	364	–	–	–	–	364
			1,039	7	60	49	11	1,166

Financial liabilities

Interest-bearing borrowings	1,828	1,898	50	59	148	1,660	958	2,875
Derivative financial instruments	15	15	5	1	3	12	–	21
Pay leg			70	34	55	170	–	329
Receive leg			(65)	(33)	(52)	(158)	–	(308)
Interest-bearing borrowings	771	764	677	112	–	–	–	789
Overdraft	22	22	22	–	–	–	–	22
Current derivative financial instruments	28	28	32	2	–	–	–	34
Pay leg			908	23	1	–	–	932
Receive leg			(876)	(21)	(1)	–	–	(898)
Trade and other payables	816	818	796	1	7	–	–	804
			1,582	175	158	1,672	958	4,545
Liquidity gap			(543)	(168)	(98)	(1,623)	(947)	(3,379)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2008 and 2007, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated based on an undiscounted basis.

Classes of financial instruments	Total	Fair value hedge	Maturity analysis				
			Undiscounted cash flows				
			<6M	>6M <1Y	>1Y <2Y	>2Y <5Y	>5Y
			US\$ million				

September 2008

Assets

Fair value of derivatives by
risk factor

Interest rate risk

Interest rate swaps	76	76	38	10	37	–	1
receiving leg	532	532	186	35	211	127	8
paying leg	(456)	(456)	(148)	(25)	(174)	(127)	(7)

Foreign exchange risk

FX forward contracts	4	–	5	–	–	–	–
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receiving leg	334	(11)	335	-	-	-	-
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paying leg	(330)	11	(330)	-	-	-	-
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Liabilities

Fair value of derivatives by
risk factor

Interest rate risk

Interest rate swaps	(1)	-	-	-	-	-	(1)
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paying leg	(1)	-	-	-	-	-	(1)
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receiving leg	-	-	-	-	-	-	-
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Foreign exchange risk

FX forward contracts	(24)	-	(23)	-	-	-	-
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paying leg	(576)	-	(578)	-	-	-	-
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receiving leg	552	-	555	-	-	-	-
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

			Maturity analysis				
			Undiscounted cash flows				
Classes of financial instruments	Total	Fair value hedge	<6M	>6M	>1Y	>2Y	>5Y
			<1Y	<2Y	<5Y		
US\$ million							

September 2007

Assets

Fair value of derivatives by
risk factor*Interest rate risk*

Interest rate swaps	137	137	50	4	51	47	(1)
receiving leg	536	536	180	15	183	187	15
paying leg	(399)	(399)	(130)	(11)	(132)	(140)	(16)

Foreign exchange risk

FX forward contracts	7	–	9	–	–	–	–
receiving leg	309	–	312	–	–	–	–
paying leg	(302)	–	(303)	–	–	–	–

Liabilities

Fair value of derivatives by
risk factor

Interest rate risk

Interest rate swaps	(12)	(12)	(2)	(1)	(3)	(13)	–
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paying leg	(246)	(246)	(28)	(27)	(56)	(171)	–
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receiving leg	234	234	26	26	53	158	–
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Foreign exchange risk

FX forward contracts	(31)	(4)	(27)	(1)	–	–	–
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paying leg	(879)	(89)	(794)	(1)	–	–	–
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receiving leg	848	85	767	–	–	–	–
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Fair values

All financial instruments are carried at fair value or amounts that approximate fair value, except the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

No financial assets were carried at an amount in excess of fair value.

Direct and incremental transaction costs are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss. The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market-related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are not measured at fair value but at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognized treasury tools which use discounted cash flow techniques based on effective market data valid at closing date.

The fair value of loan commitments are based on the commitment fees effectively paid.

Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available for sale		
September 2008								
Non-current assets								
Other non-current assets	168	124	–	30	–	14	44	44
Loans to associates (minority interests)		–	–	3	–	–	3	3
AFS–Club debentures		–	–	–	–	2	2	2
AFS–(Investment) funds		–	–	–	–	12	12	12
Other assets		124	–	27	–	–	27	27

Derivative financial instruments	76	–	76	–	–	–	76	76
Current assets								
Trade and other receivables	698	72	–	626	–	–	626	626
Trade receivables		–	–	574	–	–	574	574
Other accounts receivable–current		72	–	52	–	–	52	52
Derivative financial instruments	4	–	4	–	–	–	4	4
Cash (and cash equivalents)	274	–	–	274	–	–	274	274
Overnight deposits and current accounts (incl. petty cash)		–	–	59	–	–	59	59
Time deposits (< 3 months)		–	–	162	–	–	162	162
Money market funds		–	–	53	–	–	53	53

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Categories according to IAS 39			Total in scope	Fair value
		Out of scope IAS 39	Held for trading	Other financial liabilities		
September 2008						
Non current liabilities						
Interest bearing borrowings	1,832	–	–	1,832	1,832	1,719
Bank loans payable (>1 year)–incl. syndicated loans		–	–	664	664	642
Bonds		–	–	1,084	1,084	998
Financial leasing liabilities		–	–	21	21	21
Other		–	–	63	63	58
Derivative financial instruments	1	–	1	–	1	1
Current liabilities						
Interest bearing borrowings	821	–	–	821	821	821

Bank loans payable (< 1 year) incl. syndicated loans		–	–	446	446	446
Current portion of other non-current loans payable		–	–	6	6	6
Financial leasing liabilities		–	–	2	2	2
Secured loans (< 1 year)		–	–	142	142	142
Securitization debt		–	–	220	220	220
Other current loans-external		–	–	5	5	5
Overdraft						
Bank overdrafts (< 3 months)	26	–	–	26	26	26
Derivative financial instruments	24	–	24	–	24	24
Trade and other payables	959	203	–	756	756	756
Accruals		202	–	233	233	233
Accounts payable to associates		–	–	1	1	1
Other accounts payable-current		1	–	522	522	522

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available for sale		
September 2007								
Non-current assets								
Other non-current assets	165	129	–	22	–	14	36	36
Loans to associates (minority interests)		–	–	3	–	–	3	3
AFS–Club debentures		–	–	–	–	1	1	1
AFS–(Investment) funds		–	–	–	–	13	13	13
Other assets		129	–	19	–	–	19	19
Derivative financial instruments	137	–	137	–	–	–	137	137
Current assets								
Trade and other receivables	653	53	–	600	–	–	600	607
Trade receivables		–	–	553	–	–	553	553

Other accounts receivable-current	53	-	47	-	-	47	54
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Derivative financial instruments	7	-	7	-	-	-	7	7
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Cash (and cash equivalents)	364	-	-	364	-	-	364	364
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Overnight deposits and current accounts (incl. petty cash)	-	-	236	-	-	236	236
------------------------------------------------------------------	---	---	-----	---	---	-----	-----

Time deposits (< 3 months)	-	-	117	-	-	117	117
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Money market funds	-	-	11	-	-	11	11
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

30. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Categories according to IAS 39			Total in scope	Fair value
		Out of scope IAS 39	Held for trading	Other financial liabilities		
September 2007						
Non current liabilities						
Interest bearing borrowings	1,828	–	–	1,828	1,828	1,898
Bank loans payable (>1 year)–incl. syndicated loans		–	–	624	624	631
Bonds		–	–	1,093	1,093	1,144
Financial leasing liabilities		–	–	32	32	37
Other		–	–	79	79	86
Derivative financial instruments	15	–	15	–	15	15
Current liabilities						

Interest bearing borrowings	771	–	–	771	771	764
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Bank loans payable (<1 year)–incl. syndicated loans		–	–	374	374	374
-----------------------------------------------------------	--	---	---	-----	-----	-----

Commercial paper		–	–	28	28	28
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Financial leasing liabilities		–	–	9	9	7
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Securitization debt		–	–	354	354	354
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Other current loans–external		–	–	6	6	1
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Overdraft

Bank overdrafts (<3 months)	22	–	–	22	22	22
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Derivative financial instruments	28	–	28	–	28	28
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Trade and other payables	952	136	–	816	816	818
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Accruals		136	–	304	304	306
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Accounts payable to associates		–	–	7	7	7
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Other accounts payable–current		–	–	505	505	505
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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

31. RELATED PARTY TRANSACTIONS

Transactions between Sappi Limited and its subsidiaries, which are related parties of the group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and related parties are disclosed below:

	Sale of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2008	2007	2006	2008	2007	2006	2008	2007	2008	2007
Joint ventures										
	US\$ million									
Jiangxi Chenming	4.0	3.8	2.3	2.6	2.2	9.0	–	–	7.6	8.3
Sapin S.A.	0.3	–	–	30.9	28.2	19.9	–	–	1.1	2.1
VOF Warmtekracht	44.2	41.4	35.7	32.8	30.5	26.1	–	–	–	–
Umkomaas Lignin (Pty) Ltd	1.1	0.9	0.6	–	–	–	0.7	1.6	–	–
Papierholz Austria GmbH	–	–	–	92.7	90.4	55.7	–	–	5.3	3.8
	49.6	46.1	38.6	159.0	151.3	110.7	0.7	1.6	14.0	14.2

Joint venture Timber IV: A full description of the transaction concerning Timber IV is discussed in note 13.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Directors

Details relating to executive and non-executive directors' emoluments, interests and participation in the Scheme and Plan are disclosed in notes 34-36.

Interest of directors in contracts

None of the directors have a material interest in any transaction with the company or any of its subsidiaries, other than those on a normal employment basis. Professor Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Proprietary) Limited, a transaction sponsor to Sappi Ltd.

Key management personnel

Compensation for key management was as follows:

	Total excluding directors			Total including directors		
	2008	2007	2006	2008	2007	2006
	US\$ million					
Short term benefits	2.9	2.5	2.0	4.3	4.1	7.2
Post-employment benefits	0.4	0.3	0.6	0.7	0.8	3.3
Share-based payments	0.0	0.2	0.1	–	0.2	0.5
	<u>3.3</u>	<u>3.0</u>	<u>2.7</u>	<u>5.0</u>	<u>5.1</u>	<u>11.0</u>

The number of key management personnel included above for 2008 was ten (2007: twelve).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

32. EVENTS AFTER BALANCE SHEET DATE

Subsequent to the end of fiscal 2008 Sappi acquired M-real Corporation's coated graphics paper business.

The total consideration for the Acquisition was € 750 million (approximately US\$ 1.1 billion) and was subject to a deduction based on the amount of net debt of the Acquired Business at completion and an adjustment for the difference between the target working capital and the actual working capital at completion.

The transaction included four graphic paper mills: the Kirknemi mill and the Kangas mill in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland; and other specified assets; as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated graphic paper business of M-Real Corporation. As part of the Acquisition, Sappi entered into long term supply agreements under which M-Real Corporation and its parent company will supply wood, energy and pulp to us. In addition, Sappi entered into transitional marketing agreements under which M-Real Corporation will produce products at certain graphic paper machines at the Husum mill (Sweden) and the Äänekoski mill (Finland) and we will market and distribute those products.

We funded the consideration for the Acquisition as follows:

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 which was used to partly finance the Acquisition and related costs;

On December 31, 2008 € 50 million equivalent was funded through the issue of 11,159,702 ordinary shares of Sappi Limited to M-Real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights issue and other anti-dilutive protections; and

€ 220 million was funded through the issuance by Sappi Papier Holding GmbH to M-Real Corporation of vendor loan notes ("Vendor Loan Notes") in a maximum principal amount of € 250 million, with the principal amount thereof being subject to reduction based upon the purchase price adjustments determined at and after completion.

Management is currently determining the effect of the Rights Issue on the historically presented earnings per share in accordance with IAS 33 Earnings Per Share.

33. ENVIRONMENTAL MATTERS

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate, and these laws and regulations have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly

important consideration in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions including carbon dioxide and other greenhouse gases (GHG), wastewater discharges and waste management. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. Sappi spent approximately US\$ 15 million in the financial year ended September 2008 (September 2007: US\$ 15 million) on capital projects that control air or water emissions or otherwise create an environmental benefit.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

33. ENVIRONMENTAL MATTERS (Continued)

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations. The State of Maine has ordered a hearing, scheduled for later this year, to determine whether it will require Sappi Fine Paper North America to install a fishway at its Cumberland mills dam on the Presumpscot River. A fishway on the Cumberland mills dam would trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland mills dam, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of these projects, if required, is estimated to be approximately US\$ 18 million. Previous settlement discussions with government agencies and environmental groups regarding the removal of the Cumberland mills dam were not successful.

Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a federal program for controlling GHG emissions, there are various state and regional initiatives regarding GHG regulation and Congress is considering a number of legislative proposals regarding climate change. Accordingly, we closely monitor state, regional and federal GHG initiatives in anticipation of any potential effects on our operations.

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. For example:

The Integrated Pollution Prevention and Control directive regulates air emissions, water discharges and defines permit requirements and best available techniques for pollution control.

The national European laws regulate the waste disposal framework and place restrictions on landfilling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany and the Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.

In the Netherlands we, together with other paper manufacturers, have signed an agreement with the national government to improve environmental management and further limit emissions.

The countries within which we operate in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively. Our expenditures related to GHG compliance in Europe are not expected to be material.

In South Africa, requirements under the National Water Act, National Environmental Management Act and the Air Quality Bill may result in additional expenditures and / or operational constraints. South Africa is also a signatory of the Kyoto Protocol and Sappi is currently identifying and initiating Clean Development Mechanism projects at a number of our South African mills. Although we are uncertain as to the ultimate effect on our South African operations, our current assessment of the legislation is that any compliance expenditures or operational constraints will not be material to our financial condition.

34. DIRECTORS' REMUNERATION

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. The remuneration is translated into US Dollars (the group's reporting currency) at the average exchange rates prevailing during the reporting year. Directors' fees are established in local currencies to reflect market conditions in those countries.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

34. DIRECTORS' REMUNERATION (Continued)

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve, and the quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee.

The extreme volatility of currencies, in particular the Rand / US Dollar exchange rate in the past few years, caused severe distortion of the relative fees paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the Board and approved at the annual general meeting by the shareholders.

Director	2008			
	Board	Committee	Travel	Total
	Fees	Fees	allowance	
US\$				
DC Brink	52,332	42,130	5,200	99,662
M Feldberg	57,200	49,700	10,400	117,300
JE Healey	67,600	70,700	15,600	153,900
D Konar	34,889	57,340	5,200	97,429
HC Mamsch	87,535	97,041	10,400	194,976
B Radebe	37,796	9,422	5,200	52,418
ANR Rudd	74,068	47,530	7,800	129,398
FA Sonn	34,889	9,422	5,200	49,511
E van As ⁽¹⁾	84,126	—	5,000	89,126

K Osar	67,600	23,835	13,000	104,435
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J McKenzie	37,796	8,637	5,200	51,633
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DC Cronjé ⁽²⁾	131,344	–	2,600	133,944
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	<u>767,175</u>	<u>415,758</u>	<u>90,800</u>	<u>1,273,733</u>
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(1) Includes board fees received by Mr van As for the period September 2007 to March 2008. Mr van As also received consulting fees of US\$ 16,825 for the same period not included in the above.

(2) Appointed in January 2008.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

34. DIRECTORS' REMUNERATION (Continued)

Director	2007			Total
	Board Fees	Committee Fees	Travel allowance	
	US\$			
DC Brink	41,817	40,423	5,000	87,240
M Feldberg	50,000	48,000	12,500	110,500
JE Healey	50,000	68,000	15,000	133,000
K de Kluys ⁽³⁾	16,265	16,265	2,500	35,030
D Konar	27,878	52,736	5,000	85,614
HC Mamsch	65,060	93,568	10,000	168,628
B Radebe	27,878	18,121	5,000	50,999
ANR Rudd	65,060	27,601	2,500	95,161
FA Sonn	27,878	9,060	5,000	41,938
E van As	48,787	–	5,000	53,787
K Osar ⁽⁴⁾	20,835	–	7,500	28,335
J McKenzie ⁽⁵⁾	2,324	–	–	2,324
	<u>443,782</u>	<u>373,774</u>	<u>75,000</u>	<u>892,556</u>

(3) Retired in December 2006.

(4) Appointed in May 2007.

(5) Appointed in September 2007.

Our pay philosophy aims to provide executives with remuneration which allows them to enjoy similar and appropriate standards of living and at the same time to create wealth equally no matter where they live and work.

Whilst the payment of executives in different currencies creates perceived inequities, due attention is given to insure that internal equity exists and is maintained, through comparisons against cost of living indices and the manner in which pay is structured in the various countries.

Bonus and performance related payments are based on corporate and individual performance. Under this, executives may be awarded up to 110% of their annual salary if group and personal performance objectives as agreed by the Remuneration Committee are met. Bonuses relate to amounts paid in the current year, but based on the previous year's performance.

Average exchange rates for the year concerned are again applied in the tables in converting the currency of payment into US Dollars.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

34. DIRECTORS' REMUNERATION (Continued)

Executive Directors⁽¹⁾

2008							
Director	Salary	Prior Year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Benefit received from Credit Scheme Share Funding	Other	Total
US\$							
M R Thompson	299,113	180,552	433	99,688	–	–	579,786
R J Boëttger	669,955	204,705	–	191,327	–	–	1,065,987
	969,068	385,257	433	291,015	–	–	1,645,773

⁽¹⁾ Executive directors are paid remuneration packages which aim to be competitive in the countries in which they live and work, and they are generally paid in the currency of those countries.

⁽²⁾ Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

2007							
Director	Salary	Prior Year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Benefit received from Credit Scheme Share Funding	Other	Total
US\$							
W Pfarl ⁽³⁾	536,552	255,071	2,708	132,087	–	393,688	1,320,106
M R Thompson	272,354	84,910	448	100,515	–	–	458,227

E van As ⁽⁴⁾	696,953	–	–	–	–	146,360	843,313
R J Boëttger ⁽⁵⁾	161,737	–	–	46,412	516,248	–	724,397
	<u>1,667,596</u>	<u>339,981</u>	<u>3,156</u>	<u>279,014</u>	<u>516,248</u>	<u>540,048</u>	<u>3,346,043</u>

- (1) Executive directors are paid remuneration packages which aim to be competitive in the countries in which they live and work, and they are generally paid in the currency of those countries.
- (2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.
- (3) Retired June 2007. Mr Pfarl received a pension disbursement benefit of US\$ 346,085 included in other benefits.
- (4) Mr van As received a salary of US\$ 696,953 (ZAR 5 million) while acting as CEO. Includes board fees paid to Mr van As for the period September 2006 till August 2007 when his executive responsibilities terminated upon the appointment of Mr Boëttger as CEO. Mr van As then resumed his Non-Executive chairman responsibilities.
- (5) Appointed as CEO in July 2007. Mr Boëttger received 35,000 restricted shares which vest on 31 December 2007 included under benefit received from credit scheme share funding. A share based expense of US\$ 516,248 was recognized in the 2007 year's income statement, based on a share-price of ZAR 106.00.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 2 years or less. These notice periods are in line with international norms for executive directors.

Other than the non-executive chairman, Dr Cronjé, none of the other non-executive directors have service contracts with the company.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

34. DIRECTORS' REMUNERATION (Continued)

None of the directors have provisions for pre-determined compensation on termination of their contracts exceeding 2 years' gross remuneration and benefits in kind.

35. DIRECTORS' INTERESTS

The following table sets out the directors' interests in the shares in Sappi Limited. For the purpose of this table, directors' interests are those in shares owned either directly or indirectly as well as those shares in respect of which directors have vested obligations to purchase shares or repay loans in terms of the Sappi Limited Share Incentive Trust.

	2008			2007		
	Direct Interests		Indirect Interests	Direct Interests		Indirect Interests
	Vested Obligations to		Beneficial	Vested Obligations to		Beneficial
	Beneficial	Purchase or Repay Loans		Beneficial	Purchase or Repay Loans	
<u>Director</u>						
Non-executive directors						
D C Brink	–	–	10,000	–	–	10,000
M Feldberg	–	–	–	–	–	–
J E Healey	–	–	–	–	–	–
D Konar	–	–	–	–	–	–
H C Mamsch	–	–	–	–	–	–
B Radebe	–	–	–	–	–	–

A N R Rudd	–	–	–	–	–	–
F A Sonn	–	–	–	–	–	–
E van As	–	–	–	–	–	–
K Osar ⁽¹⁾	–	–	–	–	–	–
J McKenzie ⁽²⁾	–	–	–	–	–	–
D C Cronjé ⁽⁶⁾	–	–	–	–	–	–

**Executive
directors**

M R Thompson	–	39,900	–	–	36,300	–
R J Boöttger ⁽³⁾	35,000	–	–	–	–	–
W Pfarl ⁽⁴⁾	–	–	–	–	–	–
E van As ⁽⁵⁾	–	–	–	248,000	200,000	316,959
Total	35,000	39,900	10,000	248,000	236,300	326,959

(1) Appointed in May 2007.

(2) Appointed in September 2007.

(3) Appointed in July 2007. Mr Boöttger received 35,000 restricted shares in 2007 as part of his appointment which vested on 31 December 2007 (See directors remuneration for 2007 footnote (6)).

(4) Retired June 2007.

(5) Retired August 2007 from executive duties and retired in March 2008 as non-executive chairman.

(6) Appointed in January 2008.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

35. DIRECTORS' INTERESTS (Continued)

Directors' interests in contracts

The directors have certified that they had no material interest in any significant transaction with either the company or any of its subsidiaries. Therefore there is no conflict of interest with regard to directors' interests in contracts.

36. DIRECTORS' PARTICIPATION IN THE SAPPI LIMITED SHARE INCENTIVE TRUST (SCHEME) AND THE SAPPI LIMITED PERFORMANCE SHARE INCENTIVE TRUST (PLAN)

Share options, allocation shares and performance shares

The following table sets out all share options (whether vested or unvested), all other unvested allocation shares and performance shares granted to, and exercised by, each executive director in terms of the Scheme and the Plan during the year ended September 2008. These interests are also included in 'Directors' interests' in note 35. Details of share dealings are included in the second table. Non-executive directors do not have any allocation shares, share options or performance shares. Executive directors who retire have 12 months in which to settle their share options and allocation shares, unless extension is granted by the remuneration committee of the board of directors.

For performance shares there is a formula by which retired executive directors will receive a proportion of any shares which may have vested at the end of the four year period.

Executive Directors	RJ Boëtger ⁽²⁾		MR Thompson ⁽¹⁾		Total 2008	Total 2007
	Allocated price	No of shares	Allocated price	No of shares	No of shares	No of shares
Outstanding at September 2007						
Number of shares held		100,000		149,000	249,000	633,000
Issue 25			R49.00	3,000		
Issue 26			R147.20	15,000		
Issue 27			R112.83	15,000		

Issue 28a	R79.25	18,000
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Issue 29	R78.00	18,000
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Performance shares 29 ⁽³⁾	6,000
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Performance shares 30 ⁽³⁾	24,000
-----------------------------------------	--------

Performance shares 30a ⁽³⁾	50,000
------------------------------------------	--------

Performance shares 31a ⁽³⁾	100,000
------------------------------------------	---------

**Offered and
accepted**

Performance shares 32	50,000	40,000
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Paid for

Number of shares	90,000
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**Resignation /
Retirement as
executive
director**

Number of shares	394,000
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**Appointment as
director**

Number of shares	100,000
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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

36. DIRECTORS' PARTICIPATION IN THE SAPPI LIMITED SHARE INCENTIVE TRUST (SCHEME) AND THE SAPPI LIMITED PERFORMANCE SHARE INCENTIVE TRUST (PLAN) (Continued)

<u>Executive Directors</u>	<u>RJ Boëtter⁽²⁾</u>		<u>MR Thompson⁽¹⁾</u>		<u>Total 2008</u>	<u>Total 2007</u>
	<u>Allocated price</u>	<u>No of shares</u>	<u>Allocated price</u>	<u>No of shares</u>	<u>No of shares</u>	<u>No of shares</u>
<i>Outstanding at September 2008</i>						
Number of shares held		150,000		189,000	339,000	249,000
Issue 25			R49.00	3,000		
Issue 26			R147.20	15,000		
Issue 27			R112.83	15,000		
Issue 28a			R79.25	18,000		
Issue 29			R78.00	18,000		
Performance shares 29 ⁽³⁾				6,000		
Performance shares 30 ⁽³⁾				24,000		

Performance shares 30a ⁽³⁾	50,000
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Performance shares 31a ⁽³⁾	100,000
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Performance shares 32	50,000	40,000
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Expiry dates

Issue 25	15 Jan 09
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Issue 26	28 Mar 10
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Issue 27	13 Feb 11
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Issue 28a	30 Dec 11
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Issue 29	13 Dec 12
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Performance shares 29 ⁽³⁾	13 Dec 08
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Performance shares 30 ⁽³⁾	13 Dec 09
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Performance shares 30a ⁽³⁾	08 Aug 10
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Performance shares 31a ⁽³⁾	02 Jul 11
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Performance shares 32	12 Dec 11	12 Dec 11
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Changes in executive directors' share options, allocation shares and performance shares after year-end.

- (1) Appointed an executive director on 08 August 2006.
- (2) Appointed in July 2007.
- (3) Performance shares are issued when all conditions per Note 30 are met.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2008

36. DIRECTORS' PARTICIPATION IN THE SAPPI LIMITED SHARE INCENTIVE TRUST (SCHEME) AND THE SAPPI LIMITED PERFORMANCE SHARE INCENTIVE TRUST (PLAN) (Continued)

Dealings in the Scheme and the Plan for the year ended September 2008						
None for the current year						
Dealings in the Scheme and the Plan for the year ended September 2007						
<u>Director</u>		<u>Date paid for</u>	<u>Number of shares paid for</u>	<u>Allocation price</u>	<u>Market value at date of payment</u>	<u>Gains on shares paid for US\$⁽¹⁾</u>
Executive directors						
W Pfarl ⁽²⁾	Option	15 November 2006	50,000	R53.85	R111.19	397,962
	Deferred Sale	15 November 2006	25,000	R49.00	R111.19	215,811
M R Thompson	Deferred Sale	14 December 2006	15,000	R53.85	R115.79	133,004
Total			90,000			746,777

(1) Converted from South African Rand to US Dollars at the exchange rates on the date of sale.

(2) Retired June 2007.

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CONDENSED SAPPI LIMITED COMPANY INCOME STATEMENT

for the year ended September 2008

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		ZAR million	
Operating loss	1	(154)	(14)
Income from subsidiaries	2	611	498
Net finance income	3	5	15
Profit before taxation		462	499
Taxation–Current		(44)	(38)
–Deferred		61	70
Profit for the year		445	467

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CONDENSED SAPPI LIMITED COMPANY BALANCE SHEET

at September 2008

	2008	2007
	ZAR million	
Assets		
Non-current assets	14,950	14,663
Property, plant and equipment	3	4
Investments in subsidiaries	12,319	12,253
Intercompany receivables	2,420	2,217
Loan to Executive Share Purchase Trust	104	109
Project costs capitalized	85	–
Deferred tax asset	19	80
Current assets	41	82
Cash	–	1
Receivables	5	2
Intercompany receivables	36	79
Total assets	14,991	14,745

Equity and liabilities

Shareholders' equity	14,750	14,575
Ordinary share capital	239	239
Share premium	6,427	6,427
Non-distributable reserves	247	18
Distributable reserves	7,837	7,891
Non-current liabilities		
Intercompany payables	30	1
Current liabilities	211	169
Trade and other payables	123	61
Intercompany payables	75	69
Taxation payable	13	39
Total equity and liabilities	14,991	14,745

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CONDENSED SAPPI LIMITED COMPANY CASH FLOW STATEMENT

for the year ended September 2008

	2008	2007
	ZAR million	
Profit before interest and taxation	457	484
Adjustments:		
Dividends received-pre-acquisition	136	–
Impairment of investment	113	–
Subsidiary transactions	(123)	157
Other	13	(24)
Cash generated from operations	596	617
Movement in working capital	57	8
Net finance income	5	15
Taxation paid	18	(6)
Dividends paid	(499)	(525)
Cash retained from operating activities	177	109
Fixed asset purchases	(1)	(1)
(Increase) decrease in non-current assets	(80)	6

Increase in investments	(315)	(113)
Proceeds from share option deliveries	218	–
Net movement in cash and cash equivalents	(1)	1
Cash and cash equivalents at beginning of year	1	–
Cash and cash equivalents at end of year	–	1

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SAPPI

CONDENSED SAPPI LIMITED COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended September 2008

	<u>2008</u>	<u>2007</u>
	ZAR million	
Profit for the year	445	467
Total recognized income for the year	445	467
	<u><u> </u></u>	<u><u> </u></u>

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SAPPI

NOTES TO THE CONDENSED SAPPI LIMITED COMPANY FINANCIAL STATEMENTS

for the year ended September 2008

1. OPERATING LOSS

The operating loss is arrived at after taking into account the items detailed below:

	<u>2008</u>	<u>2007</u>
	ZAR million	
Depreciation	2	3
Technical and administrative services paid other than to bona fide employees of the company	10	27
Auditors' remuneration	35	15
–fees for audit and related services	8	12
–fees for other services	5	3
–fees for acquisition related services*	22	–
Directors' remuneration	18	17
Staff costs	89	79
Management fees received from subsidiaries	224	253
Impairment of investment	113	–

* These costs are included in project costs capitalized.

2. INCOME FROM SUBSIDIARIES

2008 2007
ZAR million

Dividends received from subsidiaries	611	498
--------------------------------------	-----	-----

3. NET FINANCE INCOME

	<u>2008</u>	<u>2007</u>
	<u>ZAR million</u>	
Interest paid	(1)	–
Interest received	15	12
Net foreign exchange (losses) gains	(9)	3
	<u>5</u>	<u>15</u>

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SAPPI
NOTES TO THE CONDENSED SAPPI LIMITED COMPANY FINANCIAL STATEMENTS
for the year ended September 2008 (Continued)

4. RECONCILIATION OF CHANGES IN EQUITY

	Number of ordinary shares	Ordinary share capital	Share premium	Non- distributable reserves	Distributable reserves	Total
	ZAR million					
Balance–September 2006	239.1	239	6,427	45	7,949	14,660
Profit for the year	–	–	–	–	467	467
Dividends	–	–	–	–	(525)	(525)
Share-based payments	–	–	–	(27)	–	(27)
Balance–September 2007	239.1	239	6,427	18	7,891	14,575
Profit for the year	–	–	–	–	445	445
Dividends	–	–	–	–	(499)	(499)
Share-based payments	–	–	–	229	–	229
Balance–September 2008	239.1	239	6,427	247	7,837	14,750

5. COMMITMENTS

	<u>2008</u>	<u>2007</u>
	ZAR million	
Revenue commitments		

Operating leases and rentals

Payable within one year	1	1
Payable in two to five years	1	2
	<u>2</u>	<u>3</u>

6. CONTINGENT LIABILITIES

	<u>2008</u>	<u>2007</u>
	<u>ZAR million</u>	
Guarantees and suretyships	13,099	10,653

7. BASIS OF PREPARATION

The annual financial statements from which these condensed financial statements have been derived have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

SPECIAL RESOLUTION OF SAPPI LIMITED PASSED WITH THE REQUISITE MAJORITIES AT THE GENERAL MEETING OF SHAREHOLDERS OF SAPPI LIMITED HELD ON MONDAY, NOVEMBER 3, 2008 TO INCREASE THE AUTHORISED SHARE CAPITAL.

It was resolved that, the authorized ordinary share capital of the Sappi Limited be and is hereby increased from ZAR 325,000,000, comprising 325,000,000 ordinary shares of ZAR 1.00 each, to ZAR 1,325,000,000, comprising 1,325,000,000 ordinary shares of ZAR 1.00 each, by the creation of 1,000,000,000 new ordinary shares of ZAR 1.00 each.

ORDINARY RESOLUTION OF SAPPI LIMITED PASSED WITH THE REQUISITE MAJORITIES AT THE GENERAL MEETING OF SHAREHOLDERS OF SAPPI LIMITED HELD ON MONDAY, NOVEMBER 3, 2008 TO ACQUIRE M-REAL' S COATED GRAPHIC PAPER BUSINESS AND TO ISSUE SHARES UNDER THE MASTER AGREEMENT.

It was resolved that :

- (a) the proposed acquisition by the company of the business and assets being acquired from M-real in terms of the Master Agreement and other Transaction Agreements, as referred to in the Company' s circular to shareholders dated 10 October 2008 (the "Circular"), to which a copy of the notice of general meeting is attached, be and is hereby approved; and
 - (b) the directors of the Company are hereby authorized, as a specific authority in terms of Section 221 of the Companies Act, to allot and issue the Settlement Shares on all of the terms and conditions of the Master Agreement as and when the Company becomes obliged to issue them in accordance with the terms and conditions of the Master Agreement, a copy of which has been made available for inspection at the registered office of the company during normal office hours from 08:00 to 16:30.
-

DEED OF TRUST

constituting

THE SAPPI LIMITED SHARE INCENTIVE TRUST

Signed at Johannesburg on 5 March 1997

WERKSMANS
ATTORNEYS

Johannesburg

THE SAPPI LIMITED SHARE INCENTIVE SCHEME

AS TABLED AT THE ANNUAL GENERAL MEETING
OF SAPPI LIMITED HELD ON 5 MARCH 1997
AND HEREBY INITIALLED FOR THE
PURPOSES OF IDENTIFICATION

/s/ E VAN AS - CHAIRMAN

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THE SAPPI LIMITED SHARE INCENTIVE SCHEME

The purpose of the scheme is to provide employees of the group with the opportunity to acquire an interest in the equity of the company, thereby providing such employees with a further incentive to advance the group' s interests and promoting an identity of interests between such employees and the shareholders of the company.

1 INTERPRETATION

- 1.1 In this deed, unless the context clearly indicates a contrary intention, the following words and expressions shall bear the following meanings and cognate words and expressions shall bear corresponding meanings -
- 1.1.1 “acceptance date” - the date of acceptance by a participant of an offer for the acquisition of scheme shares, share options or rights and options in terms of 10, 14 or 20, as the case may be;
- 1.1.2 “allocation price ” - the price per share payable by a participant for allocation shares, which price shall be the closing price at which shares are traded on the JSE on the trading day immediately preceding the date upon which the board will have resolved to offer to grant, or direct the trustees to offer to grant, the relevant right and option to that participant; provided that such price shall, if the date on which it is to be determined falls between the date on which the company declared an interim or final dividend on such shares and the last day for registration by shareholders to participate in such dividend, be reduced by the amount of such dividend;
- 1.1.3 “allocation shares “ - shares acquired by a participant pursuant to the exercise of a right and option in terms of 20;
- 1.1.4 “Act “ - the Companies Act 1973, as amended;

- 1.1.5 “board” - the board of directors of the company acting either itself or through any committee constituted from time to time and appointed by it for the purpose of administering this scheme;
- 1.1.6 “company” - Sappi Limited (Registration number 05/08963/06);
- 1.1.7 “early retirement” - retirement at or after the age of fifty-five years but prior to normal retirement age referred to in 1.1.19;
- 1.1.8 “eligible applicant” - a person eligible for participation in this scheme, namely an officer or other employee of any company or other entity or association of persons forming part of the group, which person shall be determined from time to time by the board in its discretion;
- 1.1.9 “existing scheme” - the Sappi Limited Share Purchase Scheme adopted at a general meeting of the company on 26 June 1979;
- 1.1.10 “family company” - any company or close corporation, the entire issued share capital or member’s interests of which is held and beneficially owned by all or any of an eligible applicant or participant, his lawful spouse, his lawful issue (including adopted children) and/or his family trust;
- 1.1.11 “family trust” - a trust constituted solely for the benefit of all or any of an eligible applicant or a participant, his lawful spouse and/or his lawful issue (including adopted children);
- 1.1.12 “group” -the company, the company’s subsidiaries for the time being and any company, partnership, trust or other entity or association of persons which is controlled or jointly controlled by the company, whether directly or indirectly, for which purpose the word “controlled” includes the right to direct or otherwise control the votes attaching to the majority (or one-half in the case of joint control) of the voting shares or other voting instruments or voting rights in that company, partnership, trust or other entity or association of persons;

- 1.1.13 “JSE” - Johannesburg Stock Exchange;
- 1.1.14 “maximum period” - the period from the acceptance date to the tenth anniversary date thereof;
- 1.1.15 “option period” - the period from the acceptance date to the date of completion of ten subsequent years continuous service in the group;
- 1.1.16 “option price” - the price per share payable by a participant upon the exercise of a share option in respect thereof, which price shall be the closing price at which shares are traded on the JSE on the trading day immediately preceding the date upon which the board will have resolved to offer to grant, or direct the trustees to offer to grant, the relevant option to that participant; provided that such price shall, if the date on which it is to be determined falls between the date on which the company declared an interim or final dividend on such shares and the last day for registration by shareholders to participate in such dividend, be reduced by the amount of such dividend;
- 1.1.17 “option shares” - shares in respect of which options have been granted in terms of 14, for as long as such options have not been exercised and have not lapsed;
- 1.1.18 “participant” - an eligible applicant (or his nominated family trust or family company) who has accepted an offer to acquire share options, scheme shares or rights and options in terms of 10, 14 or 20 (as the case may be) including his heirs, executors or administrators;

- 1.1.19 “retirement” - retirement at normal retirement age (and not at early retirement age, whether or not such early retirement is voluntary) in accordance with any pension or similar scheme of the company or other entity in the group from time to time in force of which the participant in question is a member or participant, it being recorded that such normal retirement age is currently either sixty or sixty-three years;

- 1.1.20 “right and option” - the right and option granted to a participant in terms of 20 to enter into an agreement with the company or the trust to acquire allocation shares;
- 1.1.21 “scheme” - the scheme to enable employees of the group to acquire and/or fund the acquisition of shares, the terms of which are embodied in this document;
- 1.1.22 “scheme capitalization shares” - shares or other securities in the company allotted and issued to a participant by way of a capitalization of profits, share premium or reserves in respect of his holding of scheme shares;
- 1.1.23 “scheme rights shares” - shares or other securities subscribed for in terms or as a consequence of a rights issue and acquired by or on behalf of a participant in terms of 19.2;
- 1.1.24 “scheme shares” - shares acquired by a participant in terms of 10, including -
- 1.1.24.1 shares acquired by a participant who held share options and who accepted an offer by the trustees to subscribe for or purchase on his behalf the shares represented by such options in terms of 21;
 - 1.1.24.2 scheme capitalization shares;
 - 1.1.24.3 scheme rights shares; and
 - 1.1.24.4 shares or other securities in the company or in any other company allotted, issued or transferred by way of exchange for scheme shares pursuant to any conversion or redemption of shares in accordance with the company’s articles of association and/or pursuant to any takeover of the company or any scheme of arrangement or other proposal having as its object the

passing of control or the reconstruction of the capital of the company and/or pursuant to a reduction of capital or deregistration of the company,

for so long as those shares or other securities remain the subject to the pledge referred to in 12;

- 1.1.25 “shares” - ordinary shares of a nominal value of R1 each in the capital of the company;
- 1.1.26 “share debt” - the amount for the time being owing by a participant to the trust in respect of scheme shares, which amount may be increased from time to time in regard to any participant in accordance with the directions of the board, in its discretion, by such amount/s which may become payable by the participant in question -
- 1.1.26.1 in respect of any interest liability incurred from time to time by a participant on any amount owing to the trust in terms of this scheme; and/or

- 1.1.26.2 pursuant to any provision of the Income Tax Act 1962 as amended (or any amendment or substitution thereof) arising out of or pursuant to his participation in the scheme;
- 1.1.27 “share option” - the right and option granted to a participant in terms of 14 to acquire option shares;
- 1.1.28 “share price” - the price per share payable by a participant for scheme shares, which price shall be the closing price at which shares are traded on the JSE on the trading day immediately preceding the date upon which the board will have resolved to direct the trustees to offer the relevant scheme shares to that participant; provided that such price shall, if the date on which it is to be determined falls between the date on which the company declared an interim or final dividend on such shares and the last day for registration by shareholders to

participate in such dividend, be reduced by the amount of such dividend;

- 1.1.29 “trust” - The Sappi Limited Share Incentive Trust constituted in terms of 2.1;
- 1.1.30 “trustees” - the trustees of the trust for the time being, the first trustees being the persons referred to in 2.3.
- 1.2 In this deed -
- 1.2.1 clause headings are used for convenience only and shall be ignored in its interpretation;
- 1.2.2 unless the context clearly indicates a contrary intention, an expression which denotes -
- 1.2.2.1 any one gender includes the other genders;
- 1.2.2.2 a natural person includes an artificial person (whether corporate or unincorporate) and vice versa;
- 1.2.2.3 the singular includes the plural and vice versa;
- 1.2.3 unless the context clearly indicates a contrary intention, words and expressions defined in the Act shall bear the meanings therein assigned to them.
- 1.3 If any provision in 1.1 is a substantive provision conferring any right or imposing any obligation on anyone, effect shall be given to it as if it were a substantive provision in the body of this deed.
- 1.4 When any number of days is prescribed in this deed, same shall be reckoned exclusively of the first and inclusively of the last day unless the last day falls on a Saturday, Sunday or official public holiday, in which case the last day

shall be the next succeeding day which is not a Saturday, Sunday or official public holiday.

PART 1 -THE TRUST

2 CONSTITUTION OF TRUST AND TRUSTEES

- 2.1 There is hereby constituted a trust for the benefit of participants, to be known as the “The Sappi Limited Share Incentive Trust”, upon the terms and conditions of this deed.

- 2.2 There shall at all times be a minimum of two trustees in office.
- 2.3 David Charles Brink and Thomas Louw De Beer are appointed to be, and by their signatures hereto accept appointment as, the first trustees of the trust.
- 2.4 If any trustee shall cease to hold office for any reason, the board shall appoint a person who is willing to act as trustee in his place.
- 2.5 The board shall have the right to appoint any person qualified for appointment as a trustee as an additional trustee or as an alternate trustee and shall, if it appoints any person as an alternate trustee, designate the trustee to whom he shall act as alternate. An alternate trustee shall be entitled to act as trustee in the place of and during any temporary absence or incapacity of his principal.
- 2.6 No trustee or alternate trustee shall be entitled to participate under this scheme for as long as he holds office as a trustee or as an alternate trustee.
- 2.7 A trustee or alternate trustee shall cease to hold office as such if he - .
- 2.7.1 is removed by resolution of the board; or
- 2.7.2 resigns upon giving the company and his co-trustees not less than one calendar month' s written notice to that effect; or

- 2.7.3 becomes disqualified from holding an appointment as a director of a company.

- 2.8 All decisions of the trustees shall be taken by a simple majority vote.

- 2.9 A quorum for any meeting of trustees shall be two trustees.

3 POWERS OF TRUSTEES

The trustees shall have plenary powers to enable them to carry out and give effect to the intent, purposes and provisions of this scheme, including the powers set out in Schedule 2 of the Act and such powers as may from time to time be expressly conferred on them by the board. Without derogating from the generality of the foregoing, the trustees shall have the power, inter alia, to -

- 3.1 borrow moneys, with or without security, either from the group in terms of 9 or from third parties for the purpose of giving effect to this scheme;
- 3.2 lend moneys, with or without security, to participants to enable such participants to acquire shares pursuant to this scheme;
- 3.3 open and operate banking accounts or other accounts appropriate to the business of the trust, to draw and issue cheques and to receive cheques, promissory notes and/or bills of exchange, and to endorse any of the same for collection by the bank and/or other financial institution at which the said account was opened;
- 3.4 invest any surplus moneys of the trust in shares or other securities of the company or in such other manner as the board may froth time to time approve; -

- 3.5 employ and act on the advice of, and pay out of the funds of the trust, the reasonable fees and disbursements of the company, auditors, attorneys, counsel and other professional consultants in connection with the affairs of the trust;

- 3.6 delegate any of their powers and functions to any one or more of their number;
- 3.7 subject to 8.2 and 8.3, repurchase and resell scheme shares and allocation shares; and
- 3.8 exercise such further rights, powers and authorities as may from time to time be conferred upon them under this scheme or by resolution of the board.

4 SECURITY

No trustee, alternate trustee or successor trustee shall be required to furnish any security of any nature to the Master of the Supreme Court or to any other official or officer, nor shall any security be required for the due performance of any duty under the Trust Property Control Act 1988 or under any other statutory provision of the Republic of South Africa or elsewhere.

5 REMUNERATION OF TRUSTEES

- 5.1 The trustees and alternate trustees shall be entitled to -
- 5.1.1 such remuneration (if any) as may from time to time be agreed between them and the board; and
- 5.1.2 reimbursement from the trust of all expenses properly incurred by them in and about the execution of their duties as trustees.

Such remuneration and expenditure shall be borne and paid by the company if the trust is unable to pay these amounts from its own resources.

- 5.2 The holding of office of a trustee or alternate trustee shall not preclude him or any firm or company of which he is a member from rendering and recovering reasonable remuneration for professional services on behalf of the trust.

6 DUTIES OF TRUSTEES

The duties of the trustees in relation to the trust shall be those prescribed by this deed. In this regard, the day to day administration of the business of the trust may be delegated to any person, including any officer of the company, who shall perform all his duties in accordance with the instructions of the trustees. The duties of the trustees shall include, without limitation, the duty to -

- 6.1 subscribe for or purchase shares in accordance with the provisions of this deed;
- 6.2 offer eligible applicants the opportunity to acquire shares purchased or subscribed for by the trustees in terms of 8.1 or options in respect thereof;

- 6.3 invest the funds of the trust in such form as is permitted by the provisions of this deed;
- 6.4 administer the scheme in order to achieve and maintain its objectives;
- 6.5 cause proper records and books of account to be kept of the affairs of the trust and their administration thereof and to cause financial statements to be prepared to accord with the financial year end of the company or such other date as may be determined by the board; and
- 6.6 carry out such other duties as may, consistent with their offices as trustees, be delegated to them from time to time by resolution of the board.

7 INDEMNITY AND LEGAL PROCEEDINGS

- 7.1 None of the trustees, alternate trustees, successor trustees or officers of the trust shall be liable for, and the company indemnifies each of them against, any loss sustained by the trust or by any participant out of whatever cause arising, save and except loss sustained as a result of the gross negligence, willful misconduct or dishonesty of the trustee, alternate trustee, successor trustee or officer in question.

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- 7.2 Legal proceedings instituted by or against the trust may be instituted in its name.

8 PURCHASE OF OR SUBSCRIPTION FOR SHARES

- 8.1 Subject to the provisions of the Act, the trustees shall, for the purposes of the scheme, from time to time -
 - 8.1.1 purchase or subscribe; or
 - 8.1.2 be given options to purchase or subscribe; or
 - 8.1.3 be given rights and options to purchase or subscribe,for such numbers of shares at such prices as may be agreed upon by the trustees and the board from time to time.
- 8.2 Subject to 8.4, without the prior authority of the company in general meeting and the approval of the JSE, the aggregate number of shares which may be acquired under or pursuant to this scheme shall be a multiple of 100 not exceeding 10 000 000 shares; provided that the said number shall be increased or reduced in direct proportion to the increase or reduction in the number of ordinary shares in the company' s issued share capital arising from any conversion, redemption, consolidation, sub-division, issue for cash, vendor placing, rights or capitalisation issue of shares in the capital of the company.
- 8.3 Subject to 8.4, the aggregate number of shares that may be acquired by any one participant in terms of or pursuant to this scheme shall not exceed 1 000 000 shares~ provided that the said number shall be increased or reduced in direct proportion to the increase or reduction of ordinary shares in the company' s issued share capital arising from any conversion, redemption, consolidation, sub-division, issue for cash, vendor placing, rights or capitalisation issue of shares in the capital of the company.

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- 8.4 In the determination of the number of scheme shares, option shares or allocation shares which may be acquired by participants in terms of 8.2 or 8.3, the board shall be entitled to direct the trustees to refrain from taking into account shares which have been or are capable of being released to a participant in terms of this scheme; provided that the board shall only be entitled to give such direction in respect of shares, the acceptance date in respect of which was more than ten years prior to the date of such direction.

9 FUNDING OF THE TRUST

The purchase or subscription price of shares acquired by the trust in terms of 8 or otherwise under this scheme, the costs incurred in the acquisition thereof, any administration or other expenses or administration fees properly incurred by or on behalf of the trustees in the performance of their duties in terms of or to give effect to the scheme, the amounts referred to in 11.1, any duties payable upon the issue or transfer of shares to participants and any moneys required to effect loans under this deed or repayment of any previous borrowings by the trustees shall be funded, as the board from time to time may direct, out of -

- 9.1 the trust's own resources, if any; and/or
- 9.2 loans to be made to the trust by companies forming part of the group in accordance with section 38(2)(b) of the Act; and/or
- 9.3 loans by third parties to the trust to be procured by the company upon such terms as the company is able to arrange; and/or
- 9.4 any other resource which is available to the trust from time to time.

The company undertakes to ensure that the trust shall at all times be in a position to fund the acquisition of shares under the scheme.

PART 2 - THE CREDIT SALE SCHEME

10 ACQUISITION OF SCHEME SHARES

- 10.1 The trustees shall, if the board so directs and subject to 10.2, offer eligible applicants the opportunity to acquire scheme shares at the share price, which price may be higher or lower than the price at which the shares in question were or are to be acquired by the trust.
- 10.2 An offer made in terms of 10.1 -
 - 10.2.1 shall be in writing;
 - 10.2.2 may only be accepted by the eligible applicant to whom it is addressed (or by his family trust or family company in terms of 26);
 - 10.2.3 shall specify the maximum number of shares (being a multiple of 100) in respect of which the offer may be accepted;

- 10.2.4 shall be in the form from time to time prescribed by the trustees;
- 10.2.5 may be accepted for the whole or such lesser number (being a multiple of 100) of the number of shares to which the offer relates, as the eligible applicant may elect.
- 10.3 Acceptance by an eligible applicant of an offer made to him to acquire scheme shares shall -
- 10.3.1 be communicated to the trustees in writing by not later than twenty days after the date upon which the offer giving rise thereto is made;
- 10.3.2 be accompanied by payment of such amount per share (if any) as may be stipulated by the board from time to time.

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11 PAYMENT FOR SCHEME SHARES AND INTEREST

- 11.1 Save for the amount per share (if any) referred to in 10.3.2, the trust shall fund the acquisition of scheme shares by a participant and, to the extent not covered by any dividends accruing to the participant and, if the board so directs in its discretion, any taxation liability of a participant specified in 1.1. 26. 2.
- 11.2 Subject to 11.5, any amount paid on the acquisition of scheme shares, the portion of dividends referred to in 13.1.2 and any payment made in terms of 11.3 shall be applied rateably toward payment of the share price of all of the scheme shares which such participant holds unless the participant allocates in writing, at the time that he makes such payment, the payment to specific scheme shares (in multiples of 100 scheme shares). The balance of the share debt of a participant shall be paid by not later than the tenth anniversary of the acceptance date.
- 11.3 Unless the board otherwise resolves at any time in its discretion, notwithstanding that any scheme shares are paid for in whole or in part at any time by the participant concerned, no scheme shares shall be released from the scheme or from the pledge under 12 until a period, calculated from the acceptance date, of -
- 11.3.1 more than three years shall have elapsed, in which event not more than 25%;
- 11.3.2 more than four years shall have elapsed, in which event not more than 50%, cumulatively;
- 11.3.3 more than five years shall have elapsed, in which event not more than 75%, cumulatively;

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- 11.3.4 more than six years shall have elapsed, in which event all,
- of the relevant scheme shares may, if the share debt in respect of them is fully discharged, be released from pledge under the scheme.
- 11.4 A participant shall, on application to and on subsequent approval by the trustees, be entitled to pay the whole of his share debt or any portion thereof prior to the due date for payment thereof; provided that -
- 11.4.1 in the event of such an early payment -

- 11.4.1.1 the certificates in respect of the relevant scheme shares shall nevertheless continue to be held by the trust; and
- 11.4.1.2 the relevant scheme shares shall only be released from the restrictions imposed by this deed on the dates or the remaining date and in the proportions stipulated in 11.3;
- 11.4.2 in the event of the termination of such participant' s employment -
- 11.4.2.1 the participant' s entitlement to scheme shares shall be determined by reference to the principles set out in 18;
- 11.4.2.2 any amounts standing to the credit of any loan by the participant to the trust in terms of 11.5, and not applied in terms of 11.2, shall be refunded to the participant.
- 11.5 Notwithstanding 11.2 and 11.4, any payment made by a participant which would otherwise have the effect of releasing any scheme shares from the scheme and the pledge referred to in 12 prior to the due dates for such release under 11.3 shall, to the extent to which such payment would otherwise result in such release, be deemed to be an interest free loan by the participant to the trust until such due dates and no reduction of the share debt shall result from such payment until those due dates save to the extent

otherwise provided under this scheme or determined by the board in its discretion

- 11.6 The outstanding balance from time to time of a participant' s share debt shall bear interest at such rate (if any) as the board determines, in its discretion. The board may determine such rate in its discretion and may alter such rate from time to time by giving not less than thirty days' prior written notice of such alteration to participants; provided that -
- 11.6.1 such rate of interest shall not exceed the lower of the maximum annual rate which may lawfully be charged from time to time and the publicly quoted rate of interest (nominal annual compounded monthly) at which the company' s main commercial bankers in the Republic of South Africa lend on overdraft to their prime corporate customers in the private sector at the appropriate time, reckoned from the due date for payment until the date of actual payment thereof;
- 11.6.2 the amount of such interest shall be calculated from a date which is not less than thirty days after the date of such determination or alteration (as the case may be) until the last day of the company' s financial year in which such date falls, and thereafter annually, and shall be paid on dates coinciding with the dates of payment by the company of dividends payable on scheme shares for each such annual period in respect of which such interest is payable;
- 11.6.3 any deficit between dividends accruing to any participant on his scheme shares and the interest payable by him shall, at the discretion of the board, be accumulated to and form part of the capital amount of his share debt, and such interest shall be compounded annually on the last day of each of the ~company' s financial years.
- 11.7 If the full amount of any share debt is not paid on the due date for payment thereof, the trustees shall request the participant (or, in the event of the participant' s death or sequestration, the executor, administrator or trustee of his estate) in writing to do so. If such request is not complied with within

twenty-one days of the date thereof, the sale of all of such participant' s scheme shares for which payment has not been made in full shall be deemed to have been cancelled on the basis that -

- 11.7.1 subject to 11.7.2, the participant or his estate shall, in consequence of such cancellation, be refunded the amounts actually paid by that participant or his estate on account of his scheme shares;
- 11.7.2 the trust shall not, by reason of any cancellation in terms of this 11.7, be precluded from recovering from the participant or his estate all costs, damages and losses sustained by the trust as a result thereof and shall be entitled to retain any amounts payable to the participant or his estate at the date of such cancellation and apply them in discharge of such costs, damages and/or losses.

12 TRANSFER, LISTING AND PLEDGE OF SHARES

12.1 The issue of share certificates pursuant to the issue or sale of any scheme shares to a participant shall be subject to the following conditions -

- 12.1.1 the scheme shares shall be registered in the name of the participant and the trust shall be obliged to pay any stamp duty payable on the allotment and issue or transfer of scheme shares to him;
- 12.1.2 the participant shall execute a pledge of his scheme shares in favour of the trust in such form and upon such terms and conditions as are determined by the trustees and upon the terms and conditions contained in 12.2; and
- 12.1.3 the trust shall be entitled irrevocably and in rem suam to recover possession, from the company' s transfer secretaries, of the certificates relating to the relevant scheme shares, including any scheme capitalization shares and scheme rights shares related thereto, as well as share certificates in respect of shares in any other company acquired pursuant to 1.1.24.4.

12.2 The pledge of scheme shares by the participant to the trust shall be upon the terms that -

- 12.2.1 such pledge shall include the pledge of any scheme capitalization shares, scheme rights shares and shares issued to a participant in lieu of a cash dividend on account of his scheme shares;
- 12.2.2 those scheme shares shall serve as security for the due payment by the participant of his share debt (including his liability in respect of scheme rights shares);
- 12.2.3 if a participant' s estate is surrendered or sequestrated, whether provisionally or finally, the provisions of 18.1.1.2 shall apply, mutatis mutandis; provided that -
 - 12.2.3.1 any amounts due to the participant shall be paid by the trustees to the participant; and

- 12.2.3.2 the board may, in its discretion, include any other amounts in the net amount due to a participant under 18.1.1.2,
- thereby releasing the participant from his obligation to pay the share debt;
- 12.2.4 subject to 11.3, 11.4 and 11.5, upon payment in full being received by the trust for any scheme shares, those scheme shares shall be released from the operation of that pledge;
- 12.2.5 any of the trustees, nominated by them, shall be irrevocably and in rem suam empowered to execute any instrument of transfer in respect of scheme shares to give effect to the implementation by the trust the powers conferred upon it in terms of this 12.2;
- 12.2.6 the trust shall have the power to pledge any scheme shares pledged to it in terms of this 12.2 for the purpose of raising any moneys

required for the purchase of or subscription for shares and/or the discharge of any loan owed by the trust, whether to the company or otherwise.

- 12.3 By not later than sixty days after the date on which payment in full is received by the trust for any scheme shares which are capable of being released to a participant in terms of 11.3 and the foregoing provisions of this 12, the trustees shall deliver to the relevant participant the certificate in respect of those scheme shares, registered in the name of the participant. If such scheme shares are not already listed, the company shall apply for the listing of those shares on the JSE and any other stock exchange on which the shares of the company may be listed by not later than such delivery date.

13 DIVIDENDS

- 13.1 Dividends declared in respect of scheme shares shall be paid -
- 13.1.1 firstly to the trustees, pro tanto in satisfaction of interest accrued in terms of 11 .6 in respect of the participant' s share debt;
- 13.1.2 secondly, as to any amount determined by the board, in its discretion, not exceeding the balance of the participant' s share debt for the time being, to the trust by way of reduction pro tanto of the participant' s share debt; and
- 13.1.3 as to the balance (if any), to the relevant participant.
- 13.2 Simultaneously with his acceptance of an offer for scheme shares, each participant shall execute a dividend mandate (which shall be in a form determined by the trustees) in respect of his scheme shares authorising the payment of dividends accruing in respect thereof to the trustees, which mandate shall be cancelled in respect of each tranche of scheme shares referred to in 11.3.1, 11.3.2, 11.3.3 and 11.3.4 respectively when, the full share debt in respect thereof will have been paid, whereafter such dividends shall accrue and be paid to the participant.

- 3.3 Notwithstanding 13.1 and 13.2, the trustees shall, if the board so determines in its discretion, pay to any participant selected by the board, all or any part of any dividend declared in respect of his scheme shares.

PART 3 - THE SHARE OPTION SCHEME

14 ACQUISITION OF SHARE OPTIONS

- 14.1 The trustees shall, in respect of share options to be granted in terms of the scheme, if the board so directs and subject to 14.2, offer eligible applicants the opportunity to acquire share options, it being agreed that the option price may be higher or lower than the price at which the shares which are the subject matter of the share options in question were or are to be acquired by the trust.
- 14.2 An offer in terms of 14.1 shall be made and accepted in accordance with 10.2 and 10.3, which shall apply, mutatis mutandis.

15 SHARE OPTIONS

- 15.1 Each share option shall confer the right on the holder thereof to subscribe for or purchase one share at the option price.
- 15.2 The company shall at all times reserve and keep available, out of its authorised but unissued share capital, such number of shares as shall become issuable upon the exercise of all the share options then outstanding, less the number of shares held by the trust and set aside by the trustees for the purpose of satisfying the exercise of any share options.

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16 EXERCISE OF SHARE OPTIONS

- 16.1 Share options may not be exercised until after a period, calculated from the acceptance date, of -
- 16.1.1 more than three years shall have elapsed, in which event not more than 25%;
 - 16.1.2 more than four years shall have elapsed, in which event not more than 50%, cumulatively;
 - 16.1.3 more than five years shall have elapsed, in which event not more than 75%, cumulatively;
 - 16.1.4 more than six years shall have elapsed, in which event all,
- or any lesser number, being a multiple of 100, of the relevant share options may be exercised; provided that the board may, subject to 16.2, permit all or any of the aforesaid exercise dates to be anticipated or postponed to such other date/s and to the extent determined by the board in its discretion.
- 16.2 A share option shall lapse -
- 16.2.1 upon the day following the expiry of the option period; or
 - 16.2.2 upon the participant making application for the voluntary surrender of his estate or his estate being otherwise sequestrated or upon any attachment of any interest of a participant under the scheme, unless the board passes a resolution to the contrary.
- 16.3 If the company is placed in final liquidation, the secretary of the company shall notify the participant thereof in writing and he shall be entitled to exercise all or any share options held by him within twenty-one days of such notification, failing which the share options concerned shall lapse.

16.4 Every exercise of a share option shall -

- 16.4.1 be exercised by written notice given by the participant and delivered to the secretary of the company at the company' s registered office;
- 16.4.2 specify the number of shares in respect of which the share option is exercised;
- 16.4.3 be accompanied by payment of the full amount of the option price in respect of the share options exercised unless a participant has accepted an offer in terms of 21 for the trustees to subscribe for or purchase shares on his behalf; and
- 16.4.4 be regarded as complete only when payment in terms of 16.4.3 has been received by the trustees.

17 ALLOTMENT

The company shall issue share certificates, where applicable, for the shares allotted and issued as a result of the exercise of any share options by not later than sixty days after the exercise thereof and shall apply for a listing of the shares in question on the JSE (and on any other stock exchange on which shares may be listed), prior to or as soon as possible after such date. Shares allotted and issued pursuant to the exercise of share options will rank pari passu with the then issued shares as from their respective dates of allotment.

PART 4 - GENERAL PROVISIONS RELATING TO THE CREDIT SALE SCHEME AND THE SHARE OPTION SCHEME

18 TERMINATION OF EMPLOYMENT

18.1 If the employment by any company in the group of any participant who holds scheme shares terminates -

- 18.1.1 prior to the expiry of the maximum period for any reason other than any of the reasons referred to in 18.1.2, 18.1.3 and 18.1.4 -
 - 18.1.1.1 he shall, within sixty days after the termination of his employment, make payment of the liability attributable to the number of scheme shares, if any, which are capable of being released to him in terms of 11.3 at the date of termination of his employment;
 - 18.1.1.2 the sale of those scheme shares which are not capable of being released to him in terms of 11.3, at the date of termination of his employment and the sale of any other shares, the liability of the participant attributable to which is not paid to the trustees within the period of sixty days referred to in 18.1.1.1, shall be deemed to have been cancelled on the date of termination of his employment or upon the expiry of such sixty day period (as the case may be); provided that if the participant will, prior thereto, have paid any amount on account of his share debt in respect of such scheme shares, such amount, other than those payments retained by the trustees and applied in reduction of the participant' s interest liability in terms of 13.1.1, will be refunded to him; provided further that the board shall be entitled, in its discretion, to apply other terms or conditions which are more

favourable to the participant than the foregoing provisions of this 18.1.1.2 including the payment to the participant of a maximum amount equal to the share price at the date of termination of his employment minus his share debt at that date;

- 18.1.2 by reason of his summary dismissal or on the grounds of his proven dishonest, fraudulent or grossly negligent conduct (whether such termination occurs as a result of notice given to or by him or otherwise), the sale of all such participant's scheme shares which are not capable of being released in terms of 11.3 at the date of termination of his employment and all of his scheme shares for which

full payment has not been received by the trustees as at that date shall be deemed to have been cancelled on the basis that such participant shall be refunded any amount actually paid by him in reduction of the liability attributable to his scheme shares other than those amounts retained by the trustees and applied in reduction of the participant's interest liability in terms of 13.1.1;

- 18.1.3 as a result of his death or retirement or for any other reason approved by the board, he or the executors of his estate shall be entitled to make payment of his liability in respect of all of his scheme shares (whether or not they are capable of being released in terms of 11.3 at the date of termination of his employment) within twelve months after the date of termination of his employment, failing which the provisions of 18.1.1.2 shall apply, mutatis mutandis;

- 18.1.4 as a result of his early retirement, he shall be entitled to make payment of his liability in respect of all of his scheme shares within twelve months after the date of such termination of employment, failing which the provisions of 18.1.1.2 shall apply, mutatis mutandis; provided that if the date of his early retirement falls on a date which is more than twelve months prior to the date which would have been his normal retirement date, then notwithstanding such payment, his scheme shares shall only be capable of being released to him on the dates on which they would have been capable of being released in terms of 11.3 has his employment not terminated; provided further that the board shall be entitled, in its discretion, to apply other terms or conditions which are more favourable to the participant than the foregoing provisions of this 18.1.4;

18.2 If the employment by any company in the group of any participant who holds share options terminates -

- 18.2.1 prior to the expiry of the option period for any reason other than those referred to in 18.2.2, 18.2.3, 18.2.4 and 18.2.5, the participant shall be entitled to exercise all or a multiple of 100 of that number of his

share options which he was entitled to exercise in terms of 16.1 immediately prior to the termination of his employment by not later than sixty days after the date of termination of his employment, failing which the said share options shall automatically lapse. Those share options which the participant is not entitled to exercise in terms of 16.1 on the date on which his employment terminates shall automatically lapse, unless the board otherwise resolves in its discretion;

- 18.2.2 by reason of his summary dismissal or on the grounds of his proven dishonest, fraudulent or grossly negligent conduct (whether such termination occurs as a result of notice given to or by him or otherwise), all of his share options shall automatically lapse;
- 18.2.3 as a result of his death, the executors or administrators of his estate or his heir (as the case may be) may exercise all or any multiple of 100 of his share options (whether or not they are capable of being exercised in terms of 16.1 at the date of termination of his employment) by not later than twelve months after the date on which his employment terminates, failing which his share options shall automatically lapse;
- 18.2.4 as a result of his retirement or for any other reason approved by the board, he may, by not later than twelve months after the date of termination of his employment, exercise all or any multiple of 100 of his share options (whether or not they are capable of being exercised in terms of 16.1 at the date of termination of his employment), failing which his share options shall automatically lapse. If such participant dies prior to having exercised all or any of his share options in terms of this 18.2.4, then the provisions of 18.2.3 shall apply with effect from the date of his death, *mutatis mutandis*;
- 18.2.5 as a result of his early retirement, he may, by not later than twelve months after the date of termination of his employment, exercise all or any multiple of 100 of his share options (whether or not they are

capable of being exercised in terms of 16.1 at the date of termination of his employment), failing which his share options shall automatically lapse; provided that if the date of his early retirement is more than twelve months prior to the date which would have been his normal retirement date, then notwithstanding such payment, shares subscribed for or purchased by him as a result of the exercise of such share options shall only be capable of being released to him on the dates on which he would have been entitled to exercise such share options in terms of 16.1 had his employment not terminated. If such participant dies prior to having exercised all or any of his share options in terms of this 18.2.5, then the provisions of 18.2.3 shall apply with effect from the date of his death, *mutatis mutandis*.

19 RIGHTS AND CAPITALIZATION ISSUES, CONSOLIDATIONS, SUB -DIVISIONS, REORGANISATION AND TAKEOVER AND SCRIP DIVIDENDS

- 19.1 Share options shall not entitle the participant concerned ("option holder") to participate in rights offers by the company. If, however, the company undertakes a rights offer, it shall grant to the option holder options to acquire the same number of shares or other securities to which he would have been entitled in terms of the rights offer had he been the holder of the same number of shares as the number of share options held by him. The additional options shall be granted to the option holder on the following terms and conditions -
- 19.1.1 the board shall furnish full details of the rights offer to the option holder;
- 19.1.2 the option holder shall not be entitled to renounce, transfer, cede, pledge, alienate or encumber the additional options thus granted;
- 19.1.3 the option holder shall be granted the option to subscribe for all or such lesser number of the shares or other securities referred to in 19.1 at an option price which is the same as the subscription price of those shares or other securities, on the basis that -

- 19.1.3.1 if the securities concerned are shares, the option price shall be payable by the option holder, mutatis mutandis, in accordance with 16 and 18, upon the basis that the acceptance date in relation to those additional share options shall be deemed to be the acceptance date relating to the share options from which the opportunity to subscribe for the underlying shares arose;
- 19.1.3.2 if the securities concerned are not shares, the option price shall be payable on, and the acceptance date in relation to the additional options shall be, a date or dates determined by the board in its discretion;

provided that in all other respects the provisions of this scheme relating to share Options shall apply to all options issued in terms of this sub-clause, mutatis mutandis.

19.2 Scheme shares shall rank *par passu* with the other issued shares for participation in all rights offers of shares or other securities by the company. Rights accruing on scheme shares in respect of rights offers by the company shall, unless the board in its discretion otherwise directs, be followed by participants. If a participant is not required to follow his rights, then such rights shall be renounced in favour of the trust or its nominee/s, in which event the purchase price per right shall be the closing market price at which the rights are traded on the JSE on the trading day immediately preceding the date of such renunciation. Rights followed by a participant shall be subscribed for by the trust subject to the following terms and conditions -

- 19.2.1 the shares or other securities subscribed for in this manner shall be scheme rights shares;
- 19.2.2 the relevant company in the group shall lend to the trust the amount required for the purpose of subscribing for the appropriate number of that participant's entitlement to scheme rights shares, and the trust shall subscribe for those scheme rights shares on behalf of the

participant concerned. The scheme rights shares shall be allotted and issued by the company to the participant concerned;

- 19.2.3 certificates in respect of scheme rights shares shall be delivered to and retained by the trust pursuant to the pledge thereof in terms of 12.2;
- 19.2.4 the subscription price of scheme rights shares subscribed for by the trust on behalf of a participant in terms of 19.2.2 shall be payable by the participant to the trust, mutatis mutandis, in accordance with the provisions of 11, upon the basis that the acceptance date in relation to those scheme rights shares shall be deemed to be the acceptance date relating to the scheme shares from which the entitlement to those scheme rights shares arose.

- 19.3 Scheme shares shall in all other respects rank pari passu with the existing issued shares, including in respect of participation in capitalization issues; provided that scheme capitalization shares shall be subject to all the restrictions and conditions of the scheme.
- 19.4 In the event of any capitalisation issue or any sub-division or consolidation of ordinary shares or any reduction of the ordinary share capital of the company (“adjustment event”), the number of option shares and/or the option price shall be adjusted by the board in such manner as it may deem appropriate with the objective that such adjustment should give a participant an option to the same proportion of the equity capital as that to which he was entitled prior to the adjustment event; provided that the auditors of the company, acting as experts and not as arbitrators, shall have confirmed in writing that in their opinion such adjustments are fair and reasonable.
- 19.5 If the company at any time before the share debt owing on any scheme shares has been paid in full -
- 19.5.1 is placed in liquidation for purposes of reorganisation; or

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- 19.5.2 is party to a scheme of arrangement affecting the structuring of its share capital; or
- 19.5.3 reduces its share capital; or
- 19.5.4 sub-divides or consolidates its shares,

such adjustments shall be made to the purchase price in respect of those scheme shares as have not been fully paid as a partner or director of the company’s auditors for the time being (acting as an expert) in his discretion may confirm in writing to the board as being fair and reasonable in the circumstances, subject (where necessary) to the sanction of the Court.

- 19.6 The provisions of 19.5 shall apply, mutatis mutandis, to participants holding share options; provided that the board shall have an overriding discretion to determine the rights of such participants in the circumstances outlined in 19.5. Notwithstanding the foregoing, any decision by the board under this 19.6 shall be fair and equitable to the participant concerned.
- 19.7 If the company becomes an immediate subsidiary of any company (other than its immediate holding company, if any, at the acceptance date) as a result of a takeover, reconstruction or amalgamation which makes provision for the participant to receive shares in such other company in exchange for his scheme shares on terms which a partner of the company’s auditors for the time being (acting as an expert) determines in his discretion are not less favourable than those to which the participants are entitled in terms of this deed, the participant shall be obliged to accept such shares in that other company upon those terms and conditions, then the trustees and the participants shall be obliged to sell, exchange or otherwise dispose of the scheme shares at the same price and upon the same terms and conditions and in the same proportion as the majority shareholders sell or dispose of their shares if those majority shareholders so require and the board so resolves.

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- 19.8 Should the provisions of 19.7 become applicable then -
- 19.8.1 the trustees shall immediately notify each holder of share options (“option holder”) that the provisions of 19.7 have become applicable,

- 19.8.2 within five business days after the receipt of the notice referred to in 19.8.1, an option holder shall be entitled to exercise all or any share options then granted to him;
- 19.8.3 to the extent that any option holder does not exercise any share option in terms of 19.8.2, that share option shall be deemed to have lapsed;
- 19.8.4 to the extent that any option holder exercises any share option in terms of 19.8.2, the shares to be allotted and issued pursuant to the exercise of such option shall be subject, mutatis mutandis, to the provisions of 19.7.
- 19.9 Notwithstanding any other provision of this deed, if any participant and the trustees so agree in writing and the board passes a resolution approving that agreement -
- 19.9.1 any transaction under which that participant purchased or otherwise acquired shares under this scheme may be cancelled;
- 19.9.2 the trust may purchase from that participant any shares purchased or otherwise acquired by him under this scheme at a price not exceeding the selling or acquisition price of those shares to him, provided that the participant shall not receive or become entitled, in consequence of such cancellation or acquisition, to receive any compensation or consideration other than the repayment of any portion of the purchase or acquisition price actually paid by him.
- 19.10 If, in declaring a dividend to its members at any time, the company grants to its members the right to elect to receive either a cash amount or shares in lieu

of a cash dividend, participants holding scheme shares may elect to receive either cash or shares; provided that the provisions of 13 shall apply, mutatis mutandis, in respect of such dividend should the participant elect to receive the cash amount.

- 19.11 Holders of share options and for allocation shares shall not be entitled to any form of participation in or to any rights in respect of the issue of shares by the company in lieu of a cash dividend.

PART 5 - THE COMBINED OPTION/DEFERRED SALE SCHEME

20 THE SCHEME

- 20.1 Notwithstanding any other provision of this scheme, the board and the trustees may give effect to the scheme by the company itself, without the intervention of the trust or the trustees, offering eligible applicants the opportunity to acquire rights and options. Any such offer and acceptance thereof shall be made in accordance with 10.2 and 10.3, which shall apply, mutatis mutandis.
- 20.2 Each right and option shall confer on the holders thereof the right and option to enter into an agreement with the company to acquire one allocation share, which agreement shall be upon the following terms and conditions -
- 20.2.1 allocation shares shall be acquired by participants at the allocation price;

20.2.2 subject to 20.2.4 -

20.2.2.1 the company shall allot and issue or transfer the allocation shares and deliver the share certificates in respect of the allocation shares to the participant; and

20.2.2.2 the participant shall take delivery of the allocation shares; and

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20.2.2.3 ownership of the allocation shares shall vest in the participant and the allocation shares shall be registered in the name of the participant,

at the times and in the numbers stipulated in 20.2.3. For the sake of clarity, it is recorded that, until such times, the participant shall not be entitled to exercise any of the votes attaching to the relevant allocation shares nor to dividends declared on those allocation shares;

20.2.3 unless the board otherwise resolves in its discretion, no allocation shares shall be paid for or delivered as contemplated in 20.2.2 until a period, calculated from the acceptance date, of -

20.2.3.1 more than three years shall have elapsed, in which event not more than 25%;

20.2.3.2 more than four years shall have elapsed, in which event not more than 50% cumulatively;

20.2.3.3 more than five years shall have elapsed, in which event not more than 75% cumulatively;

20.2.3.4 more than six years shall have elapsed, in which event all,

of the relevant allocation shares shall be delivered to the participant in accordance with 20.2.2 against payment by the participant of the full allocation price in respect thereof;

20.2.4 if the employment by any company in the group of any participant who has exercised a right and option terminates prior to the expiry of ten years from the date of grant of the right and option -

20.2.4.1 for any reason other than those stated in 20.2.4.2, 20.2.4.3 and 20.2.4.4, then -

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20.2.4.1.1 he shall, within sixty days after the date of termination of his employment, make payment of the allocation price attributable to the number of allocation shares, if any, for which he is entitled to make payment and take delivery in terms of 20.2.3 at the date of termination of his employment;

20.2.4.1.2 the agreement shall be deemed to be automatically cancelled in respect of those allocation shares in respect of which the payment by and delivery to that

participant was not competent in terms of 20.2.3 at the date of termination of his employment and in respect of any other allocation shares, the allocation price of which is not paid to the company within the period of sixty days referred to in 20.2.4.1.1, and the participant shall receive no compensation whatsoever in consequence of the cancellation of the agreement; provided that the board shall be entitled, in its discretion, to apply other terms or conditions which are more favourable to the participant than the foregoing provisions of this 20.2.4.1.2 including the payment to the participant of a maximum amount equal to the share price at the date of termination of his employment minus the allocation price in respect of such allocation shares;

20.2.4.2 by reason of his summary dismissal or on the grounds of his proven dishonest, fraudulent or grossly negligent conduct (whether such termination occurs as a result of notice given to or by him or otherwise), the agreement shall be deemed to be automatically cancelled at the date of termination of his employment in respect of all of that participant's allocation shares, and the participant shall receive no compensation whatsoever in consequence of the cancellation of the agreement;

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20.2.4.3 as a result of his death or retirement or for any other reason considered and approved by the board, he or the executors of his estate shall be entitled to make payment of the purchase price of all or any multiple of 100 of his allocation shares within a period of twelve months after the date of termination of his employment, failing which the provisions of 20.2.4.1.2 shall apply, mutatis mutandis;

20.2.4.4 as a result of his early retirement, he shall be entitled to make payment of the allocation price of all or any multiple of 100 of his allocation shares within a period of twelve months after the date of such termination of employment, failing which the provisions of 20.2.4.1.2 shall apply, mutatis mutandis; provided that if the date of his early retirement falls on a date which is more than twelve months prior to the date which would have been his normal retirement date, then notwithstanding such payment, such allocation shares shall only be delivered to him on the dates on which they would have been capable of being delivered to him in terms of 20.2.3 had his employment not terminated; provided further that the board shall be entitled, in its discretion, to apply other terms or conditions which are more favourable to the participant than the foregoing provisions of this 20.2.4.4;

20.2.5 subject to the provisions of this 20, the provisions of 19 shall apply to rights and options and to allocation shares, mutatis mutandis;

20.2.6 notwithstanding any other provision of this 20.2, all allocation shares shall be delivered to and paid for in full by the participant concerned by not later than the tenth anniversary of the acceptance date thereof.

20.3 A right and option shall be exercised by the participant concerned at any time within twelve months after the date of grant of the right and option, failing which the right and option shall automatically lapse. If the employment with

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the group of any participant who has not exercised a right and option terminates -

- 20.3.1 for any reason other than those stated in 20.2.4.3 and 20.2.4.4, then such right and option shall automatically lapse;
- 20.3.2 for any of the reasons stated in 20.2.4.3 and 20.2.4.4, then the provisions of 18.2.3, 18.2.4 or 18.2.5 (as the case may be) shall apply, mutatis mutandis, on the basis that the provisions of 20.2.4.3 or 20.2.4.4 (as the case may be) shall thereafter apply, mutatis mutandis, in respect of those rights and options which are exercised.

20.4 Every exercise of a right and option -

- 20.4.1 shall be effected by written notice given by the participant and delivered to the secretary of the company at the company's registered office;
- 20.4.2 shall specify the number of allocation shares (being a multiple of 100) in respect of which the right and option is exercised;
- 20.4.3 shall be accompanied by a deposit ("deposit") of such amount per share (if any) as may be determined by the board from time to time in its discretion; provided that such amount shall not exceed 5% of the allocation price. The deposit shall -
- 20.4.4 be held by the trustees as security for the fulfillment by the participant of his obligations under this deed and the trustees shall at any time be entitled to appropriate and apply the deposit or any part thereof to any amount owed by the participant to the trust;
- 20.4.5 unless the board otherwise resolves in its discretion, be forfeited by the participant to the trust should the agreement pursuant to the exercise of a right and option be cancelled for

any reason other than in terms of 25, in which event it shall be held by the trustees as security for the repayment of the share price or option price, as the case may be;

- 20.4.6 only be refunded to the participant by the trustees once he has fulfilled all of his obligations in terms of this deed.

- 20.5 The company shall at all times reserve and keep available out of its authorised but unissued share capital, such number of shares as shall become issuable upon the date of issue of allocation shares, less the number of shares held by the trust and set aside by the trustees for the purposes of this 20.
- 20.6 The company shall issue share certificates for the shares allotted pursuant to this 20 within sixty days after payment of the allocation price of the allocation shares in question is made by the participant and shall apply for a listing of the shares in question as soon as possible after such date on the JSE (and on any other stock exchange on which shares are listed). The shares so issued shall rank pari passu with the then issued shares of the same class in the company as from their respective dates of issue.
- 20.7 Notwithstanding any other provision of this 20, the board and trustees may give effect to this 20 -

by the trustees, upon being directed to do so by the board, causing the trust to grant to participants the right and option to enter into an agreement with the trust to purchase shares from the trust or causing the trust to enter into an agreement with participants, mutatis mutandis, in accordance with the provisions of 20.1 to 20.6 inclusive. If the trustees grant to a participant a right and option as aforesaid, it shall be so granted on the basis that if such right and option is exercised by the participant, the resultant agreement shall be in accordance with those provisions;

by any variation of the method referred to in 20.1 to 20.6 inclusive or 20.7.1 or any other method which will not prejudice any eligible applicant or participant or the company.

PART 6 - SWITCHING MECHANISMS

21 SHARE OPTIONS - CREDIT SALE

21.1 The trustees, on the authority of a resolution of the board, may at any time by written notice offer to subscribe for or purchase, on behalf of a participant who is permitted to exercise his share options under 16, in lieu of such share options, the shares represented by his share options.

21.2 A participant to whom an offer has been made in terms of 21.1 may, by written notice given to the trustees within 21 days of the date of the offer, accept such offer. Such notice shall -

21.2.1 specify the name of the participant, the number of share options to be exercised and the option price;

21.2.2 be accompanied by payment of the amount, if any, specified in terms of 10.3.

21.3 The trustees shall, forthwith on receiving the notice referred to in 21.2 subscribe for or purchase, on behalf of the participant concerned, the number of shares specified in 21.2.2. Such subscription shall be made subject to the provisions of 12 and the participant shall, ipso facto, in respect of the shares concerned, be bound by the provisions of the scheme relating to scheme shares; provided that the original acceptance date shall, unless the board otherwise resolves, remain unaltered.

21.4 Any taxes and/or duties payable as a result of any transaction in terms of the provisions of this 21 shall, unless the board otherwise resolves, be borne and paid by the participant.

22. CREDIT SALE - SHARE OPTIONS

22.1 The trustees, on the authority of a resolution of the board, may at any time prior to the expiry of the maximum period, by written notice offer to purchase on behalf of the trust all or any of a participant's scheme shares which are not yet capable of release from the scheme in accordance with 11.3 at a price per scheme share equal to the original share price of such scheme shares on the basis that the trustees shall, simultaneously with such purchase, grant to such participant the option to purchase or subscribe for the same number of shares at a price per share ("offer price") equal to such original share price.

- 22.2 A participant to whom an offer has been made in terms of 22.1 may, by written notice given to the trustees within 21 days of the date of the offer, accept such offer. Such notice shall specify, inter alia -
- 22.2.1 the name of the participant;
- 22.2.2 the number of scheme shares concerned; and
- 22.2.3 the original share price.
- 22.3 Forthwith on receiving the notice referred to in 22.2 -
- 22.3.1 the trustees shall apply the purchase price payable by the trust to the participant (being the original share price) in discharge of the outstanding balance of the participant's share debt and the balance, if any, shall be paid to the participant;
- 22.3.2 the participant shall, ipso facto, in respect of the share options concerned, be bound by the provisions of the scheme relating to share options; provided that the original acceptance date of the participant's application for the relevant scheme shares shall, unless the board otherwise resolves in its discretion, be deemed to be the acceptance date of such share options.

- 22.4 Any taxes and/or duties payable as a result of any transaction in terms of the provisions of this 22 shall, unless the board otherwise resolves, be borne and paid by the participant.

23. CREDIT SALE - COMBINED OPTION/DEFERRED SALE

- 23.1 The trustees, on the authority of a resolution of the board, may at any time prior to the expiry of the maximum period, by written notice offer to purchase all or any multiple of 100 of a participant's scheme shares on the basis that -
- 23.1.1 if the closing market price of a share on the JSE on the trading day immediately preceding the date of such request ("current price") exceeds the original share price payable by the participant for the scheme shares, then -
- 23.1.1.1 the purchase price per scheme share payable by the trust to the participant shall be not less than the current price;
- 23.1.1.2 the trustees shall, simultaneously with such purchase, grant such participant the right and option to enter into an agreement with the trust to acquire the same number of allocation shares;
- 23.1.1.3 the price payable by the participant in consideration for the grant of such right and option to him ("grant price") shall be an amount equal to the current price less the original share price payable by him to the trust for the scheme shares in question;
- 23.1.1.4 the allocation price per allocation share payable by the participant shall be the original share price payable by the participant for the scheme shares purchased by the trust from him;

- 23.1.2 if the current price is equal to or less than the original share price payable by the participant for the scheme shares in question, then -
- 23.1.2.1 the price per scheme share payable by the trust shall be the original share price payable by the participant for those scheme shares;
- 23.1.2.2 the provisions of 23.1.1.2 and 23.1.1.4 shall apply, mutatis mutandis.
- 23.2 A participant to whom an offer has been made in terms of 23.1 may, by written notice given to the trustees within 21 days of the date of the offer, accept such offer. Such notice shall specify -
- 23.2.1 the name of the participant;
- 23.2.2 the number of scheme shares concerned;
- 23.2.3 the share price payable by the participant for such scheme shares.
- 23.3 Forthwith on receiving the notice referred to in 23.2 -
- 23.3.1 if 23.1.1 is applicable, the trustees shall apply the current price payable to the participant in reduction of the participant' s share debt and the grant price;
- 23.3.2 if 23.1.2 is applicable, the trustees shall apply the original share price payable to the participant in reduction of the participant' s share debt;
- 23.3.3 the provisions of 20 shall apply, mutatis mutandis, to such allocation shares, save that -
- 23.3.3.1 the date of grant of the right and option, unless the board otherwise resolves in its discretion, be deemed to be the original acceptance date for the relevant scheme shares;

- 23.3.4 if more than twelve months has elapsed since the original acceptance date of the relevant scheme shares, then the right and option shall be exercised within sixty days after the date on which the trustees receive the participant' s notice in terms of failing which such right and option shall lapse.

- 23.4 Any taxes and/or duties payable as a result of any transaction in terms of the provisions of this 23 shall, unless the board otherwise resolves, be borne and paid by the participant.

24 SHARE OPTION - COMBINED OPTION/DEFERRED SALE

- 24.1 The trustees, on the authority of a resolution of the board may at any time prior to the exercise of any share option in terms of 16, by written notice offer to cancel all or any multiple of 100 of a participant' s share options on the basis that, simultaneously with such cancellation -
- 24.1.1 the trustees shall grant to such participant the right and option to enter into an agreement with the trust to acquire the same number of allocation shares;

24.1.2 the allocation price payable by such participant for such allocation shares shall be an amount equal to the original option price of the share options so cancelled.

24.2 A participant to whom an offer has been made in terms of 24.1 may, by written notice given to the to the trustees within 21 days of the date of the offer, accept such offer. Such notice shall specify -

24.2.1 the name of the participant;

24.2.2 the number of share options concerned;

24.2.3 the option price payable in respect of such share options.

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24.3 Forthwith on receiving the notice referred to in 24.2, the trustees shall grant to such participant the right and option to enter into an agreement with the trust to acquire allocation shares. The provisions of 20 shall apply, mutatis mutandis, to such allocation shares, save that -

24.3.1 The date of grant of the right and option shall, unless the board otherwise resolves in its discretion, be deemed to be the original acceptance date by the participant of the share option in question;

24.3.2 if more than twelve months has elapsed since the original acceptance date of the participant' s share option, then the right and option shall be exercised within sixty days after the date on which the trustees received the participant' s notice in terms of 24.2, failing which such right and option shall lapse.

24.4 Any taxes and/or duties payable as a result of any transaction in terms of the provisions of this 24 shall, unless the board otherwise resolves, be borne and paid by the participant.

25 COMBINED OPTION/DEFERRED SALE - CREDIT SALE OR SHARE OPTIONS

25.1 The trustees, on the authority of a resolution of the board, may by written notice offer to a participant who has exercised a right and option granted to him pursuant to 20, at any time prior to delivery to and payment by the participant for the allocation shares in question to either -

25.1.1 cancel the agreement referred to in 20 on the basis that, simultaneously with such cancellation, the trust shall sell to the participant or advance moneys to the participant to enable the participant to subscribe for the same number of scheme shares upon the following terms and conditions -

25.1.1.1 the share or subscription price of such scheme shares shall be the original allocation price in respect of the allocation shares forming the subject matter of the agreement so cancelled;

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25.1.1.2 subject to the foregoing, the provisions of this scheme relating to scheme shares shall apply, mutatis mutandis, in respect of such shares;

25.1.1.3 the original date of grant of the right and option shall, unless the board otherwise resolves, be deemed to be the acceptance date of his application for those scheme shares; or

25.1 .2 purchase all or any of such participant' s allocation shares in respect of which delivery is not competent in terms of 20.2.3 at that time on the basis that, the trustees shall, simultaneously with such purchase, grant such participant the option to acquire the same number of share options upon the following terms and conditions -

25.1.2.1 if the closing market price of a share on the JSE on the trading day immediately preceding the date of such request ("current price") exceeds the original allocation price in respect of the allocation shares forming the subject matter of such purchase, then -

25.1.2.1.1 the purchase price per allocation share payable by the trust to the participant shall be not less than the current price;

25.1.2.1.2 the price payable by the participant in consideration for the grant of such option shall be an amount equal to the current price less the original allocation price of the allocation shares forming the subject matter of such purchase;

25.1.2.1.3 the option price per option share payable by the participant shall be the original allocation price of the allocation shares forming the subject matter of such purchase;

25.1.2.1.4 the original date of grant of the right and option shall, unless the board otherwise resolves, be deemed to be the acceptance date of such share option;

25.1.2.1.5 subject to the foregoing, the provisions of this scheme relating to the share options shall apply, mutatis mutandis, in respect of such shares;

25.1.2.2 if the current price is equal to or less than the original allocation price in respect of the allocation shares forming the subject matter of such purchase -

25.1.2.2.1 - the price per allocation share payable by the trust shall be not less than the allocation price;

25.1.2.2.2 the provisions of 25.1.2.1.3, 25.1.2.1.4 and 25.1.2.1.5 shall apply, mutatis mutandis.

25.2 A participant to whom an offer has been made in terms of 25.1 may, by written notice given to the trustees within 21 days of the date of the offer, accept such offer. Such notice shall specify -

25.2.1 the name of the participant;

25.2.2 the number of allocation shares concerned;

25.2.3 the allocation price payable in respect of such allocation shares.

25.3 The trustees, on the authority of a resolution of the board, may by written notice offer to cancel a right and option granted to a participant to acquire allocation shares pursuant to 20 or 23 at any time prior to the exercise of such right and option on the basis that, simultaneously with such cancellation, the trust shall either sell to him the same number of scheme shares or grant him the same number of share options to acquire the same number of shares,

on the same bases, mutatis mutandis, set out in 25.1. A participant who accepts such offer shall do so in accordance with 25.2.

- 25.4 Any taxes and/or duties payable as a result of any transaction in terms of the provisions of this 25 shall, unless the board otherwise resolves, be borne and paid by the participant.

PART 7 - GENERAL

26 ASSIGNMENT OF RIGHTS OR OBLIGATIONS

- 26.1 Save as is provided in 26.3, it shall not be competent for any participant to cede any of his rights or delegate any of his obligations pursuant to the acquisition of share options, scheme shares, rights and options or allocation shares by him except to the trust or, in the case of the participant' s death, to such participant' s estate.
- 26.2 Save as otherwise expressly provided in this deed -
- 26.2.1 share options and rights and options may not be exercised by any person other than the participant; and
- 26.2.2 no participant may alienate or encumber any of his share options, scheme shares, rights and options or allocation shares.
- 26.3 Eligible applicants and participants shall have the following rights -
- 26.3.1 an eligible applicant may, with the prior approval of the trustees, nominate a family trust or a family company to accept an offer in terms of 10.1, 14.1, 20.1 or 20.3 on his behalf on the basis that such family trust or family company may accept all (and not part only) of the rights in relation thereto. All obligations in relation thereto shall be assumed and accepted in writing by the eligible applicant concerned, failing which acceptance of the rights by such eligible applicant' s family trust or family company shall be invalid and unenforceable;
- 26.3.2 a participant who did not avail himself of his rights in terms of 26.3.1 may, with the prior approval of the trustees, at any later date cede all (and not part only) of his rights (but not assign any of his obligations) in terms of this scheme to a family trust or a family company, in which event the provisions of 26.3.1 shall apply, mutatis mutandis.

In either event, the nominee or assignee in question shall bind itself in writing to abide by the terms of the scheme and the provisions of the scheme relating to participants shall be construed as referring to the participant and/or the family trust and/or the family company and/or all or any of them, as the context may require.

- 26.4 Notwithstanding 26.3, the trustees may permit a participant to discharge the whole or any portion of the share price, the option price or the allocation price (as the case may be) by the allotment and issue of preference shares in the share capital of a family company to the trustees, which preference shares shall be subject to such rights, privileges and conditions as may be acceptable to the trustees, in their discretion.

27 TRANSFERS FROM THE EXISTING SCHEME

All rights and obligations under the existing scheme of the Sappi Limited Share Purchase Trust, the trustees thereof, the company and participants shall be deemed to have been cancelled on the date of registration of this deed and be substituted by the respective rights and obligations of the trust, the trustees, the company and participants respectively under this deed on the basis that -

- 27.1 shares held by participants under the existing scheme shall become “scheme shares” and their indebtedness under the existing scheme shall become their “share debt”;
- 27.2 the share price of such scheme shares shall be equal to the share price payable by the participant under the existing scheme;

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- 27.3 the date on which an application to acquire shares under the existing scheme was accepted shall be deemed to be the acceptance date of such scheme shares; and
- 27.4 such cancellation and substitution of the rights of participants shall not affect any of their vested rights under the existing scheme which shall remain of force and effect.

28 CERTIFICATES

Certificates in respect of shares sold to or subscribed for by participants in terms of this scheme shall be retained by the trustees until such time as the shares are paid for and are capable of being released in terms of this scheme.

29 AGREEMENT BINDING ON PARTICIPANTS

No share options, scheme shares, rights and options or allocation shares which it is proposed will be granted, sold or issued to any participant will be granted, sold or issued otherwise than -

- 29.1 in writing; and
- 29.2 on the terms set out in this scheme and in terms of which the participant irrevocably and unconditionally undertakes to adhere to and be bound by all the terms of this scheme.

30 AMENDMENT

It shall be competent for the board and the trustees to amend any of the provisions of this scheme subject to the prior approval (if required) of the JSE and of any other competent authority; provided that -

- 30.1 no such amendment shall affect the vested rights of any participant; and

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- 30.2 no such amendment affecting any of the following matters shall be competent unless it is sanctioned by the company in general meeting -

- 30.2.1 the eligibility of participants under this scheme;

- 30.2.2 the calculation of the total number of shares which may be acquired for the purpose of or pursuant to this scheme;
- 30.2.3 the maximum number of share options, scheme shares, rights and options and allocation shares which may be acquired by any participant;
- 30.2.4 the option price;
- 30.2.5 the share price; and
- 30.2.6 the allocation price.

31 DISPUTES

31.1 Save as otherwise provided in this deed, should any dispute of whatever nature arise in regard to the interpretation or effect of, or the validity, enforceability or rectification (whether in whole or in part) of, or the respective rights or obligations of the parties under, or a breach or termination or cancellation of, this deed, then the dispute shall, unless the parties thereto otherwise agree in writing, be referred for determination to an expert ("expert") in accordance with the remaining provisions of this 31.

31.2 The expert shall -

31.2.1 if the matter in issue is primarily an accounting matter, be an independent practising chartered accountant of not less than fifteen years standing;

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31.2.2 if the matter in issue is primarily a legal matter, be a practising senior counsel of not less than five years' standing as such and practising at the Johannesburg bar;

31.2.3 if the matter in issue is any other matter, be an independent accountant or be a senior counsel as envisaged in 31.2.1 or 31.2.2 or be any other independent person,

agreed upon by the parties to the dispute or, failing agreement within fourteen days after the dispute arises, appointed by the President for the time being of the South African Institute of Chartered Accountants or his successor-in-title at the request of any party to the dispute.

31.3 The expert selected as aforesaid shall in all respects act as an expert and not as an arbitrator.

31.4 The expert shall be vested with entire discretion as to procedure to be followed in arriving at his decision. It shall not be necessary for the expert to observe or carry out either the strict rules of evidence or any other legal formalities or procedures, but the expert shall be bound to follow principles of law in deciding matters submitted to him.

31.5 The expert shall have the power, inter alia, to -

31.5.1 investigate or cause to be investigated any matter, fact or thing which he considers necessary or desirable in connection with the dispute and, for that purpose, shall have the widest powers of investigating all the books, records, documents and other things in the possession of any party to the dispute or the company or under its control, the right to inspect goods and property of the parties and the company, the right to take copies and/or make extracts there from and the right

- 31.5.2 interview and question under oath any of the parties or other parties to the dispute, including the right to cross examine such parties;
 - 31.5.3 summon witnesses;
 - 31.5.4 record evidence;
 - 31.5.5 make an interim award;
 - 31.5.6 make an award regarding legal fees/costs and the expert' s remuneration. If he fails or declines to do so, then each of the parties to the dispute shall bear and pay its own costs. Until such time as the expert' s decision is given, the parties to the dispute shall bear and pay such costs in equal shares;
 - 31.5.7 call for the assistance of any other person who he may deem necessary to assist him in arriving at his decision;
 - 31.5.8 exercise any additional powers which may be exercised by an arbitrator in terms of the Arbitration Act 1965 as amended.
- 31.6 Any hearing by the expert shall be held in Johannesburg or Sandton unless the expert determines that it is more convenient or equitable that the hearing or any part thereof (including, but without limitation, the taking of evidence) be held elsewhere, in which event the hearing (or the relevant part thereof) shall be held in the place so determined by the expert.
- 31.7 The parties shall use their best endeavours to procure that the decision of the expert shall be given within thirty days or so soon thereafter as is possible after it has been demanded.
- 31.8 The decision of the expert shall be final and binding on all parties affected thereby, shall be carried into effect and may be made an order of any competent court at the instance of any party to the dispute.

- 31.9 This clause constitutes an irrevocable consent by the company, the trustees and all participants and eligible applicants to any proceedings in terms thereof and no such party shall be entitled to withdraw there from or to claim at any such proceedings that it is not bound by this clause.
- 31.10 This clause shall not preclude any party from obtaining relief by way of motion proceedings on an urgent basis or from instituting any interdict, injunction or any similar proceedings in any court of competent jurisdiction pending the decision of the expert.
- 31.11 Subject to 31.5.8, the provisions of the Arbitration Act 1965 as amended shall not apply in respect of this clause or any other provision of this agreement.

31.12 This clause is severable from the rest of this agreement and shall remain in effect even if this deed is terminated for any reason.

33 ANNUAL FINANCIAL STATEMENTS

The board shall ensure that a summary appears in the annual financial statements of the company of the number of scheme shares, the number of share options and the number of -rights and options or allocation shares in issue or acquired, any changes in such numbers during the financial year under review, the number of shares held by the trust which may be acquired by eligible applicants and the number of shares under the control of the directors of the company for allotment or issue in terms of this scheme.

33 PROFITS AND LOSSES

The company shall bear any losses sustained, and be entitled to receive any profits made by the trust in respect of the purchase, acquisition, sale or disposal of shares.

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34 TERMINATION

The trust shall terminate as soon as there are no longer any participants who hold or have acquired scheme shares, share options, rights and options or allocation shares and the board so resolves. Upon such termination, the assets (if any) of the trust shall be realised and any surplus remaining after the discharge of the trust' s liabilities shall be paid over to the company. Any deficit arising from the winding-up of the trust shall be borne by the company.

Signed at Johannesburg on 5th March 1997

for Sappi Limited

/s/ W E Hewitt

William Edward Hewitt

who warrants that he is duly
authorized hereto

We, the undersigned, David Charles Brink and Thomas Louw De Beer do hereby accept our appointment as trustees of The Sappi Limited Share Incentive Trust.

Signed at Johannesburg on 5th March 1997

/s/ D C Brink

David Charles Brink

Signed at Johannesburg on 5th March 1997

/s/ T L de Beer

Thomas Louw De Beer

This scheme was duly adopted at a general meeting of Sappi Limited held at Johannesburg on 5 March 1997.

Signed at

Johannesburg

on

5th March 1997

/s/ E van As

Eugene van As

DEED OF AMENDMENT

to

THE SAPPI LIMITED SHARE INCENTIVE SCHEME

between

SAPPI LIMITED

and

DAVID CHARLES BRINK

and

THOMAS LOUW DE BEER

WERKSMANS

A T T O R N E Y S

Johannesburg

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DEED OF AMENDMENT

to

THE SAPPI LIMITED SHARE INCENTIVE SCHEME

("the scheme")

between

SAPPI LIMITED

(Registration No 05 /08963/06)

("the company")

of the first part

and

DAVID CHARLES BRINK

and

THOMAS LOUW DE BEER

(In their capacities as trustees of The Sappi Limited Share Incentive Trust)

(“the trustees”)

Of the second part

1 INTRODUCTION

1.1 On 5 March 1997, the trust deed (“the deed”) constituting the scheme was adopted by the company.

1.2 Clause 30 of the deed provides that it shall be competent for the board of directors of the company (“the board”) and the trustees to amend the scheme subject to the prior approval of the Johannesburg Stock Exchange (“JSE”); provided that amendments affecting certain

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matters shall not be competent unless sanctioned by the company in general meeting.

1.3 The board and the trustees have agreed to amend the deed in the manner set out below.

1.4 It is recorded that –

1.4.1 this deed of amendment does not relate to any of the matters requiring the sanction of the company in general meeting which is, accordingly, not required; and

1.4.2 this deed of amendment has, or will shortly, be approved by the JSE.

2. AMENDMENT

The deed is hereby amended by -

2.1 the deletion of the word “twenty” in clause 10.3.1 thereof and the substitution of the word “thirty” therefor;

2.2 the deletion of the number “21” in clauses 21.2, 22.2, 23.2, 24.2 and 25.2 thereof and the substitution of the number “30” therefor.

3. GENERAL

3.1 Unless the context clearly indicates a contrary intention, words and expressions in the deed shall bear the same meanings in this deed of amendment.

3.2 Save for the amendment in 2, the provisions of the deed shall remain unaltered and in full force and effect.

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3.3 If there is any conflict between the provisions of the deed and this deed of amendment the provisions of this deed of amendment shall prevail.

Signed at Johannesburg on 13th January 1998

for Sappi Limited

/s/ E van As

who warrants that he is duly
authorized hereto

Signed at Bedfordview on 7th January 1998

/s/ D C Brink

David Charles Brink

Signed at Johannesburg on 19th January 1998

/s/ T L de Beer

Thomas Louw De Beer

**WERKSMANS
ATTORNEYS**

SECOND DEED OF AMENDMENT

to

THE SAPPI LIMITED SHARE INCENTIVE SCHEME

between

SAPPI LIMITED

and

DAVID CHARLES BRINK

and

THOMAS LOUW DE BEER

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SECOND DEED OF AMENDMENT

to

**THE SAPPI LIMITED SHARE INCENTIVE SCHEME
("scheme")**

between

SAPPI LIMITED

(Registration No 05/08963/06)
("company")
of the first part

and

DAVID CHARLES BRINK

and

THOMAS LOUW DE BEER

(in their capacities as trustees of The Sappi Limited Share Incentive Trust)
("trustees")
of the second part

1 INTRODUCTION

1.1 On 5 March 1997, the trust deed ("deed") constituting the scheme was adopted by the company.

1.2 The deed was amended by way of a deed of amendment dated 19 January 1998. The deed as amended by such amendment is referred to hereinafter as the "amended deed".

1.3 Clause 30 of the amended deed provides that it shall be competent for the board of directors of the company ("board") and the trustees to amend the scheme subject to the prior approval of the Johannesburg Stock Exchange ("JSE") and of any other competent authority; provided that amendments affecting certain matters shall not be competent unless sanctioned by the company in general meeting.

1.4 The board and the trustees have agreed to amend the amended deed in the manner set out below.

1.5 It is recorded that -

1.5.1 this deed of amendment requires the sanction of the company in general meeting; and

1.5.2 this deed of amendment has, or will shortly, be approved by the JSE.

2 AMENDMENT

The amended deed is hereby amended, with effect from 3 December 1999, by the substitution of the -

2.1 word "tenth" where it appears in each of clauses 1.1.14, 11.2 and 20.2.6 thereof with the word "eighth";

2.2 word "ten" where it appears in each of clauses 1.1.15 and 20.2.4 thereof with the word "eight";

2.3 words "be a multiple of 100 not exceeding 10 000 000 shares; provided that the said number shall be increased or reduced in direct proportion to the increase or reduction in the number of ordinary shares in the company's issued share capital arising from any

conversion, redemption, consolidation, sub-division, issue for cash, vendor placing, rights or capitalisation issue of shares in the capital of the company” in clause 8.2 thereof with the words “not exceed 7,5% of the company’ s entire issued ordinary share capital from time to time”.

3 GENERAL

- 3.1 Unless the context clearly indicates a contrary intention, words and expressions in the amended deed shall bear the same meanings in this deed of amendment.
- 3.2 Save for the amendments in 2, the provisions of the amended deed shall remain unaltered and in full force and effect.
- 3.3 If there is any conflict between the provisions of the amended deed and this deed of amendment, the provisions of this deed of amendment shall prevail.

Signed at Johannesburg on 2nd March 2000

for Sappi Limited

/s/ D G Wilson

who warrants that he is duly
authorized hereto

Signed at Johannesburg on 9th March 2000

/s/ D C Brink

David Charles Brink

Signed at Johannesburg on 9th March 2000

/s/ T L de Beer

Thomas Louw De Beer

**WERKSMANS
ATTORNEYS**

THIRD DEED OF AMENDMENT TO SAPPI LIMITED SHARE INCENTIVE SCHEME

between

SAPPI LIMITED

and

DAVID CHARLES BRINK

and

MEYER FELDBERG

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THIRD DEED OF AMENDMENT TO SAPPI LIMITED SHARE INCENTIVE SCHEME

between

SAPPI LIMITED

and

DAVID CHARLES BRINK

and

MEYER FELDBERG

1 INTRODUCTION

1.1 On 5 March 1997, the trust deed (“**deed**”) constituting the scheme was adopted by the company.

- 1.2 The deed was amended by way of -
 - 1.2.1 a deed of amendment dated 19 January 1998;
 - 1.2.2 a deed of amendment dated 9 March 2000.

The deed as amended by such amendments is referred to herein as the “**amended deed**”.

- 1.3 Clause 30 of the amended deed provides that it shall be competent for the board of the directors of the company (“**board**”) and the trustees to amend the scheme subject to the prior approval of the Johannesburg Securities Exchange South Africa (“**JSE**”) and of any other competent authority; provided that the amendments affecting certain matters shall not be competent unless sanctioned by the company in general meeting.

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- 1.4 The board and the trustees have agreed to amend the amended deed in the manner set out below.
- 1.5 It is recorded that this deed of amendment has, or will shortly, be approved by the JSE and that it does not require the sanction of the company in general meeting.

2 **AMENDMENT**

The amended deed is hereby amended by -

- 2.1 the addition of the following new words after the words “mutatis mutandis” where they appear at the end of clause 14.2 –

“; provided that the 30 day period for acceptance of offers in 10.3.1 may be extended by such period as the secretary of the company may from time to time determine is practicable for administrative purposes”;
- 2.2 the addition of the following new clause 18.3 immediately after clause 18.2-

“18.3 Notwithstanding anything to the contrary contained in this deed, the board shall be entitled, in its discretion, to apply terms and conditions which are more favourable to a participant than those stipulated in 18.2.”.

3 **GENERAL**

- 3.1 Unless the context clearly indicates the contrary intention, words and expressions in the amended deed shall bear the meanings in this deed of amendment.

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- 3.2 Save for the amendments in 2, the provisions of the amended deed shall remain unaltered and in full force and effect.
- 3.3 If there is any conflict between the provisions of the amended deed in this deed of amendment, the provisions of this deed of amendment shall prevail.

Signed at Johannesburg on 26th November 2004

for Sappi Limited

/s/ J C A Leslie

who warrants that he is duly authorized hereto

Signed at Sandton on 10th December 2004

/s/ D C Brink

David Charles Brink

Signed at Johannesburg on 26th November 2004

/s/ M Feldberg

Meyer Feldberg

EURO 500,106,406 FACILITY AGREEMENT

dated May 7, 2003

among

SAPPI PAPIER HOLDING AG

as Borrower

and

SAPPI INTERNATIONAL S.A.

as Guarantor

and

BANK AUSTRIA CREDITANSTALT AG

as Mandated Lead Arranger and Agent

and

the Lenders listed in Schedule 1

(Stamp Duty exempt pursuant to Sec 33 TP 19 para 4 nr 4 Stamp Duty Act)

THIS AGREEMENT is dated May 7, 2003 and made between:

- (1) SAPPI PAPIER HOLDING AG (the "Borrower");
- (2) SAPPI INTERNATIONAL S.A. (the "Guarantor");
- (3) BANK AUSTRIA CREDITANSTALT AG (the "Mandated Lead Arranger" and "Agent"); and
- (4) the Lenders listed in Schedule 1

IT IS AGREED as follows:

PREAMBLE

Whereas the Sappi Group has acquired Potlatch Corporation's Coated Fine Paper Division for a purchase price amounting to USD 480,000,000 which was partially financed by Intercompany Financings from Sappi Papier Holding AG to Sappi Lanaken Press Paper N.V., Belgium, S.D. Warren Company, USA and Sappi UK Holdings B.V., Netherlands.

Sappi now intends to partially refinance these Intercompany Financings through the Loan provided for under this Agreement.

The Loan provided for under this Agreement will be refinanced by the Lenders from Oesterreichische Kontrollbank Aktiengesellschaft under refinancing arrangements on the basis of guarantees by "aval" for the Borrower as acceptor of bills of exchange under sec 2 of the Export Guarantees Act 1981 ("Ausfuhrförderungsgesetz 1981"). For this reason this Agreement is stamp duty exempt pursuant to sec 33 TP 19 para 4 nr 4 of the Austrian Stamp Duty Act.

SECTION 1 INTERPRETATION

1. Definitions and Interpretation

1.1. Definitions

"Affiliate" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"Agreement" means this Facility Agreement.

"Amount" means, in relation to the Loan, the amount specified in the Drawdown Request delivered by the Borrower for that Loan adjusted to reflect any repayment, prepayment or cancellation of the Loan as the case may be.

"Annual Compliance Certificate" means a Compliance Certificate in respect of the last Quarter of any financial year of the Borrower.

"Applicable Facility Fee" means the fee specified in Schedule 10 (Applicable Facility Fee).

"Authorisation" means an authorisation, consent, approval, resolution, licence, exemption, filing or registration.

"Available Facility" means the aggregate of the Lenders' Available Facility Commitments.

"Available Facility Commitment" means, with respect to a Lender, such Lender's Commitment minus:

- (a) the amount of its participation in any outstanding Loans
- (b) in relation to any proposed Drawdown, the amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date.

"Availability Period" means the period from and including the date of this Agreement to and including July 31, 2003.

"Break Costs" means (i) as long as the Facility is refinanced by OeKB, the amount (if any) determined by OeKB as cost associated with placing the prepaid principal amount otherwise for the respective duration

(such cost will be calculated by OeKB as the present value of the difference between the interest OeKB would have received had the principal amount not been prepaid and the interest OeKB is able to obtain by placing an amount equal to the prepaid principal amount at the respective money market interest rates or capital market interest rates prevailing at the time of the notice of the prepayment for the respective duration which interest rate shall also be used as discount rate for the calculation of present value of such difference) and (ii) if at any time any outstanding portion of the Facility is no longer refinanced by OeKB, the amount by which interest which a Lender would have received for the period from the date of receipt of the prepaid principal amount to the last day of the current Interest Period, had the principal received been paid on the last day of that Interest Period exceeds the interest which that Lender would be able to obtain by placing an amount equal to the prepaid principal amount received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for general business in Vienna and which is a TARGET Day.

"Commitment" means

(a) in relation to an Original Lender, the aggregate amount set opposite its name under the headings "Tranche A Commitment" and "Tranche B Commitment" in Schedule 1 (The Original Lenders) and the amount of any other commitment transferred to it under this Agreement; and

(b) in relation to any other Lender, the amount of any commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a Certificate substantially in the form set out in Schedule 6 (Form of Compliance Certificate).

"Default" means any event or circumstance specified in Clause 24 (Events of Default) which would (with the expiry of a grace period, the lapse of time, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"Disposal" means a sale, transfer or other disposal (including by way of lease or loan) by a person of all or part of its assets, whether by one transaction or a series of transactions.

"Drawdown" means the drawdown under the Facility.

"Drawdown Date" means the date of the Drawdown, being the date on which a Loan is to be made.

"Drawdown Request" means a notice substantially in the form set out in Schedule 3 (Requests).

"Environmental Claim" means any claim, proceeding or investigation by or a payment obligation to, a person in respect of any Environmental Law.

"Environmental Law" means any applicable law in any jurisdiction in which any Group Company conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"EURIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the period of the Loan) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request quoted by the Reference Banks to leading banks in the European interbank market for the offering of deposits in Euro for a period comparable to the Interest Period of the Loan to be determined at 11.00 a.m. London time two TARGET Days before the first day of any period for which an interest rate is to be determined.

"Event of Default" means any event or circumstance specified as such in Clause 24 (Events of Default).

"Facility" means the loan facility made available under this Agreement as described in Clause 2.1 (The Facility).

"Facility Outstandings" means the aggregate of the Amount from time to time of the Loan.

"Facility Office" means the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days' written notice) as the office or offices through which it will perform its obligations under this Agreement.

"Finance Document" means this Agreement, the SISA Guarantee and any Mandate Letter.

"Finance Party" means the Agent, the Mandated Lead Arranger or a Lender.

"Financial Indebtedness" means (without double counting) any indebtedness for or in respect of

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock, participation rights ("Genussrechte" under Austrian law) or any similar instrument;
- (d) the amount of any liability in respect of any hire purchase agreement, conditional sale agreement or lease which would, in accordance with generally accepted accounting standards in the relevant jurisdiction be treated as a finance or capital lease;
- (e) any guarantee, bond, stand-by letter of credit or other similar instrument;
- (f) any interest rate or currency swap agreement or any other hedging or derivatives instrument or agreement (valued at risk as certified by the Group's auditors);
- (g) any arrangement entered into primarily as a method of raising finance pursuant to which any asset sold or otherwise disposed of by that person is or may be leased to or reacquired by a Group Company (whether following the exercise of an option or otherwise); or
- (h) any guarantee, indemnity or similar insurance against financial loss given in respect of the obligation of any person falling within any of paragraphs (a) to (g) above,

except that indebtedness owing by one Group Company to another Group Company shall not be taken into account as Financial Indebtedness.

"Group" means each Obligor and their respective Subsidiaries for the time being and **"Group Company"** means any one of the same.

"Holding Company" means, in relation to a company or corporation, any other company or corporation in respect of which such other company or corporation is a Subsidiary.

"IAS" means the international accounting principles formulated by the International Accounting Standards Committee.

"Initial Financial Statements" means the audited consolidations of the financial statements of the Obligors and their respective subsidiaries and the audited unconsolidated financial statements of the Obligors (if required to be produced by law) for the financial year ended September 30, 2002, prepared in accordance with IAS.

"Intercompany Financings" means the financings from Sappi Papier Holding AG, Austria to Sappi Lanaken Press Paper N.V., Belgium, of Euro 228,600,000, S.D. Warren Company, USA of USD 130,000,000 and Sappi UK Holdings BV, Netherlands of Euro 133,179,102 for the purpose of the acquisition of Potlatch Corporation's Coated Fine Paper Division for USD 480,000,000.

"Interest Period" means each period determined in accordance with Clause 12 (Interest Periods and Terms) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 11.5 (Default Interest).

"Lender" means:

(a) any Original Lender; and

- (b) any bank or financial institution which has become a Party as a Lender in accordance with Clause 25 (Changes to the Lenders), which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

"Loan" means a loan made or to be made under the Facility or the principal Amount outstanding for the time being of that loan.

"Majority Lenders" means:

- (a) as long as there are no Facility Outstandings, a Lender or Lenders whose Commitments are in aggregate 66 (sixtysix) or more per cent of the Total Commitments;
- (b) at any other time, a Lender or Lenders whose participations in the Facility Outstandings at such time are in the aggregate 66 (sixtysix) or more per cent thereof, and
- (c) for the purpose of para 10.7. of section 4 regulating a mandatory prepayment in case of breach of certain ratios, a Lender or Lenders whose participations in the Facility Outstandings at such time are in the aggregate 50 (fifty) or more per cent thereof.

"Mandate Letter" means the letter dated April 4, 2003 addressed by the Mandated Lead Arranger to the Borrower and any other fee letter or letters dated on or about the date of this Agreement between the Agent and the Borrower setting out any of the fees referred to in Clause 14 (Fees).

"Mandatory Cost" means the percentage rate per annum calculated by the Agent in accordance with Schedule 4 (Mandatory Cost Formulae).

"Material Adverse Effect" means a material adverse effect in the reasonable opinion of the Majority Lenders on the ability of the Obligors (taken together) to perform their payment obligations under the Finance Documents or the ability of the Borrower to comply with the financial undertakings set out in Clause 23.1 (Financial Covenants).

"Material Subsidiary" means, at any time, a subsidiary of an Obligor which has:

- (a) earnings before interest and tax representing 10 per cent or more of the consolidated earnings before interest and tax of the Group (the "Consolidated Earnings"); or
- (b) total assets representing 10 per cent or more of the consolidated total assets of the Group (the "Consolidated Assets"); and
- (c) in the event that those Group Companies falling within (a) and (b) above when taken together with the Obligors do not account for at least 90 per cent of the Consolidated Earnings and at least 90 per cent of the Consolidated Assets, such other Group Companies as are necessary to ensure that the Material Subsidiaries when taken together with the Obligors account for at least 90 per cent of the Consolidated Earnings and at least 90 per cent of the Consolidated Assets (with Group Companies being included as Material Subsidiaries in the order in which their earnings before interest and tax and/or gross assets are closest to 10 per cent of the Consolidated Earnings or, as the case may be, the Consolidated Assets),

in each case as set out, until the first Annual Compliance Certificate is delivered, in the list provided to the Agent pursuant to Schedule 12 (Material Subsidiaries) and thereafter in the most recent Annual Compliance Certificate (for the avoidance of doubt, calculated by reference to the latest annual consolidated financial statements of the Group delivered by the Borrower to the Agent pursuant to Clause 21.1 (Financial Statements)) and as updated from time to time by a Material Subsidiary Update Certificate.

"Material Subsidiary Update Certificate" means a certificate delivered pursuant to Clause 21.12 (Change in Material Subsidiaries).

"New Lender" means a credit institution within the meaning of the Austrian Stamp Duty Act to which the rights and/or obligations are assigned/transferred in accordance with Clause 25.1 (Assignment and transfer by the Lenders).

"Obligors" means the Borrower and the Guarantor.

"OeKB" means Oesterreichische Kontrollbank Aktiengesellschaft, Am Hof 4, 1010 Vienna, Austria.

"OeKB Financing Rates" means the OeKB Fixed Financing Rate and the OeKB Floating Financing Rate.

"OeKB Fixed Financing Rate" means an interest rate of 3.60 per cent per annum as stipulated by OeKB for Tranche B of this specific transaction.

"OeKB Floating Financing Rate" means the floating interest rate of the export financing scheme operated by OeKB for export contracts ("Rahmen I Finanzierung") as published by OeKB on its Website (www.oekb.at) from time to time. At the time of entering into this Agreement, the OeKB Floating Financing Rate is 3.80 per cent per annum.

"OeKB Refinancing" means the refinancing of the Facility by OeKB pursuant to various agreements among OeKB and each of the Lenders.

"Original Lender" means each lender identified in Schedule 1 (The Original Lenders).

"Paper Business" means, any one or more of the following businesses:

- (a) the production, manufacture, distribution, supply, sale, purchase and trading in respect of paper (including but not limited to fine paper, coated and uncoated woodfree paper, packaging paper, publication paper and newsprint);
- (b) pulp (including all chemical or other manufacturing processes relating to pulp); and
- (c) wood products (including all initial processes, manufacturing or otherwise relating to paper, pulp and paper pulp), the growing of timber supplies

and any other businesses related or ancillary to any of the foregoing.

"Participating Member State" means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to European Monetary Union.

"Party" means a party to this Agreement and includes its successors in title, permitted assignees and permitted transferees.

"Potlatch Acquisition" means the acquisition by the Sappi Group of Potlatch Corporation's coated Fine Paper Division.

"Qualifying Lender" has the meaning given to it in Clause 15 (Tax Gross Up and Indemnities).

"Quarter" means each period of three months ending on a Quarter Date.

"Quarter Date" means the Borrower's quarterly accounting date (which is usually the last Sunday of the month) of any March, June, September or December.

"Reference Banks" means the principal London offices of Citibank N.A. and J.P. Morgan and the principal Munich office of Bayerische Hypo- und Vereinsbank AG or such other banks as may be appointed by the Agent after consultation with the Borrower.

"Relevant Interbank Market" means the European interbank market.

"Reservations" means the principle that equitable remedies are remedies which may be granted or refused at the discretion of the court, the limitation of enforcement by laws relating to bankruptcy, insolvency, liquidation, reorganisation, moratoria, administration and other laws generally affecting the rights of creditors, defences of set-off or counterclaim and similar principles, rights and defences under the laws of any foreign jurisdictions in which relevant obligations may have to be performed, and any qualifications relating to matters of law contained in or referred to in the legal opinions to be delivered to the Agent pursuant to paragraph 2 of Schedule 2 (Conditions Precedent).

"Sappi" means Sappi Limited, a company incorporated in the Republic of South Africa with registered number 1936/008963/06.

"Sappi Group" means Sappi and any Subsidiary of Sappi.

"Sappi Group Company" means Sappi and any Subsidiary of Sappi other than a Group Company.

"Screen Rate" means, in relation to "EURIBOR", the percentage rate per annum determined by the Banking Federation of the European Union for the relevant period, displayed on the appropriate page of the Reuters "EURIBOR" screen. If the agreed page is replaced or service ceases to be available, the Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

"SD Warren Group" means SDW Holdings Corporation, a Delaware corporation with its business address at 225 Franklin Street, Boston, MA 02110, USA, and its Subsidiaries.

"Security" means a mortgage, charge, pledge, lien, right of set-off, retention of title provision, or any other security interest securing any obligation of any person or any other agreement or arrangement having the effect of giving security or preferential ranking to a creditor.

"SISA Guarantee" means the guarantee dated on or about the date of this Agreement granted by the Guarantor in favour of the Agent for and on behalf of the Finance Parties substantially in the form set forth in Schedule 11.

"Specified Time" means 10 Business Days prior to the proposed Drawdown Date at 10.00 am Central European Time.

"Subsidiary" means in relation to any company or corporation, a company or corporation:

- (a) which is controlled, directly or indirectly, by the first mentioned company or corporation;
- (b) more than half of the issued share capital of which is owned, directly or indirectly, by the first mentioned company or corporation; or
- (c) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation,

and for this purpose, a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body.

"TARGET" means Trans-European Automated Real-time Gross Settlement Express Transfer payment system.

"TARGET Day" means any day on which TARGET is open for the settlement of payments in euro.

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"Total Commitments" means the aggregate of the Commitments, being Euro 500,106,406 at the date of this Agreement.

"Transfer Certificate" means a Certificate substantially in the form set out in Schedule 5 (Form of Transfer Certificate) or any other form agreed between the Agent and the Borrower.

"Tranche A" means the floating rate portion of the Facility amounting to 20 per cent thereof.

"Tranche A Loan" means a Loan made under Tranche A.

"Tranche A Outstandings" means the aggregate of all Loans outstanding under Tranche A.

"Tranche B" means the fixed rate portion of the Facility amounting to 80 per cent thereof.

"Tranche B Loan" means a Loan made under Tranche B.

"Tranche B Outstandings" means the aggregate of all Loans outstanding under Tranche B.

"Transfer Date" means, in relation to a transfer, the later of

- (a) the proposed transfer date specified in the Transfer Certificate; and
- (b) the date on which the Agent executes the Transfer Certificate.

"Unpaid Sum" means any sum due and payable but unpaid by an Obligor under the Finance Documents.

"VAT" means value added tax as provided for in the Value Added Tax Act ("Umsatzsteuergesetz") 1994 as amended and any other tax of a similar nature.

1.2. Constructions

(a) Any reference in this Agreement to:

- (i) **"assets"** includes present and future properties, revenues and rights of every description;
- (ii) the **"European interbank market"** means the interbank market for Euro operating in Participating Member States;
- (iii) a **"Finance Document"** or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended or novated;
- (iv) **"indebtedness"** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (v) a Lender's **"participation"**, in relation to a Loan, means the amount of such Loan that is owed to such Lender or, as the case may be, the amount of such Loan that such Lender is obliged to make available; and
- (vi) a **"person"** includes any person, firm, company, corporation, government, state or agency of a state or any association, trust or partnership (whether or not having separate legal personality) or two or more of the foregoing;
- (vii) a **"regulation"** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, in so far as the same applies to a class of financial institutions of which a Lender is one, if not having the force of law, being a regulation or the like with which such financial institutions customarily comply in the ordinary course of their business) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (viii) a provision of law is a reference to that provision as amended or re-enacted; and
- (ix) unless a contrary indication appears, a time of day is a reference to Vienna time.

(b) Where there is reference in this Agreement to any amount, limit or threshold specified in Euro, in ascertaining whether or not that amount, limit or threshold has been attained, broken or achieved, as the case may be, a non-euro amount shall be counted on the basis of the equivalent in Euro of that amount using the Agent's spot rate of exchange.

- (c) Section, Clause and Schedule headings are for ease of reference only.
- (d) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (e) A Default is **"continuing"** if it has not been remedied or waived.

1.3. Currency symbols and definitions

"EUR" and "Euro" means the single currency unit of the Participating Member States.

SECTION 2 THE FACILITY

2. The Facility

2.1. The Facility

Subject to the terms of this Agreement, the Lenders make available to the Borrower a loan facility in a maximum aggregate amount of Euro 500,106,406 in two tranches as follows:

(a) Tranche A: Euro 100,021,281.20

(b) Tranche B: Euro 400,085,124.80

2.2. Finance Parties' rights and obligations

- (a) The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (b) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from an Obligor shall be a separate and independent debt.
- (c) A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

3. Purpose

3.1. Purpose

The Borrower shall apply all amounts borrowed by it under the Facility for the refinancing of the Intercompany Financings only.

3.2. Monitoring

The Agent is entitled but not bound to monitor the application of the proceeds under the Loans borrowed pursuant to this Agreement. The Borrower will provide all necessary information to the Agent upon request to verify the application of the proceeds.

4. Conditions of Drawdown

4.1. Initial conditions precedent

The Borrower may not deliver the Drawdown Request unless the Agent has received all of the documents and other evidence listed in Schedule 2 (Conditions Precedent) in form and substance satisfactory to the Agent. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.

4.2. Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.4 (Lenders' participation) if on the date of the Drawdown Request and on the proposed Drawdown Date:

- (i) no Default is continuing or would result from the proposed Loan, as the case may be; and
- (ii) all representations to be made by each Obligor under the Finance Documents are true in all respects.

4.3. (Intentionally omitted)

4.4. Number of Drawdowns

The Facility shall be drawn in 1 (one) Drawdown.

SECTION 3 DRAWDOWN

5. Drawdown

5.1. Delivery of Drawdown Request

The Borrower may draw under the Facility by delivery to the Agent of the duly completed Drawdown Request not later than at the Specified Time.

5.2. Completion of Drawdown Request

The Drawdown Request is irrevocable and will not be regarded as having been duly completed unless

- (i) the proposed Drawdown Date is a Business Day within the Availability Period; and
- (ii) the currency and amount of the Drawdown comply to Clause 5.3 (Currency and amount).

5.3. Currency and amount

- (a) The currency specified in the Drawdown Request must be Euro.
- (b) The amount of the proposed Drawdown must not exceed the Available Facility.

5.4. Lenders' participation

- (a) If the conditions set out in this Agreement have been met, each Lender shall make its participation in the Loan available through its Facility Office.
- (b) The amount of each Lender's participation in the Loan will be equal to the proportion of its Commitment immediately prior to making of the Loan.

5.5. Notification

The Agent shall (i) notify each Lender of the Amount of the Loan seven Business Days prior to the Drawdown Date and (ii) confirm that he has received all documents listed in Schedule 2 (Conditions Precedent) to this Agreement.

6. Splitting of Loan

The Amounts specified in the Drawdown Request shall be divided into and paid as (i) one Tranche A Loan and (ii) one Tranche B Loan in a way that the Tranche A Loan is equal to 20 per cent and the Tranche B Loan is equal to 80 per cent of such amount.

7. (intentionally omitted)

SECTION 4 REPAYMENT, PREPAYMENT AND CANCELLATION

8. Repayment

- (a) The Borrower shall repay the Tranche A Outstandings on the last Business Day of the calendar year 2004.
- (b) The Borrower shall repay the Tranche B Outstandings on the last Business Day of the calendar year 2010.

9. (intentionally omitted)

10. Prepayment and cancellation

10.1. Illegality, termination of OeKB Refinancing

If, at any time after the date of this Agreement, it becomes unlawful in any jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund its participation in any Loan or the OeKB Refinancing is terminated and such termination is not attributable to the respective Lender:

- (i) that Lender shall promptly notify the Agent upon becoming aware of that event;
- (ii) upon the Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- (iii) if the relevant Lender so requires, the Borrower shall repay that Lender's participation in the Loans on the last day of the Interest Period for each Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law).

10.2. Change of control

- (a) For the purposes of this Clause 10.2, "associated person" means, in relation to any person, a person within the meaning of Sec 23 of the Austrian Takeover Code in connection with Sec 9 of the first regulation to the Takeover Code.
- (b) If, on any date, without the prior written consent of the Majority Lenders (such consent not to be unreasonably withheld or delayed) a person (whether alone or together with any associated person) becomes the owner of shares in the issued share capital of Sappi carrying the right to exercise, or control the exercise of, more than 35 per cent of the maximum number of votes exercisable at a general meeting of Sappi then, on the date (a "Prepayment Date") falling 90 days after such date:
 - (i) the Borrower shall prepay the Loan; and

- (ii) the Lenders' obligations under the Agreement shall be terminated and the Total Commitments reduced to zero.

10.3. Intercompany Financings

If the aggregate outstanding amount of the Intercompany Financings is lower than the outstanding Loans under the Facility, the Borrower shall prepay the difference amount (such difference amount to be calculated as the difference between the aggregate of the Tranche A Outstandings and the Tranche B Outstandings under the Facility and all outstanding amounts under the Intercompany Financings). The Borrower shall notify to the Agent at each Quarter Date the amount, if any, of such difference and shall make, upon request of the Agent, the prepayment on the date (a "Prepayment Date") falling 30 Business Days after such request. The Agent may also demand payment of such difference amount determined on the basis of the financial statements to be provided in accordance with Clause 21.1.

10.4. Voluntary cancellation

- (a) During the Availability Period, the Borrower may, if it gives the Agent not less than 3 Business Days (or such shorter period as the Majority Lenders may agree) prior notice, cancel the whole or any part (being a minimum amount of Euro 50,000,000 and in integral multiples of Euro 10,000,000) of the Available Facility.

- (b) Any amounts that have not been drawn at the end of the Availability Period are deemed to be cancelled.

10.5. Voluntary prepayment of the Loan

The Borrower may, if it gives the Agent not less than 30 Business Days prior notice, prepay the whole or any part of the Loan (but if in part, being an amount that reduces the Loan by a minimum amount of Euro 10,000,000 unless the outstanding amount is less).

10.6. Right of repayment and cancellation in relation to a single Lender

(a) If

- (i) any sum payable to any Lender by an Obligor is required to be increased under paragraph (c) of Clause 15.2 (Tax gross-up); or
- (ii) any Lender claims indemnification from the Borrower under Clause 15.3 (Tax indemnity) or Clause 16.1 (Increased costs),

the Borrower may, whilst the circumstance giving rise to the requirement or indemnification continues, give the Agent notice of cancellation of the Commitment of that Lender and its intention to procure the repayment of that Lenders' participation in the Loans.

- (b) On receipt of a notice referred to in paragraph (a) above, the Commitment of that Lender shall immediately be reduced to zero.
- (c) On the last day of each Interest Period in respect of a Loan outstanding under the Facility in respect of which the Borrower has given notice under paragraph (a) above (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in that Loan.

10.7. Mandatory Prepayments in case of breach of certain ratios

- (a) In the event that the average of the ratios (calculated on basis of the audited consolidated annual statements of the Group as of September 30, 2005 and as of September 30, 2006) of Net Debt (as defined in Clause 23.2. hereof) to EBITDA of the Group ("the Net Debt: EBITDA Ratio") exceeds 3.0:1, the Borrower shall prepay the Facility Outstandings in full on the last Business Day of the calendar year 2007.
- (b) If the Net Debt:EBITDA Ratio exceeds 3.0:1 due to the inclusion in the calculation of Net Debt of any indebtedness incurred only as consequence of a Securitisation Event, the expression "exceeds 3.0:1" in sub-clause (a) above shall be read as "exceeds 3.5:1".

A "Securitisation Event" means, in relation to the receivables securitisation programme of the Group not exceeding the total sum of facilities of EUR 240 million and USD 205 million as stated in the note 30 ("Financial Instruments"), subparagraph 5 ("asset backed securitisation") to the consolidated financial statements of the Group as of September 2002, or its countervalue in other currencies,

- (i) the termination of such securitisation programme due to a downgrading of a bank providing standby facilities to the receivables purchasing entity, or
 - (ii) a change in IAS rules in the years 2005 or 2006 which leads to an inclusion of receivables previously sold in the balance sheets of the Group.
- (c) If, however, upon the breach of the above mentioned ratios the Majority Lenders decide to nevertheless continue the Loan, the Borrower shall be obliged to prepay only the Facility Outstandings relating to those Lenders that did not vote in favour of continuing the Loan. The Arranger shall notify the Borrower of the decision of the Majority Lenders, outlining which Lenders did not vote in favour of the continuation, within two months from submission of the audited financial statements of the Group for the financial year 2006. The decision of the Majority Lenders shall be without prejudice to a decision of the Lenders about the continuation of the Loan in case of subsequent breaches of the ratios.

10.8. Prepayments and cancellation

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 10 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Unless otherwise provided for under this Agreement, any prepayment under this Agreement shall be made at the end of an Interest Period together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) Any prepayment under this Agreement shall be applied in inverse order of maturity (firstly to be appropriated to the Tranche B Loan until no further amount remains outstanding thereunder, thereafter to the Tranche A Loan).
- (d) The Borrower may not reborrow any part of the Facility which is prepaid.
- (e) The Borrower shall not repay or prepay all or any part of the Loans or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (f) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (g) If the Agent receives a notice under this Clause 10, it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.

SECTION 5 COSTS OF DRAWING

11. Interest

11.1. Tranche A interest rate

The rate of interest for the Tranche A Outstandings for each Interest Period is calculated as a floating rate interest. The percentage rate per annum is the aggregate of

- (i) the applicable OeKB Floating Financing Rate;
- (ii) the Applicable Facility Fee; and
- (iii) Mandatory Costs, if any.

11.2. Tranche B interest rate

The rate of the interest for the Tranche B Outstandings for each Interest Period is a fixed interest rate. The percentage rate per annum is the aggregate of

- (i) the OeKB Fixed Financing Rate;
- (ii) the Applicable Facility Fee; and
- (iii) Mandatory Cost, if any.

11.3. Calculation of interest

Interest will be calculated on the Facility Outstandings from time to time on the basis of the actual number of days elapsed in a year of 360 days.

11.4. Payment of interest

Subject to clause 12.2. below, on the last Business Day of each Interest Period the Borrower shall pay accrued interest on the Loan to which that Interest Period relates.

11.5. Default interest

- (a) If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, it shall pay default interest as follows:

Default interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate 2.00 per cent above the interest rate which is determined pursuant to Clause 11.1 or 11.2, but subject to the following:

- (i) if the OeKB Refinancing is extended at an interest rate not higher than the OeKB Floating Financing Rate prevailing from time to time, such interest rate shall replace the OeKB Financing Rates for Tranches A and B for the purpose of calculating the default interest; or
 - (ii) in any other case, the EURIBOR for the relevant Interest Period as specified by the Agent plus 0.5 per cent per annum shall replace the OeKB Financing Rates for the purpose of calculating the default interest.
- (b) Any interest accruing under this Clause 11.5 shall be immediately payable by the Borrower on demand by the Agent. Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount, but will remain immediately due and payable.

11.6.Notification of rates of interest

The Agent shall promptly notify the Borrower and the Lenders of a determination of a rate of interest under this Agreement.

12. Interest period

12.1. Interest Period

Each Interest Period relating to a Loan shall be of three months and shall coincide with calendar quarters, the first Interest Period however being from the date of Drawdown up to the end of the then current calendar quarter.

12.2. Non-Business Days

If an Interest Period ends on a day which is not a Business Day, the calculation of the interest shall be made for the respective Interest Period including such day. In such case payment shall be made on the next Business Day.

13. Break Costs

13.1. Break Costs

- (a) The Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs.

14. Fees

14.1. Commitment fee

- (a) The Borrower shall pay to the Agent (for the account of each Lender) a fee computed at the rate of 0.25 per cent per annum on the Available Commitment for the Availability Period.
- (b) The accrued commitment fee will be calculated on the daily undrawn and uncanceled amount of the Available Commitment during the Availability Period on the basis of the actual number of days elapsed in a year of 360 days. The accrued commitment fee is payable on the last Business Day of each calendar quarter.

14.2. OeKB Administration Fee

The Borrower shall pay directly to OeKB the OeKB Administration Fee ("Wechselbürgschaftsentgelt") in the manner prescribed by OeKB, which is, for information purposes, currently as described below.

The OeKB Administration Fee is at a rate of 0.05% per quarter. It accrues quarterly and will be calculated in advance based on the Facility Outstandings ("Finanzierungsbedarf") at the beginning of each calendar quarter.

The OeKB Administration Fee falls due for payment as from the date of the guarantee by "aval" on bills of exchange ("Wechselbürgschaft") of the Republic of Austria and subsequently for each commenced calendar quarter. The OeKB Administration Fee is payable upon receipt of the debit orders from OeKB through direct debit to the Borrower's current account.

Contrary to the above, in the first relevant calendar quarter, the OeKB Administration Fee will fall due on the date of the issuance of the guarantee by "aval" and will be calculated proportionally on a daily basis and on the basis of the Loan to be made during such calendar quarter.

14.3.Arrangement fee

The Borrower shall pay to the Mandated Lead Arranger an arrangement fee in the amount and at the times as agreed in the Mandate Letter.

14.4.Agency Fees

The Borrower shall pay to the Agent (for its own account) an agency fee in the amount and at the times agreed in the Mandate Letter.

SECTION 6 ADDITIONAL PAYMENT OBLIGATIONS

15. Tax gross up and indemnities

15.1. Definitions

In this Clause 15:

"Protected Party" means a Finance Party which is or will be, for or on account of Tax, subject to any liability or required to make any payment in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

"Qualifying Lender" means a Lender which is (on the date a payment falls due) entitled (subject to the completion of any necessary procedural formalities) to that payment without a Tax Deduction.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

"Tax Payment" means an increased payment made by an Obligor to a Finance Party under Clause 15.2 (Tax gross-up) or a payment under Clause 15.3 (Tax indemnity).

15.2. Tax gross-up

- (a) Each Obligor shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- (b) An Obligor or a Lender shall promptly upon becoming aware that an Obligor must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. If the Agent receives such notification from a Lender it shall notify the relevant Obligor.
- (c) If a Tax Deduction is required by law to be made by an Obligor in one of the circumstances set out in paragraph (d) below, the amount of the payment due from that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) The circumstances referred to in paragraph (c) above are where a person entitled to receive the payment:
 - (i) is the Agent (on its own behalf and, in the case of payments made under the SISA Guarantee, acting in its capacity as trustee for the Finance Parties) or the Mandated Lead Arranger (on its own behalf); or
 - (ii) is a Lender which is a Qualifying Lender in respect of which the completion of procedural formalities is required before the relevant Obligor can make payments thereto without a Tax Deduction but such procedural formalities

have not been completed; or

- (iii) is a Lender which would have been a Qualifying Lender but for any change after the date of this Agreement in (or in the interpretation, administration, or application of) any law or double taxation agreement or any published practice or published concession of any relevant taxing authority.
- (e) If an Obligor is required to make a Tax Deduction, that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (f) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Obligor making that Tax Deduction shall deliver to the Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- (g) A Qualifying Lender and each Obligor which makes a payment to which that Qualifying Lender is entitled shall co-operate in completing any procedural formalities necessary for that Obligor to obtain authorisation to make that payment without a Tax Deduction.

15.3.Tax indemnity

- (a)** Subject to Clause 15.5 (Stamp Taxes), the Borrower shall (within five Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party reasonably determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party.
- (b)** Paragraph (a) above shall not apply with respect to any Tax assessed on a Finance Party:
 - (i)** under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (ii)** under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party.
- (c)** A Protected Party making, or intending to make a claim pursuant to paragraph (a) above shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Borrower.
- (d)** A Protected Party shall, on receiving a payment from an Obligor under this Clause 15.3, notify the Agent.

15.4.Tax credit

If an Obligor makes a Tax Payment and the relevant Finance Party determines that:

- (a)** a Tax Credit is attributable to that Tax Payment; and
- (b)** that Finance Party has obtained, utilised and retained that Tax Credit, on a consolidated group basis,

the Finance Party shall pay an amount to the Obligor which that Finance Party determines in its absolute discretion will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Obligor.

15.5.Stamp taxes

The Borrower shall pay and, within five Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document or other document which relates to any Finance Document.

15.6.Value added tax

- (a) All consideration payable under a Finance Document by an Obligor to a Finance Party shall be deemed to be exclusive of any VAT. If VAT is chargeable, the Obligor shall pay to the Finance Party (in addition to and at the same time as paying the consideration) an amount equal to the amount of the VAT.
- (b) Where a Finance Document requires an Obligor to reimburse a Finance Party for any costs or expenses, that Obligor shall also at the same time pay and indemnify that Finance Party against all VAT incurred by that Finance Party in respect of the costs or expenses save to the extent that that Finance Party is entitled to repayment or credit in respect of the VAT.

15.7 Filings

In circumstances where an Obligor is required (or would in the absence of any such filing be required) to make a deduction or withholding for or on account of Taxes or any other deduction contemplated by this Clause 15, such Obligor and each relevant Finance Party shall make reasonable endeavours to file such forms and documents as the appropriate taxation authority may reasonably require in order to enable such Obligor to make relevant payments under the Finance Documents without having to make such deduction or withholding.

15.8.Exemptions from gross up

Notwithstanding anything contained in this Clause 15 (Tax gross up and indemnities), no additional amount will be payable to a Lender under Clause 15.2 (Tax gross up) in respect of Taxes to the extent that such additional amount would not be payable if that Lender had complied with its obligations under Clause 15.7 (Filings) (unless such failure to comply resulted from a failure by any Obligor to comply with its obligations there under).

16. Increased costs

16.1.Increased costs

(a) Subject to Clause 16.3 (Exceptions) the Borrower shall, within three Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation or application of) any law or regulation occurring after the date of this Agreement or (ii) compliance with any law or regulation made after the date of this Agreement.

(b) In this Agreement "Increased Costs" means:

- (i) a reduction in the rate of return from the Facility or on a Finance Party's (or its Affiliate's) overall capital attributable to making or maintaining a Loan or Commitment hereunder;
- (ii) additional or increased cost resulting from a change of law, regulation, minimum reserve requirements or similar reasons; or

(iii) a reduction of any amount due and payable under any Finance Document

other than, in each case, any payment on account of Tax imposed on the overall net income of the relevant Finance Party which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document. For the avoidance of doubt, any costs paid to the Lenders as Mandatory Costs shall not be deemed to be Increased Costs.

16.2.Increased cost claims

- (a) A Finance Party intending to make a claim pursuant to Clause 16.1 (Increased costs) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.
- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

16.3.Exceptions

- (a) Clause 16.1 (Increased costs) does not apply to the extent any Increased Cost is:
- (i) attributable to a Tax Deduction required by law to be made by an Obligor;
 - (ii) attributable to any cost, increased cost, liability or reduction resulting from any change in the rate of taxation on the overall net income or gross turnover of a Lender imposed in the jurisdiction in which the principal office of the relevant Lender is located or the overall net income or gross turnover of the Facility Office of the relevant Lender imposed in the jurisdiction in which such Facility Office is located;
 - (iii) compensated for by Clause 15.3 (Tax indemnity) (or would have been compensated for under Clause 15.3 (Tax indemnity) but was not so compensated solely because one of the exclusions in paragraph (b) of Clause 15.3 (Tax indemnity) applied);
 - (iv) compensated for by the payment of the Mandatory Cost; or
 - (v) attributable to the breach by the relevant Finance Party or its Affiliates of any law or regulation or failure to comply with any request from or requirement of any central bank or other fiscal, monetary or other authority (whether or not having the force of law).

- (b) In this Clause 16.3, a reference to a "Tax Deduction" has the same meaning given to the term in Clause 15.1 (Definitions).

17. Other indemnities

17.1. Currency indemnities

- (a) If any sum due from an Obligor under the Finance Documents (a "Sum"), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the "First Currency") in which that Sum is payable into another currency (the "Second Currency") for the purpose of
- (i) making or filing a claim or proof against that Obligor;
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,
- that Obligor shall as an independent obligation, within five Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (b) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

17.2. Other indemnities

Each Obligor shall, within five Business Days of demand, indemnify each Lender against any cost, loss or liability incurred by that Lender as a result of

- (a) the occurrence of any Event of Default;
- (b) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 30 (Sharing Among the Lenders);
- (c) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in the Drawdown Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Lender alone);
- (d) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

17.3. Indemnity of the Agent

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of

- (a) investigating any event which it reasonably believes is a Default; or
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised, provided that such notice, request or instruction is given in accordance with this Agreement.

18. Mitigation by the Lender

18.1. Mitigation

- (a) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under, or cancelled pursuant to, any of Clause 10.1 (Illegality, termination of OeKB-refinancing), Clause 15 (Tax gross up and indemnities) or Clause 16 (Increased costs) including (but not limited to) transferring its

rights and obligations under the Finance Documents to another Affiliate or Facility Office or any other financial institution.

- (b) Paragraph (a) above does not in any way limit the obligations of any Obligor under the Finance Documents.

18.2.Limitation of liability

- (a) The Borrower shall indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 18.1 (Mitigation).
- (b) A Finance Party is not obliged to take any steps under Clause 18.1 (Mitigation) if, in the opinion of that Finance Party (acting reasonably), to do so might have an adverse effect on its business, operations or financial condition.

19. Costs and expenses

19.1.Transaction expenses

The Borrower shall promptly on demand pay the Agent and the Mandated Lead Arranger the amount of all reasonable costs and expenses (including legal fees and fees payable to OeKB in connection with the application for, and the issuance of, the guarantees by "aval" ("Wechselbürgschaften") other than in case of an assignment or transfer of a Lender's Commitment or participation in a Loan) incurred by any of them in connection with the negotiation, preparation, documents, execution and syndication of

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the date of this Agreement.

19.2.Amendment costs

If an Obligor requests an amendment, waiver or consent, the Borrower shall, within three Business Days of demand, reimburse the Agent for the amount of all reasonable costs and expenses (including legal fees) incurred by the Agent in responding to, evaluating, negotiating or complying with that request or requirement.

19.3.Enforcement costs

The Borrower shall, within three Business Days of demand, pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by that Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

SECTION 7 REPRESENTATION, UNDERTAKINGS AND EVENTS OF DEFAULT

20. Representations

Each Obligor makes the representations and warranties set out in this Clause 20 to each Finance Party on the date of this Agreement and on the Drawdown Date.

20.1. Corporate Status

- (a)** It is a corporation ("Kapitalgesellschaft"), duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (b)** It and each of its Subsidiaries has the power to own its assets and carry on its business as it is being conducted.

20.2. Power and authority

It has the power to enter into and perform its obligations under, and has taken all necessary action to authorise its entry into and performance of its obligations under the Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.

20.3. Binding obligations

The obligations expressed to be assumed by it in each Finance Document are subject to the Reservations legal, valid and binding obligations enforceable in accordance with their terms.

20.4. Non-conflict with other obligations

The entry into and performance by it of, and the transaction contemplated by, the Finance Documents do not and will not conflict with:

- (a)** any law or regulation applicable to it;
- (b)** the constitutional documents of any Group Company; or
- (c)** to an extent which could reasonably be expected to have a Material Adverse Effect, any applicable financing agreement or instrument binding upon it or any Group Company or any of their assets.

20.5. Validity and admissibility in evidence

All Authorisations required or desirable:

- (a)** to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party; and

- (b) so that the Finance Documents to which it is a party can be presented in court proceedings as evidence in its jurisdiction of incorporation,

have been obtained or effected and are in full force and effect.

20.6. No proceedings pending or threatened

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency have been started against any Group Company which are reasonably likely to be adversely determined and which, if so determined, are reasonably likely to have a Material Adverse Effect.

20.7. Financial Statements

The Initial Financial Statements were prepared in accordance with IAS consistently applied and give a true and fair view of the consolidated financial position of the Group as at the date they were prepared.

20.8. Business Authorisations

Each Authorisation required by each Group Company in connection with its business has been obtained and there has been no default in the observance of the same except, where failure to obtain or any such default is not reasonably likely to have a Material Adverse Effect.

20.9. ~~Pari passu~~

Its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other present and future unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

20.10. ~~Environmental compliance~~

Each Group Company has complied at all times in all respects with all Environmental Law save to the extent that non-compliance would not reasonably be likely to have a Material Adverse Effect.

20.11. ~~Environmental claim~~

No Environmental Claim has been commenced against any Group Company which would be reasonably likely to have a Material Adverse Effect.

20.12. ~~No Material Adverse Effect~~

Since 30 September 2002, there has been no change in the business, condition (financial or otherwise), operations or performance of any Group Company that has had or would have, a Material Adverse Effect.

20.13. ~~No Default~~

No Event of Default or Default is continuing or might reasonably be expected to result from the making of the Drawdown.

20.14. ~~No misleading information~~

The factual information contained in the annual and quarterly reports of the Group submitted and the bank presentation posted to intralinks on April 8, 2003 was true and accurate in all material respects when given.

20.15. ~~Ownership of each Obligor~~

Each Obligor is 100 per cent directly or indirectly beneficially owned by Sappi.

20.16. ~~Repayment of syndicated loan~~

The Borrower has repaid the outstandings under and cancelled Tranche B of the EUR 900,000,000 syndicated loan facility for the Borrower through the issuing of a bond according to Rule 144 A and/or Regulations S under the U.S. Securities Act on June 28, 2002.

21. Positive undertakings

The undertakings in this Clause 21 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

21.1. ~~Financial statements~~

The Borrower shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as the same become available, but in any event within 180 days after the end of each of its financial years the audited consolidated financial statements for the Group and the audited unconsolidated financial statements of each Obligor (if required to be produced by law) for that financial year; and:
- (b) as soon as the same become available, but in any event within 45 days of each Quarter Date, the unaudited consolidated interim report for the Group for the period of 3 months ending on such Quarter Date.

21.2. Compliance Certificate

The Borrower shall supply to the Agent, with each set of financial statements or interim report delivered pursuant to Clause 21.1 (Financial statements), a Compliance Certificate signed by a director of the Borrower setting out (in reasonable detail) computations as to compliance with Clause 23 (Financial Covenants) as at the date at which those financial statements were drawn up.

The Borrower shall supply to the Agent, with the financial statements for the financial year ending on September 30, 2006, a Compliance Certificate signed by a director of the Borrower setting out (in reasonable detail) computations as to compliance with the ratios set forth in Clause 10.7 (Mandatory Prepayments).

21.3. Requirements as to Financial statements

- (a) Each set of financial statements delivered by the Borrower pursuant to Clause 21.1 (Financial statements) shall be certified by a director of the Borrower as fairly representing the financial condition of the Group as at the date as at which those financial statements were drawn up.
- (b) The Borrower shall procure that each set of financial statements or interim report delivered pursuant to Clause 21.1 (Financial statements) is prepared using IAS, and accounting practices and financial reference periods consistent with those applied in the preparation of the Initial Financial Statements unless, in relation to any set of financial statements or interim report, it notifies the Agent that there has been a material change in IAS, or the accounting practices or reference periods and its auditors deliver to the Agent:
 - (i) a description of any change necessary for those financial statements to reflect IAS, accounting practices and reference periods upon which that Obligor's Initial Financial Statements were prepared; and
 - (ii) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 23.1 (Financial Covenants) has been complied with and make an accurate comparison between the financial position indicated in those financial statements or interim report and the Initial Financial Statements.
- (c) If the Borrower notifies the Agent of a change in accordance with paragraph (b) above, then the Borrower and Agent shall enter into negotiations in good faith with a view to agreeing:
 - (i) whether or not the change might result in any material alteration in the commercial effect of any of the terms of this Agreement; and
 - (ii) if so, any amendments to this Agreement which may be necessary to ensure that the change does not result in any material alteration in the commercial effect of those terms,and if any amendments are agreed they shall take effect and be binding on each of the Parties in accordance with their terms.

Any reference in this Agreement to those financial statements or that interim report shall be construed as a reference to those financial statements or that interim report as adjusted to reflect the basis upon which the Initial Financial Statements were prepared.

21.4. Information

Each Obligor shall provide the Agent (in sufficient copies for all the Lenders, if the Agent so requests) promptly with all information regarding the financial condition, business and operation of the Group or one or more Group Companies reasonably requested by the Agent or any Lender through the Agent.

OeKB or its trustee (which shall be bound by a confidentiality obligation) shall at any time (i) be provided by the Borrower with all information requested in relation to the Group's financial situation and (ii) be entitled to inspect the Borrower's books and other documents in this respect.

21.5. Notification of default

- (a)** Each Obligor shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

- (b)** Promptly upon a request by the Agent, the Borrower shall supply to the Agent a certificate signed by a director or senior officer on its behalf certifying whether a Default has occurred (and if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

21.6.Authorisation

Each Obligor shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation required to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity and (subject to the Reservations) enforceability or admissibility in evidence in its jurisdiction of incorporation of each Finance Document.

21.7.Pari passu ranking

Each Obligor shall ensure that its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other present and future unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

21.8.Compliance with laws

Each Obligor shall procure that each Group Company shall comply with all laws, regulations (including, without limitation, Environmental Law) and agreements to which it may be subject or by which it may be bound to the extent that failure so to comply does not have, or is not reasonably likely to have, a Material Adverse Effect.

21.9.Environmental Claims

Each Obligor shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests) promptly upon becoming aware of the same, the details of any Environmental Claim made against a Group Company which has, or would reasonably be likely to have, a Material Adverse Effect.

21.10.Litigation

Each Obligor shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent request so) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are commenced against any Group Company which is reasonably likely to be adversely determined and which, if so determined, is reasonably likely to have a Material Adverse Effect.

21.11.Insurance

Each Obligor shall procure that each Group Company shall maintain levels of insurance in respect of its assets and business in a manner customary for businesses in the same business as such Group Company.

21.12.Change in Material Subsidiary

In the event that an Obligor becomes aware that a Group Company has either ceased to be a Material Subsidiary or has become a Material Subsidiary, such Obligor shall promptly serve a certificate (a "Material Subsidiary update Certificate") on the Agent setting out the relevant change of circumstances.

21.13.Payments to OeKB

The Borrower shall pay all amounts due to OeKB for the guarantee by "aval" on bills of exchange ("Wechselbürgschaft") at the place at and in a manner in which they are expressed to be paid.

21.14.Bills of exchange

Upon request of a New Lender, the Borrower shall accept bills of exchange issued by the New Lenders in the amount and number required for the OeKB Refinancing. Upon such acceptance by the Borrower, the Agent shall use reasonable efforts that OeKB invalidates the bills of exchange issued by the Existing Lender replaced by the New Lender.

Upon return of bills of exchange invalidated by OeKB to the Finance Parties, such bills of exchange shall be returned to the Borrower.

22. Negative undertakings

22.1. Negative pledge

Each Obligor shall not (and shall ensure that no other Group Company will) create or permit to subsist any Security over any of its assets other than:

- (i) any Security entered into pursuant to this Agreement;
- (ii) any Security arising by operation of law;
- (iii) any Security granted in the ordinary course of trade of any Group Company;
- (iv) any Security over accounts created pursuant to any deposit or retention of purchase price arrangements granted in the ordinary course of trade;
- (v) any netting or set-off arrangement entered into by any Group Company granted in the ordinary course of trade;
- (vi) any Security created by the operation of any cash pooling arrangements for the purpose of netting debit and credit balances;
- (vii) any Security over an asset of a Group Company established to hold assets of any share option scheme of the Group securing any loan to finance the acquisition of such assets;
- (viii) any Security over an asset of a Group Company to secure Financial Indebtedness incurred by such Group Company for the purpose of purchasing that asset when recourse for that Financial Indebtedness is limited solely to such Security;
- (ix) any Security over or affecting any property or asset of a Group Company acquired after the date of this Agreement, where the Security is created prior to the date on which that company becomes a Group Company, if
 - (a) the Security was not created in contemplation of the acquisition of that company;
 - (b) the principal amount secured has not increased in contemplation of or since the acquisition of that company; and
 - (c) the Security is removed or discharged within 6 months of that Company becoming a Group Company, provided however that this lit (c) shall not apply to Securities over payment undertaking agreements or similar

products in defeasance structures in cross border leasing transactions;

- (x) any Security over or affecting any property or asset acquired by a Group Company after the date of this Agreement if
 - (a) the Security was not created in contemplation of the acquisition of that asset by a Group Company;
 - (b) the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by a Group Company; and
 - (c) the Security is removed or discharged within 6 months of the date of acquisition of such asset, provided however that this lit (c) shall not apply to Securities over payment undertaking agreements or similar products in defeasance structures in cross border leasing transactions;
- (xi) any Security notified to the Agent prior to the signing of this Agreement and listed in Schedule 7 (Existing Security) or created with the prior consent of the Majority Lenders;
- (xii) any Security granted by a Group Company over trade receivables as part of any invoice discounting, factoring, securitisation or like financing which trade receivables have a maturity of less than 364 days;
- (xiii) any Security granted by a Group Company (other than an Obligor) in favour of any other Group Company; and

(xiv) any Security not falling within any of paragraphs (i) to (xiii) above in respect of any assets having a value (as certified by the Borrower (acting reasonably) to the Agent on the date such Security is granted) not exceeding in aggregate Euro 50,000,000. (For these purposes, if this paragraph (xiv) is satisfied on the grant of a particular Security, any subsequent rise in the value of the asset to which such Security relates shall not, of itself, be deemed a breach of this Clause 22.1).

22.2. Disposals

- (a) Each Obligor shall not (and shall ensure that no other Group Company will), enter into a Disposal other than a Disposal:
- (i) in the ordinary course of business of a Group Company or on arms' length terms;
 - (ii) by a Group Company (other than an Obligor) to another Group Company;
 - (iii) of cash on terms not otherwise prohibited by this Agreement;
 - (iv) of an asset for an asset comparable or superior as to type, value and quality;
 - (v) of a business in exchange for another business where the earnings before interest or tax and the gross assets of the second mentioned business are not less than, respectively, the earnings before interest and tax and gross assets of the first mentioned business;
 - (vi) of an asset which is obsolete for the purpose for which such an asset is normally utilised; or
 - (vii) (not falling within paragraph (i) to (vi) above) which does not result in the gross book value of all the assets the subject of all such Disposals made after the date of this Agreement, exceeding in aggregate 15 per cent of the total gross assets of the Group (as at the date of this Agreement).

22.3. Financial Indebtedness

The Borrower shall ensure that each Group Company (other than the Obligors) shall not incur any Financial Indebtedness other than Financial Indebtedness:

- (i) owed by one Group Company to another Group Company;
- (ii) under working capital and short term cash management facilities in an aggregate amount of not exceeding Euro 200,000,000;

- (iii) incurred by any member of the SD Warren Group in an aggregate amount not exceeding USD 110,000,000; and
- (iv) not included in paragraphs (i) to (iii) above which does not exceed (for the Group) an aggregate amount of Euro 50,000,000.

22.4. Loans and Guarantees

Each Obligor shall not (and shall ensure that no other Group Company shall):

- (a) make any loans or grant any credit (other than to another Group Company) which would constitute Long Term Financial Indebtedness (as defined below) unless it is made and granted in compliance with paragraph (b) below or:
 - (i) the debtor in respect of that Long Term Financial Indebtedness (the "Debtor") has either (1) delivered satisfactory security to the creditor Group Company (the "Creditor") or (2) in the event that the delivery of such satisfactory security by the Debtor would be (A) unduly onerous or impractical in the reasonably opinion of the Majority Lenders or (B) unlawful or prohibited, entered into arrangements with the Creditor approved by the Majority Lenders (such approval not to be unreasonably withheld or delayed) whereby such arrangements give the same (or reasonably similar) commercial effect as the granting of satisfactory security pursuant to (1) above and delivered to the Agent a legal opinion (in form and content reasonably satisfactory to the Agent) in respect thereof; or

- (ii) at the same time as such loans are made or credit granted, an equivalent amount is made unconditionally available to the Creditor or any other Group Company from a person (other than a Group Company) by way of
 - (1) equity contribution or subscription; or
 - (2) loan (but only to the extent permitted under Clause 22.3 (Financial Indebtedness)); or
 - (3) loan subordinated on terms reasonably acceptable to the Majority Lenders (to the extent that such a loan would not be permitted under Clause 22.3 (Financial Indebtedness));
- (b) otherwise than pursuant to the Finance Documents give any guarantee or indemnity or enter into any other instrument of suretyship (other than in favour of another Group Company) or make any loans or grant any credit (other than to another Group Company or as permitted pursuant to paragraphs (i) and (ii) above) which would constitute Long Term Financial Indebtedness (as defined below) if it would result (without double counting) in the aggregate of (1) the principal amount of Financial Indebtedness of the Group under all such guarantees, indemnities and instruments and (2) the amount of all such Long Term Financial Indebtedness (not falling within paragraph (a) above), exceeding Euro 50,000,000.

For the purposes of the above,

- (i) "Long Term Financial Indebtedness" means Financial Indebtedness falling within paragraphs (a) to (d) inclusive of the definition thereof other than any such Financial Indebtedness which is payable on demand or has an original scheduled maturity of no more than a year; and
- (ii) "satisfactory security" means documentation creating, evidencing or granting (subject to any prior interests) Security in respect of the obligation of the Debtor to the Creditor in respect of such Long Term Financial Indebtedness, over assets of the Debtor or over assets of any other person (in each case, such assets shall at least be equivalent in value to the amount of such Long Term Financial Indebtedness (as valued by, in the case of such Long Term Financial Indebtedness being less than Euro 50,000,000, the Borrower and in all other cases, Deloitte and Touche (or any other agreed accountancy firm)), in favour of and on terms reasonably acceptable to the Creditor together with a legal opinion (in form and content reasonably satisfactory to the Agent) in respect thereof.

22.5. Merger

- (i) No Group Company shall enter into any amalgamation, demerger or merger with a company that is not a Group Company without the consent of the Majority Lenders, and if involving an Obligor which is not the surviving entity, with the consent of all Lenders (such consent not to be unreasonably withheld or delayed).
- (ii) Without limitation to paragraph (i) above, no Obligor shall enter into any amalgamation, demerger or merger, if such Obligor is not the surviving entity, unless the liabilities owed to the Lenders under the Finance Documents will survive and such event does not violate OeKB's regulations or requirements.

22.6.Change of Business

The Obligors shall procure that the business of the Group taken as a whole, remains the Paper Business.

23. Financial covenants

23.1.Financial covenants

Each Obligor shall ensure that:

- (a) on each Quarter Date the average of the ratios (each such ratio being calculated on the last day of each Quarter) of EBITDA to Consolidated Net Interest Expense in respect of the period of 4 Quarters ending on such Quarter Date shall not be less than 3.00:1;

- (b) on each Quarter Date the average of the ratios (each such ratio being calculated on the last day of each Quarter) of EBITDA to Consolidated Net Interest Expense in respect to the period of 8 Quarters ending on such Quarter Date shall not be less than 3.50:1;
- (c) the ratio of the Consolidated Capital to the Consolidated Assets of the Group shall not, on any Quarter Date, be less than 0.30:1; and
- (d) the ratio of Net Debt to Capitalisation shall not, on any Quarter Date, be greater than 0.60:1.

23.2. Financial definitions

"Capitalisation" means, at any time, the aggregate amount of Consolidated Capital and Net Debt at such time.

"Consolidated Assets" means, at any time, the consolidated total assets of the Group.

"Consolidated Capital" means, at any time, the aggregate of

- (a) the aggregate amount of the paid up share capital of each of the Obligors (excluding any of the same that is owned by another Group Company);
- (b) the total of the amount standing to the credit of the consolidated capital and revenue reserves of the Group but including any minority interest in a Group Company; and
- (c) the principal amount of any Financial Indebtedness of either Obligor which is owed to any Sappi Group Company where such Financial Indebtedness is subordinated on terms acceptable to the Majority Lenders (acting reasonably).

"Consolidated Net Interest Expense" means, in relation to any period, the aggregate of

- (a) all interest, commissions and other financing charges payable by any Group Company to any person who is not a Group Company in respect of that period;
- (b) to the extent not included in paragraph (a) above, all finance costs charged to the profit and loss account of the Group in respect of that period;
- (c) all amounts payable by any Group Company in respect of that period under any interest rate protection agreement (less any amounts receivable by any Group Company in respect of that period under any interest rate protection agreement); and
- (d) the interest element of all rentals or, as the case may be, other amounts payable in respect of that period under any finance lease entered into by any Group Company,

less any interest receivable (other than interest receivable from Group Companies) by Group Companies.

"EBITDA" means, in respect of any period, the consolidated profit on ordinary activities of the Group before taxation and extraordinary items for such period but adjusted by adding back:

- (a) Consolidated Net Interest Expenses for such period;
- (b) depreciation for such period; and
- (c) any amount amortised in that period against the consolidated profit and loss account of the Group.

"Net Debt" means the aggregate, on a consolidated basis, of

- (a) that part of the Financial Indebtedness of Group Companies which relates to obligations for the payment or repayment of money in respect of principal incurred in respect of
 - (i) monies borrowed or raised;
 - (ii) any bond, note, loan stock, participation right, debenture or similar instrument; or
 - (iii) any acceptance credit, bill discounting, note purchase, factoring or documentary credit facility (including, for the avoidance of doubt, any Financial Indebtedness under this Agreement); and

- (b) the capital element of all rentals or, as the case may be, other payments payable under any finance lease entered into by any Group Company,

less:

- (i) cash at hand and at bank of Group Companies;
- (ii) bonds, notes and commercial paper beneficially owned by Group Companies with a maturity of not more than 6 months and rated at least A-1 by Standard & Poor's Rating Group or at least P-1 by Moody's Investors Services, Inc. (or an equivalent rating of another agency which the Agent reasonably determines to be comparable); and
- (iii) bonds or notes maturing within 6 months and rated at least AA by Standard & Poor's Rating Group or at least Aa2 by Moody's Investors Services, Inc. (or an equivalent rating of another agency which the Agent reasonably determines to be comparable).

23.3. Financial Testing

The financial covenants set out in Clause 23 (Financial covenants) shall be tested by reference to each of the financial statements and interim reports delivered pursuant to Clause 21 (Positive undertakings).

23.4. Accounting terms

All accounting expressions which are not otherwise defined herein shall be construed in accordance with IAS.

24. Events of Default

Each of the events or circumstances set out in Clauses 24.1 to 24.14 is an Event of Default.

24.1. Non-payment

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable unless:

- (c) its failure to pay is caused by administrative or technical error; and
- (d) payment is made within 5 Business Days of its due date.

24.2. Financial covenants

Any requirement of Clause 23 (Financial covenants) is not satisfied.

24.3. Other obligations

An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 24.1 (Non payment) and Clause 24.2 (Financial covenants)) and, if the failure to comply is capable of remedy, it is not remedied within 30 days of the Agent giving notice to the Borrower or an Obligor becoming aware of the failure to comply.

24.4.Misrepresentation

Any representation or statement made or deemed to be made by an Obligor in the Finance Documents, the information specified in Clause 20.14., the OeKB presentation dated April 16, 2002 and the applications dated March 18, 2002 and March 27, 2003 for the issuance of the commitment to guarantee bills of exchange by "aval" ("Wechselbürgschaftszusage") is or proves to have been incorrect in any material respect when made and where the circumstances making such representation or statement incorrect are capable of being altered so that such representation or statement is correct, such circumstances are not so altered within 30 days of the Agent notifying the relevant Obligor of such representation or statement being incorrect.

24.5.Cross default

- (a)** Any Financial Indebtedness of any Group Company is not paid when due and payable nor within any applicable grace period.

- (b) Any Financial Indebtedness of any Group Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of a default or an event of default (however described).
- (c) Any creditor of any Group Company becomes entitled to declare any Financial Indebtedness of any Group Company due and payable prior to its specified maturity as a result of a default or an event of default (however described).
- (d) No Event of Default will occur under this Clause 24.5 if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (c) above is less than Euro 5,000,000.

24.6. Creditors' process

Expropriation, attachment, sequestration, distress or execution affects any asset or assets of Group Companies having an aggregate value or at least Euro 5,000,000 and is not discharged within 30 days.

24.7. Insolvency

- (a) An Obligor or any Material Subsidiary is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or commences negotiations with one or more of its creditors with a view to rescheduling any class of its indebtedness.
- (b) A moratorium is declared in respect of any class of indebtedness of an Obligor or any Material Subsidiary.

24.8. Insolvency proceedings

Any insolvency proceeding or other similar procedure is (i) opened with respect to an Obligor or (ii) an Obligor has filed an application for such proceedings or (iii) a third party has filed an application for such proceedings and, with respect to (i) or (iii) above such proceeding or application, as the case may be, is not dismissed (for a reason other than a lack of assets) or withdrawn within 10 Business Days from the date the respective Obligor has obtained knowledge thereof or such longer period as caused by the inactivity of the competent court or authority evidenced to the reasonable satisfaction of the Agent in relation to:

- (a) the bankruptcy, the suspension of payments, winding-up, dissolution, liquidation, annulment as a legal entity, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of an Obligor or any Material Subsidiary other than a solvent liquidation or a solvent reorganisation of any Material Subsidiary or (to the extent mandatorily required pursuant to sec 19 of the Austrian Business Reorganisation Act ("Unternehmensreorganisationsgesetz")) a solvent reorganisation of the Borrower;
- (b) a general composition, assignment or arrangement with all of the creditors of an Obligor or any Material Subsidiary relating to a general rescheduling of its financial indebtedness;
- (c) the appointment of a liquidator (other than in respect of a solvent liquidation of any Material Subsidiary), receiver, administrator, administrative receiver, compulsory manager, an *administrateur judiciaire/gerechtigd bestuuder*, a

speciaal commissaris/commissaire special, a sequestre/sekwester or other similar officer in respect of an Obligor or any Material Subsidiary or all or any part of its assets (having an aggregate value of at least Euro 5.000.000,-);
or

- (d) the enforcement of any Security over all or substantially all of the assets of an Obligor or any Material Subsidiary, or any analogous procedure or step is taken in any jurisdiction.

24.9.Unlawfulness

It is or becomes unlawful for an Obligor to perform any of its obligations under the Finance Documents.

24.10.Repudiation

An Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

24.11 Cessation of business

An Obligor or any Material Subsidiary ceases to carry on all or a substantial part of its business (other than as a result of a solvent liquidation or reorganisation of any Material Subsidiary and other than as a result of corporate restructurings within the Group) and such cessation would result in the Group as a whole, ceasing to carry on the Paper Business.

24.12 Litigation adversely determined

Any litigation is determined against any Group Company which has, or is reasonably likely to have, a Material Adverse Effect.

24.13 Payments to OeKB

An Obligor does not pay on the due date any amount payable to OeKB at the place at and in the manner in which it is to be paid unless that in case of non-payment of the "Wechselbürgschaftsentgelt" such non-payment is caused by a default of OeKB.

24.14 Ownership of each Obligor

Sappi ceases to be the beneficial, direct or indirect owner of the whole of the issued share capital of either Obligor without the prior written consent of the Majority Lenders (such consent not to be unreasonably withheld or delayed) and the Borrower does not repay all Loans, together with accrued interest, and all other amounts accrued under the Finance Documents within 30 (thirty) days after the occurrence of such event.

24.15 Acceleration

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (a) cancel the Total Commitments whereupon they shall immediately be cancelled; and
- (b) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable.

SECTION 8 CHANGE TO PARTIES

25. Change to the Lenders

25.1. Assignment and transfer by the Lenders

Subject to this Clause 25, a Lender (the "Existing Lender") may:

- (a) assign any of its rights; or
- (b) transfer any of its rights and obligations,

to a New Lender.

25.2. Conditions of assignment or transfer

- (a) The consent of the Borrower is required for an assignment or transfer by a Lender, unless the assignment or transfer is to another Lender, an Affiliate of a Lender or OeKB.
- (b) The consent of the Borrower to an assignment or transfer must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent five Business Days after the Lender has requested it unless consent is expressly refused by the Borrower within that time.
- (c) The Borrower shall not bear any increased cost that arise at the time of or will arise with the lapse of time as a direct result of an assignment or transfer solely by reason of the same.
- (d) An assignment or transfer by a Lender is subject to the prior written consent of OeKB.
- (e) An assignment or transfer by a Lender of its Commitments under the Facility may be in whole or in part, but if in part shall be in minimum an aggregate amount of Euro 5,000,000.
- (f) (intentionally omitted)
- (g) An assignment or transfer to a New Lender other than OeKB will only be effective if the procedure set out in Clause 25.5 (Procedure of transfer and assignment) is complied with.
- (h) If

- (i) a Lender assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
- (ii) as a result of circumstances existing at the date the assignment, transfer or change occurs, an Obligor would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 15 (Tax gross up and indemnities) or Clause 16 (Increased costs),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

25.3. Assignment or transfer fee

The New Lender shall, on the date upon which an assignment or transfer takes effect (other than to OeKB), pay to the Agent (for its own account) a fee of Euro 1,500.

25.4. Limitation of responsibility of Existing Lenders

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
 - (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of any Obligor;

- (iii) the performance and observance by any Obligor of its obligations under the Finance Documents or any other documents; or
- (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,

and any representations or warranties implied by law are excluded.

(b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of each Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
- (ii) will continue to make its own independent appraisal of the creditworthiness of each Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.

(c) Nothing in any Finance Document obliges an Existing Lender to:

- (i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause 25; or
- (ii) support any losses directly or indirectly incurred by the New Lender by reason of the nonperformance by any Obligor of their obligations under the Finance Documents or otherwise.

25.5. Procedure of transfer and assignment

(a) Subject to the conditions set out in Clause 25.2 (Conditions of assignment or transfer) an assignment or transfer (to a person other than to OeKB) is effected in accordance with paragraph (b) below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate and hold in accordance with Clause 27.15 (Agent to hold original documents).

(b) On the Transfer Date:

- (i) to the extent that in the Transfer Certificate the Existing Lender seeks to assign or transfer its rights and obligations under the Finance Documents each of the Obligors and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another shall be cancelled (being the "Discharged Rights and Obligations");

- (ii) each of the Obligors and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as that Obligor and the New Lender have assumed and/or acquired the same in place of that Obligor and the Existing Lender;
- (iii) the Agent, the Mandated Lead Arranger and the other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the Mandated Lead Arranger and the Existing Lender shall each be released from further obligations to each other under this Agreement; and
- (iv) the New Lender shall become a Party as a "Lender".

25.6. Disclosure of information

- (a) Subject to this Clause 25.6 (Disclosure of information) each Lender shall treat all information received in connection with a Finance Document confidential.

Any Lender may disclose to any of its Affiliates, OeKB and any other person:

- (i) to (or through) whom that Lender assigns or transfers (or may potentially assign or transfer), in accordance with this Agreement, all or any of its rights and obligations under this Agreement;
- (ii) with (or through) whom that Lender enters into (or may potentially enter into), in accordance with this Agreement, any subparticipation in relation to, or any other transaction under which payments are to be made by reference to, this Agreement or any Obligor; or
- (iii) to whom, and to the extent that, information is required to be disclosed by any applicable law or regulation,

any information about any Obligor, the Group and the Finance Documents as such person shall consider appropriate if, in relation to sub-paragraphs (i) and (ii) above, the person to whom the information is to be given has entered into a confidentiality undertaking in the form set out in Schedule 9.

- (b) For the purposes only of and under the conditions set forth in this Clause 25.6, each Obligor waives any rights it may have in respect of banking secrecy pursuant to the Austrian Banking Act ("Bankwesengesetz").

25.7. No Limitation of risk participation

Nothing contained in this Clause 25 shall prevent the Lenders from entering into risk participation or sub-participation agreements with other banks.

26. Changes to the Obligors

26.1. Assignment and transfer by Obligors

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

SECTION 9 THE FINANCING PARTIES

27. Role of the Agent and the Mandated Lead Arranger

27.1. Appointment of the Agent

- (a) The Mandated Lead Arranger and each of the Lenders appoints the Agent to act as their agent under and in connection with the Finance Documents.
- (b) The Mandated Lead Arranger and each of the Lenders authorises the Agent to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions, and such rights may, subject to Clause 27.7 below, exclusively be exercised by the Agent.

27.2. Duties of the Agent

- (a) The Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (b) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the Lenders.
- (c) The Agent shall promptly notify the Lenders and the Borrower of any Default.
- (d) The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
- (e) The Agent shall fulfil all tasks in connection with the OeKB Refinancing, including, without limitation, the tasks provided for under this Agreement and under the power of attorney granted to the Agent in the form as provided for in Schedule 8.

27.3. Role of the Mandated Lead Arranger

Except as specifically provided in the Finance Documents, the Mandated Lead Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

27.4. No fiduciary duties

- (a) Nothing in this Agreement constitutes the Agent or the Mandated Lead Arranger as a trustee or fiduciary of any other person.

- (b) Neither the Agent nor the Mandated Lead Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

27.5.Business with the Group

The Agent and the Mandated Lead Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with any Group Company.

27.6.Rights and discretions of the Agent

- (a) The Agent may rely on:
 - (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.

- (b) The Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
- (i) no Default has occurred or will occur (unless it has actual knowledge of a Default arising under Clause 24.1 (Non payment));
 - (ii) any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised; and
 - (iii) any notice or request made by the Borrower (other than the Drawdown Request) is made on behalf of and with the consent and knowledge of the Guarantor.
- (c) The Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (d) The Agent may act in relation to the Finance Documents through its personnel and agents.

27.7. Majority Lenders' instructions

- (a) Unless a contrary indication appears in a Finance Document, the Agent shall (a) act in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Majority Lenders, refrain from acting or exercising any right, power, authority or discretion vested in it as Agent) and (b) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with such an instruction of the Majority Lenders.
- (b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Lenders and the Mandated Lead Arranger.
- (c) The Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (d) In the absence of instructions from the Majority Lenders, (or, if appropriate, the Lenders) the Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders.
- (e) No Finance Party is authorised to start any legal or arbitration proceedings relating to any Finance Document without prior written approval of the Majority Lenders, unless the Agent has notified the Borrower about the occurrence of an Event of Default pursuant to Clause 24.15 (Acceleration).

27.8. Responsibility for documentation

Neither the Agent nor the Mandated Lead Arranger

- (a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Agent, the Mandated Lead Arranger, an Obligor or any other person given in or in connection with any Finance Document; or
- (b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document.

27.9 Exclusion of liability

- (a) Without limiting paragraph (b) below, the Agent will not be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- (b) No Party may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent may rely on this Clause.
- (c) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Agent if the Agent has taken all

necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.

27.10 Lenders' indemnity to the Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Agent (otherwise than by reason of the Agent's gross negligence or wilful misconduct) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by an Obligor pursuant to a Finance Document).

27.11 Resignation of the Agent

- (a) The Agent may resign and appoint one of its Affiliates acting through an office as successor by giving notice to the Lenders and the Borrower.
- (b) Alternatively the Agent may resign by giving notice to the Lenders and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.
- (c) If the Majority Lenders have not appointed a successor Agent in accordance with paragraph (b) above within 30 days after notice of resignation was given, the Agent (after consultation with the Borrower) may appoint a successor Agent.
- (d) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- (e) The Agent's resignation notice shall only take effect upon the appointment of a successor.
- (f) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 27. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (g) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with paragraph (b) above. In this event, the Agent shall resign in accordance with paragraph (b) above.
- (h) Any appointment of a new agent requires the prior consent of the Borrower which shall not be unreasonably withheld.

27.12 Confidentiality

- (a) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its respective department which shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.
- (c) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor the Mandated Lead Arranger is obliged to disclose to any other person (i) any confidential information or (ii) any other information if the disclosure would or might in its responsible opinion constitute a breach of any law or a breach of a fiduciary duty.

27.13 Relationship with the Lenders

- (a) The Agent may treat each Lender as a Lender, entitled to payments under this Agreement and acting through its Facility Office unless it has received not less than five Business Days prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- (b) Each Lender shall supply the Agent with any information required by the Agent in order to calculate the Mandatory Cost in accordance with Schedule 4 (Mandatory Cost Formulae).

27.14 Credit appraisal by the Lenders

Without affecting the responsibility of any Obligor for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Mandated Lead Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each Group Company;
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy and/or completeness of any information provided by the Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

27.15 Agent to hold original documents

The Agent shall hold one of each of the complete originals of this Agreement, the SISA Guarantee and any Transfer Certificate for the benefit of the Finance Parties and each copy shall be clearly marked "Agent's Copy".

28. (intentionally omitted)

29. Conduct of business by the Financing Parties

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

30. Sharing among the Lenders

30.1. Payment to Lenders

If a Lender (a "Recovering Lender") receives or recovers any amount from an Obligor other than in accordance with Clause 31 (Payment mechanics) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Lender shall, within three Business Days, notify details of the receipt or recovery, to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Lender would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 31 (Payment mechanics), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and

- (c) the Recovering Lender shall, within three Business Days of demand by the Agent, pay to the Agent an amount (the "Sharing Payment") equal to such receipt or recovery (together with interest thereon at the rate determined by the Agent) less any amount which the Agent determines may be retained by the Recovering Lender as its share of any payment to be made, in accordance with Clause 31.5 (Partial payments).

30.2. Redistribution of payments

The Agent shall treat the Sharing Payment as if it had been paid by the relevant Obligor and distribute it between the Finance Parties (other than the Recovering Lender) in accordance with Clause 31.5 (Partial payments).

30.3. Recovering Lenders' rights

- (a) On a distribution by the Agent under Clause 30.2 (Redistribution of payments), the Recovering Lender will be subrogated to the rights of the Finance Parties which have shared in the redistribution.
- (b) If and to the extent that the Recovering Lender is not able to rely on its rights under paragraph (a) above, the relevant Obligor shall be liable to the Recovering Lender for a debt equal to the Sharing Payment which is immediately due and payable.

30.4. Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Lender becomes repayable and is repaid by that Recovering Lender, then:

- (a) each Lender which has received a share of the relevant Sharing Payment pursuant to Clause 30.2 (Redistribution of payments) shall, upon request of the Agent, pay to the Agent for account of that Recovering Lender an amount equal to its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Lender for its proportion of any interest on the Sharing Payment which that Recovering Lender is required to pay); and
- (b) that Recovering Lender's rights of subrogation in respect of any reimbursement shall be cancelled and the relevant Obligor will be liable to the reimbursing Lender for the amount so reimbursed.

30.5. Exceptions

- (a) This Clause 30 shall not apply to the extent that the Recovering Lender would not, after making any payment pursuant to this clause, have a valid and enforceable claim against the relevant Obligor.
- (b) A Recovering Lender is not obliged to share with any other Lender any amount which the Recovering Lender has received or recovered as a result of taking legal or arbitration proceedings, if
 - (i) it notified the other Lenders of the legal or arbitration proceedings; and

- (ii) the other Lenders had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice or did not take separate legal or arbitration proceedings.

SECTION 10 ADMINISTRATION

31. Payment mechanics

31.1. Payment to the Agent

- (a)** On each date on which an Obligor or a Lender is required to make a payment under a Finance Document, that Obligor or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the place of payment.
- (b)** Payment shall be made to such account in the principal financial centre of a Participating Member State or London as the Agent specifies.

31.2. Distribution by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 31.3 (Distribution to an Obligor) and Clause 31.4 (Clawback) be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account as that Party may notify to the Agent by not less than five Business Days' notice with a bank in the principal financial centre of a Participating Member State or London.

31.3. Distribution to an Obligor

The Agent may (with the consent of the Obligor or in accordance with Clause 32 (Set-off)) apply any amount received by it for that Obligor in or towards payment (on the date and in the funds of receipt) of any amount due from that Obligor under the Finance Documents.

31.4. Clawback

- (a)** Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum. In such a case, the Agent will inform the other Parties of its decision to delay payment. If the decision to delay payment causes such a delay in passing on the money to the other Parties that the other Parties receive the amounts to which they are entitled late, the Party which violated the obligation to effect payment to the Agent shall pay any costs incurred, less any realised investment profits.
- (b)** Subject to Clause (a) above, if the Agent is not notified in writing by the Borrower at least five Business Days prior to the due date that a payment owed under this Agreement will not be rendered by the due date, the Agent is entitled to assume that the payment will be paid and, in reliance thereon, to make available to the respective Party on the applicable payment date an amount of the expected payment to be attributed to such Party.
- (c)** If the Agent pays an amount to another party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the

date of receipt by the Agent, calculated by the Agent to reflect its cost of funds. Any such costs, less any realised investment profits, will be charged to the Party which violated the obligation to effect payment to the Agent.

31.5. Partial payments

- (a)** If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by an Obligor under the Finance Documents, the Agent shall apply that payment towards the obligations of that Obligor under the Finance Documents in the following order:
 - (i)** first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent under the Finance Documents;

- (ii) second, in or towards payment pro rata of any accrued interest due but unpaid under this Agreement;
 - (iii) third, in or towards payment pro rata of amounts of principal due but unpaid under this Agreement; and
 - (iv) fourth, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Agent shall, if so directed by the Majority Lenders, vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by an Obligor.

31.6. No set-off by Obligors

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim or bank charges.

31.7. Business Day

- (a) Unless otherwise provided for under this Agreement, any payment which is due to be made on a day that is not a Business Day shall be made on the immediately preceeding Business Day.
- (b) During any extension of the due date for payment of any principal or an Unpaid Sum under this Agreement interest is payable on the principal at the rate payable on the original due date.

31.8. Currency of account

The currency of account is Euro and payment for any sum due from an Obligor under any Finance Document shall be in Euro.

31.9. Notice of payments

Not later than 10 Business Days prior to each date on which payments are due to be paid by an Obligor to the Lenders in accordance with the provisions of this Agreement the Agent shall notify the respective Obligor of such amounts provided that failure to give such notice shall not relieve an Obligor of its obligation to make payments of such amounts when due. For the avoidance of doubt, this Clause 31.9 shall not apply to the payment of the OeKB Administration Fee.

32. Set-off

Without prejudice to the rights of the Finance Parties at law, whilst an Event of Default is continuing unremedied and unwaived, a Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

33. Notice

33.1. Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

33.2. Addresses

Subject to the other terms of this Agreement, the address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

(a) in the case of each of the Borrower and the Guarantor to

Sappi International S.A.
154 Chaussée de la Hulpe,
B-1170 (Watermael- Boitsfort),
Brussels,
Belgium

Attention: Executive Director
Fax: +32 2 676 9601

(b) in the case of each Lender, that notified in writing to the Agent on or prior to the date on which it becomes a Party;
and

(c) in the case of the Agent:

Bank Austria Creditanstalt AG
Schottengasse 6
A-1010 Vienna
Austria

Attention: Ulrike Guggenberger
Fax: +43 (0) 5050-44209

or any substitute address, fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five Business Days' notice.

33.3.Delivery

(a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:

(i) if by way of fax, when received in legible form; or

(ii) if by way of letter, when it has been left at the relevant address seven Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address;

and, if a particular department or officer is specified as part of its address details provided under Clause 33.2 (Addresses), if addressed to that department or officer.

(b) Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with the Agent's signature below (or any substitute department or officer as the Agent shall specify for this purpose).

(c) All notices from or to an Obligor shall be sent through the Agent.

33.4.Notification of address and fax number

Promptly upon receipt of notification of an address and fax number or change of address or fax number pursuant to Clause 33.2 (Addresses) or changing its own address or fax number, the Agent shall notify the other Parties.

33.5. Electronic Communication

- (a) Any communication to be made between the Parties under or in connection with the Finance Documents (other than (i) delivery of the Drawdown Request, a certificate in accordance with Clause 21.2 (Compliance Certificate) or any request for an amendment to or waiver of this Agreement, (ii) in the case of the Guarantor, delivery of any request for an amendment or waiver of this Agreement) may be made by electronic mail or other electronic means and the Parties shall notify each other (in particular, the Agent) in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means.
- (b) Each Party shall promptly notify each other Party (in particular, the Agent) of any change to their electronic mail address or any other such information supplied by them.

(c) Any electronic communication made:

- (i) by the Agent to another Party will be effective only when actually received by the relevant recipient and then only if it is addressed in such a manner as that relevant Lender or Obligor shall specify to the Agent for this purpose; and
 - (ii) by a Lender or any Obligor to the Agent will be effective only when actually received by the Agent, as the case may be, and then only if it is addressed in such a manner as the Agent shall specify to that Lender or, as the case may be, that Obligor for this purpose.
- (d) Each Party shall notify any affected Parties promptly upon becoming aware that its electronic mail system or other electronic means of communication cannot be used due to technical failure (and that failure is continuing for more than 36 hours). Until that Party has notified the other affected Parties that the failure has been remedied, all notices between those Parties shall be sent by fax or letter in accordance with this Clause 33 (Notice).
- (e) In the case of notification of Rates of Interest by the Agent pursuant to Clause 11.6 (Notification of Rates of Interest) and in the case of the delivery of any document by the Agent pursuant to paragraph (a) of Clause 27.2 (Duties of the Agent), the Agent may refer a Lender or an Obligor (by fax, letter or e-mail) to a web site and to the location of the relevant information on such web site in discharge of such notification or delivery obligation.

33.6. English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

34. Calculation and Certificates

34.1. Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document the entries made in the accounts maintained by the Agent and/or a Finance Party are prima facie evidence of the matters to which they relate.

34.2. Certificates and determinations

Any certification or determination by the Agent and/or a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

34.3.Day count convention

Any interest or fee payable to a Finance Party accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

35. Partial invalidity

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

36. Remedies and waivers

No failure to exercise, nor any delay in exercising, on the part of the Agent and/or any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

37. Amendments and waivers

37.1. Required consents

- (a) Subject to Clause 37.2 (Exceptions) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Obligors and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

37.2. Exceptions

- (a) An amendment or waiver that has the effect of changing or which relates to:
 - (i) the definition of "Majority Lenders" in Clause 1.1 (Definitions);
 - (ii) an extension to the date of payment of any amount under the Finance Documents;
 - (iii) a reduction in the Applicable Facility Fee, the amount of, or the currency of any payment of principal, interest or fees payable;
 - (iv) an increase in Commitment;
 - (v) a change to the legal entity that is the Borrower or Guarantor;
 - (vi) any provision which expressly requires the consent of all the Lenders; or
 - (vii) Clause 2.2 (Finance Parties' rights and obligations), Clause 21.1 (Financial Statements) except for reasonable extensions of periods for the submission of the statements under Clause 21.1 (b), Clause 25 (Changes to the Lenders), Clause 30 (Sharing among the Lenders) or this Clause 37 (Amendments and waivers),shall not be made without the prior consent of all the Lenders.
- (b) An amendment or waiver which relates to the rights or obligations of the Agent or the Mandated Lead Arranger may not be effected without the consent of the Agent or the Mandated Lead Arranger.

38. Counterparts

38.1. Multiple counterparts

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures an the counterparts were on a single copy of the Finance Document.

38.2. Complete originals

There shall only be two complete originals of the Finance Documents (other than the Mandate Letter). For these purposes "complete" means execution by each relevant Party to such Finance Document in any number of counterparts.

39. (intentionally omitted)

SECTION 11 GOVERNING LAW AND ENFORCEMENT

40. Governing law

This Agreement is governed by Austrian law excluding its conflicts of law rules.

41. Enforcement

41.1. Jurisdiction of Austrian Courts

- (a) The competent courts of Vienna have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a "Dispute").
- (b) This Clause 41.1 is for the benefit of the Finance Parties only. As a result, no Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

Signatories

Sappi Paper Holding AG

by:

Title:

Sappi International S.A.

by:

Title:

Bank Austria Creditanstalt AG

by:

Title:

Erste Bank der oesterreichischen Sparkassen AG

by:

Title:

Fortis Bank S.A.

by:

Title:

BNP Paribas S.A. Belgium Branche

by:

Title:

Bayerische Landesbank Girozentrale

by:

Title:

Baden-Württembergerische Bank AG

by:

Title:

Commerzbank Aktiengesellschaft Succursale de Bruxelles

by:

Title:

Investkredit Bank AG

by:

Title:

WestLB AG

by:

Title:

ABN AMRO BANK N.V.

Niederlassung Deutschland

by:

Title:

Barclays Bank plc

by:

Title:

Bank für Arbeit und Wirtschaft Aktiengesellschaft

by:

Title:

Österreichische Volksbanken-Aktiengesellschaft

by:

Title:

Credit Agricole Indosuez

by:

Title:

Raiffeisenlandesbank Oberösterreich registrierte
Genossenschaft mit beschränkter Haftung

by:

Title:

ING BHF-Bank Aktiengesellschaft Niederlassung Hannover

by:

Title:

Vorarlberger Landes- und Hypothekenbank
Aktiengesellschaft
by:
Title:

Salzburger Landes- und Hypothekenbank Aktiengesellschaft
by:
Title:

SCHEDULE 1: THE ORIGINAL LENDERS

<u>Name of Original Lender</u>	<u>Address</u>	<u>Tranche A Commitment</u>	<u>Tranche B Commitment</u>
Bank Austria Creditanstalt AG	Schottengasse 6-8, A-1010 Vienna, Austria	19,703,281.20	78,813,124.8
Erste Bank der oesterreichischen Sparkassen AG	Graben 21, A-1010 Vienna, Austria	14,980,000	59,920,000
Fortis Bank S.A.	3 Montagne du Prac, B-1000 Brussels, Belgium	5,320,000	21,280,000
BNP Paribas S.A. Belgium Branche	Avenue Louise 489, B-1050 Brussels, Belgium	5,320,000	21,280,000
Bayerische Landesbank Girozentrale	Brienner Straße 20, D-80333 Munich	5,320,000	21,280,000
Baden-Württembergerische Bank AG	Kleiner Schlossplatz 11., D-70173 Stuttgart, Germany	5,320,000	21,280,000
Commerzbank Aktiengesellschaft Succursale de Bruxelles	Boulevard Louis Schmidt 87, B-1040 Brussels, Belgium	5,320,000	21,280,000
Investkredit Bank AG	Renngasse 10, A-1013 Vienna, Austria	5,320,000	21,280,000
WestLB AG	Friedrichstraße 62-68, D-40217 Düsseldorf, Germany	5,320,000	21,280,000
ABN AMRO BANK N.V.	Theodor-Heuss-Allee 80	5,320,000	21,280,000
Niederlassung Deutschland	D-60486 Frankfurt am Main	5,320,000	21,280,000
Barclays Bank plc	54 Lombard Street, EC3P 3AH London, United Kingdom	5,320,000	21,280,000
Bank für Arbeit und Wirtschaft Aktiengesellschaft	Seitzergasse 2-4, A-1010 Vienna, Austria	3,920,000	15,680,000
Österreichische Volksbanken Aktiengesellschaft	Peregringasse 3, A-1090 Vienna, Austria	3,920,000	15,680,000
Credit Agricole Indosuez	9, Quai du President Paul Doumer, F-92920 Paris La Defense, France	3,920,000	15,680,000

Raiffeisenlandesbank Oberösterreich registrierte	Europaplatz 1a, A-4020 Linz, Austria	1,960,000	7,840,000
Genossenschaft mit beschränkter Haftung			
ING BHF-BANK Aktiengesellschaft Niederlassung Hannover	Georgsplatz 9, D-30159 Hannover, Germany	1,960,000	7,840,000
Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft	Hypo-Passage 1, A-6900 Bregenz, Austria	980,000	3,920,000
Salzburger Landes- und Hypothekenbank Aktiengesellschaft	Petersbrunnstraße 3, A-5020 Salzburg, Austria	798,000	3,192,000
		<u>100,021,281.20</u>	<u>400,085,124.80</u>
Total of Tranche A and Tranche B			500,106,406.00

SCHEDULE 2: CONDITIONS PRECEDENT

Conditions Precedent for Drawdown

1. Obligors

- (a) A certified copy of the constitutional documents of each Obligor.
- (b) A certified copy of a resolution of the board of directors of the Borrower and (ii) the board of the Guarantor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents and resolving that it executes the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, the Drawdown Request) to be signed and/or despatched by it under or in connection with the Finance Documents.
- (c) A copy of a resolution of the supervisory board of the Borrower approving the terms of, and transactions contemplated by, the Finance Documents to which it is a party and resolving that it executes the Finance Documents to which it is a party.
- (d) (intentionally omitted)
- (e) A certificate of the Borrower (signed by a director) confirming that borrowing the Facility would not cause any borrowing or similar limit binding on either Obligor to be exceeded.
- (f) A certificate of an authorised signatory of the relevant Obligor certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as of a date no earlier than the date of this Agreement.
- (g) Each of the Lenders shall have received bills of exchange duly accepted by the Borrower in the amounts and number required for the OeKB Refinancing.

2. Legal opinions

- (a) A legal opinion of Binder Grösswang Rechtsanwälte OEG, legal counsel licensed in Austria in form and substance reasonably satisfactory to the Agent.

- (b) A legal opinion of Freshfields Bruckhaus Deringer Brussels, legal counsel licensed in Belgium in form and substance reasonably satisfactory to the Agent.

3. OeKB

- (a) Each of the Lenders shall have received on the bills of exchange accepted by the Borrower in relation to the Facility a guarantee by "aval" of the Republic of Austria under the Austrian Export Guarantees Act 1981 ("Ausfuhrförderungsgesetz 1981").
- (b) Each of the Lenders and OeKB shall have concluded a refinancing agreement in relation to the Facility.
- (c) Receipt of payment from OeKB under the OeKB Refinancing.

4. Other documents and evidence

- (a) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 14 (Fees) and Clause 19 (Costs and expenses) have been paid or will be paid within 5 Business Days from the date of this Agreement.

- (b) A certificate of an authorised signatory of the Borrower that the Intercompany Financings (i) have been disbursed (such disbursement also evidenced by the respective bank confirmations) and (ii) are outstanding at least in the amount of the aggregate Loans.
- (c) A copy of any other authorisation or other document in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document required by law or which the Agent has reasonably requested from the Borrower until signing of this Agreement.
- (d) The SISA Guarantee duly executed by the Guarantor and the Agent.
- (e) The Initial Financial Statements.

SCHEDULE 3: REQUESTS

Drawdown Request

From: Sappi Papier Holding AG

To: Bank Austria Creditanstalt AG as Agent

Dated:

Dear Sirs,

Sappi Papier Holding AG–Euro 500,106,406 Facility Agreement dated May 7, 2003 (the "Facility Agreement")

1. We wish to borrow a Loan on the following terms

Proposed Drawdown Date: [] (or, if that is not a Business Day, the next Business Day)

Amount: []

2. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) of the Facility Agreement referred to above is satisfied on the date of this Drawdown Request.
3. The proceeds of this Loan should be credited to [account].
4. This Drawdown Request is irrevocable and signed at [].

Yours faithfully

authorised signatory for
SAPPI PAPIER HOLDING AG

SCHEDULE 4: MANDATORY COST FORMULA

1. The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with the requirements of the European Central Bank or the central bank of any other country arising after the date of this Agreement.
2. On the first day of each Interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the "Additional Cost Rate") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Agent as the net cost of complying with the minimum reserve requirements of the European Central Bank after taking into account remuneration payable to it by the European Central Bank under Council Regulation (EC) No. 2531/98 of 23 November 1998 and Council Regulation (EC) No. 2828/98 of 1 December 1998.
4. The Additional Cost Rate for any Lender lending from a Facility Office in country other than a Participating Member State will be the percentage notified by that Lender to the Agent as the net cost of complying with the minimum reserve requirements of the respective central bank.
5. Each Lender shall supply any information required by the Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information in writing on or prior to the date on which it becomes a Lender:
 - (a) its jurisdiction of incorporation and the jurisdiction of its Facility Office; and
 - (b) any other information that the Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Agent in writing of any change to the information provided by it pursuant to this paragraph.
6. The percentages or rates of charge of each Lender for the purpose of item 1 above shall be determined by the Agent based upon the information supplied to it pursuant to paragraphs 3 and 4 above and on the assumption that, unless a Lender notifies the Agent to the contrary, each Lender's obligations in relation to the requirements described in item 1 are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.
7. The Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender pursuant to paragraphs 3, 4 and 5 above is true and correct in all respects.
8. The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender pursuant to paragraphs 3 and 4

above.

9. Any determination by the Agent pursuant to this Schedule in relation to, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.
10. The Agent may from time to time, after consultation with the Borrower and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) or the central bank of any other country and any such determination shall, in the absence of manifest error, be conclusive and binding an all Parties.

SCHEDULE 5: FORM OF TRANSFER CERTIFICATE

To: Bank Austria Creditanstalt AG as Agent

From: [The Existing Lender] (the "**Existing Lender**") and [The New Lender] (the "**New Lender**")

Dated:

Sappi Papier Holding AG–Euro 500,106,406 Facility Agreement dated May 7, 2003 (the "Facility Agreement")

1. We refer to Clause 25.5 (Procedure of transfer) of the Facility Agreement:
 - (a) The Existing Lender and the New Lender agree to the Existing Lender and the New Lender [assigning/transferring] all or part of the Existing Lender's Commitment, rights and obligations referred to in the Schedule in accordance with Clause 25.5 (Procedure of transfer) of the Facility Agreement.
 - (b) The proposed Transfer Date is [].
 - (c) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 33.2 (Addresses) of the Facility Agreement are set out in this Schedule.
2. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in paragraph (c) of Clause 25.4 (Limitation of responsibility of Existing Lenders) of the Facility Agreement.
3. This Transfer Certificate is governed by Austrian law. All capitalized words and expressions, which are not expressly defined herein, shall have the meaning attributed to them in the Facility Agreement.
4. This Transfer Certificate is signed at [].

THE SCHEDULE

Commitment/rights and obligations to be transferred or assigned

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments]

[Existing Lender]

By:

[New Lender]

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as [].

[Agent]

By:

SCHEDULE 6: FORM OF COMPLIANCE CERTIFICATE

To: Bank Austria Creditanstalt AG as Agent

From: Sappi Papier Holding AG

Dated:

Dear Sirs,

Sappi Papier Holding AG–Euro 500,106,406 Facility Agreement dated May 7, 2003 (the "Facility Agreement")

1. We refer to the Facility Agreement. All capitalized words and expressions, which are not expressly defined herein, shall have the meaning attributed to them in the Facility Agreement. This is a Compliance Certificate.
2. We confirm that:
 - (i) in respect of the Quarter ending on [] and each of the three immediately preceding Quarters the mean average of EBITDA was [] and the mean average of Consolidated Net Interest Expense was []. Therefore EBITDA was [] times Consolidated Net Interest Expense and the covenant contained in sub-clause (a) of Clause 23.1 (Financial Covenants) [has/has not] been complied with;
 - (ii) in respect of the Quarter ending on [] and each of the seven immediately preceding Quarters the mean average of EBITDA was [] and the mean average of Consolidated Net Interest Expense was []. Therefore EBITDA was [] times Consolidated Net Interest Expense and the covenant contained in sub-clause (b) of Clause 23.1 (Financial Covenants) [has/has not] been complied with;
 - (iii) in respect of the Quarter ending on [] the Consolidated Capital of the Group was [] and the Consolidated Assets of the Group was [] as at the end of that Quarter. Therefore the Consolidated Capital of the Group was [] times the Consolidated Capital of the Group and the covenant contained in sub-clause (c) of Clause 23.1 (Financial Covenants) [has/has not] been complied with; and
 - (iv) in respect of the Quarter ending on [] Net Debt was [] and Capitalisation for such Quarter was [] as at the end of that Quarter. Therefore Net Debt at that time [was/was not] equal to or in excess of [] and the covenant contained in sub-clause (d) of Clause 23.1 (Financial Covenants) [has/has not] been complied with.
3. [As at [end of Quarter], the Material Subsidiaries are as follows: []

We confirm that the above companies account for at least 90 per cent of the Consolidated Earnings and at least 90 per cent of the Consolidated Assets (as such terms are defined in the definitions of Material Subsidiary set out in the Facility Agreement).]⁽¹⁾
4. [We confirm that no Default is continuing.]⁽²⁾_____

- (1) Paragraph 3 only included in the Annual Compliance Certificate, as such term is defined in the Facility Agreement.
- (2) If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

5. [The average of the ratios (calculated on the basis of the audited consolidated annual statements of the Group as of September 30, 2005 and as of September 30, 2006) of Net Debt to EBITDA of the Group does not exceed 3.0:1 / does exceed 3.0:1 due to a Securitisation Event, but does not exceed 3.5:1.]⁽³⁾
6. This Compliance Certificate is signed at [].

Signed:

Director for and on behalf of
Sappi Papier Holding AG

- (3) Required only in the Annual Compliance Certificate delivered with the financial statements for the financial year ending on September 30, 2006.

SCHEDULE 7: EXISTING SECURITY

<u>Name of Obligor</u>	<u>Security</u>	<u>Total Principal Amount of Indebtedness Secured</u>
<i>Sappi Fine Paper North America</i>		
–Town of Skowhegan/Michigan Strategic Fund/City of Westbrook	Land and Buildings	107m USD
<i>Sappi Alfeld</i>		
–Allianz AG	Assets	9m EUR
<i>Sappi Gratkorn</i>		
–Wasserwirtschaftsfonds	Bonds	9m EUR

SCHEDULE 8: FORM OF POWER OF ATTORNEY

To Bank Austria Creditanstalt AG

Re:

Dated: , 2003

POWER OF ATTORNEY

We, [...*Bank*...] a legal entity duly organised under the laws of [...*country of incorporation*] and registered with the commercial register at under [...*number of registration*], with principal place of business in [...*address*] ("Bank"), hereby authorise and appoint Bank Austria Creditanstalt AG, Schottengasse 6, 1010 Vienna ("Attorney") in connection with (i) the EUR [500,106,406] Credit Facility Agreement, concluded between Sappi Papier Holding AG Austria, as borrower, Sappi International S.A. as Guarantor and Bank Austria Creditanstalt AG, as mandated lead arranger and agent, and the syndicate of banks as listed in the afore mentioned Credit Facility Agreement and (ii) the respective refinancing agreement concluded between the Bank and Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB") (the "Refinancing Agreement") to:

- 1) demand and receive payments from OeKB under the Refinancing Agreement upon receipt of a drawdown notice from the Borrower; and
- 2) to make to the Bank's account with OeKB all re-payments of principal and payments of interest and fees under the Refinancing Agreement upon receipt of the relevant funds from the borrower; and
- 3) do all other acts and things and sign, execute and deliver any and all other documents and give all notices which may be required or which the Attorney shall in its absolute and unfettered discretion consider desirable thereto in connection with clauses 1. and 2. hereof.

The Bank shall indemnify the Attorney and keep the Attorney indemnified against any and all reasonable costs, claims and liabilities which the Attorney may incur as a result of anything done by the Attorney in the exercise of any of its powers conferred, or purported to be conferred, on him by this Power of Attorney.

The Attorney shall be entitled to grant sub-powers of attorney.

The authority conferred on the Attorney by this Power of Attorney shall terminate on [... *insert date*].

This Power of Attorney is governed by, and shall be construed in accordance with, Austrian law.

IN WITNESS WHEREOF this Power of Attorney has been executed by the Bank and is intended to be made on the date above written.

By:

Title:

Note: *Unless the signatories can be verified from a signatories' book of the Bank, a notary public has to certify as to the authenticity of the signatures and his/her/their authority to validly represent the Bank, a company duly incorporated and validly existing, upon the issuance of this power of attorney.*

SCHEDULE 9: FORM OF CONFIDENTIALITY UNDERTAKING

From: [Proposed Transferee]

To: Sappi Papier Holding AG

[] 200[]

Facility Agreement dated May 7, 2003 among (1) Sappi Papier Holding AG as Borrower (2) Sappi International S.A. as Guarantor (3) Bank Austria Creditanstalt AG as Agent and (4) certain Lenders named therein (the "Facility Agreement")

1. We refer to the Facility Agreement. All capitalized words and expressions, which are not expressly defined herein, shall have the meaning attributed to them in the Facility Agreement.
2. Subject as provided below, we undertake to keep confidential and undertake not to, without your prior written consent, (i) disclose any information (other than information which is publicly available other than as a result of a breach of this letter) supplied by or on behalf of Sappi Papier Holding AG, or (ii) use any such information other than in relation to the Facility. However, you agree that we are entitled to disclose information:
 - (a) in connection with any legal proceedings arising out of or in connection with the Facility Agreement or any audit requirement;
 - (b) if required to do so by an order of a court of competent jurisdiction whether under any procedure for discovering documents or otherwise;
 - (c) pursuant to any law or regulation in accordance with which we and/or any of our affiliates and/or subsidiaries are required or accustomed to act;
 - (d) to a governmental banking, taxation or other regulatory authority of any competent jurisdiction;
 - (e) to our accountants or legal or other professional advisers in connection with this letter or the Facility;
 - (f) which, after such information has been made available to us, becomes generally available to third parties by publication or otherwise through no breach of this letter;
 - (g) which was lawfully in our possession or in the possession of our advisers prior to such disclosure and which was not acquired directly or indirectly from any Group Company or Sappi Group Company;
 - (h) the disclosure of which is made to any of our affiliates in circumstances where it is our usual practice to make such disclosure or where such disclosure is required as part of our management or reporting policies;

- (i) where such disclosure is, in our reasonable opinion, required, following the occurrence of a Default, to protect our position, or to assist in the recovery of amounts, under the Facility Agreement; or
 - (j) where such disclosure is made to the Agent, the Mandated Lead Arranger or any Lender.
- 3. The obligations in this letter shall cease (a) if we become a party to or otherwise acquire (by assignment or sub participation) an interest, direct or indirect in the Facility or (b) twelve months after we have returned all information received by you relating to the Facility (other than such information which has been disclosed under paragraph 2 above).
- 4. This letter sets out the full extent of our obligations of confidentiality owed to you in relation to the information with respect to the Facility. The terms of this letter and our obligations under this letter may only be amended or modified by written agreement between us.
- 5. (a) The terms of this letter may be enforced and relied upon only by you and us.

(b) Notwithstanding any provisions of this letter, the parties to this letter do not require the consent of any other person to rescind or vary this letter at any time.

6. This letter (including the agreement constituted by your acknowledgement of its terms) shall be governed by and construed in accordance with the laws of Austria and the parties submit to the exclusive jurisdiction of the common courts in Vienna.
7. This letter is signed at [].

Please countersign this letter to confirm your agreement to its terms.

Yours faithfully,

[name of proposed Transferee]

SCHEDULE 10: APPLICABLE FACILITY FEE

The Applicable Facility Fee shall be calculated as follows:

- (a) During the Availability Period, the Applicable Facility Fee shall be 0.50 per cent per annum.
- (b) After the end of the Availability Period, the Applicable Facility Fee shall be a rate determined by the Agent at the end of any Interest Period for the next succeeding Interest Period according to the following table:

Standard & Poors credit rating for Sappi	Applicable Facility Fee per annum
A or higher	0.20 per cent
A-	0.30 per cent
BBB+	0.40 per cent
BBB	0.50 per cent
BBB-	0.60 per cent
Below BBB-	1.00 per cent

From the time a Standard & Poor credit rating is available for the Borrower, such credit rating shall apply.

If neither for Sappi nor for the Borrower a Standard & Poors credit rating is available, the above table shall without further action or analysis refer to the equivalent ratings used by Moody's.

If neither Standard & Poors nor Moody's nor an equivalent rating agency reasonably acceptable to the Agent publishes a credit rating for Sappi or the Borrower, the applicable credit rating shall be deemed to be "Below BBB-".

SCHEDULE 11: FORM OF GUARANTEE

Form of irrevocable, unconditional guarantee for payment

This guarantee is dated the [] day of [], 200[] and made between:

- (1)** SAPPI INTERNATIONAL S.A. (the "Guarantor") and
- (2)** BANK AUSTRIA CREDITANSTALT AG (the "Agent").

It is hereby agreed as follows:

1. Preamble

SAPPI PAPIER HOLDING AG has entered into a facility agreement dated May 7, 2003 among (1) Sappi Papier Holding AG as Borrower (2) Sappi International S.A. as Guarantor (3) Bank Austria Creditanstalt AG as Agent and (4) certain Lenders named therein (the "Facility Agreement"), whereby the Lenders will on the terms and subject to the conditions therein contained, advance to the Borrower funds for the purpose as defined in the Facility Agreement. The Guarantor has agreed to guarantee the payment obligations of the Borrower under the Facility Agreement.

All capitalized words and expressions, which are not expressly defined herein, shall have the meaning attributed to them in the Facility Agreement.

2. Guarantee

The Guarantor hereby irrevocably and unconditionally guarantees to the Agent for the benefit of the Lenders and the Agent, as principal obligor and not merely as surety, the payment when due of all amounts stated by the Agent to be owed by the Borrower to the Lenders under the Facility Agreement.

3. Immediate Recourse

The Guarantor waives any right it may have of first requiring the Lenders to proceed against or enforce any other rights or security of or claim payment from the Borrower or any other person before claiming from the Guarantor hereunder.

4. Payment

- 4.1** The Guarantor agrees to pay from time to time on first demand by the Agent against delivery by letter or tested telex to the Guarantor of a demand stating that (i) a specified amount has become due and payable by the Borrower under the Facility Agreement and (ii) has not been paid by the Borrower within five days after the due date.

If such demand is delivered to the Guarantor, then, on the fifth Business Day after the date of delivery of such demand, the Guarantor shall pay without review on the underlying legal relationship and waiving all defenses thereunder the amounts specified in such certificate and demand (including principal, interest, default interest, fees and ancillary claims) exclusively to the account or the accounts (as the case may be) designated by the Agent.

- 4.2** All payments to be made by the Guarantor hereunder shall be made free and clear of and without deduction for or on account of any set-off, counterclaim or withholding taxes.

If the Guarantor is required by law to make such deductions, the sum payable by the Guarantor shall be increased by such amounts as may be necessary in order that the net amounts remaining after such deduction shall equal the respective amounts due hereunder.

4.3 If the Guarantor makes a Tax Payment and the relevant Finance Party determines that:

- (a)** a Tax Credit is attributable to that Tax Payment; and
- (b)** that Finance Party has obtained, utilised and retained that Tax Credit, on a consolidated group basis,

the Finance Party shall pay an amount to the Guarantor which that Finance Party determines in its absolute discretion will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Guarantor.

4.4 The repayment obligation of a Finance Party pursuant to clause 4.3 above shall not become due before the Guarantor has fulfilled its payment obligations under a demand hereunder and shall in no event reduce the payment obligation of the Guarantor under a demand hereunder.

4.5 The Agent may from time to time make one or more demands for payment under this Guarantee.

5. *Non-competition*

So long as any amounts are or may be owed by the Borrower under the Facility Agreement, the Guarantor shall not by virtue of any payment made, security realised or moneys received for or on account of the Guarantor's liability hereunder:

- a) be subrogated to any rights, security or moneys held, received or receivable by the Lender or be entitled to any right of contribution;
- b) be entitled and shall not claim to rank as creditor in the bankruptcy or liquidation of the Borrower in competition with the Lenders;
- c) receive, claim or have the benefit of any payment, distribution or security from or on account of the Borrower or exercise any right of set-off as against the Borrower or any other person or claim the benefit of any security or moneys held by or for the account of the Lenders;

The Guarantor shall forthwith pay to the Lenders an amount equal to any such set-off in fact exercised by it and shall hold in trust for and forthwith pay or transfer, as the case may be, to the Lenders any such payment or distribution or benefit of security in fact received by it.

6. *Preservation of Rights*

The obligations of the Guarantor herein contained shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any sums of money by the Borrower is rescinded or must otherwise be returned by the Lender upon the insolvency, bankruptcy or reorganisation of the Borrower, or otherwise, all as though such payment had not been made.

7. *Transferability, Assignment*

The Guarantor may not assign or transfer the whole or part of its obligations hereunder without the prior written consent of the Agent acting on the instructions of all Lenders.

If a new agent is appointed in accordance with Clause 27.11 of the Facility Agreement (Resignation of the Agent), the resigning agent may without the Guarantor's consent assign all or any part of its rights hereunder. In any other case, the Agent may not assign its rights hereunder except with the prior written consent of the Guarantor.

8. *Duration*

This Guarantee shall be valid so long as any amounts under the Facility Agreement are or may be outstanding.

9. *No Immunity*

To the extent that the Guarantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process with respect to itself or its property, the Guarantor hereby irrevocably waives such immunity in respect of its obligations under this Guarantee.

10. *Partial Invalidity, Governing Law*

If, at any time, any provision of this agreement is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

This Agreement is governed by Austrian law excluding its conflicts of law rules.

The competent courts of Vienna shall have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a "Dispute").

This Clause 10. is for the benefit of the Agent and the Lenders only. As a result, the Agent shall not be prevented from taking proceedings relating to a dispute in any other courts with jurisdiction. To the extent allowed by law, the parties to this agreement may take concurrent proceedings in any number of jurisdictions.

Place/Date

For and on behalf of
Sappi International S.A.

For and on behalf of
Bank Austria Creditanstalt AG

by: _____ by: _____

SCHEDULE 12: MATERIAL SUBSIDIARIES

30 March 2003 Sappi Papier Holding Group

<u>Company Name</u>	<u>***</u>	<u>Country of Incorporation</u>	<u>Address</u>	<u>Effective Holding %</u>	<u>Total Assets* Sep.02</u>	<u>EBIT** 12 months to Sep.02</u>
(EURO millions)						
Sappi Gratkorn GmbH	O	Austria	Brucker Strasse 21, A-8101 Gratkorn, Austria	100	46.4	3.2
Sappi Austria Produktions GmbH & Co KG	O	Austria	Brucker Strasse 21, A-8101 Gratkorn, Austria	100	731.8	99.9
Sappi Austria Vertriebs GmbH & Co KG	O	Austria	Brucker Strasse 21, A-8101 Gratkorn, Austria	100	3.9	0.7
Sappi International SA	O	Belgium	154 Chaussee de la Hulpe, B-1170 Brussels, Belgium	42.8****	1,255.9	5.4
Sappi Lanaken NV	O	Belgium	Montaigneweg 2, B-3620, Lanaken, Belgium	100	425.6	17.7
Sappi Lanaken Press Paper NV	O	Belgium	Montaigneweg 2, B-3620, Lanaken, Belgium	100	1,063.8	26.7
Sappi Alfeld AG	O	Germany	Mühlenmasch 1, D-31061 Alfeld, Germany	99.9	413.8	15.9
Sappi Ehingen AG	O	Germany	Biberacher Strasse 73, D089584, Ehingen, Germany	95.9	209.2	18.2
Sappi Belgium Holding BV	H	Netherlands	Biesenweg 16, NL-6211 AA Maastricht, The Netherlands	100	389.4	–
Sappi Maastricht BV	O	Netherlands	Biesenweg 16, NL-6211 AA Maastricht, The Netherlands	100	197.4	25.3
Sappi Netherlands BV	H	Netherlands	Erasmusdomein 50, NL-6229 BL Maastricht, The Netherlands	100	222.3	–
Sappi Nijmegen BV	O	Netherlands	Ambachtsweg 2, NL-6541 DB Nijmegen, The Netherlands	100	90.4	4.3
Sappi Deutschland Holding GmbH	H	Germany	Mühlenmasch 1, D-31061 Alfeld, Germany	100	326.7	(0.1)

S D Warren Company	O	USA	225 Franklin Street, Boston, Massachusetts, 02110, USA	100	1,755.3	0.5
TOTAL					7,131.9	217.7

* Total assets = current assets + non-current assets

** EBIT = Trading income (excluding non-operating income)

*** O = Operating Company H = Holding Company

**** The direct and indirect beneficial holding by Sappi amounts to 100%

USD/EURO rate period end: 1.0869

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DATED 29 SEPTEMBER, 2008

M-REAL CORPORATION AND OTHERS

and

SAPPI LIMITED AND OTHERS

MASTER BUSINESS AND SHARE SALE AND PURCHASE AGREEMENT

relating to the sale and purchase of the
M-real Graphic Paper Business

Slaughter and May
One Bunhill Row
London EC1Y 8YY
(ACC/JRYC)

CA081780036

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THIS MASTER BUSINESS AND SHARE SALE AND PURCHASE AGREEMENT
is made this 29th DAY OF SEPTEMBER, 2008

BETWEEN:

1. M-REAL CORPORATION, a company incorporated in Finland whose registered office is at Revontulentie 6, 02100 Espoo, Finland (P.O. Box 20, FIN-02020 Metsä, Finland) (registered in Finland with No. 0635366-7) ("**M-real**");

AND

2. **EACH OF THE SHARE SELLERS AND BUSINESS SELLERS** whose names are set out in Schedule 13 (together with M-real, the "**Relevant Sellers**" or "**Sellers**");

AND

3. SAPPI LIMITED, a company incorporated in the Republic of South Africa whose registered office is at Sappi House, 48 Ameshoff Street, Braamfontein, Johannesburg, South Africa ("**Sappi**" or "the **Purchaser**");

AND

4. EACH OF THE SHARE PURCHASERS AND BUSINESS PURCHASERS whose names are set out in Schedule 13 (together with Sappi, the "**Relevant Purchasers**" or "**Purchasers**").

WHEREAS:

- (A) The Relevant Sellers (each as to the Shares or any of the Business Assets, as the case may be, set out against its name in Schedule 13) have agreed to sell the Graphic Paper Business and to assume the obligations imposed on the Relevant Sellers under this Agreement.
- (B) The Relevant Purchasers (each as to the Shares or any of the Business Assets, as the case may be, set out against its name in Schedule 13) have agreed to purchase the Graphic Paper Business and to assume the obligations imposed on the Relevant Purchasers under this Agreement.
- (C) Certain Relevant Sellers and certain Relevant Purchasers have agreed to enter into certain of the Transaction Documents as set out in the Attachments to this Agreement.
- (D) M-real and Sappi have a definitive plan to sell the Coaters.

WHEREBY IT IS AGREED as follows:-

1. **INTERPRETATION**

- (A) Certain words and expressions used in this Agreement are defined in Schedule 1.
- (B) The Schedules and Attachments form part of this Agreement and shall have the same force and effect as if set out in the body of this Agreement and any reference to this Agreement shall include the Schedules and Attachments.

2. **SALE AND PURCHASE OF BUSINESS ASSETS**

2.1 On the terms of, and subject to the conditions, set out in this Agreement, the Relevant Sellers shall sell and the Relevant Purchasers shall purchase the Business comprising the assets listed below as a going concern as at, and with effect from, the Completion Date:

- (i) the Business Goodwill;
- (ii) the Business Plant and Machinery;
- (iii) the Business Stocks;
- (iv) the Business Receivables;
- (v) the benefit (subject to the burden) of the Business Contracts;
- (vi) subject to clause 2.5, the Business Intellectual Property;
- (vii) the Business Properties;
- (viii) without prejudice to clause 28 , the Business Information and Books and Records;
- (ix) the benefit (so far as the same can lawfully be assigned or transferred to the Relevant Purchasers) of the Claims (less any costs incurred by the Relevant Seller in effecting such assignment or transfer (including, without limitation, any increases in premiums or the loss of any benefit in relation to any insurance arrangement of any member of the Sellers' Group)); and
- (x) any monetary amounts received by the Relevant Sellers (so far as the same can lawfully be assigned or transferred to the Relevant Purchasers) of any claim under an insurance policy (less any costs incurred by the Relevant Seller in effecting such assignment or transfer (including, without limitation, any increases in premiums or the loss of any benefit in relation to any insurance arrangement of any member of the Sellers' Group)) to the extent such claim relates to any Business Asset or Assumed Liability, but not to the extent that any such claim relates to any Losses which have been made good prior to Completion or are recoverable under an indemnity by the Relevant Sellers to the Relevant Purchasers under this Agreement,

(together the "**Business Assets**"), but excluding the following assets (the "**Excluded Assets**"):

- (a) the Kangas PM2;
- (b) any element of the Business Assets set out in this clause 2.1 (i), (iii), (iv), (v), (vi), (viii), (ix) and (x) in each case that relates to the Relevant Sellers' business and operation in South Africa;
- (c) cash in hand or cash at the bank used in the Business, including all cash pooling arrangements as shown in the cash book of M-real or any other member of the Sellers' Group, prepared in accordance with normal cut-off procedures as at the close of business on the Completion Date;

- (d) amounts recoverable in respect of Taxation (including, for the avoidance of doubt, all sums due or recoverable (whether by way of credit, deduction, refund or otherwise) as relate to Finnish VAT in connection with the supply of goods and services or the purchase of raw materials and other goods and services of the Mill Business) attributable to periods of time ending on or before Completion, or in respect of any acts, events or transactions occurring on or before Completion;
- (e) the benefit of any insurance policy of the Seller or any other member of the Sellers' Group relating to any member of the Group, the Business or any of the Business Assets or Business Employees;
- (f) the Sellers' Marks; and
- (g) without prejudice to the Thosca Holz Option Letter, any shares owned by any member of the Sellers' Group.

2.2 As at, and with effect from, the Completion Date, the Relevant Purchasers will assume the Assumed Liabilities.

2.3 M-real has the right to transfer, or the right to procure that the Relevant Sellers transfer the legal and beneficial title to the Business Assets and, except as provided for in Schedule 9, sell or procure the sale of the Business Assets free from Encumbrances (excluding the Business Intellectual Property which M-real sells or procures the sale of free from all options, charges and liens) and all other rights exercisable by or claims of third parties.

2.4 Notwithstanding any other provisions of this Agreement, each member of the Sellers' Group shall retain its rights, title and interest in and to, and no member of the Purchaser's Group shall pursuant to this Agreement obtain any rights, title or interest in or to, the Excluded Assets.

2.5 Clause 2.1 shall operate as an assignment of such of the Business Intellectual Property as is not the subject of a registration or an application for registration (including, for the avoidance of doubt, the unregistered marks "**MEGA**", "**EUROBULK**", "**GALERIE BRITE**", "**GALERIE LITE**", "**ALLEGRO**" and "**FURIOSO**") with effect from Completion. All Business Intellectual Property which is registered or which is the subject of an application for registration shall be assigned to the Relevant Purchasers pursuant to the Business Intellectual Property Assignments.

2.6 The Law of Property (Miscellaneous Provisions) Act 1994 shall not apply for the purposes of clause 2.1.

3. **SALE AND PURCHASE OF THE SHARES AND RECEIVABLES**

3.1 On the terms of, and subject to the conditions set out in, this Agreement (including, for the avoidance of doubt, clause 4.6), Deutsche Holding shall sell or procure the sale and the Relevant Purchaser shall purchase or procure the purchase of, the legal and beneficial interest in the German Shares as at and with effect from Completion, together with all rights attached or accruing to them at Completion.

3.2 On the terms of, and subject to the conditions set out in, this Agreement, NL Holding shall sell or procure the sale and the Relevant Purchaser shall purchase or procure the purchase of, the legal

and beneficial interest in the Biberist Shares as at and with effect from Completion, together with all rights attached or accruing to them at Completion.

3.3 The Shares shall be sold free from all Encumbrances and all other rights exercisable by or claims of third parties.

3.4 The Relevant Sellers shall procure that on or prior to Completion any and all rights of pre-emption over the Shares are waived irrevocably by the persons entitled thereto.

3.5 Against payment of an amount equal to the Estimated Inter-Group Debt at the Completion Time, and subject to any relevant adjustments in accordance with clause 8 only, each Relevant Seller shall sell and assign, and M-real shall procure that any relevant member of the Sellers' Group who is not a Relevant Seller shall sell and assign, the legal and beneficial interest in the receivables which comprise Inter-Group Debt to the Relevant Purchasers who shall purchase or procure the purchase of such receivables.

3.6 The Law of Property (Miscellaneous Provisions) Act 1994 shall not apply for the purposes of this clause 3.

4. **CONDITIONS**

- 4.1 The obligations of each party under this Agreement (other than those contained in this clause 4, clause 6, clauses 20.7 to 20.8, clauses 34 to 42 and clauses 46 to 51 which are unconditional) are conditional in all respects upon the conditions set out in Schedule 2 being satisfied or waived in accordance with this Agreement.
- 4.2 Without prejudice to the generality of clause 4.3, Sappi undertakes and agrees with the Relevant Sellers that:
- (i) it will post a circular to the shareholders of Sappi (the “**Sappi Circular**”) as soon as reasonably practicable and in any event within 14 days of the date of this Agreement; and
 - (ii) the Sappi Circular will contain:
 - (a) a notice duly convening a general meeting of Sappi referred to in paragraph 1 of Schedule 2, such notice to include the resolution(s) substantially in the form referred to in paragraph 1 of Schedule 2;
 - (b) (subject to the fiduciary duties of the directors of Sappi) a recommendation from the directors of Sappi to its members to vote in favour the resolution(s) substantially in the form referred to in paragraph 1 of Schedule 2; and
 - (c) to the extent it has obtained and can lawfully disclose the same, details of the undertakings or other commitments of the major shareholders of Sappi who have committed to subscribe for Sappi Shares in, or otherwise support, the Rights Issue.
-

- 4.3 Each of the Relevant Sellers and the Relevant Purchasers will use all reasonable endeavours to fulfil or procure the fulfilment of the conditions set out in Schedule 2 as soon as possible and in any event by the Termination Date. M-real (acting on behalf of the Sellers) and Sappi (acting on behalf of the Purchasers) shall, on becoming aware, immediately give written notice to the other of:
- (i) the fulfilment of each and any of the conditions set out in Schedule 2 of this Agreement; and
 - (ii) any circumstances which could reasonably be expected to prevent any of the conditions set out in Schedule 2 from being satisfied or which could reasonably be expected to delay the fulfilment of such conditions.
- 4.4 For the purpose of satisfying the conditions set out in paragraphs 2 and 3 of Schedule 2, the reasonable endeavours referred to in clause 4.3 shall include the making of the requisite filings as soon as is practicable to the European Commission and Relevant Competition Authorities in the United States and Turkey and in this respect shall include the co-operation between M-real, on behalf of the Sellers' Group, and Sappi, on behalf of the Purchaser' s Group, in any process involving the European Commission or any relevant Competition Authority in the United States or Turkey, such co-operation shall include, without limitation (subject to appropriate protection in respect of confidential information), the provision of information, the communication of documents and the submission of arguments in good time.
- 4.5 Without prejudice to the generality of the foregoing each of M-real, on behalf of the Sellers' Group, and Sappi, on behalf of the Purchaser' s Group, shall in connection with the preparation and submission of Submissions to the European Commission or any relevant Competition Authority in the United States or Turkey:
- (i) consult with each other as to the form and content of any Submissions;
 - (ii) procure that relevant drafts or re-drafts of any Submissions are provided as soon as practicable and in sufficient time to allow the other party and its advisers to review and provide comments on such drafts and re-drafts;
 - (iii) take account of the reasonable comments of the other party and its advisers on such drafts and re-drafts;
 - (iv) disclose promptly to the other party copies of all correspondence from and details of any discussions with the European Commission or any relevant Competition Authority which has been provided to the Sellers' Group or the Purchaser' s Group and/or their respective advisers;
 - (v) procure that the other party and/or its advisers are given a reasonable opportunity to attend all meetings or hearings and to participate in all significant discussions with the European Commission or any relevant Competition Authority;
 - (vi) regularly review with each other the progress of any notifications or filings; and

- (vii) keep the other party informed promptly of any developments which are material or potentially material to the obtaining of the approvals, referred to in paragraphs 2 and 3 of Schedule 2,

PROVIDED THAT where a Submission includes information which is reasonably considered by a party to be competitively sensitive that party may at its option provide such information only to the other party's legal advisers on an external counsel basis.

4.6 After M-real has received notice of the fulfilment or waiver of each of the conditions set out in Schedule 2, M-real shall cause Deutsche Holding to take all reasonably necessary steps to ensure that the fiscal year of Stockstadt GmbH is shortened, if the Completion Date falls prior to or after 31 December, 2008, such that it ends on the Completion Date. M-real shall further procure and take all necessary steps to ensure that the existing Profit and Loss Pooling Agreement existing between Deutsche Holding and Stockstadt GmbH is terminated with legal effect as of the end of the Completion Date, provided, however, that (i) Deutsche Holding shall be entitled to receive the profit, if any, under the Profit and Loss Pooling Agreement for the period from 1 January, 2008 until the end of the Completion Date and the respective liability, if any, of Stockstadt GmbH shall be treated as a debt owed by it to Deutsche Holding (such debt being, for the avoidance of doubt, within the definition of Inter-Group Debt) and (ii) Stockstadt GmbH shall be entitled to any claim for compensation of loss, if any, under the Profit and Loss Pooling Agreement for the period from 1 January, 2008 until the end of the Completion Date and the respective claim, if any, of Stockstadt GmbH shall be treated as a debt owed to it by Deutsche Holding (such debt being, for the avoidance of doubt, within the definition of Inter-Group Receivables), it being understood that the liability or claim of Stockstadt GmbH, as the case may be, shall be determined in accordance with the Stockstadt Statutory Accounts and included in the Completion Statements with such amount.

4.7 The conditions set out in paragraph 1, 4, 5, 7 and 8 of Schedule 2 shall not be capable of waiver by any party.

4.8 The conditions set out in paragraph 6 of Schedule 2 shall be capable of waiver in whole or in part by Sappi only.

5. TERMINATION RIGHTS

5.1 Sappi shall be entitled to terminate this Agreement by written notice to M-real if there shall have occurred or be reasonably likely to occur a “**Significant Adverse Change**” in the period between the date of this Agreement and Completion which is not capable of remedy pursuant to arrangements satisfactory to Sappi (acting reasonably) EXCLUDING in any such case any change, event or circumstance resulting from:

- (i) changes in international or national financial, monetary, economic, political or financial markets conditions (including without limitation interest rates, exchange rates or commodity prices) however arising;
- (ii) any national emergency, act of terrorism, war, conflict, outbreak of hostilities or riot or other civil disturbance;
- (iii) changes in conditions affecting the paper industry generally;

- (iv) changes in laws, regulations and accounting practices;
- (v) matters fairly disclosed in the Disclosure Letter;
- (vi) the negotiation, execution, announcement or performance of this Agreement or any other Transaction Document, or any arrangements contemplated by those agreements (including, without limitation, any prospective or actual change of control arising from the transaction documents); or
- (vii) actions contemplated or required to be taken or omitted to be taken pursuant to this Agreement or any other Transaction Document or with Sappi's consent.

5.2 If the conditions set out in paragraph 2 of Schedule 2 are not fulfilled or waived on or before 11 January, 2009, M-real and Sappi will enter into a good faith negotiation for a period ending on 31 January, 2009 regarding the fulfilment of the conditions in paragraph 2 of Schedule 2. If, by the end of the above mentioned negotiation period, M-real and Sappi do not reach a mutually acceptable agreement, either party shall be entitled, at its sole and absolute discretion, to terminate this Agreement forthwith, at any time, by written notice to the other parties. Any such termination shall not affect M-real's rights under clause 40.

5.3 If any fact which will prevent the conditions set out in paragraphs 2, and 3 of Schedule 2 from being satisfied on or before the Termination Date comes to the knowledge of a party, then the relevant party shall inform the other parties and thereafter each party shall be entitled to terminate this Agreement by written notice to the other parties.

5.4 Without prejudice to clause 5.2, if the conditions set out in Schedule 2 are not fulfilled or waived on or before the Termination Date, this Agreement shall automatically terminate.

5.5 If the Agreement is terminated or terminates in accordance with this clause 5 the obligations of each party under this Agreement shall automatically terminate PROVIDED THAT the rights and liabilities of the parties which have accrued prior to termination shall subsist.

6. CONDUCT OF BUSINESS BEFORE COMPLETION

- 6.1 Subject to clause 6.2, the Relevant Sellers shall procure that the Graphic Paper Business will be carried on in the ordinary and usual course and that no member of the Sellers' Group shall, between the date of this Agreement and Completion, undertake any act or course of conduct which is outside the ordinary course of the Graphic Paper Business. The Relevant Sellers shall procure that no member of the Sellers' Group shall undertake any of the acts or matters specified in clause 6.3 without the prior written consent of the Relevant Purchasers, (such consent not to be unreasonably withheld or delayed).
- 6.2 Clause 6.1 shall not operate so as to restrict or prevent, in each case in relation to the Graphic Paper Business:
- (i) the disposal of all or of any part of the Kangas PM2;
 - (ii) the undertaking in good faith of any matter reasonably necessary in an emergency or disaster situation with the intention of minimising any adverse effect on the Graphic Paper Business thereof (and of which the Relevant Purchasers will be promptly notified);

- (iii) the completion or performance of any obligations undertaken pursuant to any contract or arrangement entered into by any member of the Sellers' Group prior to the date of this Agreement or after the date of this Agreement but in accordance with the provisions of clause 6.1;
- (iv) any matter undertaken at the written request of the Relevant Purchasers, provided that the Relevant Purchasers shall only be entitled to give instructions where following such instructions would be lawful (in particular under competition law aspects);
- (v) any matter reasonably required to be undertaken in connection with the completion of the Pre-sale Reorganisation;
- (vi) any Sellers' Group cash pooling arrangements or hedging (in relation to energy agreements);
- (vii) any matter contemplated by this Agreement or any action taken by the Relevant Sellers or any member of the Sellers' Group pursuant to this Agreement;
- (viii) any action or omission which the Relevant Sellers or any member of the Sellers' Group is required to take or omit to take by any applicable law or regulation, Tax Authority or other authority;
- (ix) the management of the working capital of the Graphic Paper Business with a view to achieving the Target Net Working Capital amount and then maintaining it at or around that amount;
- (x) any disposal of stocks, obsolete assets or redundant assets, or any payment of cash in each case consistent with ordinary course business practice in the running of the Graphic Paper Business;
- (xi) the release or discharge of any charge or Encumbrance over any of the Business Properties; and
- (xii) entering into arrangements for the purposes of settling or agreeing merchant rebates providing that the Relevant Sellers shall consult with the Relevant Purchasers in settling or agreeing the same if they may lawfully do so.

6.3 The acts and matters referred to in clause 6.1 as outside the ordinary course are the following and in each case in relation to the Graphic Paper Business:

- (i) any disposal (not being a disposal in the ordinary course of business) of any interest in any part of the Graphic Paper Business;
- (ii) the acquisition or disposal of any interest in Immovable Property;
- (iii) any offer by a member of the Sellers' Group to engage any new Senior Employee at any annual salary or fee per employee (on the basis of full time employment) in excess of 150,000 per annum, provided such a total shall not exceed 600,000 in aggregate, in each case exclusive of any amount in respect of VAT;

- (iv) save than in emergency, enter into any agreement or incur any commitment involving any capital expenditure in excess of 1,000,000 per item and 10,000,000 in aggregate, in each case exclusive of any amount in respect of VAT;
- (v) any dismissal of any Senior Employee, other than for cause or unless not to do so would, in the reasonable opinion of M-real, materially damage the Graphic Paper Business;
- (vi) acquire or agree to acquire any material share, shares or other interest in any company, partnership or other venture;
- (vii) incur any additional external borrowings or incur any other external indebtedness;
- (viii) any material amendment to the terms and conditions of employment (including, without limitation, remuneration, pension entitlements and other benefits) of any Senior Employee;
- (ix) other than the payment of any bonuses in connection with the transaction contemplated by this Agreement, provide or agree to provide any gratuitous payment or benefit to any Employee or any of his dependants;
- (x) discontinue or amend any employee benefit scheme or arrangement to any material extent or commence to wind them up or terminate them or cause them to cease to admit new members;
- (xi) communicate to any Employee any material plan, proposal or intention to discontinue, amend, wind up, terminate or exercise any discretion in relation to any employee benefit scheme or arrangement;
- (xii) pay any benefits under any employee benefit scheme or arrangements otherwise than in accordance with the terms of the documents governing such scheme or arrangements (and not under any discretionary power otherwise than in the ordinary course);
- (xiii) save than in the ordinary course and in respect of the transactions contemplated by this Agreement (including in respect of agreements or commitments in respect of the Coaters), the entry into any agreement or commitment (whether formal or informal) with any employee representative body (howsoever described, and whether legally binding or otherwise);
- (xiv) save for the Mill Business Efficiency Programme, any increase or decrease (other than as a result of natural attrition or pursuant to a programme disclosed to Sappi) in the total number of Employees at each location of the Graphic Paper Business outside a margin of +/-2% of the total number of Employees at each such location;
- (xv) any material changes to pension arrangements for which the Graphic Paper Business is liable or termination of funds or announcements to staff of the same;
- (xvi) any amendment, including any increase in emoluments (including, without limitation, pension contributions, bonuses, commissions, holiday pay and benefits in kind), to the terms of employment of any category of Employees which would result in an increase in cost after the date of this Agreement of the Graphic Paper Business in excess of

500,000 (exclusive of any amount in respect of VAT) save for increases in emoluments made in accordance with the normal practice of the Sellers' Group or in accordance with standard industry increases or collective bargaining agreements;

- (xvii) any grant of any guarantee or indemnity for the obligations of any person in relation to the Graphic Paper Business;
- (xviii) any creation, allotment or issue or any grant of any option over or other right to subscribe or purchase, or any redemption or purchase of, any share or loan capital or securities of any member of the Group or securities

convertible into any of the foregoing and any debt for equity swaps in relation to the Graphic Paper Business to ensure no negative consideration is paid under this Agreement;

- (xix) the entering into of any transaction by any member of the Group with any member of the Sellers' Group other than on terms that are currently in force or on arm's length terms and in the ordinary course of business;
- (xx) the creation or grant of any option, right to acquire, mortgage, charge, pledge, lien (other than a lien arising by operation of law or in the ordinary course of business), guarantee, indemnity or other form of security or Encumbrance or equity on, over or affecting any of the Business Assets or the whole or any part of the undertaking or assets of any member of the Group other than rights arising under retention of title clauses (or equivalent provisions the effect of which is that property does not pass until payment is made);
- (xxi) the making of any loan or lease to any person (other than to any other member of the Group or to any member of the Sellers' Group, including the participation or contribution to any cash-pooling arrangements of the Sellers' Group);
- (xxii) the repaying, redemption or repurchasing of any of the share capital of any Group Company;
- (xxiii) the entering into, or exercising of an option in relation to, or amendment of any agreement or incurring any commitment which is not capable of being terminated without compensation at any time within twelve months' notice or less or which is not in the ordinary and usual course of business or which involved or may involve total annual expenditure in excess of 500,000, exclusive of any amount in respect of VAT;
- (xxiv) save for any payments or distributions due pursuant to the Profit and Loss Pooling Agreement between Deutsche Holding and Stockstadt GmbH and, if the applicable withholding tax exemption has been obtained, the distribution of retained earnings by Biberist, the declaration, or payment of any dividend or other distribution to shareholders;
- (xxv) the amendment of, to any material extent, any of the terms on which goods, facilities or services are supplied, such supplies being material in the context of the Graphic Paper Business;
- (xxvi) in respect of an event arising after the date of this Agreement, the settlement of any insurance claim by the Relevant Seller or any member of the Relevant Seller's Group in excess of 2,000,000 materially below the amount claimed;

(xxvii) the making of any change to its accounting practices or policies or amending its constitutional documents;

(xxviii) in relation to any Properties:

- (a) the carrying out of any material structural alteration or addition to, or materially effecting any change of use of, such Properties;
- (b) the termination or service of any notice to terminate, surrender or accept any surrender of or waive the terms of any lease, tenancy or licence which is material in the context of the Graphic Paper Business taken as a whole;
- (c) the agreement of any new rent or fee payable under any lease, tenancy or licence which is material in the context of the Graphic Paper Business taken as a whole;
- (d) the entering into or variation of any agreement, lease, tenancy, licence or other commitment which is material in the context of the Graphic Paper Business taken as a whole;
- (e) the selling, conveyance, transfer, assignment or charging of any of the Properties or granting of any rights or easements over any of the Properties or the entering into of any covenants or other Encumbrances affecting any of the Properties or agreement to do any of the foregoing; and

(xxix) the entering into of any agreement (conditional or otherwise) to do any of the foregoing.

6.4 If the Completion Date is likely to fall after 31 December, 2008, M-real and Sappi agree that they shall enter into a good faith negotiation from 15 December, 2008 to agree any amendments to this clause 6 to reflect likely changes to the Graphic Paper Business from 1 January, 2009.

7. **CONSIDERATION**

7.1 The Initial Consideration for the sale of the Business Assets and the Shares is based on the Enterprise Value less the Estimated Net Debt and shall be paid by the Relevant Purchasers to the Relevant Sellers at Completion.

7.2 The Initial Consideration shall be made up of the Consideration Shares which shall (for the purpose of this clause 7 and the preparation of the Completion Statements and the adjustments in clause 8) have a value of 50,000,000, the Proceeds of the Rights Issue and the balance by the M-Real Vendor Loan Note.

7.3 The Consideration Shares shall be listed on the JSE and endorsed “non-resident” or the equivalent in respect of dematerialised shares.

7.4 No later than two Business Days prior to the Completion Date, M-real shall notify the Purchaser in writing to whom the Consideration Shares (and in which proportion) should be issued. The Consideration Shares shall be allotted, issued and delivered to M-real (or its nominee(s)) and the M-real Vendor Loan Note shall be issued and delivered to M-real on the Completion Date as provided in paragraphs 1(B) (iv) and (vi) of Schedule 3.

- 7.5 On the Completion Date, the Relevant Purchasers shall issue to M-real the Vendor Loans which M-real agrees to immediately transfer and assign to Sappi on Completion.
- 7.6 In addition to the Initial Consideration, the Relevant Purchasers shall in consideration for the transfer of the receivables comprising the Inter-Group Debt (as set out clause 3.5), pay to the Sellers' Group at Completion an amount equal to the Estimated Inter-Group Debt.
- 7.7 The Initial Consideration and the Estimated Inter-Group Debt shall be paid to the Relevant Sellers in accordance with paragraph 1(B)(ii) of Schedule 3.
- 7.8 The Consideration shall be allocated in accordance with Schedule 6.
- 7.9 Reduction of Consideration:
- (i) If any payment is made by any Relevant Seller to any Relevant Purchaser in respect of any claim for any breach of this Agreement or pursuant to an indemnity under this Agreement, the payment shall be made by way of adjustment of the Consideration paid by the Relevant Purchaser for the particular category of Business Asset, Shares or receivables (if any) to which the payment and/or claim relates under this Agreement and the Consideration shall be (and shall be treated as having been) reduced by the amount of such payment;
 - (ii) If:
 - (a) the payment and/or claim relates to more than one category of Business Asset, Shares or receivables, it shall be allocated in a manner which reflects the impact of the matter to which the payment and/or claim relates, failing which it shall be allocated rateably to the relevant Business Assets, Shares or receivables by reference to the proportions in which the Consideration is allocated in accordance with Schedule 6; or
 - (b) the payment and/or claim relates to no particular category of Business Asset, Shares or receivables, it shall be allocated rateably to all Business Assets, Shares and receivables by reference to the proportions in which the Consideration is allocated in accordance with Schedule 6,

and in each case the Consideration shall be (and shall be treated as having been) reduced by the amount of such payment.

- 7.10 The Relevant Sellers acknowledge and agree that the Consideration Shares have not been and will not be registered under the Securities Act and the Consideration Shares issued pursuant to this Agreement are “restricted securities” within the meaning of Rule 144 under the Securities Act. The Consideration Shares purchased by M-real pursuant to this Agreement are being acquired for investment only and not with a view to any public distribution thereof. M-real shall not offer to sell or otherwise dispose of the Consideration so acquired by it in violation of any of the registration requirements of the Securities Act.
- 7.11 The Relevant Purchasers acknowledge that the M-real Vendor Loan Note is freely transferable and may be sold, encumbered or otherwise disposed of by M-real on and subject to the terms and conditions set out in the M-real Vendor Loan Note.

8. COMPLETION STATEMENTS AND ADJUSTMENTS

- 8.1 Each of the Relevant Sellers and the Relevant Purchasers shall comply with their respective obligations in Schedule 6 in relation to the Completion Statements.
- 8.2 If the value of the Adjustment Payment is a negative amount, the absolute value of the Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid in total in cash to the Relevant Purchasers by the Relevant Sellers within seven Business Days of agreement or determination of the value of the Adjustment Payment; or
- 8.3 If the value of the Adjustment Payment is a positive amount, the value of the Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid in total to the Relevant Sellers by the Relevant Purchasers within seven Business Days of agreement or determination of the value of Adjustment Payment.
- 8.4 Any Adjustment Payment pursuant to clause 8.3 shall not take into account any Net Working Capital Adjustment if such adjustment is in excess of 50,000,000. The first 30,000,000 of any Net Working Capital Adjustment due from the Relevant Purchasers shall be paid by the Relevant Purchasers in cash to the Relevant Sellers. If the Net Working Capital Adjustment is greater than 30,000,000, the Relevant Purchasers shall, subject to clause 8.5 below and up to a face value limit of 20,000,000 (the “**Kirkniemi Trade Receivables Cap**”), be entitled to make up the balance by the transfer to the Relevant Sellers of Kirkniemi Trade Receivables with a total face value equal to the balancing amount but may elect to pay all or any of such (or where there are insufficient Kirkniemi Trade Receivables shall pay) additional 20,000,000 or lesser amount (as applicable) in cash. Subject to the Completion Statements being in agreed form and to

clauses 8.2 and 8.3, the Relevant Purchasers agree that any required transfer of Kirkniemi Trade Receivables will begin on the fifth Business Day following Completion.

- 8.5 If the Completion Date falls after 31 December, 2008 the Kirkniemi Trade Receivables Cap shall be adjusted by the percentage amount relative to the percentage increase or decrease of the price of finished goods in respect of the Graphic Paper Business at the date of this Agreement when compared with the price of such goods on the Completion Date. Any dispute as to the amount of this percentage shall be determined in accordance with the provisions of Part 3 of Schedule 6.
- 8.6 If the value of the Inter-Group Debt Adjustment Payment is a negative amount, the absolute value of the Inter-Group Debt Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid to the respective Relevant Purchaser by the respective Relevant Seller, and by M-real on behalf of the relevant member of the Sellers' Group who is not a Relevant Seller, within seven Business Days of agreement or determination of the value of the Inter-Group Debt Adjustment Payment.
- 8.7 If the value of the Inter-Group Debt Adjustment Payment is a positive amount, the value of the Inter-Group Debt Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid to the respective Relevant Seller, and to M-real on behalf of the relevant member of the Sellers' Group who is not a Relevant Seller, by respective Relevant Purchaser within seven

Business Days of agreement or determination of the value of the Inter-Group Debt Adjustment Payment, in each case against the assignment of the respective receivable of the amount corresponding to the Inter-Group Debt Adjustment Payment.

- 8.8 If the value of Inter-Group Receivables Adjustment Payment is a negative amount, the value of Inter-Group Receivables Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid to the respective Relevant Seller, or to M-real on behalf of the relevant member of the Sellers' Group who is not a Relevant Seller, by the respective Group Company within seven Business Days of agreement or determination of the value of the Inter-Group Receivables Adjustment Payment.
- 8.9 If the value of Inter-Group Receivables Adjustment Payment is a positive amount, the value of Inter-Group Receivables Adjustment Payment together with an amount equivalent to interest thereon at the Agreed Rate (accrued daily) for the period from the Completion Date to the date of payment, shall be paid to the relevant Group Company by the Relevant Seller or by M-real, on behalf of the relevant member of the Sellers' Group who is not a Relevant Seller, within seven Business Days of agreement or determination of the value of the Inter-Group Receivables Adjustment Payment.
- 8.10 The Relevant Sellers and the Relevant Purchasers agree that, upon all payments pursuant to clauses 8.6, 8.7, 8.8 and 8.9 having been made, all liabilities relating to payment of Inter-Group Debt shall be finally and conclusively settled as between the relevant member of Sellers' Group and the respective Relevant Purchaser and that all Inter-Group Receivables shall be finally and conclusively settled. Subject to such payments, M-real shall procure that no member of Sellers' Group will raise any claims relating to Inter-Group Debt against any Group Company, and the Relevant Purchasers shall procure that no Group Company and no member of the Purchaser's Group will raise any claims relating to Inter-Group Receivables against any member of the Sellers' Group.
- 8.11 The Relevant Purchasers agree that they will pay to the Relevant Sellers the Merchant Rebate Adjustment where such amount is a positive value, and the Relevant Sellers agree they will pay to the Relevant Purchasers the Merchant Rebate Adjustment where such amount is a negative value (in which event the payment will be the absolute amount of such negative value), within seven Business Days of agreement or determination of the same. The Merchant Rebate Adjustment is the difference between the value of the Merchant Rebates at 30 June, 2008 as determined for the purpose of calculating the Completion Statements and the actual value of those Merchant Rebates at the Completion Time (which shall be determined by calculating a pro rata adjustment of the value of the Merchant Rebates to the Completion Time). Any dispute as to the basis on which the Merchant Rebate Adjustment has been calculated shall be determined in accordance with Part 3 of Schedule 6 and references in that Schedule to "Completion Statements" shall be to the

“Merchant Rebate Adjustment” and to “Completion” to the date on which the final actual payment of Merchant Rebates is made (which shall be within a reasonable period following the Completion Date).

8.12 For the avoidance of doubt:

- (i) without prejudice to the Relevant Sellers’ obligations, if any, in clause 8.11, the Relevant Purchasers shall be responsible for the payment of the Merchant Rebates as from the

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Completion Time and shall indemnify the Relevant Sellers for any failure to make such payments; and

- (ii) subject to Relevant Sellers indemnifying the Relevant Purchasers for any reasonable amount and to the extent agreed by the Relevant Purchasers in advance of any such merchant rebate payment in respect of period up to the Completion Date, the Relevant Purchasers shall be responsible for the payment of all merchant rebates in respect of the Coaters and the Know-How Business.

8.13 The Relevant Sellers shall be entitled to the Supplier Rebates and the Relevant Purchasers undertake that they will immediately transfer any such rebates received by a member of the Purchaser’ s Group to the Relevant Sellers.

8.14 All payments referred to in this clause 8 shall constitute an adjustment to the Initial Consideration or the Estimated Inter-Group Debt and (save as permitted by clause 8.4) shall be made in immediately available funds in Euros in each case without any set-off, restriction or condition and without any deduction or withholding (save only as required by law) by telegraphic transfer to the account or accounts of the Relevant Purchasers or (as the case may be) the Relevant Sellers.

9. **TRANSFER OF RISK**

The Relevant Sellers and Relevant Purchasers agree that risk in respect of the Business Assets and the Group shall pass to the Relevant Purchasers on Completion.

10. **COMPLETION**

- 10.1 Subject to clause 10.2 below, or as otherwise stated in this Agreement, Completion of the sale and purchase of the Business Assets shall take place at 10.00 a.m. on the Completion Date at the offices of the Sellers' Solicitors at One Bunhill Row, London EC1Y 8YY (or on such other date or at such other time or place as M-real and Sappi may agree).
- 10.2 Completion of the sale and purchase of the Business Properties will occur at the offices of Roschier, at Keskuskatu 7A, FI-00100 Helsinki, Finland.
- 10.3 In case the Completion Date does not fall on a Business Day, Completion shall take place on the last Business Day before the Completion Date provided that in such case effectiveness of Completion shall, unless agreed otherwise by the Relevant Sellers and Relevant Purchasers, occur on the Completion Date.
- 10.4 Completion of the sale and purchase of the German Shares shall take place on the Completion Date at the offices of the relevant notary public in Germany in accordance with paragraph 4(A) of Schedule 3.
- 10.5 Completion of the sale and purchase of the Biberist Shares shall take place on the Completion Date at the offices of Bär & Karrer AG at Brandschenkestrasse 90, CH-8027 Zurich, Switzerland in accordance with paragraph 4(B) of Schedule 3.
- 10.6 At Completion, each of the Sellers and the Relevant Purchasers shall do or procure the doing of those things respectively listed in respect of them in Schedule 3.

- 10.7 The Sellers and the Purchasers shall not be obliged to complete the sale and purchase of any of the Shares or the Business Assets unless the sale and purchase of all of them shall have been completed in accordance with Schedule 3.
- 10.8 The cash element of the Initial Consideration and the Estimated Inter-Group Debt shall be payable by or on behalf of the Relevant Purchasers in immediately available funds in Euros at Completion as referred to in paragraph 1(B)(ii) of Schedule 3.
- 10.9 The Consideration Shares shall be issued to M-real (or its nominee(s)) at Completion as referred to in paragraph 1(B) (iv) of Schedule 3.
- 10.10 The M-real Vendor Loan Note shall be issued to M-real at Completion as referred to in paragraph 1(B)(vi) of Schedule 3.
- 10.11 Receipt of funds, Consideration Shares and the M-real Vendor Loan Note in accordance with clauses 10.8, 10.9 and 10.10 shall constitute a good discharge of the Relevant Purchasers in respect of the payment of the Initial Consideration and Estimated Inter-Group Debt but not, for the avoidance of doubt, in respect of the Relevant Purchasers' other obligations under clause 8.

11. VAT

- 11.1 All sums payable for the sale of the Business Assets shall be deemed to be exclusive of any VAT which may be chargeable on the supply or supplies for which such sums (or any part thereof) are the whole or part of the consideration for VAT purposes; and accordingly if any VAT is chargeable in respect of the sale of the Business Assets, the Relevant Purchasers shall pay to the Relevant Sellers (in addition to and at the same time as paying the Initial Consideration) an amount equal to such VAT, against delivery of an appropriate VAT invoice.
- 11.2 Without prejudice to the generality of clause 11.1 above:
- (i) M-real and the Relevant Purchaser acknowledge that the sale of the Business Assets which constitute the Mill Business (the "**Mill Business Assets**") is intended to be treated as a transfer of a business for the purpose of Article 19(a) of the Finnish Act on Value Added Tax (30 December 1993/1501, as amended) (the "**Finnish VAT Act**") and the Relevant Purchaser hereby confirms that it will, following Completion, use the Mill Business Assets for VAT deductible purposes. Both M-real and the Relevant Purchaser agree that this statement is considered to be the Relevant Purchaser's statement as referred to in Section 209(f) of the Finnish VAT Act;
 - (ii) M-real and the Relevant Purchaser acknowledge that no VAT will be chargeable in respect of the sale and purchase of the Business Properties listed in Part A of Schedule 9;

- (iii) the right and obligation to carry out VAT adjustments based on the investments in the Business Properties, subject to Article 120 of the Finnish VAT Act, shall transfer to the Relevant Purchaser at Completion in accordance with subsection 4 of Article 19(a) of the Finnish VAT Act. M-real undertakes to provide the Relevant Purchaser, on Completion, with the account (the “**Account**”) as referred to in Section 1 of Article 209(g) and a copy referred to in Section 3 of Article 209(g) of the Finnish VAT Act, to the extent M-real has received such accounts from previous holders of the Business Properties. M-real

represents and warrants that no other accounts have been given by any previous holder of the Business Properties as referred to in Section 3 of Article 209(g) of the Finnish VAT Act. M-real represents and warrants that the Account includes all matters provided in Article 209(h) of the Finnish VAT Act and is also in all respects free from defects;

- (iv) M-real shall indemnify the Relevant Purchaser against all liabilities, damages and costs that the Relevant Purchaser suffers as a result of any defect or inadequacy in the Account, including any such defect or inadequacy arising after the date of the establishment of the Account in respect of which M-real would be required, in accordance with Section 2 of Article 209(g) of the Finnish VAT Act, to render a supplementary account, regardless of whether M-real has in fact rendered such a supplementary account. M-real shall not be required to indemnify the Relevant Purchaser in respect of any liabilities, damages or costs arising (directly or indirectly) as a result of any matter taking place after Completion, or as a result of any failure of the Relevant Purchaser to use the Business Properties for VAT deductible purposes. The Relevant Purchaser shall compensate M-real for any benefit the Relevant Purchaser obtains (in the form of additional deductions or refund of VAT) as a result of any defect or inadequacy in the Account, provided that a supplementary account is rendered by M-real in accordance with section 2 of Article 209(g) of the VAT Act;
- (v) the Relevant Purchaser hereby confirms in accordance with Section 209(i) of the Finnish VAT Act that it shall use the Business Properties for business activities following Completion and that it shall, by Completion, be entered in the Finnish VAT register; and
- (vi) if, notwithstanding the provisions of this clause 11.2, the relevant Tax Authority shall determine that VAT is chargeable in respect of the supply of all or any part of the Mill Business Assets under this Agreement, the Relevant Seller shall notify the Relevant Purchaser of that determination within 7 days of its being so advised that Tax Authority and the Relevant Purchaser shall pay to the Relevant Seller by way of additional consideration in accordance with clause 11.1, a sum equal to the amount of VAT determined by the Tax Authority to be so chargeable, together with any related interest or penalties imposed by the Tax Authority (if any), within 30 days of the Relevant Seller notifying the Relevant Purchaser of that determination (against delivery by the Relevant Seller of an appropriate VAT invoice).

12. ACTION AFTER COMPLETION

- 12.1 If so requested by the Relevant Purchasers, the Relevant Sellers shall, for a period of three months or for so long thereafter as the Relevant Purchasers may reasonably request following Completion, join with the Relevant Purchasers in sending out notices (such notices to be agreed between the Relevant Sellers and the Relevant Purchasers prior to being sent out) to all third party suppliers and third party customers in relation to the Business and other business contacts relating to the Business informing them of the transfer of the Business.
- 12.2 The Relevant Sellers shall procure that originals of all notices, correspondence, information, orders or enquiries relating solely to the Business and copies of the relevant parts of all notices, correspondence, information, orders or enquiries relating partly to the Business and partly to one or more of the remaining businesses of the Sellers’ Group which are

received by any member of the Sellers' Group on or after Completion shall be passed as soon as practicable to the Relevant Purchaser.

- 12.3 The Relevant Purchaser shall procure that originals of all notices, correspondence, information, orders or enquiries relating solely to one or more of the remaining businesses of the Sellers' Group and copies of the relevant parts of all notices, correspondence, information, orders or enquiries relating partly to one or more of the remaining businesses of the Sellers' Group and partly to the Business which are received by the Purchaser's Group on or after Completion shall be passed as soon as practicable to the relevant member of the Sellers' Group.
- 12.4 Without limiting clause 14.4(i), all moneys or other items belonging to the Relevant Purchaser or to any other member of the Purchaser's Group which are received by the Relevant Sellers or any other member of the Sellers' Group on or after Completion and were comprised within or were represented by the Business or any of the Business Assets sold at Completion pursuant to this Agreement shall be promptly paid over or delivered to the Relevant Purchasers or the relevant member of the Purchaser's Group and, pending such payment, shall be held on trust (or procured to be held in trust) by the Relevant Sellers or such other member of the Sellers' Group for the Relevant Purchasers or the relevant member of the Purchaser's Group.
- 12.5 All moneys or other items belonging to the Relevant Sellers or to any other member of the Sellers' Group which are received by the Relevant Purchasers or any other member of the Purchaser's Group on or after Completion and were excluded from the Business or any of the Business Assets sold at Completion pursuant to this Agreement shall be promptly paid over or delivered to the Relevant Sellers or the relevant member of the Sellers' Group and, pending such payment, shall be held on trust (or procured to be held in trust) by the Relevant Purchasers for the Relevant Sellers (or such other relevant member of the Sellers' Group, as the case may be).
13. **THIRD PARTY CONSENTS FOR THE SALE OF BUSINESS ASSETS**

- 13.1 Where any consent or agreement of any third party (other than a relevant regulatory or anti-trust authority) is required for the transfer of any of the Business Assets (other than in relation to the transfer of any Business Contract or the performance of any Business Contract by the Relevant Purchasers) and such consent or agreement has not been obtained at or before Completion, (subject to any transfer by operation of law) the sale of the relevant Business Asset shall not take effect, notwithstanding Completion, until that consent or agreement has been obtained and each of the Relevant Sellers (or the relevant member of the Sellers' Group) and the Relevant Purchasers shall (at the expense of the Relevant Purchasers) use their respective reasonable endeavours after Completion to obtain it as soon as possible.
- 13.2 After Completion, and until such time as any consent or agreement referred to in clause 13.1 is obtained the Relevant Seller (or the relevant member of the Sellers' Group) shall be deemed to hold the benefit of the relevant Business Asset referred to in clause 13.1 on trust for the Relevant Purchasers, or where holding on trust is not possible under local law the Relevant Sellers and the Relevant Purchasers shall make such other arrangements between themselves to provide to the Relevant Purchasers the benefits of the relevant Business Assets.
14. **TRANSFER OF BUSINESS CONTRACTS AND LICENCES**
- 14.1 Subject to clause 14.2, the Relevant Purchasers shall become entitled to the benefits (subject to the burden) of the Business Contracts and this Agreement shall constitute an assignment of the benefit of the Business Contracts to the Relevant Purchasers with effect from Completion.

- 14.2 This Agreement shall not constitute an assignment or attempted assignment of any Business Contract if the assignment or attempted assignment is not possible or would constitute a breach of the relevant Business Contract.
- 14.3 Where a Third Party Consent is required to the assignment of the benefit of, or novation of, a Business Contract or to some other arrangement required to be put in place in respect of those Business Contracts which relate in part only to the Business whereby the relevant part is severed and transferred, the Relevant Sellers shall use all reasonable endeavours (without incurring any costs or expenses) with the co-operation of the Relevant Purchasers (such co-operation to include, without limitation, the provision by the Relevant Purchasers of a guarantor or guarantors of the obligations under the relevant Business Contract, if required) to obtain any Third Party Consent to assignment or novation or to such severance arrangement of all relevant Business Contracts both before and after Completion.
- 14.4 After Completion, and until any necessary Third Party Consent is obtained, the following provisions shall apply:
- (i) the Relevant Sellers shall be deemed to hold the benefit of that Business Contract (to the extent permitted under the relevant Business Contract) on trust for the Relevant Purchasers (if to do so would not constitute a breach of such Business Contract), or where holding on trust is not possible under local law the Relevant Sellers and the Relevant Purchasers shall make such other arrangements between themselves to provide to the Relevant Purchasers the benefits of the relevant Business Contract (including wherever possible licences of Intellectual Property), including the enforcement of all rights of the Relevant Sellers against any other party thereto;
 - (ii) if it is permissible under the relevant Business Contract, the Relevant Purchasers shall perform for or on behalf of the Relevant Sellers (but at the Relevant Purchasers' expense) the obligations of the Relevant Sellers under that Business Contract failing to be performed on or after Completion; and
 - (iii) to the extent that the Relevant Purchasers are lawfully able to do so, and subject to the Relevant Purchasers receiving the benefits of the Business Contract, the Relevant Purchasers hereby undertake to pay the Relevant Sellers such amount as is required to indemnify each member of the Sellers' Group against any act or omission of the Relevant Purchasers to perform or comply with any obligation of M-real which falls to be performed or complied with after Completion, as referred to in paragraph (ii) of this clause 14.4,

provided that this clause 14.4 will not apply to the Energy Plant Contracts.

- 14.5 Where the performance and discharge by the Relevant Purchasers of the obligations and liabilities arising under a Business Contract would constitute a breach by the Relevant Sellers of the terms of such Business Contract, the Relevant Sellers shall, until the Third Party Consent is obtained, continue so far as reasonably practicable to perform and discharge the relevant Business Contract to the extent necessary to avoid any such breach PROVIDED THAT:
- (i) the Relevant Sellers shall exercise their rights in respect of such Business Contract as the Relevant Purchasers may direct or approve (acting reasonably) and not otherwise and shall account to the Relevant Purchasers for any sums arising thereunder;

- (ii) the Relevant Purchasers (at their own expense) shall provide the Relevant Sellers with such documents, facilities and assistance and/or enter into such other arrangements as the Relevant Sellers shall reasonably deem necessary or require for the purpose of performing and discharging the Business Contract, in each case in such manner that the Relevant Sellers are not in breach thereof;
- (iii) the Relevant Sellers shall be deemed to hold the benefit of such Business Contract (to the extent permitted under the relevant Business Contract) on trust for the Relevant Purchasers (if to do so would not constitute a breach of such Business Contract) and such benefit will be promptly paid over to the Relevant Purchasers; and
- (iv) the Relevant Purchasers shall reimburse the Relevant Sellers any costs and expenses reasonably incurred by the Relevant Sellers, and shall on behalf of the Relevant Sellers discharge any liabilities in each case arising as a result of such performance and discharge by the Relevant Sellers and shall provide all reasonable facilities and assistance to the Relevant Sellers free of charge for such purpose (including, without limitation, providing the services of the Business Employees, access to the Business Properties and the use of the Business Assets) and shall pay to the Relevant Seller such amount as is required to indemnify each member of the Sellers' Group in respect of the same,

provided that this clause 14.5 shall not apply to the Energy Plant Contracts.

- 14.6 M-real shall, on behalf of itself and the Sellers Group' , within 5 Business Days of execution of this Agreement seek a Third Party Consent from Fortum in relation to the transfer, assignment or novation of the Energy Plant Contracts to the Relevant Purchasers.
- 14.7 If the Third Party Consent of Fortum in relation to all of the Energy Plant Contracts is granted then the Energy Plant Contracts shall be so transferred, assigned or novated to the Relevant Purchasers.
- 14.8 If the Third Party Consent of Fortum in relation to the Energy Plant Contracts is not able to be obtained by the Relevant Sellers or relevant members of the Sellers' Group, then the Relevant Sellers or the relevant members of the Sellers' Group shall enter into energy plant contracts on equivalent terms, *mutatis mutandis*, as those in place between Fortum and the Relevant Sellers or the relevant members of the Sellers' Group in order to vest in the Relevant Purchasers all the benefits thereof as if it were a party to such agreements itself.
- 14.9 For the purposes of Schedule 6, M-real shall be deemed to have complied with its obligations under this clause 14.9 if the provisions of:
- (i) clause 14.7 or 14.8 are complied with; and
 - (ii) the Energy Plant Contracts (including, for the avoidance of doubt, the CHP Lease) have been transferred to the Relevant Purchasers in accordance with the provisions of clauses 2, and/or 14.7 or 14.8.
- 14.10 Without prejudice to the provisions of Schedule 6, if M-real has not complied with its obligations under clause 14.9 at Completion, Sappi shall pay 20m to M-real within 7 Business Days of

M-real complying with clause 14.9 providing M-real complies with clause 14.9 within 30 Business Days of Completion.

- 14.11 M-real and Sappi shall use their best efforts to have the Stockstadt Lease between Stockstadt GmbH and Molsindra Vermietungsgesellschaft mbH & Co. Objekt Stockstadt KG (the “**Lessor**”) amended to the effect that any links to M-real shall cease and M-real shall be released of any obligations towards the Lessor or Stockstadt GmbH arising from the Stockstadt Lease. In particular, the termination right of the Lessor under section 11.3 of the Stockstadt Lease relating to M-real’s group credit facility and the right of Lessor to request M-real to assume the Stockstadt Lease under the lease assumption agreement shall be cancelled. In return for such changes Sappi is prepared to give the Lessor reasonable comfort with respect to the fulfilment of the Stockstadt Lease by Stockstadt GmbH on a level which is comparable to the comfort given by M-real so far. In the event the Lessor should be unwilling to renegotiate and amend the Stockstadt Lease but the Stockstadt Lease is not terminated by the Lessor, Sappi shall indemnify and hold harmless M-real from and against any losses and damages in connection with the Stockstadt Lease to the extent such losses and damages relate to the period after the Completion Date. Should M-real have to assume the Stockstadt Lease pursuant to the lease assumption agreement, M-real shall act at the instruction and for the account of the Relevant Purchaser as if the Relevant Purchaser was a party to the Stockstadt Lease and Sappi shall indemnify and hold harmless M-real from and against any losses and damages in connection with the Stockstadt Lease to the extent such losses and damages relate to the period after the Completion Date.

15. **ASSUMED LIABILITIES AND ASSURANCES**

15.1 The Relevant Purchasers hereby agree with the Relevant Sellers that they will duly and properly perform, assume and pay and discharge when due, and pay to the Relevant Sellers such amount as is required to indemnify the Relevant Sellers and each other relevant member of the Sellers' Group against, all Assumed Liabilities save to the extent any such Assumed Liability is recoverable under Schedules 14 and 15.

15.2 In this Agreement "**Assumed Liabilities**" means:

- (i) all outstanding or unperformed obligations of the Relevant Sellers and each other member of the Sellers' Group under the Business Contracts (including, for the avoidance of doubt, all trade payables) whether falling due for observance or performance before, at or after Completion, excluding those obligations to the extent arising from events occurring on or prior to Completion except to the extent they are provided for in the Carve-Out Accounts or to the extent taken account in the Net Working Capital Adjustment or in an Adjustment Payment or otherwise in the Completion Statements;
- (ii) without prejudice to clause 19.9 (ii), all obligations and liabilities (including all business rents, rates and other periodic outgoings) in respect of the Business Properties whether falling due for observance or performance before, at or after Completion, excluding those obligations and liabilities to the extent arising from events occurring on or prior to Completion except to the extent they are provided for in the Carve-Out Accounts or to the extent taken account in the Net Working Capital Adjustment or otherwise in an Adjustment Payment or otherwise in the Completion Statements; and
- (iii) all liabilities arising in connection with the condition of, or any defect in, any Business Stocks, excluding those liabilities to the extent arising from events occurring on or prior to

Completion except to the extent they are provided for in the Carve-Out Accounts or to the extent taken account in the Net Working Capital Adjustment or otherwise in an Adjustment Payment or otherwise in the Completion Statements.

15.3 The Relevant Purchasers covenant that, at any time and from time to time on or after Completion they will execute and deliver all such further instruments of assumption and acknowledgements as any member of the Sellers' Group may reasonably request in order to effect the release and discharge in full of the relevant member of the Sellers' Group in respect of any Assumed Liability and the Relevant Purchasers' assumption of the Assumed Liabilities and the substitution of the Relevant Purchasers as the primary obligors in respect of the Assumed Liabilities in each case on a non-recourse basis to the Sellers' Group.

15.4 The Relevant Purchasers covenant that, at any time and from time to time on or after Completion they will execute and deliver all such further instruments of assumption and acknowledgements as any member of the Sellers' Group may reasonably request in order to effect the release and discharge in full of any Assurance howsoever structured given at any time by any member of the Sellers' Group to any person in respect of any obligation or liability of any member of the

Group and the Relevant Purchasers' assumption of, and the substitution of the Relevant Purchasers as the primary obligors in respect of, each such Assurance, in each case on a non-recourse basis to members of the Sellers' Group.

- 15.5 The Relevant Purchasers hereby agree with each of the Relevant Sellers (on behalf of themselves and each other member of the Sellers' Group) that they will assume and pay and discharge when due, and pay to the Relevant Sellers such amount as is required to indemnify each member of the Sellers' Group against the Assurances referred to in clause 15.4 (other than to the extent that they have been released and discharged in accordance with clause 15.4).
- 15.6 Each of the Relevant Sellers covenant that, at any time and from time to time on or after Completion, they will execute and deliver all such instruments of assumption and acknowledgements or take such other action as the Relevant Purchasers may reasonably request in order to effect the release and discharge in full of any Assurance howsoever structured given by any member of the Group or otherwise by the Business to any person in respect of any obligation or liability of any member of the Sellers' Group and shall procure the assumption of, and the substitution of an appropriate member of the Sellers' Group as the primary obligor in respect of, each such Assurance on a non-recourse basis to the Purchaser' s Group. Pending such release and discharge, the Relevant Sellers hereby agree with the Relevant Purchasers (on behalf of themselves and each member of the Group) that they will assume and pay and discharge when due, and pay to the Relevant Purchasers such amount as is required to indemnify each member of the Group against, all such Assurances.
16. **BUSINESS RECEIVABLES**
- 16.1 As soon as practicable following Completion, the Relevant Sellers shall deliver to the Relevant Purchasers details of the Business Receivables.
- 16.2 Notwithstanding clause 16.1, as soon as practicable following the satisfaction of the conditions in paragraphs 2 and 3 of Schedule 2 the Relevant Sellers shall use reasonable endeavours to deliver details of the Business Receivables to the Relevant Purchasers.

- 16.3 Subject to clause 8.4, the Relevant Sellers agree that the Relevant Purchasers alone shall be responsible for the collection of any of the Business Receivables and that:
- (i) the Relevant Purchasers shall be entitled to take such steps as it may think fit to recover any outstanding Business Receivables;
 - (ii) the Relevant Sellers shall not take, and shall procure that no other member of the Sellers' Group takes, any step to collect the Business Receivables, and shall not do anything to hinder their collection by the Relevant Purchasers; and
 - (iii) if the Relevant Sellers or any other member of the Sellers' Group should receive any communication or payment in respect of any Business Receivable, the Relevant Sellers shall or shall procure that written details of any such communication or payment are given to the Relevant Purchasers as soon as reasonably practicable following receipt thereof.
- 16.4 Where anything (including any service or payment) is to be provided by a member of the Purchaser' s Group under any of the Business Contracts after Completion, but any payment (whether by way of deposit, prepayment, provision of a service or otherwise) in respect of the price or cost of it has been received by a member of the Sellers' Group before Completion, the Relevant Sellers shall procure that the relevant member of the Sellers' Group pays a sum equal to the amount of that payment to the relevant member of the Purchaser' s Group immediately following Completion, following receipt of which the member of the Purchaser' s Group shall provide such thing or service or payment and shall hold such sum on trust for that member of the Purchaser' s Group until it is paid over.
- 16.5 Where anything (including any service or payment) is to be provided by a member of the Purchaser' s Group under any of the Business Contracts after Completion, but any payment (whether by way of deposit, prepayment provision of a service or otherwise) has been made by a member of the Sellers' Group in respect of the price or cost of it before Completion, the Relevant Purchasers shall procure that that relevant member of the Purchaser' s Group pays a sum equal to the amount of that payment to the relevant member of the Sellers' Group as soon as reasonably practicable following the member of the Purchaser' s Group becoming aware of such thing or service and shall hold such sum on trust for that member of the Sellers' Group until it is paid over.
- 16.6 Any sums received by the Relevant Purchasers or the Relevant Sellers (or any other member of the Sellers' Group) from a third party from whom monies are due both to the Relevant Sellers (and/or another member of the Sellers' Group) in respect of any other business and to the Relevant Purchasers in respect of the Business which monies were separately invoiced prior to Completion, where the monies are not clearly identifiable or apportionable as relating in whole or in part to a debt in respect of the Business or a debt of the Relevant Sellers (or another member of the Sellers' Group) in respect of any other business, shall be deemed first to be in satisfaction of the liability which first arose.

- 16.7 Any sum received by the Relevant Purchasers from a third party from whom monies are due both to the Relevant Sellers (and/or another member of the Sellers' Group) and to the Relevant Purchasers under a single invoice rendered to that third party which does not constitute a payment of the whole amount due under such invoice but only in part thereof shall be payable as follows:

- (i) if the payment is accompanied by a statement (express or implied) by the third party as to which goods it is made in respect of, then in accordance with such statement; and
- (ii) if no such statement as to the aforesaid matters is made by the third party, then to each of the parties entitled under the relevant invoice, the pro rata proportion of the part payment made which corresponds to the proportion of the entire amount invoiced due to that party,

ALWAYS PROVIDED THAT if, in circumstances where a payment is apportioned in accordance with the provisions of sub-clause (ii) above, it is subsequently ascertained which goods the part payment was made in respect of, then the party or parties to whom such payment would have been made, had it been known at the time that such monies were received to whom such payment should have been made, shall be entitled to call for such amount to be paid over by the party or parties who received such payment in the first instance, who shall promptly pay over the same. The provisions of sub-clause (ii) above shall apply, *mutatis mutandis*, to any sum received by the Relevant Sellers (and/or any other member of the Sellers' Group) in respect of any such invoice and the Relevant Sellers shall procure compliance with such provisions by any relevant member of the Sellers' Group.

- 16.8 The Relevant Sellers (or any other member of Sellers' Group) shall be under no liability to the Relevant Purchasers if any of the Business Receivables are not paid save where such non-payment was caused by the Relevant Sellers' wilful default or negligence in the performance of its obligations under this clause 16.

17. **SELLERS' WARRANTIES AND PURCHASERS' REMEDIES**

- 17.1 Subject as provided in this Agreement, M-real, on behalf of itself and the Relevant Sellers, warrants to the Relevant Purchasers as at the date of this Agreement in the terms of the Warranties set out in Schedule 4.

- 17.2 The only Warranties given:

- (i) in respect of the Properties are those contained in paragraph 16 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to the Properties;
- (ii) in respect of Environmental Matters are those contained in paragraph 17 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to Environmental Matters;
- (iii) in respect of Intellectual Property (including for the avoidance of doubt, any Intellectual Property subsisting in any IT Systems), know-how and contracts, arrangements and engagements relating thereto are those contained in paragraph 18 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to Intellectual Property, know-how and contracts, arrangements and engagements relating thereto;

- (iv) in respect of IT Systems (or agreements relating thereto) are those contained in paragraph 18 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to IT Systems (or agreements relating thereto);

- (v) in respect of Tax are those contained in paragraph 22 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to Tax;
- (vi) in respect of all employment and pension matters are those contained in paragraphs 20 and 21 respectively of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to employment and pension matters; and
- (vii) in respect of the Accounts and the Carve-Out Accounts are those contained in paragraph 9 of Schedule 4 and each of the other Warranties shall be deemed not to be given in relation to Accounts and Management Accounts.

- 17.3 The liability of the Relevant Sellers under or in relation to the Warranties shall be limited as set out in Schedule 5.
- 17.4 Any payment made by the Relevant Sellers in respect of any claim under the Warranties shall be made, to the extent possible, by way of an adjustment to the Consideration.
- 17.5 The Relevant Purchasers acknowledge and agree that the Relevant Sellers make no representation or warranty as to the accuracy of the forecasts, estimates, projections, statements of intent or statements of honestly expressed opinion provided to the Relevant Purchasers (howsoever provided) on or prior to the date of this Agreement, including without limitation, in the Disclosure Letter, the Data Room or in the documents provided to the Relevant Purchasers or their advisers in the course of the Relevant Purchasers due diligence exercise.
- 17.6 The Relevant Purchasers acknowledge that they do not rely and have not been induced to enter into this Agreement on the basis of any warranties, representations, covenants, undertakings, indemnities or other statements whatsoever other than the Warranties and acknowledge that neither the Relevant Sellers nor any member of the Sellers' Group or any of their respective agents, officers or employees or any other person has given such warranties, representations, covenants, undertakings, indemnities or other statements.
- 17.7 The Relevant Purchasers acknowledge and agree that they are not aware of any matter on or before the date of this Agreement which would form the basis of a claim for breach of Warranty.
- 17.8 Notwithstanding that the Relevant Purchasers become aware at any time that there has been any breach of any of the Warranties or any other term of this Agreement, the Relevant Purchasers shall not be entitled to rescind this Agreement or treat it as terminated but shall be entitled to claim damages or exercise any other right, power or remedy under this

Agreement or as otherwise provided by law. The Relevant Purchasers waive all and any rights of rescission in respect of this Agreement they may have (howsoever arising or deemed to arise) other than any such rights in respect of fraud.

17.9 Each of the Warranties shall be construed as a separate and independent warranty and, except where expressly provided to the contrary, shall not be limited or restricted by reference to or inference from the terms of any other Warranty or any other provision of this Agreement.

17.10 If after the signing of this Agreement and before Completion (as appropriate):

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- (i) any Relevant Seller shall become aware that any of the Warranties set out in paragraphs 1, 2, 4 and 6(A) of Schedule 4 of this Agreement was untrue or inaccurate as of the signing of this Agreement; or
- (ii) any event shall occur or matter shall arise of which any Relevant Seller becomes aware which would result in any of the Warranties set out in paragraphs 1, 2, 4 and 6(A) of Schedule 4 of this Agreement being untrue or inaccurate at Completion had the Warranties set out in paragraphs 1, 2, 4 and 6(A) of Schedule 4 of this Agreement been repeated on Completion,

the Relevant Sellers shall notify the Relevant Purchasers in writing as soon as practicable and in any event prior to Completion setting out full details of the matter and the Relevant Sellers shall make any investigation concerning the event or matter and take such action, at their own cost, as the Relevant Purchasers may reasonably require.

17.11 Any notification pursuant to clause 17.10 shall not operate as a disclosure pursuant to paragraph 10 of Schedule 5 and the Warranties set out in paragraphs 1, 2, 4 and 6(A) of Schedule 4 of this Agreement shall not be subject to such notification.

17.12 The Relevant Sellers further warrant to the Relevant Purchasers that the Warranties set out in paragraphs 1, 2, 4 and 6(A) of Schedule 4 of this Agreement will be true and accurate at Completion as if they had been repeated at Completion.

17.13 For the avoidance of doubt, clauses 17.10 to 17.12 shall only apply to the Warranties specifically set out in those clauses and not any other Warranty set out in Schedule 4 of this Agreement.

18. PURCHASERS' WARRANTIES

18.1 The Purchaser, on behalf of itself and the Relevant Purchasers, warrants to the Relevant Sellers as at the date of this Agreement that:

- (i) each of the Relevant Purchasers has the requisite power and authority to enter into and perform this Agreement and any other documents (including, without limitation, the M-real Vendor Loan Note and the Vendor Loans)

which are to be entered into pursuant to this Agreement to which they are a party (the “**Purchasers’ Completion Documents**”).

- (ii) this Agreement constitutes and the Purchasers’ Completion Documents will, when executed by the Relevant Purchasers, constitute binding obligations of the Relevant Purchasers in accordance with the respective terms of each such document.
- (iii) the execution and delivery of, and the performance by each of the Relevant Purchasers of their respective obligations under this Agreement and the Purchasers’ Completion Documents to which each is respectively a party will not:
 - (a) result in a breach of any provision of the memorandum or articles of association or equivalent constitutional documents of the Relevant Purchasers;
 - (b) result in a breach of, or constitute a default under, any instrument to which the Relevant Purchasers are a party or by which the Relevant Purchasers are

bound and which is material in the context of the transactions contemplated by this Agreement;

- (c) so far as the Relevant Purchasers are aware, result in a breach of any existing order, judgment or decree of any court or governmental agency to which the Relevant Purchasers are a party or by which the Relevant Purchasers are bound and which is material in the context of the transactions contemplated by this Agreement; or
- (d) save as contemplated by this Agreement, require the Relevant Purchasers to obtain any consent or approval of, or give any notice to or make any registration with, any governmental or other authority which has not been obtained or made at the date of this Agreement and is in full force and effect; and
- (iv) save as disclosed in a letter to M-real of even date herewith, no member of the Purchaser’ s Group is engaged in any legal or arbitration proceedings which may have or have had during the preceding 12 months a significant effect on the financial or trading position of the Purchaser’ s Group and no such legal or arbitration proceedings are threatened or pending nor to the best of the knowledge, information and belief of the Purchaser (having made all reasonable enquires), are there any circumstances which may give rise to any such legal or arbitration proceedings.

18.2 If after the signing of this Agreement and before Completion (as appropriate):

- (i) any Relevant Purchaser shall become aware that any of the warranties set out in clause 18.1 above was untrue or inaccurate as of the signing of this Agreement; or
- (ii) any event shall occur or matter shall arise of which any Relevant Purchaser becomes aware which would result in any of the warranties set out in clause 18.1 above being untrue or inaccurate at Completion had the warranties set out in clause 18.1 above been repeated on Completion,

the Relevant Purchasers shall notify the Relevant Sellers in writing as soon as practicable and in any event prior to Completion setting out full details of the matter and the Relevant Purchasers shall make any investigation concerning the event or matter and take such action, at their own cost, as the Relevant Sellers may reasonably require.

18.3 Any notification pursuant to clause 18.2 above shall not operate as a disclosure pursuant to paragraph 10 of Schedule 5 and the warranties set out in clause 18.1 above shall not be subject to such notification.

18.4 The Relevant Purchasers further warrant to the Relevant Sellers that the warranties set out in clauses 18.1(i) to 18.1(iii) (but not, for the avoidance of doubt, clause 18.1(iv)) above will be true and accurate at Completion as if they had been repeated at Completion.

19. **SELLERS' UNDERTAKINGS**

19.1 The Relevant Sellers agree and undertake to provide the Relevant Purchasers (and will use all reasonable endeavours to procure that their auditors provide the Relevant Purchasers) with all such assistance as the Relevant Purchasers reasonably require to produce the Sappi Circular,

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including without limitation in respect of financial information relating to the Business Assets to be included therein.

19.2 Subject to their reasonable external costs being covered by the Relevant Purchasers, the Relevant Sellers agree and undertake to provide the Relevant Purchasers with such assistance as the Relevant Purchasers reasonably require to produce any offering circular or prospectus relating to any Financing, including:

- (i) furnishing the Relevant Purchasers with all financial statements and financial data relating to the Business Assets that would be required to be included in the relevant offering circular or prospectus:
 - (a) under applicable South African or US rules and regulations (and, in the case of an offering of high-yield notes, that are customarily included in offering memoranda for offerings conducted in accordance with Rule 144A and Regulation S in the European high-yield market); or
 - (b) in order to allow the granting by auditors of negative assurance comfort under SAS 72 'look-a-like' ;
- (ii) using all reasonable endeavours to procure that their auditors provide such accountants' comfort letters (including a statement that such auditors have conducted a SAS 100 or ISRE 2410 review, as applicable for each relevant offering document, on any interim financial statements included in such offering circular or prospectus) and consents as reasonably requested by the Relevant Purchasers; and
- (iii) providing such assistance to the Relevant Purchasers as they may reasonably request in connection with any listing of securities issued in any Financing on the JSE, the London Stock Exchange or an unregulated stock exchange in the European Union, as applicable.

19.3 The Relevant Sellers undertake that as at Completion, the make-up of working capital as between the Kangas Mill, the Kirkniemi Mill, the Stockstadt Mill and the Biberist Mill and as between each different component of working capital shall

in each case be in accordance with the ordinary course operations of those mills and in each case consistent with past practice.

- 19.4 Save as required by law of any relevant jurisdiction (including, for the avoidance of doubt, any disclosure to a Tax Authority), the Relevant Sellers agree not to use or disclose the Business Information to any person other than the Relevant Purchasers after Completion.
- 19.5 The Relevant Sellers undertake to carry out the Pre-Sale Reorganisation as soon as reasonably practicable following the signing of this Agreement and in any event so as to be completed prior to Completion in accordance with paragraph 6 of Schedule 2 of this Agreement.
- 19.6 Subject to the Relevant Purchasers indemnifying the Relevant Sellers for any reasonable costs in respect of the same (including, without limitation, any increases in any premiums or the loss of any benefit in relation to any insurance agreement), the Relevant Sellers undertake to use reasonable endeavours to pursue any insurance claim that the Relevant Purchasers may reasonably request that the Relevant Sellers pursue in order to vest the benefit of clause 2.1(x) in the Relevant Purchasers so far as is reasonably practicable.

19.7 M-real shall use reasonable endeavours to procure that the Kangas PM2 is removed from the Kangas PM2 Property within 3 years of Completion Date and shall ensure that the Kangas PM2 Property is made safe in accordance with normal standards upon the removal of the Kangas PM2. If M-real has not been able to remove the Kangas PM2 and make the Kangas PM2 Property safe within 3 years of the Completion Date, M-real and Sappi agree to enter into a good faith negotiation in order to determine how the Kangas PM2 should be removed from the Kangas PM2 Property, including if appropriate, a discussion as to the extension of the Kangas PM2 Property Lease.

19.8 M-real shall use reasonable endeavours to procure that Biberist shall distribute prior to Completion all its retained earnings as per the Biberist statutory accounts for the year ended 31 December, 2007, insofar as the same are freely distributable and insofar as agreed by M-real and Sappi (the “**Biberist Retained Earnings**”), subject to the following terms and conditions:

- (i) that Biberist has obtained an advance written tax ruling, reasonably satisfactory to both M-real and Sappi, of the Swiss Federal Tax Administration confirming that there is no Swiss dividend withholding treatment of the Biberist Retained Earnings;
- (ii) that such tax ruling shall be obtained by the statutory auditor of Biberist (as set out in Schedule 7 (B)) or any other independent person acceptable to M-Real and Sappi and shall be binding upon M-Real and Sappi for the purpose of this Agreement;
- (iii) that the statutory auditor of Biberist (as set out in Schedule 7 (B)) confirms (based on an interim balance sheet drawn up as per 30 September, 2008 (or, if the distribution is to be made after 31 December, 2008, based on a balance sheet drawn up as per 31 December, 2008, if available) consistent with the accounting practice of Biberist according to Swiss GAAP) in writing to M-real (who shall provide a copy of such confirmation to Sappi) that the dividend distribution complies with Swiss company law and with the Articles of Association of Biberist; and
- (iv) that Biberist shall, at the latest, distribute the Biberist Retained Earnings three Business Days prior to the Completion Date,

provided that M-real and Sappi shall not procure and Biberist shall not be required to make a distribution to an extent which would constitute a repayment of capital (*Einlagerückgewähr*) or a violation of its legally protected reserves (*gesetzlich geschützte Reserven*). If such tax ruling can only be obtained after Completion (or if the only tax ruling which can be obtained after Completion is not satisfactory to both M-real and Sappi), M-real shall discuss in good faith what steps can reasonably be taken to ensure Sappi can reasonably procure that the Biberist Retained Earnings are distributed to NL Holding, net of any costs or expenses and net of any amount of Swiss withholding tax which may be deductible in accordance with such ruling or such other steps in relation to the Biberist Retained Earnings as are reasonable.

M-real and Sappi shall procure that the costs (other than in relation to any tax ruling obtained and any costs in relation to confirming the Swiss dividend withholding tax exemption) are borne by Biberist.

19.9 The Relevant Sellers shall be responsible for, and shall indemnify the Relevant Purchasers in respect of any liabilities incurred by the Relevant Purchasers in respect of:

- (i) the Mill Business Efficiency Programme;
- (ii) any compensation which is required by a relevant Environment Authority to be paid out in relation to waste water effluent discharges at the Business Property at Kirkniemi in respect of the period on or before Completion (“**Kirkniemi Discharge Compensation**”);
- (iii) any cost ultimately borne by the Relevant Purchaser under clause 23.7(ii) as a result of any relevant payable under clause 23.7 which was due and payable on or before the Completion Date not having been borne by the Relevant Sellers or the relevant member of the Seller’ s Group in accordance with clause 23.7(i) except to the extent such cost is a Tax Liability for the purposes of Schedule 14;
- (iv) any interest payments which are accrued but not paid in respect of the period on or before Completion by Stockstadt GmbH before the date they are due;
- (v) any Pre-Sale Reorganisation Liabilities; and
- (vi) any overdue payments which are due in respect of the Graphic Paper Business at Completion or current payments which are more than 60 days from invoice at Completion which have not been paid to the Relevant Purchasers pursuant to supply arrangements with Winkowski for a period of 6 months from the date of Completion provided that the Relevant Purchasers have continued to do business with Winkowski for so long as it is reasonable and practicable for the Relevant Purchasers to do so. The parties agree that in the event the Sellers’ Group is able to procure credit insurance in respect of the payments the subject of this indemnity prior to Completion this clause 19.9 (vi) shall ceased to have effect. The Purchaser shall procure that forthwith on receipt of any payment pursuant to this indemnity it shall assign or procure the assignment by the relevant member of the Purchaser’ s Group of the of the receivable in respect of which the indemnity is paid.

19.10 Prior to Completion, M-real shall cause Deutsche Holding to take all reasonably necessary steps to ensure that the fiscal year of CN Papiervertriebs GmbH and of the German Subsidiary is shortened such that the respective fiscal year ends on or after the Completion Date. M-real shall further procure and take all necessary steps to ensure that the existing domination and profit and loss pooling agreement between Stockstadt GmbH and the German Subsidiary is terminated with legal effect as of the end of the respective shortened fiscal year of the German Subsidiary.

20. **PURCHASERS’ UNDERTAKINGS**

20.1 Sappi agrees and undertakes to the Relevant Sellers that the Sappi Shares forming the Consideration Shares to be issued shall:

- (i) be fully paid or credited as fully paid, rank *pari passu* in all respects with the Sappi Shares in issue on the Completion Date (including the right to receive all dividends and other distributions declared, made or paid on or after the Completion Date);
- (ii) not be issued subject to any pre-emptive right, option, right to acquire, mortgage, charge, pledge, lien or other form of security or encumbrance and all other rights exercisable by or claims by third parties other than at the creation of the Relevant Sellers or any member of the Sellers’ Group; and

- (iii) be issued in accordance with applicable law and the articles of association or by-laws or equivalent constitutional documents of the Purchaser.
- 20.2 Sappi undertakes to the Relevant Sellers that it and its directors, as at the Completion Date, shall have the power and authority to allot and issue the Consideration Shares to be issued to the Relevant Sellers under this Agreement in the manner contemplated by this Agreement without any sanction or consent by the members of the Purchaser or any class of them and the allotment shall comply with the South African Companies Act No 61 of 1973, the JSE Listings Requirements and all other relevant laws and regulations of South Africa and elsewhere.
- 20.3 Sappi agrees and undertakes that the Sappi Circular and any other public document issued by it in relation to the transactions contemplated by this Agreement, including for the avoidance of doubt any rights issue or other equity or debt raising, will be issued in accordance with the rules of the JSE and all other relevant laws and regulations of South Africa and elsewhere.
- 20.4 The Relevant Purchasers agree and undertake that (in the absence of fraud) they have no rights against and shall not make any claim against any employee, director, agent, officer or adviser of any member of the Seller's Group or any Employee on whom it may have relied before agreeing to any term or entering into this Agreement or any other agreement or document entered into pursuant hereto.
- 20.5 Without prejudice to clause 28.2, the Relevant Purchasers shall procure that, for a period of six years after Completion, each of the Relevant Sellers and their accountants shall as soon as reasonably practicable and in any event within five Business Days of request for the same be given reasonable access to any employees, officers, advisers or premises of any member of the Group and any of their respective books and records which may reasonably be required by the Sellers or any other member of the Sellers' Group in connection with any report, return, statement, audit, filing or other requirement under any applicable law or regulation or otherwise required in respect of the Sellers' Business.
- 20.6 Without prejudice to clause 19.7, the Relevant Purchaser of the Kangas Property agrees to grant a right of access, in accordance with the Kangas PM2 Property Lease and for the purpose of removing the Kangas PM2 from the Kangas PM2 Property, to M-real or a relevant third party with effect from Completion and for a period of 3 years or such other period until the Kangas PM2 is sold and removed from the Kangas PM2 Property. The Relevant Purchaser agrees that it will enter into the Kangas PM2 Property Lease in this respect and M-real undertakes that it shall not assign or transfer the Kangas PM2 Property Lease to any third party.
- 20.7 Sappi will procure that the Rights Issue is formally launched as soon as reasonably practicable after the conditions (other than the condition in paragraph 8 of Schedule 2) in Schedule 2 have been satisfied or waived in full or as otherwise as agreed in writing between M-real and Sappi.
- 20.8 Sappi undertakes to M-real that it and the other members of the Purchaser's Group have no secured outstanding debt obligation (whether secured by mortgage, charge, pledge, lien or any other security interest or any other agreement or arrangement having the effect of giving security or preferential ranking to a creditor) other than secured outstanding debt obligations which are permitted under clauses 22.5 (negative pledge) and 22.7 (financial indebtedness) of the 600,000,000 revolving credit facility agreement arranged for Sappi by BNP Paribas, JP Morgan plc and SG Corporate and Investment Banking dated 29 June, 2005 (as amended from time to time) and that the M-real Vendor Loan Note to be issued pursuant to the transactions

contemplated by this Agreement shall rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors except for obligations mandatorily preferred by law applying to companies generally.

21. RESTRICTIONS ON SELLERS' BUSINESS ACTIVITIES

- 21.1 The Relevant Sellers shall, and shall procure that the Sellers' Group shall cease to use any trade mark consisting of or comprising "Galerie Art by Metsä-Serla" ("GAMS") in any jurisdiction.
- 21.2 The Relevant Sellers shall not, and shall procure that none of the Sellers' Group shall:
- (i) make any further use of the "Zanders Mega" marks ("ZM") in any jurisdiction; or
 - (ii) renew any of the ZM registrations; or
 - (iii) for a period of 3 years following Completion, use or apply for registration of or register any trade marks including the word Mega for any products or services, except as otherwise agreed in writing between the parties;
 - (iv) for so long as the Relevant Purchaser continues to have a significant commercial interest in the "MEGA" mark, use or apply for registration of or register any trade marks that include the word MEGA in relation to products or services that are the same as or similar to those in relation to which the Relevant Purchaser has used or is using the MEGA mark (whether alone or in combination with any other mark) in the 3 year period following Completion, except as otherwise agreed in writing between the parties;
 - (v) use or seek registration of any trade marks including the word Galerie (including Galerie Vision or Galerie Image) except as otherwise agreed in writing by the parties.
- 21.3 Subject to clause 21.4, the Relevant Sellers undertake that they will not (and to procure no member of the Sellers' Group will) for a period of three years from the Completion Date be directly or indirectly engaged or interested in carrying on a Coated Graphic Paper Business anywhere in the world.
- 21.4 Nothing in this clause 21, shall prevent or restrict in any way the Relevant Sellers or any other member of the Sellers' Group from:
- (i) the holding of shares in a listed company if the shares do not confer more than 10 per cent. of the votes which could normally be cast at a general meeting of the company, provided that this sub-clause (i) shall not apply to the holding of any shares in Sappi;
 - (ii) carrying on anywhere in the world the Sellers' Business (for the avoidance of doubt, including, without limitation, paperboard, uncoated graphic paper production, coated speciality paper, cast coated paper and one-sided coated paper);
 - (iii) acquiring any entity or business which carries on a Coated Graphic Paper Business as it is carried on at the date of Completion if the acquisition is not made with the sole or main purpose of acquiring a Coated Graphic Paper Business and the Coated Graphic Paper Business element of the entity or business to be acquired does not comprise more than

30 per cent. of turnover of such entity or business taken as a whole and represent production of more than 200,000 tonnes per annum; and

- (iv) carrying on any business contemplated by this Agreement and obligations under agreements contemplated by this Agreement, provided that the restrictions in the 3 year period from Completion set out in this clause 21 shall apply to the Äänekoski PM2 Exclusive Marketing Agreement in the event that agreement is terminated prior to 3 years from the Completion Date.

21.5 In the event that a member of the Sellers' Group acquires an entity or business which carries on a Coated Graphic Paper Business in excess of the turnover and production limits set out in clause 21.4(iii), M-real shall be required to sell or procure the sale of such Coated Graphic Paper Business within six months of the acquisition thereof and, in respect of such disposal, the Purchaser shall be granted a right of first refusal to acquire such Coated Graphic Paper Business provided that any acquisition by the Purchaser shall be at the same price and on materially similar terms as any third party would be prepared to agree to.

21.6 The restrictions in the three year period from Completion set out in this clause 21 shall not apply to restrict:

- (i) any business whatsoever carried out by Zanders at its Gohrsmühle Mill or by Hallein AG at its Hallein Mill in accordance with any of the Transaction Documents in respect of any production at such mills which is not sold by the Relevant Purchasers;
- (ii) any production at the Gohrsmühle Mill or the Hallein Mill in the 4 months following Completion which is not sold by the Relevant Purchasers; and
- (iii) any business carried out by the Sellers' Group which relates to the Excluded SA Assets.

22. NON-SOLICITATION

22.1 The Relevant Sellers undertake to the Relevant Purchasers that they will not, and shall procure that each member of the Sellers' Group will not, within 12 months after the Completion Date solicit or entice away from the employment of any member of the Group, or engage or employ (directly or indirectly, in any capacity whatsoever) any Senior Employee (save where such solicitation or enticement is as a result of an advertisement or advertisements not specifically targeted at such persons or as a result of an unsolicited approach to M-real or any other member of the Sellers' Group from such person).

22.2 The Relevant Purchasers undertake to the Relevant Sellers that they will not, and shall procure that each member of the Purchaser's Group will not, within 12 months after the Completion Date solicit or entice away from the employment of any member of the Sellers' Group or engage or employ (directly or indirectly, in any capacity whatsoever) any Senior Employee (save with the Seller's prior consent (not to be unreasonably withheld or delayed) or save where such solicitation or enticement is as a result of an advertisement or advertisements not specifically targeted at such persons or as a result of an unsolicited approach to the Purchaser or any other member of the Purchaser's Group from such person).

23. EMPLOYEES

- 23.1 The parties anticipate that mandatory provisions of applicable legislation relating to the transfer of undertakings will apply to the sale of the Mill Business and the contracts of employment (and all rights and obligations thereunder including where relevant pension obligations) of the Business Employees will upon Completion, to the extent provided for in the said applicable legislation, transfer to the Relevant Purchasers.
- 23.2 Subject to clauses 23.3 and 23.4, and notwithstanding mandatory provisions of applicable legislation relating to the transfer of undertakings, if the contract of employment of any Business Employee terminates or is found or alleged not to have effect after Completion as if made with the Purchaser or another member of the Purchaser' s Group as a consequence of the sale and purchase of the Mill Business and other matters contemplated under this Agreement, the Purchaser and the Relevant Sellers agree that:
- (i) the Relevant Purchasers (on behalf of the relevant member of the Purchaser' s Group), in consultation with the Relevant Sellers, may, within five Business Days of being so requested by the Relevant Seller, make (or procure that another member of the Relevant Purchaser' s Group makes) to such a Business Employee an offer in writing to employ him under a new contract of employment; and
 - (ii) the offer to be made will be such that it is consistent with the terms and conditions the said Business Employee would have enjoyed had he or she transferred as originally anticipated under the mandatory provisions of applicable legislation.
- 23.3 Without prejudice to clause 23.7, the Relevant Sellers shall indemnify the Relevant Purchasers against any claim in respect of:
- (i) the employment of any Business Employee during the period before the Completion Date;
 - (ii) any termination of the employment of any Business Employee by any member of the Sellers' Group before the Completion Date;
 - (iii) any failure by any member of the Sellers' Group to comply with its obligations under applicable legislation to provide information or to consult, in connection with the transfer and/or other matters contemplated by this Agreement, in relation to the Business Employees.
- 23.4 The Relevant Purchasers shall indemnify the Relevant Sellers against any claim in respect of:
- (i) the employment of any Business Employee during the period after the Completion Date including, without limitation, any changes to terms and conditions of employment by the Relevant Purchaser;
 - (ii) subject to paragraph 23.5, any termination of the employment of any Business Employee by a Relevant Purchaser after the Completion Date; and
 - (iii) any failure by a Relevant Purchaser to comply with its obligations under applicable legislation to provide information with respect to the measures, in connection with the

transfer, which a Relevant Purchaser will take, if any, in relation to any Business Employees who will become employees of the Purchaser' s Group after Completion.

- 23.5 If for any reason the contract of employment of any person who is not an Employee is found or alleged to have effect after the date of this Agreement as if made with a Relevant Purchaser or another member of the Purchaser's Group, as a consequence of the sale and purchase of the Business Assets and other matters contemplated under this Agreement, the Relevant Purchaser and Relevant Sellers agree that:
- (i) the Relevant Sellers will, within 5 Business Days of being so requested by the Relevant Purchaser, either make to that person an offer in writing to employ him under a new contract of employment or notify the Relevant Purchaser that it will not make such an offer; and
 - (ii) any such offer made will be such that none of the terms and conditions of the new contract will differ from the corresponding terms of that individual's contract of employment immediately before Completion.
- 23.6 Once the offer referred to in clause 23.5 has been made or the Relevant Seller has confirmed that it will not make any such offer (or after the expiry of five Business Days after it has been requested), the Relevant Purchaser shall terminate (or procure the relevant member of the Purchaser's Group so terminates) the employment of the person concerned and, so long as notification of that termination is made within three months of the Relevant Purchaser becoming aware of the finding or allegation referred to in clause 23.5, the Relevant Sellers will pay to the Relevant Purchasers such amount as is required to indemnify the Relevant Purchasers or the relevant member of the Purchaser's Group against the cost of that person's employment, the termination of that employment and any liabilities or costs relating to that person which transfer to the Relevant Purchaser or a member of the Purchaser's Group under applicable legislation. The Relevant Purchaser or member of the Purchaser's Group shall use all reasonable endeavours to minimise the cost of terminating such person's employment as are consistent with local law.
- 23.7 All wages, salaries, incentive payments, holiday pay, and other periodic outgoings (including any Employment Taxes for which the employer is required to account in respect of such payments) in respect of the Business Employees to the extent that they are due and payable (in accordance with the usual practice of the Graphic Paper Business):
- (i) on or before the Completion Date shall be borne by the Relevant Sellers or the relevant member of the Sellers' Group; and
 - (ii) after the Completion Date shall be borne by the Relevant Purchasers or the relevant member of the Purchaser's Group,
- provided that any bonuses (including, for the avoidance of doubt, MIS Payments and thirteenth cheques) which relate to a period:
- (a) on or before the Completion Date shall be borne by the Relevant Sellers or the relevant member of the Sellers' Group; and
 - (b) after the Completion Date shall be borne by the Relevant Purchasers or the relevant member of the Purchaser's Group.

- 23.8 For the avoidance of doubt, responsibility for any Employment Taxes relating to wages, salaries, incentive payments, holiday pay, other outgoings and bonuses mentioned in clause 23.7 shall be allocated in accordance with the principles set out in paragraph 3.2 of the Tax Indemnity.

24. FURTHER UNDERTAKINGS

- 24.1 M-real and Sappi have a definitive plan to sell and transfer the Coaters to Sappi, subject to and in accordance with applicable legal and contractual requirements in the relevant jurisdictions, including any applicable labour law requirements or (in Germany) agreements with works' council.
- 24.2 Notwithstanding clause 24.1, any transfer of the Coaters and the Know-How Business shall be subject to the following principles:
- (i) the Sellers shall (or shall procure that the relevant employing entity shall) take all lawful steps necessary to ensure that no employee transfers to any member of the Purchaser' s Group, pursuant to the terms of any legislation relating to the transfer of undertakings and the acquisition (if any) of the Coaters and/or the Know-How Business;
 - (ii) notwithstanding clause 24.2(i), and for the avoidance of any doubt, clauses 23.5(i) and (ii) and 23.6 of this Agreement shall apply to any employee who transfers, or alleges that he/she transferred, to any member of the Purchaser' s Group contrary to clause 24.2(i) above (and such employee shall not be considered to be an "Employee" for the purposes of that clause).
- 24.3 With effect as of the Completion Date, the relevant parties agree to use reasonable endeavours to terminate any cash pooling arrangement in place prior to Completion.
- 24.4 The parties anticipate that the sale and transfer of the Hallein Coater hereunder to the Relevant Purchaser will not constitute a transfer of business in terms of section 38 of the Austrian Company' s Act (Unternehmensgesetzbuch; "**UGB**"). If the sale and transfer of the Hallein Coater hereunder to the Relevant Purchaser should be found to constitute a transfer of business in terms of section 38 UGB the parties agree as follows:
- (i) the Relevant Purchaser shall not assume any liabilities from Hallein AG under section 38 UGB resulting from the transfer of the Hallein Coater to the Relevant Purchaser;
 - (ii) the Relevant Seller shall, to the extent legally permissible, register the exclusion of liability set forth in sub-clause (i) immediately after Completion with the competent commercial register or otherwise notify creditors thereof in accordance with section 38 paragraph 4 UGB. The Relevant Seller shall indemnify the Relevant Purchaser from any damages resulting out of or in connection with a breach of the registration/publicity obligations set forth in this clause 24.4(ii);
 - (iii) the Relevant Seller agrees to pay the Relevant Purchaser an amount equal to the amount of any liability of Hallein AG for which the Relevant Purchaser is or becomes liable by operation of section 38 UGB.

25. SELLERS' MARKS

- 25.1 If any materials are delivered or supplied to the Purchasers under this Agreement bearing the Sellers' Marks, the Purchasers are authorised by the Relevant Sellers to sell or otherwise dispose of those materials or to use that material for a period of 6 months immediately following Completion. After the expiry of this period, the Relevant Purchasers shall immediately destroy or remove or obliterate the Sellers' Marks from the materials (including, but without limitation, other materials sales literature and stationery or buildings, signage or vehicles bearing any of the Sellers' Marks).
- 25.2 Without prejudice to the trade mark rights of the Sellers' Group, the Relevant Purchaser shall procure that for:
- (i) a minimum period of three years following Completion; and
 - (ii) thereafter for so long as any member of the Sellers' Group continues to retain an interest in the Sellers' Marks,
- no member of the Purchaser's Group shall use (including, without limitation, use as a domain name or part of a domain name) any Sellers' Marks or any confusingly similar name or mark in any business which competes with the business of the Sellers' Group.
- 25.3 The Relevant Purchasers acknowledge and agree that, subject to clause 26.1, nothing in this Agreement shall transfer or licence, or shall operate as an agreement to transfer or licence, any right, title or interest in or to the use of Sellers' Marks or any associated logo or device which any member of the Sellers' Group owns, or any confusingly similar name or mark. Following Completion, the Relevant Purchasers shall not, and shall procure that no member of the Purchaser's Group shall, hold itself out as being part of or in any way connected with any Relevant Seller and/or the Sellers' Group.

26. **INTELLECTUAL PROPERTY**

- 26.1 If any of the Group Companies owns after Completion any Intellectual Property or rights in Business Information which in the year prior to Completion was used exclusively in the business of the Sellers' Group, the Relevant Purchasers shall procure that such Intellectual Property and/or rights in Business Information are transferred to a company nominated by the Relevant Sellers for nominal consideration as soon as practicable after becoming aware of the ownership of such rights.
- 26.2 If any of the Sellers' Group own after Completion any Intellectual Property or rights in Business Information which in the year prior to Completion was used exclusively in the business of the Group or the Business (excluding the Sellers' Marks), the Relevant Sellers shall procure that such Intellectual Property and/or rights in Business Information are transferred to a company nominated by the Relevant Purchasers for nominal consideration as soon as practicable after becoming aware of the ownership of such rights.
- 26.3 The Relevant Purchasers hereby grant and shall procure the grant by each relevant member of the Purchaser's Group to the Relevant Sellers, with effect from Completion, a non-exclusive, perpetual, worldwide, assignable (but with no right to grant sub-licences), royalty-free licence of all Intellectual Property (as acquired in this transaction, but excluding trade marks, trade names

and logos except in accordance with clause 26.6) and rights in Business Information owned by the Relevant Purchasers or a member of the Purchaser's Group after Completion in so far as such licence is reasonably necessary for the business of the Sellers' Group. For the avoidance of doubt, this excludes Intellectual Property and rights in Business Information related to coated wood-free paper, except in accordance with the Transaction Documents.

- 26.4 The Relevant Sellers hereby grant, and shall procure the grant by each relevant member of the Sellers' Group to the Relevant Purchaser, with effect from Completion, a non-exclusive, perpetual, worldwide, assignable (but with no right to

grant sub-licences) royalty-free licence of all Intellectual Property and rights in Business Information owned by the Relevant Sellers or a member of the Sellers' Group insofar as such licence is reasonably necessary for the business of the Companies or the Business (excluding the Sellers' Marks).

26.5 Each of the Relevant Purchasers and Relevant Sellers agree that, and the Relevant Sellers shall procure that, (save for any licences intended to continue in accordance with the terms of the Transitional Services Agreement) all licences of any Intellectual Property or rights in Business Information:

- (i) owned by any of the Group Companies or to be owned by the Relevant Purchasers or their nominees pursuant to this Agreement (or any associated Transaction Documents) and licensed to any member of the Sellers' Group; or
- (ii) owned by the Sellers' Group or to be owned by the Relevant Sellers or their nominees pursuant to this Agreement (or any associated Transaction Documents) and licensed to any member of the Purchaser's Group,

(other than licences granted pursuant to any Transaction Document) terminate at Completion.

26.6 The Relevant Purchasers agree to grant to each of the Relevant Sellers, with effect from Completion, non-exclusive, royalty-free licences (with no right to grant sub-licences) of the:

- (i) marks **GALERIE VISION** and **GALERIE IMAGE** for use on board products similar to those currently produced on the Äänekoski Board Machine by the Seller's Group for a period of 12 months following Completion;
- (ii) mark **GALERIE ART** on and in relation to the wood-free coated Äänekoski PM2 Goods produced at the Äänekoski Mill, as that business was carried on (in terms of scale and scope) at Completion, such goods to be distributed exclusively through the Relevant Purchasers during the life of the Äänekoski Transitional Agreement and, post termination of that agreement, the licence to include the right to offer for sale, distribute and sell the Äänekoski PM2 Goods;
- (iii) marks **ERA SILK** and **ERA GLOSS** on and in relation to coated paper products for a transition period, expiring at such time as the Relevant Purchasers are able to transfer production of this product to its own paper machines; and
- (iv) mark **ERA** on and in relation to uncoated paper products as currently produced by the Seller's Group,

such licences to be on reasonable commercial terms and to be executed prior to Completion.

27. **INSURANCE**

The Relevant Purchasers acknowledge and agree that upon Completion all insurance cover provided in relation to the Business and the assets of the Group pursuant to the Sellers' Group Insurance Policies shall cease.

28. **BOOKS AND RECORDS**

28.1 On the Completion Date the Relevant Sellers shall deliver to, or hold to the order of, the Relevant Purchasers originals of all the Books and Records which constitute Business Assets excluding:

- (i) those Books and Records which any member of the Sellers' Group is required by law to retain; and
- (ii) all Books and Records of the Relevant Sellers which contain legally privileged information which is confidential to the Sellers,

all of which shall be retained by the Sellers.

28.2 The Relevant Purchasers acknowledge that the Relevant Sellers will wish to inspect and/or copy the Books and Records delivered to the Relevant Purchasers under this Agreement, and the books and records and accounts of the Group Companies, for the purpose of dealing with any report, return, statement audit, filing or other requirement under any applicable law or regulation, its Tax affairs or any third party claim or otherwise required in respect of the Sellers' Business and, accordingly, the Relevant Purchasers shall, upon having given reasonable notice by the Relevant Sellers and subject to the Relevant Sellers giving such undertaking as to confidentiality as the Relevant Purchasers shall reasonably require, make such Books and Records, and such books and records and accounts of the Group Companies, available to the Relevant Sellers (or their professional advisers) for inspection (during Working Hours) and copying (at the Relevant Sellers' expense) in each case only to the extent necessary for such purpose until the later of:

- (i) six years from Completion; or
- (ii) final settlement with the Tax Authorities of any claims relating to Tax for which the Sellers might be liable under this Agreement.

28.3 In respect of any Books and Records not delivered to the Relevant Purchasers or any accounting or Tax records which contain information which relates in part (but not exclusively) to the Business or which relate exclusively to the Business but do not constitute Business Assets, the Relevant Sellers shall, upon having been given reasonable notice by the Relevant Purchasers or their agents, make that part of such Books and Records (including accounting or Tax records which do relate to the Business) available to the Relevant Purchasers or their agents for inspection (during Working Hours) and copying (at the Relevant Purchasers expense) for a period of six years from Completion but excluding any to the extent that they contain legally privileged information which is confidential to the Relevant Sellers.

29. SET-OFF

Any payment to be made by any party under this Agreement shall be made in full without any set-off, restriction, condition or deduction for or on account of any counterclaim.

30. EFFECT OF COMPLETION

Save as otherwise provided herein, any provision of this Agreement or of any other document referred to herein which is capable of being performed after but which has not been performed at or before Completion and all Warranties contained in, or entered into pursuant to, this Agreement shall remain in full force and effect notwithstanding Completion.

31. REMEDIES AND WAIVERS

- 31.1 Except as provided in Schedule 5, no delay or omission on the part of either party to this Agreement in exercising any right, power or remedy provided by law or under this Agreement or any other documents referred to in it shall impair such right, power or remedy or operate as a waiver thereof.
- 31.2 Except as provided in Schedule 5, the single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise thereof or the exercise of any other right, power or remedy except where expressly stated herein.
- 31.3 Except as otherwise expressly provided in this Agreement, the rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

32. **ASSIGNMENT**

- 32.1 Obligations under this Agreement shall not be transferable.
- 32.2 The benefits of this Agreement shall not be assignable except that any party may, upon giving written notice to the others, assign the benefit of this Agreement to a member of the Sellers' Group or the Purchaser's Group, as the case may be, (a "**Permitted Assignee**") provided that such assignment shall be without cost to, and shall not result in any increased liability, or any reduction in the rights, of, any of the other parties and further provided that if such Permitted Assignee shall subsequently cease to be a member of the Purchaser's Group or the Sellers' Group, as the case may be, the original assigning party shall procure that prior to the Permitted Assignee ceasing to be a member of the Purchaser's Group or the Sellers' Group, as the case may be, it shall assign so much of the benefit of this Agreement as has been assigned to it to the party by whom such rights were originally assigned or (upon giving further written notice to the other parties) to another member of the Purchaser's Group or the Sellers' Group, as the case maybe. Any purported assignment in contravention of this clause shall be void.

33. **FURTHER ASSURANCE**

- 33.1 Without prejudice to any restriction or limitation on the extent of any party's obligations under this Agreement, and except in relation to the Business Intellectual Property, each of the parties shall from time to time so far as each is reasonably able do or procure the doing of all such acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the

party concerned as they may reasonably consider necessary to transfer the Shares and the Business Assets to the Relevant Purchasers or otherwise to give the other party the full benefit of this Agreement.

- 33.2 The Relevant Sellers undertake after Completion and at the request of the Relevant Purchasers to execute or procure the execution of all such documents as may reasonably be necessary to secure the vesting in the Relevant Purchasers (or a member of the Purchaser's Group) of the Business Intellectual Property, provided that the Relevant Purchasers undertake to the Relevant Sellers that they will be responsible for preparing all such documents and provided further that the Relevant Purchasers shall be responsible for all costs and expenses in respect of such vesting.

34. **ENTIRE AGREEMENT**

- 34.1 This Agreement and any other documents entered into pursuant to this Agreement (including, for the avoidance of doubt, any local transfer agreements) constitute the whole and only agreement between the parties relating to the sale and purchase of the Business Assets and the Shares and, save if and only to the extent expressly repeated in this Agreement, supersedes and extinguishes any prior drafts, agreements, undertakings, representations, warranties and arrangements of any nature whatsoever, whether or not in writing, relating thereto.

- 34.2 Each party acknowledges that in entering into this Agreement and any other documents entered into pursuant to this Agreement it is not relying on and has not been induced to enter into this Agreement or any other such document on the basis of any Assurance made or given by any other party or any other person, whether or not in writing, prior to the date hereof, which is not expressly set out in this Agreement or any other such document or, to the extent that it has been, it has (in the absence of fraud) no rights or remedies in relation thereto.

- 34.3 This Agreement may only be varied by a document signed by each of the parties and expressed to be a variation to this Agreement.

- 34.4 To the extent that any provision of any agreement entered into for the purposes of transferring Business Assets and Shares located in a particular jurisdiction or country is inconsistent with any provision of this Agreement, the provisions of this Agreement shall prevail.

35. **RIGHTS OF THIRD PARTIES**

- 35.1 Save as contemplated by clause 35.2 , the parties to this Agreement do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.
- 35.2 The provisions of clauses 17.6 and 20.4 are intended to be enforceable by each such person by virtue of the Contracts (Rights of Third Parties) Act 1999.
- 35.3 This Agreement may be amended or varied in any way and at any time by the parties to this Agreement without the consent of any person referred to in clause 35.2.

36. NOTICES

- 36.1 Any notice or other communication given or made under or in connection with the matters contemplated by this Agreement shall be in writing. Telexes and faxes are not permitted.

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- 36.2 Any such notice or other communication shall be addressed as provided in clause 36.3 and, if so addressed, shall be deemed to have been duly given or made as follows:

- (i) if sent by personal delivery, upon delivery at the address of the relevant party; or
- (ii) if sent by courier, two Business Days after the date of posting,

PROVIDED THAT any notice or other communication given or made to M-real shall be deemed to be given or made to each of the other Relevant Sellers and any notice or other communication given or made to Sappi shall be deemed to be given or made to the other Relevant Purchasers and if, in accordance with the above provisions, any such notice or other communication would otherwise be deemed to be given or made outside Working Hours, such notice or other communication shall be deemed to be given or made at the start of Working Hours on the next Business Day.

- 36.3 The relevant addressee and address of each party for the purposes of this Agreement, subject to clause 36.4, are:

Name of Party

Address

M-real Corporation

For the attn. of: Matti Mörsky with a copy
to Esa Kaikkonen

Revontulentie 6
02100 Espoo,
Finland

P.O. Box 20,
FIN-02020 Metsä,
Finland

Sappi Limited

Sappi House

For the attn of: Robert Hope with a copy to
Ria Sanz

48 Ameshoff Street
Braamfontein
Johannesburg
South Africa

- 36.4 A party may notify any other party to this Agreement of a change to its name, relevant addressee or address for the purposes of clause 36.3 PROVIDED THAT such notification shall only be effective on:
- (i) the date specified in the notification as the date on which the change is to take place; or
 - (ii) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.
- 36.5 For the avoidance of doubt, the parties agree that the provisions of this clause 36 shall not apply in relation to the service of any written, summons, order, judgment or other document relating to or in connection with any Proceedings.

37. ANNOUNCEMENTS

- 37.1 Subject to clause 37.2, no announcement concerning the sale or purchase of the Shares and the Business Assets or any ancillary matter (other than the Sappi Circular and the Press Announcements and the announcement by Sappi of the outcome of the extraordinary general meeting to which the Sappi Circular relates) shall be made by any party without the prior written approval of each other party, such approval not to be unreasonably withheld or delayed.
- 37.2 Any party may make an announcement concerning the sale or purchase of the Shares and the Business Assets or any ancillary matter if required by:
- (i) the law of any relevant jurisdiction;
 - (ii) any securities exchange or regulatory or governmental body to which any party is subject or submits, wherever situated (including, without limitation, the Finnish Stock Exchange, the JSE, the UK Listing Authority, the London Stock Exchange, the European Commission, any Competition Authority and any Tax Authority), whether or not the requirement has the force of law,
- in which case the party concerned shall take all such steps as may be reasonable and practicable in the circumstances to agree the contents of such announcement with the other party before making such announcement and PROVIDED THAT any such announcement shall be made only after notice to each other party.
- 37.3 The restrictions contained in this clause 37 shall continue to apply after the termination of this Agreement without limit in time.

38. CONFIDENTIALITY

38.1 Without prejudice to the Confidentiality Agreement and subject to clause 38.2 and clause 37, each party shall treat as strictly confidential all information received or obtained as a result of entering into or performing this Agreement which relates to:

- (i) the provisions or the subject matter of this Agreement or any document referred to herein;
- (ii) the negotiations relating to this Agreement or any document referred to herein;
- (iii) (in the case of the Relevant Purchasers) the Sellers' Group, (in the case of the Relevant Sellers only) the Purchaser's Group and the business carried on by each member of each of them respectively.

38.2 Any party may disclose information which would otherwise be confidential if and to the extent:

- (i) required by the law of any relevant jurisdiction or for the purpose of any judicial proceedings;
- (ii) required by any securities exchange or regulatory or governmental body to which any party is subject or submits, wherever situated, including (without limitation) the Finnish Stock Exchange, the JSE, the UK Listing Authority, the London Stock Exchange, the

European Commission, any Competition Authority and any Tax Authority, whether or not the requirement for information has the force of law;

- (iii) that the information is disclosed on a strictly confidential basis to the professional advisers, auditors and/or bankers of that party;
- (iv) that the information has come into the public domain through no fault of that party;
- (v) that the other party has given prior written approval to the disclosure, such approval not to be unreasonably withheld or delayed;
- (vi) it does so to a member of the Sellers' Group (in the case of the Relevant Sellers) or a member of the Purchaser's Group (in the case of the Relevant Purchasers) which accepts restrictions in the terms of this clause; or
- (vii) required to enable that party to enforce its rights under this Agreement,

PROVIDED THAT any such information disclosed pursuant to paragraphs (i) or (ii) shall be disclosed only after notice to the other party.

38.3 Confidential information shall only be used for the purposes of the negotiations or performance of obligations under this Agreement and not for any other purpose whatsoever.

38.4 Confidential information which may reasonably be considered as competitively sensitive shall only be exchanged subject to strict confidentiality rules so as to ensure that such exchange is in full compliance of anti-trust laws including for the

avoidance of doubt Article 81 EC. Without prejudice to the generality of the foregoing, exchanges of competitively sensitive information may be restricted where appropriate only to external advisors on an external counsel basis.

38.5 The restrictions contained in this clause shall continue to apply after the termination of this Agreement without limit in time.

39. COSTS AND EXPENSES

39.1 Save as otherwise stated in this clause 39 and in any other provision of this Agreement, M-real and Sappi shall pay their own costs and expenses in relation to the negotiations leading up to the sale of the Shares and the Business Assets and to the preparation, execution and carrying into effect of this Agreement and all other documents entered into pursuant to it.

39.2 Subject to a maximum payment of 1,000,000 by Sappi, Sappi agrees that it shall bear 50 per cent. of the costs of PricewaterhouseCoopers in relation to the preparation of the Carve-Out Accounts.

39.3 Without prejudice to clause 39.1, and notwithstanding the provisions of Schedule 14, all merger control authority costs, stamp, transfer (including property transfer taxes), registration, and other similar taxes, duties and charges (including, for the avoidance of doubt, stamp duty pursuant to the Austrian Stamp Duty Act (*Gebührengesetz*) as interpreted under the Stamp Duty Guidelines of the Austrian Ministry of Finance (*Gebührenrichtlinien*)), costs and all notarial fees payable in connection with the sale or purchase of the Shares, and the Business Assets under this Agreement and all other documents entered into pursuant to it (including, for the avoidance of

doubt, any issue or transfer of the Vendor Loans, the Consideration Shares or provision of the M-real Vendor Loan Note in accordance with this Agreement) shall be paid by the Relevant Purchasers (or the relevant Group Companies, as the case may be) and shall not be recoverable from the Sellers under any provision of this Agreement (including, without limitation, any provision of Schedule 14).

40. INDUCEMENT FEE

If Completion does not occur only because of a failure to satisfy the conditions set out in paragraph 2 of Schedule 2, the Purchaser shall by way of compensation pay or procure the payment to M-real of a sum of 2,000,000 (the “**Inducement Fee**”).

41. COUNTERPARTS

41.1 This Agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart.

41.2 Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

42. INVALIDITY

If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair:

- (i) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (ii) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

43. HUSUM PM8 COATER CALL OPTION

43.1 Subject to clause 43.2, the Relevant Purchasers shall have an option (the “**Option**”) of purchasing the Husum PM8 Coater from the Relevant Seller for the amount in clause 43.2 below (together in each case with an amount equal to any VAT properly chargeable in connection therewith, against delivery of an appropriate VAT invoice) (the “**Purchase Price**”) on the terms and subject to this clause 43.

43.2 Without prejudice to clause 43.8, the Purchase Price shall be adjusted in the following situations:

- (i) if Sappi exercises the Option in the period following six months from the Completion Date but before the end of the period ending 27 months after the Completion Date, the Purchase Price shall be 20,000,000;
- (ii) if Sappi exercises the Option in the period after 27 months from the Completion Date to 31 September, 2011 (inclusive) the Purchase Price shall be 49,000,000;
- (iii) if Sappi exercises the Option in the period from and including 1st October 2011 to and including 31 December 2011, the Purchase Price shall be 48,000,000; and

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- (iv) if Sappi exercises the Option after 31 December, 2011 the Purchase Price as reduced pursuant to paragraph (iii) above, shall further be reduced by an amount of 325,000 per month (and pro rata for any part thereof) starting with the month commencing 1 January, 2012.

43.3 The duration of the Option will lapse upon the expiry of five years following the Completion Date and is exercisable in whole but not in part by notice in writing from the Relevant Purchaser to the Relevant Seller given at any time during the period from and including the date on which the Relevant Sellers notify the Relevant Purchasers of a proposed sale,

transfer or disposition of Husum Mill' s PM8 to a third party (the “**Third Party**”) (which notification shall be given promptly upon indicative terms to sell Husum Mill' s PM8 having been discussed with the Third Party) to and including the date falling thirty days thereafter.

- 43.4 Upon exercise of the Option, the sale and purchase of the Husum PM8 Coater shall be conditional upon the completion of the sale of Husum Mill' s PM8 to the Third Party whereupon (subject to clause 43.6 below) the Relevant Seller shall, subject to obtaining any security it reasonably requires in relation to any deferred consideration in respect of the sale, sell, or procure the sale, and the Relevant Purchaser shall purchase, or procure the purchase, of the Husum PM8 Coater.
- 43.5 The consideration for the sale and purchase of the Husum PM8 Coater shall be paid not later than 27 months following Completion unless the provisions of clause 43.8 apply in which event the consideration shall be paid on the completion of the sale referred to in that clause if earlier. Upon the transfer of the Husum PM8 Coater the Relevant Seller shall deliver to the Relevant Purchaser duly executed transfers in respect of the Husum PM8 Coater, together with the relevant certificates or other documents of title.
- 43.6 Upon exercise of the Option the Relevant Seller shall sell the Husum PM8 Coater with full title guarantee, free from encumbrances and with all rights then or subsequently attaching to it and the Relevant Seller shall execute and deliver other documents and take other steps at the reasonable request and cost of the Relevant Purchaser following completion where this is required to vest the Husum PM8 Coater in the Relevant Purchaser and otherwise to give it the full benefit of this clause 43. While the Option remains exercisable, then save as arising by operation of law in the ordinary course of business, the Relevant Seller shall not encumber or dispose of the Husum PM8 Coater or any interest in it except in accordance with this clause 43.
- 43.7 The Relevant Seller undertakes not to agree to sell, transfer or otherwise dispose of all or any part of the Husum Mill or the Husum Mill' s PM8 in the first six months following Completion.
- 43.8 If Sappi sells the Husum PM8 Coater within a year of completing the sale and purchase thereof, M-real shall be entitled to 50 per cent. of the excess of the sale proceeds over and above the Purchase Price (plus any costs associated with the sale and purchase) paid by the Relevant Purchaser for the Husum PM8 Coater.

44. **SOUTH AFRICA OPTION**

- 44.1 The Relevant Purchaser shall have an option to purchase the Excluded SA Assets and the SA Customer Lists from the Relevant Seller (the “**SA Option**”) and the Relevant Sellers shall have the right to require that the Relevant Purchasers purchase the Excluded SA Assets and the SA

Customer Lists from the Relevant Seller (the “**SA Put**”), in each case on the terms of this clause 44.

- 44.2 The SA Option or the SA Put may be exercised by the relevant party at any time following the thirtieth Business Day after Completion.
- 44.3 Consideration payable by the Relevant Purchaser to the Relevant Seller upon completion of the SA Option or the SA Put, as the case may be, shall be 983,754 (together with an amount equal to any VAT properly chargeable in connection therewith, against delivery of an appropriate VAT invoice).
- 44.4 The SA Option and the SA Put shall be exercisable in whole but not in part by notice in writing from the Relevant Purchaser to the Relevant Seller (in the case of the SA Option) or from the Relevant Seller to the Relevant Purchaser (in the case of the SA Put) and once exercised, completion of the SA Option or the SA Put, as the case may be, shall be conditional only upon receipt of any necessary regulatory approvals and clearances.
- 44.5 Upon exercise of the SA Option or the SA Put, as the case may be, the transfer of the Excluded SA Assets and the SA Customer Lists shall take place *mutatis mutandis* on the terms of this Agreement and the Relevant Seller shall execute and deliver such documents and take such steps at the reasonable request and cost of the Relevant Purchaser following Completion where this is required to vest the Excluded SA Assets and the SA Customer Lists in the Relevant Purchaser and otherwise to give it the full benefit of this clause 44.
- 44.6 Other than in the ordinary course of business, the Relevant Seller shall not encumber or dispose of the Excluded SA Assets and the SA Customer Lists or any interest in any of them except in accordance with this clause 44.

45. **KANGAS PROPERTY OPTION**

- 45.1 In consideration of the payment by M-real to Sappi of 1, Sappi grants to M-real the option to acquire the Kangas Property in the event of a permanent cessation of manufacturing paper at the Kangas Mill (a “**Permanent Cessation**”) for a purchase price and subject to the terms and conditions of this clause 45 and subject to terms and conditions of any property transfer deed to be entered into by the parties (the “**Kangas Property Option**”).
- 45.2 Sappi shall serve notice on M-real of the Permanent Cessation as soon as reasonably practicable after the cessation, however not later than within three months after the Permanent Cessation. At any time thereafter, M-real may serve notice on Sappi indicating that M-real desires to exercise the Kangas Property Option.
- 45.3 Should M-real serve notice pursuant to clause 45.2 to exercise the Kangas Property Option for the purpose of acquiring the Kangas Property for further commercial or industrial use, the purchase price to be paid by M-real for the Kangas Property shall be the average of the three separate and independent valuations of the Kangas Property as outlined below (together with an amount equal to any VAT properly chargeable in connection therewith, against delivery of an appropriate VAT invoice). M-real and Sappi agree that for the purpose of ascertaining the purchase price to be paid for the Kangas Property each party will carry out the following valuations (each of which shall be addressed to M-real and Sappi in accordance with the details

set out in clause 36) within 20 Business Days of the notice served by M-real pursuant to clause 45.2:

- (i) Sappi shall commission two separate and independent valuations of the Kangas Property; and
- (ii) M-real shall commission one independent valuation of the Kangas Property,

provided that in each case the valuation shall be carried out with reference to use of the Kangas Property for commercial or industrial use.

- 45.4 Once the purchase price is determined pursuant to clause 45.3, the transfer of the Kangas Property shall be completed within 30 Business Days of this determination.
- 45.5 If the Kangas Property Option is exercised and the transfer of the Kangas Property completed pursuant to clauses 45.3 and 45.4, M-real agrees that if it should redevelop the Kangas Property or any part of it for residential purposes within five years from the date of acquiring it, Sappi shall be entitled to receive an equal share of any redevelopment profits less, for the avoidance of doubt, the sum paid by M-real to acquire the Kangas Property (plus interest at the Agreed Rate thereon), payable within one month of the redeveloped site being disposed of by way of sale, lease or licence as a whole or in parts.
- 45.6 Should M-real exercise the Kangas Property Option for the purpose of redeveloping the Kangas Property for non-industrial use, Sappi shall be entitled to:
- (i) receive the book value of the Kangas Property (as at the Completion Date); and
 - (ii) upon the redevelopment of the Kangas Property or any part of it by M-real for non-industrial use, an equal share in any redevelopment profits less, for the avoidance of doubt, the sum paid by M-real to acquire the Kangas Property (plus interest at the Agreed Rate thereon), payable within one month of the redeveloped site being disposed of by way of sale, lease or licence as a whole or in parts,
- and the transfer of the Kangas Property shall be completed within 30 Business Days of the notice served pursuant to clause 45.2. M-real and Sappi agree that they shall in good faith discuss how best to enforce the transfer of the Kangas Property.
- 45.7 M-real and Sappi shall discuss in good faith what constitutes redevelopment profits for the purposes of clauses 45.5 or 45.6(ii) in the event of any such residential redevelopment and shall if necessary employ the services of an independent expert to help them determine the same.
- 45.8 Sappi acknowledges that M-real is entering into this Agreement in reliance on the Kangas Property Option in the event a Permanent Cessation occurs. Notwithstanding Schedule 5 of this Agreement, M-real and Sappi acknowledge and agree that in the event Sappi would be in breach of its obligation to transfer the Kangas Property to M-real as set out in this clause 45, Sappi shall indemnify and hold M-real harmless against all damage, loss, liability or expense (including, without limitation, reasonable expenses of investigation and attorneys' fees) suffered by M-real as a result of the breach of the Kangas Property Option. Any such compensation shall also fully reflect the difference as at the date set out in clause 45.2 between:

- (i) the value of M-real' s share of the anticipated redevelopment profits taking into account any relevant breach and considering such facts and circumstances as may have been relevant to the determination of the value of the Kangas Property Option for M-real; and
- (ii) the book value of the Kangas Property.

45.9 Any amounts due under clause 45.8 shall be payable by Sappi to M-real within one month following M-real' s demand and shall be placed in immediately available funds at a bank account nominated by M-real.

46. **GUARANTEE**

46.1 M-real' s Guarantee

- (i) M-real unconditionally and irrevocably guarantees to the Relevant Purchasers (to the extent they are a beneficiary of an obligation of a Relevant Seller) the due and punctual performance and observance by each of the Relevant Sellers of all their obligations, commitments, undertakings, Warranties and indemnities under or pursuant to this Agreement and the Transaction Documents (the “**Sellers’ Guaranteed Obligations**”) , to the extent of any limit on the liability of M-real and the Relevant Sellers under this Agreement.
- (ii) If and whenever any of the Relevant Sellers defaults for any reason whatsoever in the performance of any of the Sellers’ Guaranteed Obligations, M-real shall forthwith upon demand unconditionally perform (or procure performance of) and satisfy (or procure the satisfaction of) the Sellers’ Guaranteed Obligations in regard to which such default has been made in the manner prescribed by this Agreement and under any Transaction Document and so that the same benefits shall be conferred on the Relevant Purchasers as they would have received if the Sellers’ Guaranteed Obligations had been duly performed and satisfied by the Relevant Sellers.
- (iii) This guarantee is to be a continuing guarantee and accordingly is to remain in force until all Sellers’ Guaranteed Obligations shall have been performed or satisfied. This guarantee is in addition to and without prejudice to and not in substitution for any rights or security which the Relevant Purchasers may now or hereafter have or hold for the performance and observance of the Sellers’ Guaranteed Obligations.
- (iv) As a separate and independent obligation, M-real agrees that any of the Sellers’ Guaranteed Obligations (including, without limitation, any moneys payable) which may not be enforceable against or recoverable from any of the Relevant Sellers by reason of any legal limitation, disability or incapacity on or of any of the Relevant Sellers or any other fact or circumstances (other than any limitation imposed by this Agreement or under any Transaction Document) shall nevertheless be enforceable against and recoverable from M-real as though the same had been incurred by M-real and M-real was the sole or principal obligor in respect thereof and shall be performed or paid by M-real on demand.
- (v) The liability of M-real under this clause 46.1:

- (a) shall not be released or diminished by any variation of the Sellers' Guaranteed Obligations or any forbearance, neglect or delay in seeking performance of the Sellers' Guaranteed Obligations or any granting of time for such performance; and
- (b) shall not be affected or impaired by reason of any other fact or event which in the absence of this provision would or might constitute or afford a legal or equitable discharge or release or a defence to a guarantor.

46.2 The Sappi's Guarantee

- (i) Sappi unconditionally and irrevocably guarantees to the Relevant Sellers the due and punctual performance and observance by each of the Relevant Purchasers of all their obligations, commitments, undertakings, warranties and indemnities under or pursuant to this Agreement and any Transaction Document (the "**Purchasers' Guaranteed Obligations**") to the extent of any limit on the liability of Sappi and the Relevant Purchasers under this Agreement or any Transaction Document.
- (ii) If and whenever any of the Relevant Purchasers defaults for any reason whatsoever in the performance of any of the Purchasers' Guaranteed Obligations, the Sappi shall forthwith upon demand unconditionally perform (or procure performance of) and satisfy (or procure the satisfaction of) the Purchasers' Guaranteed Obligations in regard to which such default has been made in the manner prescribed by this Agreement or any Transaction Document and so that the same benefits shall be conferred on the Relevant Sellers as they would have received if the Purchasers' Guaranteed Obligations had been duly performed and satisfied by the Relevant Purchaser.
- (iii) This guarantee is to be a continuing guarantee and accordingly is to remain in force until all the Purchasers' Guaranteed Obligations shall have been performed or satisfied. This guarantee is in addition to and without prejudice to and not in substitution for any rights or security which the Relevant Sellers may now or hereafter have or hold for the performance and observance of the Purchasers' Guaranteed Obligations.
- (iv) As a separate and independent obligation the Sappi agrees that any of the Purchasers' Guaranteed Obligations (including, without limitation, any moneys payable) which may not be enforceable against or recoverable from any of the Relevant Purchasers by reason of any legal limitation, disability or incapacity on or of any of the Relevant Purchasers or any other fact or circumstances (other than any limitation imposed by this Agreement or any Transaction Document) shall nevertheless be enforceable against and recoverable from Sappi as though the same had been incurred by Sappi and Sappi were the sole or principal obligor in respect thereof and shall be performed or paid by Sappi on demand.
- (v) The liability of Sappi under this clause 46.2:
 - (a) shall not be released or diminished by any variation of the Purchasers' Guaranteed Obligations or any forbearance, neglect or delay in seeking performance of the Purchasers' Guaranteed Obligations or any granting of time for such performance; and

- (b) shall not be affected or impaired by reason of any other fact or event which in the absence of this provision would or might constitute or afford a legal or equitable discharge or release or a defence to a guarantor.

47. INDEMNITIES ON AN AFTER-TAX BASIS

- 47.1 All references in this agreement to "indemnify" and "indemnifying" shall be construed as references to "indemnify" and "indemnifying" on an after-Tax basis.

47.2 For the purposes of clause 47.1, “after-Tax basis” means that to the extent that the amount payable pursuant to such indemnity (the “**Payment**”) is subject to a deduction or withholding required by law in respect of Tax or is chargeable to any Tax in the hands of the recipient it shall be increased so as to ensure that, after taking into account:

- (i) the Tax chargeable on such amount (including on the increased amount); and
- (ii) any Tax credit, repayment or other Tax benefit which is available to the indemnified party or the recipient of the Payment solely as a result of the matter giving rise to the Payment Obligation or as a result of receiving the Payment (which amount of Tax and Tax credit, repayment or other Tax benefit is to be determined by the auditors of the recipient at the shared expense of both parties and is to be certified as such to the party making the Payment),

the recipient of the Payment is in the same position as it would have been in if the matter giving rise to the obligation to make the Payment had not occurred.

47.3 If any party to this Agreement assigns the benefit in whole or in part of this Agreement, the liability of any other party to make an increased payment in accordance with clause 47.2 shall be limited to that (if any) which it would have been liable to make if no such assignment had taken place.

48. **LANGUAGE**

48.1 Each notice, demand, request, statement, instrument, certificate, or other communication under or in connection with this Agreement shall be:

- (i) in English; or
- (ii) if not in English, accompanied by an English translation made by a translator, and certified by an officer of the party giving the notice to be accurate.

48.2 The receiving party shall be entitled to assume the accuracy of and rely upon any English translation of any document provided pursuant to clause 48.1(ii).

49. **GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with English law.

50. **JURISDICTION**

- 50.1 Each of the parties to this Agreement irrevocably agrees that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any Proceedings may only be brought in such courts.
- 50.2 Each party irrevocably waives (and irrevocably agrees not to raise) any objection which it may have now or hereafter to the laying of the venue of any proceedings in any such court as is referred to in clause 50.1 and any claim of *forum non conveniens* and further irrevocably agrees that a judgment in any Proceedings brought in any court referred to in this clause shall (provided that there is no appeal pending or open) be conclusive and binding upon such party.

51. **AGENTS FOR SERVICE**

- 51.1 The Relevant Purchasers irrevocably agree that any notice or document may be sufficiently and effectively served on them in connection with Proceedings in England and Wales by service on Sappi (UK) Limited, Blackburn Mill, Feniscowles, Blackburn, Lancashire BB2 5HX, if no replacement agent has been appointed and notified to the Relevant Sellers pursuant to clause 51.2 below, or on the replacement agent if one has been so appointed and notified to the Relevant Sellers. Any notice or document served pursuant to this clause 51.1 shall be marked for the attention of:
- (i) Mr Willy Heckers or such other address within England or Wales as may be notified to the Relevant Sellers by the Relevant Purchasers; or
 - (ii) such other person as is appointed as agent for service pursuant to clause 51.2 below at the address notified pursuant to clause 51.2 below.
- 51.2 If the agent referred to in clause 51.1 above (or any replacement agent appointed pursuant to this clause) at any time ceases for any reason to act as such, the Relevant Purchasers shall appoint a replacement agent to accept service having an address for service in England or Wales and shall notify the Relevant Sellers of the name and address of the replacement agent; failing such appointment and notification, the Relevant Sellers shall be entitled by notice to the Relevant Purchaser to appoint such a replacement agent to act on the Relevant Purchasers behalf PROVIDED THAT in cases where service is effected upon a replacement agent appointed by the Relevant Sellers in accordance with this clause 51.2 a copy of the relevant notice or document shall at the same time be forwarded to the last known business address of the Relevant Purchasers.
- 51.3 Each of the Relevant Sellers irrevocably agree that any notice or document may be sufficiently and effectively served on them in connection with Proceedings in England and Wales by service on the Company Secretary of M-real UK Services Limited, Sittingbourne, Kent, ME10 3ET, if no replacement agent has been appointed and notified to the Purchase pursuant to clause 51.4 below, or on the replacement agent if one has been so appointed and notified to the Purchaser. Any notice or document served pursuant to this clause 51.3 shall be marked for the attention of:
- (i) Mr David Scudder or such other address within England or Wales as may be notified to the Relevant Purchasers by the Relevant Sellers; or
 - (ii) such other person as is appointed as agent for service pursuant to clause 51.4 below at the address notified pursuant to clause 51.4 below.
- 51.4 If the agent referred to in clause 51.3 above (or any replacement agent appointed pursuant to this clause) at any time ceases for any reason to act as such, the Relevant Sellers shall appoint a replacement agent to accept service having an address for service in England or Wales and shall notify the Relevant Purchasers of the name and address of the replacement agent; failing such appointment and notification, the Relevant Purchasers shall be entitled by notice to the

Relevant Sellers to appoint such a replacement agent to act on the Relevant Sellers behalf PROVIDED THAT in cases where service is effected upon a replacement agent appointed by the Relevant Purchasers in accordance with this clause 51.4 a copy of the relevant notice or document shall at the same time be forwarded to the last known business address of the Relevant Sellers.

51.5 The agent for the receipt of service of process of a party referred to in this clause 51 as that party' s **“Process Agent”**.

51.6 Any Service Document shall be deemed to have been duly served on a party if marked for the attention of that party' s Process Agent at the addresses specified in clauses 51.1 and 51.3 or in accordance with clauses 51.2 and 51.4 and:

- (i) left at the specified or last known business address (as the case may be); or
- (ii) sent to the specified or last known business address (as the case may be) by first class post or air mail.

In the case of (i), the Service Document shall be deemed to have been duly served when it is left. In the case of (ii), the Service Document shall be deemed to have been served two clear Business Days after the date of posting.

SCHEDULE 1

(INTERPRETATION)

1. In this Agreement and the Schedules to it:

“Äänekoski Board Machine”	Means the paper machine referred to as the Äänekoski board machine located at M-real' s Äänekoski Mill in Finland;
“Äänekoski Mill”	means the paper mill operated by M-real at 44101 Äänekoski, Finland;
“Äänekoski Mill' s PM2”	means the paper machine referred to as “PM2” located at M-real' s Äänekoski Mill in Finland;
“Äänekoski PM2 Goods”	Means the coated graphics paper products produced on Äänekoski Mill' s PM2 as at the date of Completion;
“Äänekoski PM2 Exclusive Marketing Agreement”	means the agreement in the Agreed Form listed as <u>Attachment 16</u> to this Agreement to be entered into between M-real and Sappi Europe SA on Completion;
“Äänekoski Transitional Agreement”	means the transitional agreement between Sappi Europe S.A. and M-Real Corporation relating to the Äänekoski Mill;
“Accounting Principles and Policies”	means the accounting practices of M-real as consistently applied and M-real' s IFRS based accounting policies, principles, bases and methodologies;

“Account”	has the meaning given to it in <u>clause 11.2(iii)</u> ;
“Accounts”	means in respect of each member of the Group, the audited statutory accounts of that member of the Group for the accounting period ended on the Statutory Accounts Date and drawn up in accordance with generally accepted accounting principles applicable to that member of the Group;
“Accounts Date”	means 30 June, 2008;
“Adjustment Payment”	has the meaning given to it <u>Schedule 6</u> ;
“Agreed Form”	in relation to any document means such document in the form initialled for the purposes of identification only by and on behalf of the Relevant Purchasers and the Relevant Sellers;
“Agreed Rate”	means 1.5 per cent. above the base rate from time to time of the European Central Bank;
“Assumed Liabilities”	has the meaning given to it in <u>clause 15.2</u> ;
“Assurance”	means any warranty, representation, statement, assurance, covenant, agreement, undertaking, indemnity, guarantee or commitment of any nature whatsoever;
“Biberist”	means M-real Biberist, a company incorporated in Switzerland with registered number CH-251.3.000.460-7 and whose registered office is at Fabrikstrasse 4, CH 4562, Biberist,
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	Switzerland;
“Biberist Mill”	means the paper mill operated by Biberist at Fabrikstrasse 4, CH-4562 Biberist, Switzerland;
“Biberist Retained Earnings”	has the meaning given to it in <u>clause 19.8</u> ;
“Biberist Shares”	means the shares of CHF 1,000 each representing the entire issued share capital of Biberist details of which are set out in <u>Schedule 8</u> ;
“Books and Records”	means all books and records containing Business Information to the extent relating to the Mill Business, the Coaters and the Know-How Business or on which any Business Information relating to the Mill Business, the Coaters and the Know-How Business is recorded, including, without limitation, all documents and other material (including all forms of computer or machine readable material);
“Business”	means the business comprising the Business Assets;
“Business Assets”	means those assets set out in <u>clause 2.1(i) – (x)</u> of this Agreement;

“Business Contracts”

means:

- (i) all the contracts, arrangements, undertakings, agreements and engagements entered into on or prior to Completion by or on behalf of any of the Relevant Sellers relating exclusively or predominantly to the Mill Business (including the Energy Plant Contracts to the extent they are transferred pursuant to clause 14.9 of this Agreement) or relating in part to the Mill Business, (but then only to the extent that the same do so relate) to which M-real or another member of the Sellers’ Group is (itself or through an agent) a party or the benefit of which is held in trust for or has been assigned to M-real or the relevant member of the Sellers’ Group as at Completion; and
- (ii) the order books relating exclusively to the Coaters and the Know-How Business,

but excluding:

- (a) any employment contract of any Business Employee; and
- (b) any contract the benefit of which is to be used by any member of the Sellers’ Group

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to provide services under the Transaction Documents;

“Business Days”

means a day (other than a Saturday or a Sunday) on which banks are open for business in Frankfurt am Main, Helsinki, Johannesburg, London and Zurich (other than solely trading or settlement in Euros);

“Business Employees”

means the employees that are predominantly engaged in the Mill Business as set out in Attachment 8 to this Agreement, subject to changes in the ordinary course among such individual employees listed but at all times subject to the provisions of this Agreement;

“Business Goodwill”

means all the goodwill:

- (i) in relation to the Mill Business and the Know-How Business; and
- (ii) in relation to the Coaters,

and in each case to the extent it relates to the Business Assets other than the Business Goodwill;

“Business Information”

means all written information and know-how relating exclusively to the Mill Business, the Coaters and the Know-How Business (including but not limited to all test results, reports, particulars of suppliers, recipes, market forecasts and particulars of customers to the extent relating to the Mill

“Business Intellectual Property”

means:

- (i) the trade mark registrations and applications for trade mark registration listed in Part A of Schedule 11 and including, for the avoidance of doubt, the GALERIE Marks;
- (ii) the patents and patent applications listed in Part B of Schedule 11;
- (iii) the registered design listed in Part D of Schedule 11;

and

save for the Sellers' Marks, all other Intellectual Property owned by members of the Sellers' Group which at or immediately before Completion is/are used exclusively or predominantly in the Mill Business; the Coaters and/or the Know-How Business;

“Business Intellectual Property

means the assignments of the registered Business Intellectual Property in the Agreed Form listed as Attachment 9 to this

Assignments”

Agreement to be entered into at Completion pursuant to paragraph 1A (iv) of Schedule 3, as referred to in clause 2.5;

“Business Merchant Rebates”

means sums owed in respect of the Mill Business by the Relevant Sellers' to their customers as a result of specified annual purchase targets having been met for the relevant year ended 31 December;

“Business Plant and Machinery”

means:

- (i) in relation to the Mill Business all the plant and machinery and equipment, loose tools, fittings, furniture, partitioning used or to be used exclusively or predominantly in relation to the Mill Business at Completion;
- (ii) the Mill Business Vehicles; and
- (iii) the Coaters, fittings and spare parts used or to be used exclusively in relation to the Coaters at Completion;

“Business Properties”

means the Kangas Property and the Kirkniemi Property, details of which are set out in Part A of Schedule 9;

“Business Properties Transfer Deed”

means the agreement in the Agreed Form listed as Attachment 18 to this Agreement to be entered into between M-real and Sappi Finland I Oy;

“Business Purchaser”	means, in relation to each of the Business Assets referred to in column (2) of <u>Part 2 of Schedule 13</u> the company whose name or corporate form is set out opposite that Business Asset in column (3);
“Business Receivables”	means all debts or outstanding payments due from any third party receivable or owed to any of the Business Sellers (excluding outstanding payments due from any members of the Seller’ s Group) relating exclusively to the Mill Business or relating to part of the Mill Business (but then only to the extent the same do relate) as at or at any time prior to Completion whether or not yet due or payable (including, without limitation, trade debts, accrued income, prepayments, retrospective rebates and overpayments) but excluding (in each case) any amounts in respect of Finnish VAT falling within <u>clause 2.1(d)</u> (“ Excluded Assets ”) and also excluding (in each case) any amount due pursuant to Supplier Rebates to the extent they relate to the Mill Business and “ Business Receivable ” shall be construed accordingly;
“Business Seller”	means, in relation to each of the Business Assets referred to in column (2) of <u>Part 2 of Schedule 13</u> , the company whose name is set out opposite that Business Asset in column (1);
“Business Stocks”	means all stocks of raw materials, work-in-progress, finished goods, and other stock-in-trade, packaging, spares and other

	goods to the extent related to the Mill Business at Completion;
“Carve-Out Accounts”	means the consolidated reviewed accounts of the Group Companies and the Mill Business in the Agreed Form for the three and a half year period ended on the Accounts Date;
“Chemische Werke Zell-Wildshausen GmbH”	means Chemische Werke Zell-Wildshausen GmbH, a company incorporated in Germany at the local court of Aschaffenburg, with registered number 10207 and whose registered office is at Obernburger Strasse 1-9, D-63811 Stockstadt, Germany;
“CHP Lease”	means the lease agreement in respect of the CHP Plant entered into between M-real and Fortum pursuant to the Energy Plant Contracts which expires on 31 October, 2012;
“CHP Outstanding Lease Payments”	means the monthly instalments pursuant to the CHP Lease payable by M-real (excluding any interest but including the CHP Plant redemption value of 5,015,057) which are outstanding up and until 31 October, 2012 and as accounted for in the Carve-Out Accounts and set out in <u>Attachment 33</u> ;
“CHP Plant”	means the natural gas fuelled power plant situated at the Kirkniemi Mill, consisting of the following main components: steam boiler, gas turbine, flue gas heat recovery boiler, steam turbine with associated auxiliaries and buildings housing main components;

“CN Papiervertriebs GmbH”	means CN Papiervertriebs GmbH, a company incorporated in Germany with registered number HRB 11184, Amtsgericht Bonn and whose registered office is at Metternicher Str. 20, 53919 Weilerswist, Germany;
“CN Shares”	means the entire issued share capital of CN Papiervertriebs GmbH, details of which are set out in <u>Schedule 8</u> ;
“Claims”	save as the term is used in <u>Schedule 14</u> means all rights and claims of any of the Business Sellers arising at any time whether before or after Completion in relation to any of the Business Assets or any Assumed Liability (but excluding any rights or claims under insurance policies) and “Claim” means any one of them;
“Coated Graphic Paper Business”	means a business that engages in the production or sale of coated wood-free paper or coated wood-containing paper other than coated speciality paper, paperboard and paper that is cast coated or coated only on one side;
“Coater Number 2”	means the coater number two owned by Zanders at its Gohrsmühle Mill in Germany;
“Coater Number 3”	means the coater number three owned by Zanders at its Gohrsmühle Mill in Germany;
“Coaters”	means the Gohrsmühle Coaters and the Hallein Coater;
“Commercial Arrangements Term	means the term sheet dated the same day as this Agreement detailing certain commercial terms agreed between M-real and

Sheet”	Sappi listed as <u>Attachment 26</u> to this Agreement;
“Companies”	means the German Companies and the Swiss Company;
“Companies Act 2006”	the Companies Act 2006, as amended or re-enacted;
“Company CO₂ Obligation”	has the meaning given to it in <u>Schedule 6</u> ;
“Company Employees”	means the employees of each of the Group Companies at Completion;
“Company Merchant Rebates”	means sums owed by the Companies or any one of them to their customers as a result of specified annual purchase targets having been met for the relevant year ended 31 December;
“Company Properties”	means the Immovable Properties specified in <u>Part B of Schedule 9</u> ;
“Competition Authority”	means any supra-national, national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof) or any governmental, quasi-governmental,

statutory, regulatory or investigative body or court, or private body exercising any regulatory authority or other governmental or quasi-governmental authority, including the European Union and the European Commission and any other entity in any jurisdiction responsible or having powers for the enforcement of competition laws and for investigating, approving or objecting to, mergers;

“Completion”

means the completion of the sale and purchase of the Business Assets and the Shares under this Agreement;

“Completion Date”

means the first day that:

- (i) falls on the end of a month; and
- (ii) follows the fifth Business Day after M-real and Sappi have informed each other of the fulfilment of all conditions to Completion pursuant to Schedule 2; and
- (iii) coincides with or follows the end of the business year of Stockstadt GmbH that has been shortened in accordance with clause 4.6 of this Agreement, as the case may be;

“Completion Statements”

means the completion statements to be drawn up in accordance with Schedule 6;

“Completion Time”

has the meaning given to it in Schedule 6;

“Completion Time Net Working Capital”

has the meaning given to it in Schedule 6;

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“Confidentiality Agreement”

means the confidentiality agreement entered into between M-real and Sappi dated 15 May, 2008 as amended from time to time;

“Consideration”

means the Initial Consideration and the Estimated Inter-Group Debt paid by the Relevant Purchasers to the Relevant Sellers in accordance with clause 7 and as adjusted, if applicable, in accordance with clause 8;

“Consideration Shares”

means 6,982,105 Sappi Shares to be issued as fully paid to M-real (or to M-real's nominee(s)) pursuant to this Agreement at the Consideration Share Price;

“Consideration Share Price”

means 7.161 per Sappi Share as adjusted pursuant to Schedule 16;

“Current Market Price”

means, for the purposes of Schedule 16, in respect of a Sappi Share at a particular date, the volume weighted average share price of Sappi Shares as published by, or derived from the relevant quotations published by, the Johannesburg Stock Exchange for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five day period the Sappi Shares shall have been quoted ex dividend and during some other part of that period the Sappi Shares shall have been quoted cum then:

- (i) if the Sappi Shares to be issued do not rank for the dividend in question, the prices on the dates on which the Sappi Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Sappi Share; and
- (ii) if the Sappi Shares to be issued do rank for the dividend in question, the prices on the dates on which the Sappi Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

“Data Room”	means data room containing those documents listed in the Data Room List;
“Data Room List”	means the index of the documents that were in the Data Room forming <u>Attachment 6</u> of this Agreement;
“Deutsche Holding”	means M-real Deutsche Holding GmbH, a company incorporated in Germany and registered in Germany at the local court with number 1960 and whose registered office is at An der Gohrsmühle 51465 Bergisch Gladbach, Germany;

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“Disclosure Letter”	means the letter dated with the same date as this Agreement written by M-real to the Relevant Purchasers for the purposes of <u>paragraph 10</u> of <u>Schedule 5</u> ;
“Diverse Energy Issues Term Sheet”	means the term sheet listed as <u>Attachment 27</u> to this Agreement dated the same day as this Agreement;
“Employees”	<p>means the individuals who are:</p> <ul style="list-style-type: none"> (i) Company Employees; or (ii) Business Employees, <p>in each case as at Completion, save that in the Warranties, “Employees” shall mean only those individuals who are so employed at the date of this Agreement;</p>
“Employment Taxes”	has the meaning given to it in <u>Schedule 14</u> (Tax Indemnity);
“Encumbrance”	means any claim, charge, mortgage, lien, option, equity, power of sale, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other third party rights or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing;
“Energy Plant Contracts”	means all contracts and arrangements between M-real and Fortum in relation to Kirkniemi Mill’ s energy supply and ownership of energy production assets;
“Enterprise Value”	has the meaning given to it in <u>Schedule 6</u> ;

“Environment”	has the meaning given to it in <u>paragraph 17 of Schedule 4</u> ;
“Environment Authority”	has the meaning given to it in <u>paragraph 17 of Schedule 4</u> ;
“Environmental Claim”	has the meaning given to it in <u>paragraph 1 of Schedule 15</u> ;
“Environmental Indemnity”	means the indemnity at <u>paragraph 2 of Schedule 15</u> ;
“Environmental Laws”	has the meaning given to it in <u>paragraph 17 of Schedule 4</u> ;
“Environmental Matters”	has the meaning given to it in <u>paragraph 17 of Schedule 4</u> ;
“Environmental Permits”	has the meaning given to it in <u>paragraph 17 of Schedule 4</u> ;
“Environmental Warranties”	means warranties set out at <u>paragraph 17 of Schedule 4</u> ;
“Estimated Business Net Debt”	has the meaning given to it in <u>Schedule 6</u> ;
“Estimated Inter-Group Debt”	has the meaning given to it in <u>Schedule 6</u> ;
“Estimated Inter-Group Receivables”	has the meaning given to it in <u>Schedule 6</u> ;
“Estimated Net Debt”	has the meaning given to it in <u>Schedule 6</u> ;
“Exchange Rate”	means, with respect to any amount in any particular local currency required to be converted into Euros at such rate as

	set out in <u>paragraph 2(xiii) of Schedule 1</u> , the spot rate of exchange (the closing mid point) for that currency into Euros on such date as quoted by the European Central Bank daily on its website (www.ecb.int) after 2.15 pm European Central Bank time or at the closest previous Business Day;
“Excluded Assets”	means those assets set out in <u>clause 2.1(a) – (g)</u> of this Agreement;
“Excluded SA Assets”	means those assets described in <u>clause 2.1(b)</u> of this Agreement;
“Final Consideration”	has the meaning given to it in <u>Schedule 6</u> ;
“Financing”	means any offering of debt or equity securities by Sappi or any of its affiliates (including the Rights Issue), the proceeds of which are used, in whole or in part, to pay amounts outstanding or payable under this Agreement or under any loan or other agreement entered into pursuant to or in connection with this Agreement;
“Finnish Stock Exchange”	means the OMX Nordic Exchange Helsinki Ltd;
“Finnish VAT Act”	has the meaning given to it in <u>clause 11.2(i)</u> ;

“Fortum”	means Fortum Oy, a company incorporated in Finland whose registered office is at PL 1, 0048 Fortum, Finland (registered in Finland with No. 1463611-4), and references in this Agreement to Fortum shall include, where necessary, its subsidiaries and holding companies from time to time, as appropriate;
“GALERIE Marks”	means, subject to Completion, the Intellectual Property identified in <u>Part C of Schedule 11</u> and any registrations of the “GALERIE Art” trade mark that the Relevant Purchasers acquire in accordance with their undertaking in the Trade Mark Licences;
“German Companies”	means CN Papiervertriebs GmbH and Stockstadt GmbH;
“German Pension Liabilities”	has the meaning given to it in <u>Schedule 6</u> ;
“German Shares”	means the CN Shares, and the Stockstadt Shares;
“German Share Transfer Agreement”	means the agreement in the Agreed Form listed as <u>Attachment 22</u> to this Agreement to be entered into between Deutsche Holding and Sappi Deutschland Holding GmbH on Completion;
“German Subsidiary”	means Chemische Werke Zell-Wildshausen GmbH;
“Gohrsmühle Coaters”	means Coater Number 2 and Coater Number 3;
“Gohrsmühle Mill”	means the paper mill operated by Zanders at Postfach 200960, An der Gohrsmühle, D-51439 Bergisch Gladbach, Germany;

“Graphic Paper Business”	means the Business and the business of the Group, taken as a whole;
“Group” or “Group Companies”	means the Companies and the German Subsidiary and “<u>Group Company</u>” means any of them as the context so requires;
“Hallein AG”	means M-real Hallein A.G., a company incorporated in Austria with registered number FN 18407m and whose registered office is at Salzachtalstrasse 88, A-5400 Hallein, Austria;
“Hallein Coater”	means the coater owned by Hallein AG at its Hallein Mill in Austria;
“Hallein Coater Asset Sale and Transfer Agreement”	means the agreement in substantially the form listed as <u>Attachment 23</u> to this Agreement to be entered into between Hallein AG and Sappi Netherlands BV on Completion;
“Hallein Mill”	means the paper mill operated by Hallein AG at Salzachtalstr. 88, A-5400 Hallein, Austria;
“Husum Mill”	means the paper mill operated by M-real Sverige AB at SE-89035 Husum, Sweden;

“Husum Mill’ s PM8”	means the paper machine referred to as “PM8” located at M-real’ s Husum Mill in Sweden;
“Husum PM8 Coater”	means the off-line coater and the off-line multi nip calendar but excluding the winder serving the Husum Mill’ s PM8;
“Husum Mill PM8 Exclusive Marketing Agreement”	means the agreement in the Agreed Form listed as <u>Attachment 15</u> to this Agreement to be entered into between M-real Sverige AB and Sappi Europe SA on Completion;
“IFRS”	international accounting standards within the meaning of Regulation (EC) No 1606/2002 of 19 July, 2002 on the application of international accounting standards to the extent applicable to the relevant financial statements;
“Immovable Property”	means freehold and leasehold land and buildings or other immovable property in any part of the world;
“Inducement Fee”	has the meaning given to it in <u>clause 40</u> ;
“Initial Consideration”	has the meaning given to it in <u>Schedule 6</u> ;
“Intellectual Property”	means patents, inventions, trade marks, service marks, trade names, brands, get-up, logos, rights in designs, copyrights, and database rights (whether or not any of these is registered and including applications for registration of any such thing) and all rights or forms of protection of a similar nature or having equivalent or similar effect to any of these which may subsist anywhere in the world;
“Inter-Group Debt”	has the meaning given to it in <u>Schedule 6</u> ;
“Inter-Group Debt Adjustment Payment”	has the meaning given to it in <u>Schedule 6</u> ;
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“Inter-Group Net Debt”	has the meaning given to it in <u>Schedule 6</u> ;
“Inter-Group Receivables”	has the meaning given to it in <u>Schedule 6</u> ;
“Inter-Group Receivables Adjustment Payment”	has the meaning given to it in <u>Schedule 6</u> ;
“IT Systems”	means software, hardware, data networks and voice networks but excluding networks or telecommunications systems generally available to the public;
“Johannesburg Stock Exchange” or “JSE”	means the JSE Limited, a company incorporated in South Africa and licensed as an exchange under the Securities Services Act, 2004 (as amended);

“Kangas Asset Transfer Agreement”	means the agreement in the Agreed Form listed as <u>Attachment 20</u> to this Agreement to be entered into between M-real and Sappi Finland I Oy on Completion;
“Kangas Mill”	means the paper mill operated by M-real at Kympinkatu 3, FI-40351 Jyväskylä, Finland;
“Kangas PM2”	means the paper machine referred to as “PM2” located at M-real’s Kangas Mill in Finland;
“Kangas PM2 Property”	means the Immovable Property housing the Kangas PM2;
“Kangas PM2 Property Lease”	means the agreement in the Agreed Form listed as <u>Attachment 19</u> to this Agreement to be entered into between M-real and Sappi Finland I Oy on Completion;
“Kangas Property”	means the Immovable Property of the Kangas Mill, details of which are set out in <u>Part A</u> of <u>Schedule 9</u> ;
“Kangas Property Option”	has the meaning given to it in <u>clause 45.1</u> ;
“Kirkniemi Asset Transfer Agreement”	means the agreement in the Agreed Form listed as <u>Attachment 21</u> to this Agreement to be entered into between M-real and Sappi Finland I Oy on Completion;
“Kirkniemi Discharge Compensation”	has the meaning given to it in <u>clause 19.9(ii)</u> ;
“Kirkniemi Mill”	means the paper mill operated by M-real at FI-08800, Lohja, Finland;
“Kirkniemi Property”	means the Immovable Property of the Kirkniemi Mill, details of which are set out in <u>Part A</u> of <u>Schedule 9</u> ;
“Kirkniemi Trade Receivables”	means all outstanding payments due from any third party customer receivable in relation to the graphic paper business carried out from the Kirkniemi Mill in Finland and in each case including such part of such amounts as relate to VAT and “ <u>Kirkniemi Trade Receivable</u> ” shall be construed accordingly;

“Kirkniemi Trade Receivables Cap”	has the meaning given to it in <u>clause 8.4</u> ;
“Know-How Business”	means: <ul style="list-style-type: none"> (i) Husum Mill’s PM8 in Sweden; and (ii) Äänekoski Mill’s PM2 in Finland;
“Lock-Up Agreement”	means the agreement in the Agreed Form to be entered into by M-real and Sappi on the Completion Date which sets out certain restrictions on the

disposal of the Consideration Shares and listed as Attachment 12 to this Agreement;

“London Stock Exchange”

means London Stock Exchange plc;

“Long-term Energy Agreements”

means the agreements in the Agreed Form listed as Attachment 17 to this Agreement to be entered into between M-real and Sappi Europe SA on Completion;

“Long-term Pulp Supply Agreements”

means the agreements in the Agreed Form listed as Attachment 14 to this Agreement to be entered into:

- (i) between M-real, M-real Sverige AB and Sappi Europe SA; and
- (ii) between Oy Metsä-Botnia AB and Sappi Europe SA, on Completion;

“Long-term Wood Supply Agreement”

means the agreement in the Agreed Form listed as Attachment 13 to this Agreement to be entered into between Metsäliitto Co-operative and Sappi Europe SA on Completion;

“Losses”

means all losses, liabilities, costs (including without limitation legal costs and experts’ and consultants’ fees), charges, expenses, actions, proceedings, claims and demands;

“M-real Sverige AB”

means M-real Sverige AB, a company incorporated in Sweden with registered number 556585-8866 and whose registered office is at Örnköldsvik, S-890 35 Husum, Sweden;

“M-real Vendor Loan Note”

means the 250,000,000 loan note to be issued by Sappi Papier Holding GmbH (Austria) to M-real on the Completion Date;

“Material Contract”

means any Business Contract and any contract entered into by any member of the Group:

- (i) calling for payments by any party thereto in excess of 2,000,000 in any one year;
- (ii) that is a material agreement relating to Intellectual Property;

- (iii) which restricts M-real or the relevant member of the Sellers' Group in any material respect from carrying on its respective part of the Graphic Paper Business anywhere in the world;
- (iv) which is a joint venture agreement or arrangement under which M-real or the relevant member of the Sellers' Group is to participate with any other person in any business;
- (v) which has an unexpired term of two or more years or cannot be terminated on less than two years' notice; or
- (vi) that is a material contract and, so far as the Sellers are aware, which can be terminated by any other party in the event of a change of control of the relevant member of the Group,

other than (in either case):

- (a) any contract with any Employee;
- (b) purchase or sale orders for stock placed in accordance with the normal practice of the Graphic Paper Business (including purchase and sale orders in respect of which the counterparty is a member of the Sellers' Group); and
- (c) any leases or tenancy arrangements under which Property is occupied;

“Merchant Rebates”

means the Business Merchant Rebates and the Company Merchant Rebates;

“Merchant Rebate Adjustment”

has the meaning given to it in clause 8.11;

“Merger Regulation”

means Council Regulation (EC) 139/2004;

“Metsäliitto Co-operative”

means Metsäliitto Co-operative, a co-operative society incorporated in Finland with registered number 0116300-4 and whose registered office is at Revontulentie 6, FI-02100 Espoo, Finland;

“Mill Business”

means the graphic paper business of M-real carried out from:

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- (i) the Kangas Mill in Finland; and
- (ii) the Kirkniemi Mill in Finland;

“Mill Business Assets”

has the meaning given to it in clause 11.2(i);

“Mill Business Efficiency Programme”

means the redundancy programme of M-real covering the whole Mill Business at its Kirkniemi Mill concerning a reduction in headcount of 57 (announced on 14 February, 2007) and at its Kangas Mill concerning the

closure of the Kangas PM2 and a reduction in headcount of 82 (announced on 13 November, 2007);

“Mill Business Vehicles”

means those vehicles listed in Attachment 32 used exclusively in relation to the Mill Business;

“MIS Payments”

means payments due to certain M-real employees pursuant to M-real’s management incentive scheme;

“Net Working Capital Adjustment”

has the meaning given to it in Schedule 6;

“NL Holding”

means M-real NL Holding B.V., a company incorporated in the Netherlands with registered number 02334705 and whose registered office is at Van Boshuizenstraat 12, NL-1083 BA Amsterdam, P.O. Box 75652, N.L.-1070 AR Amsterdam, the Netherlands;

“Option”

has the meaning given to it in clause 43.1;

“Other Stockstadt”

has the meaning given to it in Schedule 6;

“Oy Metsä-Botnia AB”

means Oy Metsä-Botnia AB, a company incorporated in Finland with registered number 0791416-3 and whose registered office is Revontulentie 6, FI-02100 Espoo, Finland;

“Permanent Cessation”

has the meaning given to it in clause 45.1;

“Permitted Assignee”

has the meaning given to it in clause 32.2;

“Permitted Encumbrances”

means security interests arising in the ordinary course of business or by operation of law, security interests arising under sales contracts with title retention provisions, equipment leases with third parties entered into in the ordinary course of business, security interests for Taxes and other governmental charges which are not due and payable or which may thereafter be paid without penalty and mortgages, charges, pledges, liens or other forms of security or encumbrance or equity which secure debt and other imperfections in title and encumbrances, if any, which do not in any case individually or in aggregate materially impair the continued use and operation of the assets to which they relate in the context of the Graphic Paper Business;

“Pre-sale Reorganisation”

means:

- (i) the transfer of Hallein AG by Stockstadt GmbH to another entity in the Sellers’ Group

prior to the Completion Date; and

- (ii) the transfer of the SA Customer Lists by the Companies to another entity in the Sellers’ Group prior to the Completion Date;

“Pre-sale Reorganisation Liabilities”	means any liabilities of Stockstadt GmbH in respect of the transfer of Hallein AG to another entity in the Sellers’ Group prior to the Completion Date;
“Proceedings”	means any proceeding, suit or action arising out of or in connection with this Agreement;
“Proceeds of Rights Issue”	means the aggregate proceeds raised by Sappi in the Rights Issue being 400,000,000 after the deduction of the fees, expenses and costs of the Rights Issue;
“Process Agent”	has the meaning given to it in <u>clause 51.5</u> ;
“Profit and Loss Pooling Agreement”	means the agreement on the transfer of profit and loss (<i>Gewinnabführungs- und Verlustübernahmevertrag</i>) of 11 May, 2001 (as amended on 23 December, 2002) between Deutsche Holding and Stockstadt GmbH;
“Properties”	means the Business Properties and the Company Properties;
“Property Owner”	means, in respect of a Property, the entity listed as its owner in <u>Schedule 9</u> ;
“Purchase Price”	has the meaning given to it in <u>clause 43.1</u> ;
“Purchasers’ Completion Documents”	has the meaning given to it in <u>clause 18.1(i)</u> ;
“Purchasers’ Guaranteed Obligations”	has the meaning given to it in <u>clause 46.2(i)</u> ;
“Purchaser’ s Group”	means Sappi and its subsidiaries and holding companies from time to time, as appropriate (including, for the avoidance of doubt, following Completion, each member of the Group);
“Rand” or “ZAR”	means the lawful currency for the time being of South Africa;
“Relief”	means any relief, loss, allowance, exemption, set-off, or credit in respect of Tax, or deduction in computing profits for Tax purposes;
“Resigning Board Member”	means the members of any supervisory board or advisory board or similar corporate body of each of the Group Companies who will resign on Completion and as indicated against their respective names in <u>Schedule 7</u> , notification of which will be delivered to the Relevant Purchasers at Completion;
“Resigning Director”	means the directors of each of the Group Companies who will resign on Completion and as indicated against their respective names in <u>Schedule 7</u> , notification of which will be delivered to

“Rights Issue”	means the rights issue contemplated by the Standby Underwriting Agreement;
“SA Customer Lists”	means any customer lists held by the Companies or any one of them to the extent that they relate to customers of the Companies in South Africa;
“SA Option”	has the meaning given to it in <u>clause 44.1</u> ;
“SA Put”	has the meaning given to it in <u>clause 44.1</u> ;
“Sappi Circular”	has the meaning given to it in <u>clause 4.2</u> ;
“Sappi Deutschland Holding GmbH”	means Sappi Deutschland Holding GmbH, a company incorporated in Germany and registered in Germany at the local court with number HRB 110 140, and whose registered office at Mühlenmasch 1, 31061 Alfeld, Germany;
“Sappi Europe SA”	means Sappi Europe SA, a company incorporated in Belgium with registered number BE 0449.654.386 and whose registered office is at Chaussée de la Hulpe, B- 1170 Brussels, Belgium;
“Sappi Finland Oy”	means Sappi Finland Oy, a company incorporated in Finland with registered number 2219145-0 and whose registered office is at c/o Hannes Snellman, Eteläranta 8, 00130, Helsinki, Finland;
“Sappi Netherlands BV”	means Sappi Netherlands BV, a company incorporated in the Netherlands with registered number 14631721 and whose registered office is at Biesenweg 16, 6211 AA Maastricht, the Netherlands;
“Sappi Papier Holding GmbH (Austria)”	means Sappi Papier Holding GmbH (Austria), a company incorporated in Austria with registered number FN 167931 h, and whose registered office is at Brucker Strasse 21, 8101 Gratkorn Austria;
“Sappi Shares”	means the ordinary shares of one Rand each in the share capital of Sappi;
“Securities Act”	means the US Securities Act of 1933, as amended;
“Sellers’ Business”	means the business of the Sellers’ Group, but excluding a Coated Graphic Paper Business, as at Completion;
“Sellers’ Completion Documents”	has the meaning given to it in <u>paragraph 1(A) of Schedule 4</u> ;
“Sellers’ Guaranteed Obligations”	has the meaning given to it in <u>clause 46.1 (i)</u> ;
“Sellers’ Group”	means the Sellers and their respective subsidiaries and holding companies (and, for the avoidance of doubt, with effect from the Completion Date excluding the Group);
“Sellers’ Group Insurance Policies”	means insurance policies taken out by members of the Sellers’ Group and <u>“Sellers’ Group Insurance Policy”</u> shall be

construed accordingly;

“Sellers’ Marks”	means “ M-REAL ”, “ METSÄ-SERLA ” and all related logos and trade marks owned or used by the Sellers’ Group used in connection with those marks;
“Sellers’ Solicitors”	means Slaughter and May of One Bunhill Row, London, EC1Y 8YY;
“Senior Employees”	has the meaning given to it in <u>paragraph 20(A)</u> of <u>Schedule 4</u> and “ Senior Employee ” shall be construed accordingly;
“Service Document”	means a claim form, summons, order, judgement or other document issued in connection with any Proceedings;
“Share Purchaser”	means, in relation to each of the Companies referred to in column (2) of <u>Part A</u> of <u>Schedule 13</u> the company whose name is set out opposite that Company in column (4);
“Share Sellers”	means Deutsche Holding and NL Holding;
“Shares”	means the CN Shares, the Stockstadt Shares and the Biberist Shares;
“Significant Adverse Change”	<p>means a change, event or circumstance which or up to 3 separate changes, events and circumstances which, in aggregate:</p> <ul style="list-style-type: none">(i) cause or would be reasonably likely to cause production volumes of graphic paper in respect of the Biberist Mill, Kangas Mill, Kirkniemi Mill, and Stockstadt Mill to cease or be reduced by 200,000 tonnes (in aggregate) over a period of 12 months from the date of such change, event or circumstance; or(ii) lead or would be reasonably likely to lead to a liability in respect of the Graphic Paper Business as a whole, which would have to be settled in cash, having a net present value in excess of 110,000,000 from the date of such change, event or circumstance;
“South Africa”	means the Republic of South Africa;
“Standby Underwriting Agreement”	means the agreement dated the same day as this Agreement between Sappi and Citigroup Global Markets Limited and J.P. Morgan Securities Ltd listed as <u>Attachment 29</u> to this Agreement;
“Statutory Accounts Date”	means 31 December, 2007;
“Stockstadt GmbH”	means M-real Stockstadt GmbH, a company incorporated in Germany with registered number HRB 8118 and whose

“Stockstadt Lease”	means the lease agreement between Stockstadt GmbH and Molsindra Vermietungsgesellschaft mbH & Co. Objekt Stockstadt KG, dated 28 December, 2001, relating to Stockstadt GmbH’s coater;
“Stockstadt Loans”	means the shareholder loan agreements pursuant to which Deutsche Holding extended (i) a long term loan and (ii) 13 short term loans which shall be valued at the Completion Time for the purposes of <u>Schedule 6</u> ;
“Stockstadt Mill”	means the paper mill operated by Stockstadt GmbH at Obernburger Strasse 1-9, D-63811 Stockstadt, Germany;
“Stockstadt Shares”	means the entire issued share capital of Stockstadt GmbH details of which are set out in <u>Schedule 8</u> ;
“Submission”	means any submission, filing, notification, briefing paper, proposal, letter, response to a request for information or other written communication to the European Commission or any Competition Authority (including, for the avoidance of doubt, the Form CO);
“Supplier Rebates”	means sums owed to the Mill Business, the Coaters, Stockstadt GmbH and Biberist by their suppliers as a result of specified annual delivery targets having been met in respect of the period up to the Completion Time;
“Swiss Company”	means Biberist;
“Take or Pay Obligation”	has the meaning given to it <u>Schedule 6</u> ;
“Target Net Working Capital”	has the meaning given to it in <u>Schedule 6</u> ;
“Tax” or “Taxation”	has the meaning given to it in the <u>Tax Indemnity</u> ;
“Tax Authority”	means any taxing, revenue or other authority of any jurisdiction competent to impose or collect any Tax liability;
“Tax Claim”	means a Tax Warranty Claim or a Tax Indemnity Claim;
“Tax Indemnity”	means the indemnity in respect of Tax as set out in <u>Schedule 14</u> ;
“Tax Indemnity Claim”	means a claim by the Relevant Purchasers or any of them under the Tax Indemnity;
“Tax Warranties”	means the warranties set out at <u>paragraph 22 of Schedule 4</u> ;
“Tax Warranty Claim”	means a claim for breach of any of the Tax Warranties;
“Termination Date”	means: <ul style="list-style-type: none"> (i) 28 February, 2009 if the announcement of the full terms of the Rights Issues has not

been made by midnight on that date; or

- (ii) if the announcement in paragraph (i) above has been made on or before, 28 February, 2009, 30 April, 2009 if the Rights Issue has not closed and settled by that date;

“Third Party Consents”	means all consents, approvals, authorisations or waivers required from third parties (other than those required by the relevant regulatory or anti-trust authority) for the transfer, assignment or novation of any Business Contract in favour of a Relevant Purchaser (or member of the Purchaser’s Group) and “Third Party Consent” shall be construed accordingly;
“Thosca Holz Option Letter”	means the letter from Metsäliitto Co-operative to Sappi set out at <u>Attachment 28</u> dated the same day as this Agreement;
“Trade Mark Licences”	means licences of certain GALERIE Marks to be entered into on Completion pursuant to <u>clause 26.6</u> ;
“Transaction Documents”	means this Agreement together with the Agreed Form documents listed as <u>Attachments 1 to 33</u> to this Agreement;
“Transitional Services Agreement”	means the transitional services agreement between the certain Relevant Sellers and certain Relevant Purchasers to be entered into on Completion;
“Transitional Services Term Sheet”	means the list of terms on which M-real and Sappi intend to base the Transitional Services Agreement, as set out in <u>Attachment 11</u> and dated the same day as this Agreement;
“UGB”	has the meaning given to it in <u>clause 24.4</u> ;
“UK Listing Authority”	means the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 including;
“United States” or “US”	means the United States of America and its territories and dependencies;
“VAT”	means value added tax as implemented in the European Union pursuant to Council Directive 2006/112/EC on the common system of value added tax and legislation supplemental thereto or any similar tax in any jurisdiction outside the European Union;
“Vendor Loans”	means the Euro denominated loan notes to be issued by the Relevant Purchasers to M-real in accordance with the allocation of Enterprise Value set out in <u>Part 2 of Schedule 6</u> ;
“Warranties”	means the warranties set out in <u>Schedule 4</u> and “Warranty” shall be construed accordingly;
“Working hours”	means 9.00 a.m. to 5.00 p.m. on a Business Day; and

number HRB 51420 and whose registered office is at An der Gohrsmühle 51465 Bergisch Gladbach, Germany.

2. In this Agreement, and the Schedules to it, unless otherwise specified: -

- (i) references to clauses, Schedules and Attachments are to clauses of, and Schedules and Attachments to, this Agreement;
- (ii) a reference to a paragraph is to a paragraph of the clause or Schedule (as the case may be) in which such reference appears and to a sub-paragraph is to a sub-paragraph of the paragraph in which such reference appears;
- (iii) a reference to any statute or statutory provision shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or re-enacted except to the extent that any amendment or modification made after the date of this Agreement would increase or alter the liability of any party under this Agreement;
- (iv) references to a “company” shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (v) references to a “person” shall be construed so as to include any individual, firm, company, government, state or agency of a state or any joint venture, association or partnership (whether or not having separate legal personality);
- (vi) expressions “holding company”, “subsidiary” and “wholly-owned subsidiary” shall have the meaning given in the Companies Act 2006;
- (vii) references to writing shall include any modes of reproducing words in a legible and non-transitory form but shall exclude electronic mail;
- (viii) references to times of the day are to London time;
- (ix) headings are for convenience only and do not affect the interpretation of this Agreement;
- (x) references to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official, or any legal concept or thing shall in respect of any jurisdiction other than England be deemed to include what most nearly approximates in that jurisdiction to the English legal term;
- (xi) references in any Warranty or in this Schedule 1 to any monetary sum expressed in Euros shall, where such sum is referable in whole or in part to a particular jurisdiction, be deemed to be a reference to an equivalent amount in the local currency of that jurisdiction translated at the prevailing exchange rate applicable to that amount of Euros by reference to middle market rates quoted by National Westminster Bank plc immediately before close of business in London on the date of this Agreement or, if such day is not a Business Day, on the Business Day immediately preceding such day;

- (xii) (a) Without prejudice to (b), (c), (d) and (e) below, references in any clause of this Agreement or Warranty to the Sellers' awareness or any other similar phrase shall be deemed to be a reference to following persons: Matti Mörsky, Esa Kaikkonen and Miika Arola;
- (b) References to the Sellers' awareness or any other similar phrase shall be deemed to be a reference to Seppo Parvi in the following Warranties only:
- Arrangements with the Sellers' Group, the Business and the members of the Group; Solvency, Accounts and Carve-Out Accounts, Events Since the Accounts Date, Financial Obligations, Intellectual Property and IT and Insurance set out in paragraphs 3, 5, 9, 10, 11, 18 and 19 respectively of Schedule 4;
- (c) References to the Sellers' awareness or any other similar phrase shall be deemed to be a reference to Mika Paljakka in the following Warranties only:
- Employment and Pensions set out in paragraphs 20 and 21 respectively of Schedule 4;
- (d) References to the Sellers' awareness or any other similar phrase shall be deemed to be a reference to Soili Hietanen in the following Warranties only:
- Ownership of Assets, Sufficiency of Assets, Books and Records and Licences set out in paragraphs 6, 7, 8, and 13 respectively of Schedule 4;
- (e) References to the Sellers' awareness or any other similar phrase shall be deemed to be a reference to Jarmo Salonen in the following Warranties only:
- Arrangements with the Sellers' Group, the Business and the members of the Group and Licences set out in paragraphs 3, and 13 respectively of Schedule 4;
- (xiii) where any amount in any local currency is required to be converted into Euros for the purposes of calculating any of the **“Adjustment Payment”, “Business Merchant Rebates”, “Business Merchant Rebates as at 30 June, 2008”, “Business Net Debt”, “Company CO2 Obligations”, “Company Merchant Rebates”, “Company Merchant Rebates as at 30 June, 2008”, “Completion Time Business Net Debt”, “Completion Time Inter-Group Debt”, “Completion Time Inter-Group Receivables”, “Completion Time Net Debt”, “Completion Time Net Working Capital”, “Enterprise Value”, “Estimated Business Net Debt”, “Estimated Inter-Group Debt”, “Estimated Inter-Group Receivables”, “Estimated Net Debt”, “Final Consideration”, “Final Payment”, “German Pension Liabilities”, “Initial Consideration”, “Inter-Group Debt”, “Inter-Group Net Debt”, “Inter-Group Debt Adjustment Payment”, “Inter-Group Receivables”, “Inter-Group Receivables Adjustment Payment”, “Merchant Rebates”, “Net Debt”, “Net Working Capital”, “Net Working Capital Adjustment”, “Other Net Debt”, “Other Stockstadt”, “Specific Business Net Debt Items”, “Take or Pay Obligation” and “Target Net Working Capital”** expressed in Euros, such amount shall be translated into Euros at the Exchange Rate for that local currency on the date which is two Business Days prior to the Completion Date, save that any amount

required to be translated into Euros for the purpose of calculating any estimated figure shall be translated into Euros for that local currency on the date which is two Business Days prior to the date that the estimate is provided;

- (xiv) where it is necessary to determine whether a monetary limit or threshold set out in Schedule 5 has been reached or exceeded (as the case may be) and the value of the relevant claim or any of the relevant claims or any part of the relevant threshold is expressed in a currency other than Euros, the value of each such claim or the relevant threshold, as the case may be, shall be translated into Euros at the prevailing exchange rate applicable to that amount of that non-Euro currency by reference to middle-market rates quoted by National Westminster Bank plc immediately before close of business in London on the date of receipt by the Sellers of written notification from

the Relevant Purchasers in accordance with paragraph 2 of Schedule 5 of the existence of such claim or, if such day is not a Business Day, on the Business Day immediately preceding such day;

- (xv) References to “**Euros**”, or “ ” are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union.

SCHEDULE 2

(CONDITIONS TO COMPLETION)

1. The passing of the following resolutions at a general meeting of the members of Sappi and the registration of the resolution referred to in (iii) below:
 - (i) an ordinary resolution approving the acquisition of, and the payment for, the Business Assets and the Shares as specified in this Agreement;
 - (ii) an ordinary resolution approving the allotment and issue of the Consideration Shares, as a specific authority, in accordance with this Agreement, and an ordinary resolution placing the authorised but issued share capital of Sappi, after the increase to be effected by the resolution referred to in paragraph 1 (iii) below, under the control of the directors with authority to allot and issue all or part thereof for the purpose of the Rights Issue;
 - (iii) a special resolution approving the increase in Sappi' s share capital (plus the registration of that resolution) to the level required for the (i) allotment and issue of the Consideration Shares and (ii) the Rights Issue.
2. The European Commission having:

- (i) issued a decision under Article 6(1)(b) or Article 6(2) of the Merger Regulation, or being deemed to have done so under Article 10(6) of the Merger Regulation, declaring the purchase of the Shares and the Business Assets pursuant to this Agreement compatible with the common market without imposing any conditions or obligations that are not on terms reasonably satisfactory to the Purchaser; or
- (ii) if the European Commission initiates proceedings under Article 6(1)(c) of the Merger Regulation, then, the European Commission having issued a decision under Article 8(1) or Article 8(2) of the Merger Regulation, or being deemed to have done so under Article 10(6) of the Merger Regulation, declaring the purchase of the Shares and the Business Assets pursuant to this Agreement compatible with the common market without imposing any conditions or obligations that are not on terms reasonably satisfactory to the Purchaser;

If any aspect of the transactions contemplated by this Agreement is referred to a competent authority of a Member State or more than one such competent authority under Article 9 of the Merger Regulation, then confirmation having been received from each such competent authority that the contemplated transactions may proceed in accordance with this Agreement without imposing any conditions or obligations that are not on terms reasonably satisfactory to the Purchaser or the relevant waiting period having expired.

3. In so far as the purchase of the Shares and the Business Assets pursuant to this Agreement require clearance under mandatory merger control laws in the United States and Turkey, filings having been made in respect of the transactions contemplated by this Agreement and all approvals necessary in respect of the transactions contemplated by this Agreement having been obtained from the relevant Competition Authorities in the above-mentioned jurisdictions without imposing any conditions or obligations that are not on terms reasonably satisfactory to the

Purchaser whether by lapse of time or by express confirmation of the relevant Competition Authorities.

4. The Treasury, as regulating authority in terms of the Exchange Control Regulations 1961 (South Africa) (“**Regulations**”) will have granted, unconditionally, all necessary consents required under the Regulations for the entering into and implementation of the Transaction Documents and the Rights Issue in accordance with their terms, including, without limitation:
- (i) the acquisition of, and payment for, the Business Assets and the Shares by Sappi and the Relevant Purchasers on the terms and conditions of the Transaction Documents (including, without being limited to, the issue of, and performance of obligations under, the Vendor Loans and the M-real Vendor Loan Note);
 - (ii) the non-resident endorsement of all Consideration Shares or the equivalent or if the Consideration Shares are in dematerialised form;
 - (iii) payment of the Inducement Fee;
 - (iv) the guarantee being given by Sappi under this Agreement;
 - (v) the entering into and implementation by Sappi and the Relevant Purchasers of all their respective obligations under this Agreement and other Transaction Documents requiring Treasury’s consent;
 - (vi) the Rights Issue and the entering into and implementation of all arrangements and agreements to be entered into in connection with the Rights Issue, including all underwriting agreements;
 - (vii) apply 400,000,000 of the funds raised pursuant to the Rights Issue in payment of a portion of the Consideration and up to Euro 50,000,000 of such funds in payment of underwriting fees and other costs of the transaction including, to the extent shares are issued to South African residents, taking any funds raised in South Africa from the issue of shares in terms of the Rights Issue offshore for the purpose of making those payments.
5. The fulfilment of any obligation to provide information to, or consult with, or negotiate with, or request advice from, or any decision of, any works council, trade union or other body representing employees or the Employees themselves under German law which obligations are described in Schedule 12 in which a failure to fulfil such obligation would render this Agreement in its current form void or inoperable.
6. The Pre-sale Reorganisation having been completed.
7. The approval of the JSE for the listing of the Consideration Shares on the JSE.
8. The Rights Issue having closed and settled in accordance with its terms.

SCHEDULE 3

(COMPLETION ARRANGEMENTS)

1. General

(A) Sellers' obligations

At Completion M-real or each Relevant Seller, as the case may be, shall:

- (i) where required by law, deliver to the Relevant Purchasers a copy of the minutes of a duly held meeting of the directors of each Relevant Seller (or a duly constituted committee thereof) authorising the execution by each Relevant Seller of this Agreement and of the Sellers' Completion Documents to which it is a party and, in the case where such execution is authorised by a committee of the board of directors of a Relevant Seller, a copy of the minutes of a duly held meeting of the directors constituting such committee or the relevant extract thereof (in each case such copy minutes being certified as correct by the secretaries of the Relevant Sellers);
- (ii) where required by the relevant articles of association or other corporate documents, deliver to the Relevant Purchasers a copy of minutes of a duly held meeting of the supervisory board or advisory board of each of Relevant Seller, authorising the execution by each Relevant Seller of this Agreement and of the Sellers' Completion Documents to which it is a party and any agreements entered into in connection with this Agreement (in each case such copy minutes being certified as correct by the secretaries of the Relevant Sellers);
- (iii) procure that all land or title certificates, title deeds or other documents relating to the Company Properties are either delivered to the Relevant Purchaser or held to the order of the Relevant Purchaser at the offices of the relevant member of the Group Companies or their solicitors;
- (iv) deliver to the Relevant Purchasers the Business Intellectual Property Assignments duly executed on behalf of the relevant members of the Sellers' Group;
- (v) deliver its statutory books to the Relevant Purchaser;
- (vi) immediately upon fulfilment of the Relevant Purchaser's obligations in paragraph 1(B)(iii) of this Schedule 3, assign and transfer the Vendor Loans to Sappi Limited;
- (vii) pay to the respective Group Company, if any, an amount as is equal to such part of the Inter-Group Receivables which is owed to such Group Company from the Relevant Seller, in each case based on the Estimated Inter-Group Receivables and provided that M-real shall pay the respective part of the Inter-Group Receivables which is owed to any Group Company from any other member of the Sellers' Group who is not a Relevant Seller;
- (viii) if M-real has complied with the provisions of clause 14.9 provide evidence that M-real has so complied; and

- (ix) procure that legal opinion (s) in respect of the Transaction Documents in a form and from firms reasonably required by Sappi and all board minutes, constitutions, other authorisations in respect of the same which Sappi

reasonably requires are delivered to Sappi . Sappi acknowledges that as regards the legal opinion(s) it may have to obtain the necessary comfort from its own counsel where M-real' s counsel is unwilling to give such comfort.

(B) **Relevant Purchasers obligations**

At Completion the Purchaser and/or the Relevant Purchasers, as the case may be, shall:

- (i) deliver to the Relevant Sellers or the Sellers' Solicitors:
 - (a) a copy of the minutes of a duly held meeting of the directors of each Relevant Purchaser (or duly constituted committees thereof) authorising or otherwise approving the execution and implementation by each Relevant Purchaser of this Agreement and the Purchasers' Completion Documents to which it is a party;
 - (b) a copy of the minutes of a duly held meeting of the directors of the Purchaser (or duly constituted committees thereof) authorising or otherwise approving the allotment and issue to M-real of the Consideration Shares and entry of the name of the M-real (or its nominee) in the register of members of the Purchaser as the holder of the Consideration Shares and, in the case where such execution is authorised or otherwise approved by a committee of the board of directors of the Purchaser, a copy of the minutes of a duly held meeting of the directors constituting such committee or the relevant extract thereof, in each case such copy of the minutes being certified as correct by the Chairman of the meeting recoded in such minutes;
 - (c) such waivers or consents as M-real may require to enable M-real or its nominee(s) to be registered as the holder(s) of the Consideration Shares;
 - (d) the Trade Mark Licences duly executed on behalf of the Relevant Purchasers;
- (ii) pay or procure the payment of the applicable cash amount in Euro of the Initial Consideration and Estimated Inter-Group Debt, if any, as relate to:
 - (a) the Group Companies, the business of the Kirkniemi Mill, the business of the Kangas Mill, the Kirkniemi Property, the Kangas Property, the Know-How Business and the Hallein Coater in total by wire transfer in immediately available funds for the same day value to M-real at:

Bank: Nordea Pankki Suomi Oyj
Account Number: 233318-3669
IBAN: FI74 2333 1800 0036 69
BIC: NDEAFIHHXXX
 - (b) the Gohrsmühle Coaters in total by wire transfer in immediately available funds for the same day value to Zanders at:

Bank: Citibank Frankfurt
Account Number: 211696001
IBAN: DE41 5021 0900 0211 6960 01
BIC: CITIDEFFXXX

provided that an agreement is entered into in respect to the sale and transfer of the Gohrsmühle Coaters.

- (iii) issue the Vendor Loans to M-real;
- (iv) allot and issue or procure the allotment and issue of the Consideration Shares to M-real (or its nominee(s));
- (v) subject to M-real having provided Sappi with written notice (not less than two Business Days prior to the Completion Date) of the details of the person in whose name the Consideration Shares should be registered as dematerialised Sappi Shares, procure that M-real (or its nominee(s)) are entered in the Purchaser's register of members as the holder of the Consideration Shares;
- (vi) deliver to M-real the M-real Vendor Loan Note;
- (vii) procure, within 20 Business Days, all required resolutions to:
 - (a) change the corporate names of the Companies to alternative names which do not include the Sellers' Marks or any confusingly similar name;
 - (b) procure the prompt registration of the new names with the appropriate courts or registries; and
 - (c) provide written proof to the Sellers that such changes of name have been effected; and
 - (d) procure that legal opinion (s) in respect of the Transaction Documents in a form and from firms reasonably required by M -real and all board minutes, constitutions, other authorisations in respect of the same which M-real reasonably requires are delivered to M-real . M-real acknowledges that as regards the legal opinion(s) it may have to obtain the necessary comfort from its own counsel where Sappi's counsel is unwilling to give such comfort.

2. General provisions in relation to the Business Assets

At Completion (or as soon as reasonably practicable thereafter) the Relevant Sellers shall deliver to the Relevant Purchasers all those Business Assets which are capable of transfer by delivery (other than Books and Records which shall be delivered to the Relevant Purchasers in accordance with clause 28).

3. Specific provisions in relation to the Business Assets

(A) Austria

On the Completion Date Hallein AG and Sappi Netherlands BV shall execute the Hallein Coater Asset Sale and Transfer Agreement in substantially the same form as listed in Attachment 23.

(B) **Finland**

- (i) On the Completion Date M-real and Sappi Finland I Oy shall execute the following agreements:
 - (a) the Kangas Asset Transfer Agreement (attached hereto as Attachment 20);
 - (b) the Kirkniemi Asset Transfer Agreement (attached hereto as Attachment 21);
 - (c) the Business Properties Transfer Deed (attached hereto as Attachment 18); and
 - (d) the Kangas PM2 Property Lease (attached hereto as Attachment 19);
- (ii) M-real and Sappi Finland I Oy shall execute and have duly notarised the Business Properties Transfer Deed before a Finnish notary public to transfer the Business Properties to Sappi Finland I Oy providing that the effectiveness of such property transfer shall occur on the Completion Date at 10:00 a.m. UK time.
- (iii) M-real shall deliver to Sappi written confirmation that all the internal lease arrangements in relation to the Business Properties between M-real and either the Kangas Mill or the Kirkniemi Mill will have been terminated, confirming no liabilities, obligations, claims or rights remain for either party under the said arrangements and providing that the effectiveness of such termination shall occur on the Completion Date at 10:00 a.m. UK time.
- (iv) M-real shall deliver to Sappi, free and clear of any pledges, encumbrances and liabilities, all the original mortgage certificates (Fin: panttikiirja) evidencing the mortgages registered in the Business Properties, as well as a certificate dated per the Completion Date confirming that no floating charges encumber the Business Assets of the Mill Business located in Finland and that no applications for such charges to be registered in relation to the said Business Assets have been made.

(C) **Germany**

Zanders and the Relevant Purchaser shall, provided an agreement is entered into, execute an agreement in respect of the sale and transfer of the relevant Business Assets located in Germany.

4. Specific provisions in relation to the Companies and the Shares

(A) German Shares

- (i) Deutsche Holding and Sappi Deutschland Holding GmbH shall execute and have duly notarised the German Share Transfer Agreement attached hereto as Attachment 22 before a German notary public to transfer the German Shares to Sappi Deutschland Holding GmbH providing that the effectiveness of such share transfer shall occur on the Completion Date at 24:00 German time.
- (ii) Each of the German Companies shall deliver to Sappi Deutschland Holding GmbH at Completion the resignations of each relevant Resigning Director and Resigning Board Member, such resignations to take effect from Completion, including a confirmation by the respective Resigning Director or Resigning Board Member that such individual does not have any outstanding claims against any Group Company, provided that Sappi Deutschland Holding GmbH hereby undertakes to resolve on the discharge (*Entlastung*) of the respective individual for the current business year in connection with the approval of the annual accounts for the business including a period during which these individuals held office.

(B) Biberist Shares

- (i) NL Holding and Sappi Netherlands BV shall execute the transfer of the Biberist Shares to Sappi Netherlands BV by delivering to Sappi Netherlands BV at Completion the Biberist share certificates representing all the Biberist Shares. Such share certificates shall be either (i) duly endorsed in favour of Sappi Netherlands BV and in the case of previous endorsements contain a complete chain of endorsements beginning with the first holder of the share certificates and ending with Sappi Netherlands BV or (ii) issued to NL Holding as the first holder of the share certificates and be duly endorsed in favour of t Sappi Netherlands BV.
- (ii) Biberist shall deliver to Sappi Netherlands BV at Completion:
 - (a) the resignations of each relevant Resigning Director, such resignations to take effect from Completion and to include a statement that the Resigning Director has no claims against Biberist as a result of his/her function as director;
 - (b) a copy of the board resolution authorising: (i) the sale of the Biberist Shares and (ii) the entry of Sappi Netherlands BV as the holder of the entire issued share capital of Biberist with voting rights in the share register of Biberist;
 - (c) a copy of the minutes of an extraordinary shareholders' meeting: (i) taking note of the resignation of the Resigning Director, (ii) granting discharge to the Resigning Director and (iii) electing any new board member nominated by Sappi Netherlands BV no later than two Business Days prior to Completion; and
 - (d) a copy of the updated share register of Biberist showing Sappi Netherlands BV as the holder of the entire issued share capital of Biberist with voting rights in the share register of Biberist;

- (iii) Completion of the sale and purchase of the Biberist Shares shall take place on the Completion Date at the offices of Bär & Karrer AG at Brandschenkestrasse 90, CH-8027 Zurich, Switzerland.

5. Specific provisions in relation to the Inter-Group Debt

At the Completion Time each of the Relevant Sellers and Relevant Purchasers shall enter into, and M-real shall procure that any relevant member of the Sellers' Group who is not a Relevant Seller shall enter into, agreements (with effect from the end of the Completion Date) for the assignment of the receivables which comprise the Inter-Group Debt (including interest accrued until Completion) in a form to be agreed between the parties acting reasonably. The aforementioned assignment shall include the Stockstadt Loans and the Relevant Seller shall deliver on the Completion Date the consent by Stockstadt GmbH to such assignment.

6. Execution of other Transaction Documents

The Relevant Sellers and the Relevant Purchasers shall execute the following documents to which it is a party on or prior to Completion:

- (i) Transitional Services Agreement;
- (ii) Lock-Up Agreement;
- (iii) Long-term Wood Supply Agreement;
- (iv) Long-term Pulp Supply Agreements;
- (v) Husum Mill PM8 Exclusive Marketing Agreement;
- (vi) Äänekoski PM2 Exclusive Marketing Agreement;
- (vii) Long-term Energy Agreements;
- (viii) Business Properties Transfer Deed;
- (ix) Kangas Asset Transfer Agreement;
- (x) Kirkniemi Asset Transfer Agreement;
- (xi) Kangas PM2 Property Lease;
- (xii) German Share Transfer Agreement;
- (xiii) Hallein Coater Asset Sale and Transfer Agreement;
- (xiv) Vendor Loans;
- (xv) M-real Vendor Loan Note;

(xvi) Business Intellectual Property Assignments; and

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(xvii) Trade Mark Licences.

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SCHEDULE 4

(THE WARRANTIES)

1. Capacity of the Sellers

- (A) Each of the Relevant Sellers has the requisite power and authority to enter into and perform this Agreement and any other documents which are to be entered into pursuant to this Agreement to which it is a party (the “**Sellers’ Completion Documents**”).
- (B) This Agreement constitutes and the Sellers’ Completion Documents will, when executed by the relevant Seller, constitute binding obligations of the relevant Seller in accordance with the respective terms of each such document.
- (C) The execution and delivery of, and the performance by each of the Relevant Sellers of their respective obligations under this Agreement and the Sellers’ Completion Documents to which each is respectively a party will not:
 - (i) result in a breach of any provision of the memorandum or articles of association or equivalent constitutional documents of the Relevant Sellers;
 - (ii) result in a breach of, or constitute a default under, any instrument to which the relevant Seller is a party or by which the relevant Seller is bound and which is material in the context of the transactions contemplated by this Agreement; or
 - (iii) so far as the Relevant Sellers are aware, result in a breach of any existing order, judgment or decree of any court or governmental agency to which the Relevant Seller are a party or by which the Relevant Sellers are bound and which is material in the context of the transactions contemplated by this Agreement.

2. Ownership of the Shares

- (A) Each Share Seller is the sole legal and beneficial owner of those shares set opposite its name in Schedule 8.
- (B) There is no option, right to acquire, mortgage, charge, pledge, lien or other form of security or Encumbrance or equity on, over or affecting the Shares or any of them and there is no agreement or commitment entered into by any member of the Sellers’ Group to give or create any of the foregoing.
- (C) The Sellers are entitled to transfer or procure the transfer of the legal and beneficial ownership in the Shares to the Relevant Purchasers on the terms set out in this Agreement.

3. Arrangements with the Sellers’ Group, the Business and the members of the Group

No contract (other than purchase or sale orders for stock placed in accordance with the normal practice of the Business) exists between:

- (i) any member of the Group and a Relevant Seller; and

- (ii) any member of the Sellers’ Group and any person who is a director of any member of the Sellers’ Group, which is not on arm’s length terms.

4. Corporate Details

- (A) The Shares comprise the whole of the issued and allotted share capital of each of the Group Companies and all of them are fully paid up and free from any additional payment obligations.
- (B) There is no agreement or commitment outstanding entered into by any member of the Sellers' Group which calls for the allotment, issue or transfer of, or accords to any person the right to call for the allotment or issue of, any shares (including the Shares) or debentures in or securities of any member of the Group.
- (C) The information given in Schedule 7 is true and accurate.
- (D) Each member of the Group is validly existing under the laws of the jurisdiction in which it is incorporated.
- (E) No member of the Group has any interest in the share capital of any company other than the companies in the Group.
- (F) No member of the Group acts or carries on business in partnership with any other person (other than another member of the Group) nor is any of them a member (otherwise than through the holding of share capital) of any corporate or unincorporated body, undertaking or association (other than a trade association) nor does any of them hold nor is any of them liable on any share or security which is not fully paid up or which carries any liability.

5. Solvency

- (A) Neither M-real nor any member of the Group is insolvent under the laws of its jurisdiction of incorporation, or unable to pay its debts.
- (B) No order has been made and no resolution has been passed for the winding up of M-real or any member of the Group and no petition has been presented for the purpose of winding up M-real or any member of the Group.
- (C) No administration order has been made and no petition or application for such an order has been made or presented and no administrator has been appointed and no procedure has been commenced with a view to the appointment of an administrator in respect of any member of the Group.
- (D) No receiver (which expression shall include an administrative receiver) has been appointed in respect of M-real or any member of the Group or all or any of its assets.
- (E) No event analogous to those specified in sub-paragraphs (A) to (D) of this paragraph 5 has occurred in relation to M-real or any member of the Group in the respective jurisdiction of incorporation of such member.

6. Ownership of Assets

- (A) Each of the Business Assets (other than the Business Intellectual Property and any Business Stocks acquired in the ordinary course of business on terms that the property does not pass until payment is made) is owned both legally and beneficially by the Business Sellers (or another member of the Sellers' Group) and each of those assets capable of possession is in the possession of the Business Sellers or another member of the Sellers' Group and the Business Sellers are able to transfer title of all of the Business Assets to the Business Purchasers.
- (B) Each of the assets of any member of the Group included in the Accounts or which has been acquired by any member of the Group since the Accounts Date (other than current assets sold, realised or applied in the normal course of business) is owned both legally and beneficially by the relevant member of the Group and each of those assets capable of possession is in the possession of the relevant member of the Group or a member of the Sellers' Group.
- (C) No option, right to acquire, mortgage, charge, pledge, lien (other than a lien arising by operation of law in the ordinary course of business) or other form of security or encumbrance or equity on, over or affecting the whole or any part of the Business Assets or the assets of any member of the Group is outstanding, except as disclosed in Schedule 9 (other than any asset acquired in the ordinary course of business on terms that the property does not pass until payment is made) and there is no agreement or commitment entered into by M-real (or other member of the Sellers' Group) or any member of the Group to give or create any and no claim has been made against M-real (or any other member of the Sellers' Group) or any member of the Group by any person to be entitled to any.

7. Sufficiency of Assets

- (A) So far as the Relevant Sellers are aware, the rights and assets owned and used by each member of the Group, together with the Mill Business Assets and the rights to be conferred upon or acquired by the Relevant Purchasers under or pursuant to the Transaction Documents, comprise in all material respects all the properties, assets and rights which are used in carrying on the Mill Business and the businesses of the Group as at the Completion Date save that no representation or warranty is made in respect of the adequacy of the net working capital of the Graphic Paper Business.
- (B) Where any Business Asset is defined in this Agreement as being used exclusively in relation to the Graphic Paper Business, no such Business Asset is used predominantly in relation to the Graphic Paper Business.

8. Books and Records

- (A) The statutory books (including all registers and minute books) of each member of the Group required to be kept under the law of its respective jurisdiction of incorporation have been properly kept and contain a record of the matters which should be dealt with in those books and no notice or written allegation that any of them is incorrect or should be rectified has been received by any member of the Group.
- (B) All statutory books (including all registers and minute books) referred to in paragraph (A) above which is/are the property of each member of the Group or ought to be in its possession are in the possession of the relevant member of the Group.

- (C) The copy of the memorandum and articles of association or other equivalent constitutional documents of each member of the Group contained in the Data Room is a complete and accurate copy.
- (D) All returns and other documents relating to the Group required to be delivered to any companies registry in any jurisdiction have been properly made and delivered.

9. Accounts and Carve-Out Accounts

- (A) The Accounts of the German Companies were prepared in accordance with generally accepted accounting principles and practices in Germany.
- (B) The Accounts of Biberist were prepared in accordance with Swiss statutory requirements.
- (C) The Accounts:
 - (i) were properly prepared in a manner consistent in all material respects with that adopted in the preparation of the Accounts in respect of the equivalent period in the previous financial year; and
 - (ii) show a true and fair view of the assets and liabilities of the company to which they relate at 31 December, 2007 and its profits (and losses) for the financial period ended on that date.
- (D) The audited Carve-Out Accounts for the year ended 31 December, 2007:
 - (i) fairly present, in all material respects, the financial position of the Graphic Paper Business at that date and the results of the operations and cash flows of the Graphic Paper Business for the year ended 31 December, 2007; and
 - (ii) have been prepared in accordance with IFRS.
- (E) The unaudited Carve-Out Accounts for the years ended 31 December, 2005, 31 December, 2006 and for the six month period ended on 30 June, 2008, which were prepared on a review basis by PricewaterhouseCoopers:
 - (i) have been prepared in accordance with relevant International Financial Reporting Standards on a review basis only; and
 - (ii) so far as the Relevant Sellers are aware, on the basis that the Carve-Out Accounts are prepared on a review basis only, there is nothing which causes them to believe that the historical information in the Carve-Out accounts, is not fairly presented in all material respects in accordance with relevant International Financial Reporting Standards.

10. Events since the Accounts Date

Since the Accounts Date and other than in relation to the Pre-sale Reorganisation:

- (i) there has been no significant adverse change in the financial or trading position of the Group and the Business;

- (ii) the Graphic Paper Business has been carried on in the ordinary and usual course without any interruption or alteration in its nature, scope or manner;
- (iii) no resolution of any member of the Group in general meeting has been passed other than resolutions relating to the routine business of annual general meetings;
- (iv) no member of the Group has allotted or issued or agreed to issue or granted an option or other right to acquire any share capital;
- (v) no member of the Group has redeemed or purchased or offered or agreed to redeem or purchase any of its share capital; and
- (vi) there have been no changes in accounting policies, principles, methods in respect of the Graphic Paper Business.

11. Financial Obligations

(A) Guarantees etc

Other than in the ordinary and usual course of business, there is no outstanding guarantee, indemnity, suretyship or security (whether or not legally binding) given by any member of the Group (in relation to the Graphic Paper Business).

(B) Borrowing Limits

The amounts borrowed by each member of the Group under overdraft facilities do not exceed applicable overdraft limits and such amounts borrowed by each member of the Group do not exceed any limitation on its borrowings contained in its constitutional documents or in any agreement or instrument binding upon it.

(C) Off-Balance Sheet Financing

No member of the Group has outstanding any loan capital, nor has it factored, discounted or securitised any of its receivables, nor has it engaged in any financing of a type which would not be required to be shown or reflected in the Accounts.

12. Contracts and Commitments

- (A) The Data Room contains a copy (or a summary of all material terms of) of each outstanding contract or arrangement entered into by any member of the Group and of each Business Contract which is a Material Contract;
- (B) No member of the Group nor (in relation to the Graphic Paper Business) M-real (or any other member of the Sellers' Group) is in breach of any Material Contract and, so far as the Sellers are aware, no other party to any Material Contract is in breach of any such Material Contract which breach in any such case would entitle the non-defaulting party to terminate such Material Contract.

- (A) All governmental and quasi-governmental licences, consents, permissions and approvals required for carrying on the Graphic Paper Business substantially in the manner in which it is carried on as at the date hereof and was carried on in the six months prior to the date hereof (the absence of which would have a material adverse effect on the relevant part of the Graphic Paper Business to which it relates) (other than Environmental Permits and licences in relation to the Properties) have been obtained and no written notice has been received by either of the Sellers or any member of the Group and, so far as the Sellers are aware, there are no circumstances which indicate that any such licence, consent, permission or approval is likely to be revoked or which may confer a right of revocation.
- (B) None of the licences or other matters referred to in paragraph (A) has been breached.

14. Litigation

- (A) No member of the Group nor (in relation to the Business) M-real is engaged in any litigation or arbitration, mediation, enquiry, investigation, enforcement, administrative or criminal proceedings which is material to the Graphic Paper Business taken as a whole, whether as claimant, defendant or otherwise other than in respect of the collection of debts in the ordinary course of business.
- (B) So far as the Relevant Sellers are aware, no such litigation or arbitration, mediation, enquiry, investigation, enforcement, administrative or criminal proceedings as are referred to in sub-paragraph (A) are pending or threatened in writing in the past two years.
- (C) So far as the Relevant Sellers are aware, there are no investigations, disciplinary proceedings likely to lead to any such litigation or arbitration, mediation, enquiry, investigation, enforcement, administrative or criminal proceedings as are referred to in sub-paragraph (A).

15. Delinquent and wrongful acts

- (A) So far as the Sellers' are aware, no member of the Group nor (in relation to the Business) M-real has committed any criminal or illegal act in respect of the Graphic Paper Business in the past two years.
- (B) No member of the Group nor (in relation to the Business) M-real has received notification that any investigation or inquiry is being or has been conducted by any supranational, national or local authority or governmental agency in respect of its respective business in this past two years.

16. Properties

- (A) The Company Properties referred to in paragraph B of Schedule 9 are the only land and buildings owned, used or occupied by any member of the Group or in respect of which any member of the Group has any estate, interest or right.
- (B) The Business Properties referred to in paragraph A of Schedule 9 are the only Properties used or occupied for the purposes of the Business.
- (C) The information set out in Schedule 9 is complete and accurate in all material respects.

- (D) In relation to each of the Properties referred to in Schedule 9:
- (i) the Property Owner is solely, legally and beneficially entitled to the Property, except with respect to real estate Biberist nr. 776 which is owned by a simple partnership (*einfache Gesellschaft*) including inter alia, the Swiss Company;
 - (ii) the Property Owner has in its possession or under its control all of the title deeds and documents necessary to prove its title;
 - (iii) the Property Owner holds the Property subject to the leases, underleases, tenancies or licences particulars of which are set out in the Disclosure Letter.
- (E) Except for Permitted Encumbrances and as disclosed in Part B of Schedule 9 (including the respective land register) by the title deeds and documents, there are no mortgages or charges, legal or equitable, fixed or floating, or other Encumbrances affecting the Properties.
- (F) There are no agreements for sale, estate contracts, options or rights of pre-emption affecting the Properties other than as:
- (i) disclosed in the respective land register and supporting documents (Belege); or
 - (ii) arising under mandatory provisions of Swiss law.
- (G) The Property Owners are not aware of any agreement, obligation or matter affecting the Properties which, although not registered, is capable of registration as a local land charge (or its equivalent in the relevant jurisdiction).
- (H) The Property Owners have not received any written notice alleging breach of any covenants, restrictions and other Encumbrances affecting any Property which remains to be complied with.
- (I) The current use of each of the Properties in relation to the Graphic Paper Business is a permitted or lawful use under planning or zoning legislation and there are no outstanding enforcement notices, stop notices, breach of condition or similar notices.
- (J) The Property Owners have received no compulsory purchase order, notice to treat or notice of entry in respect of the Properties and so far as the Property Owners are aware no proposals have been published for the compulsory acquisition of the Properties.
- (K) In relation to each of the Properties referred to in Schedule 9 which is leasehold:
- (i) the Property is held under the terms of the lease (the “**Lease**”) briefly referred to in Schedule 9 and no collateral assurances, undertakings or concessions have been made or given;
 - (ii) there are no rent reviews outstanding;
 - (iii) the Property Owner has received no notice alleging a breach of any covenant contained in the Lease which remains outstanding; and

- (iv) the Property Owner has paid all rent and other outgoings due and payable under the terms of the Lease.
- (L) Each of the Properties benefits from the rights and easements necessary for its use and enjoyment for its present purposes and there are no covenants or restrictions preventing the use of the Properties for their present purposes in each case in relation to the Graphic Paper Business.

(M) There are no current material legal proceedings concerning the Properties.

17. Environment

In this paragraph 17:

“Allowances”	has the meaning given to it in Directive 2003/87/EC of the European Parliament and of the Council of 13 October, 2003 establishing a schedule for greenhouse gas emissions allowance trading and amending Council Directive 96/6/EC;
“Compensations”	means all payments to be made to the Swiss Company under the Carbon Dioxide Reduction Agreement (Reduktionsvertrag über den Erwerb von CO ₂ Emissionsreduktionen in Brennstoffbereich) among Stiftung Klimarappen, Zurich, Switzerland, and the Swiss Company dated 14 May 2007
“Environment”	means all or any of the following, alone or in combination, any part of the air (including, without limitation, the air within buildings and the air within other natural or man-made structures above or below ground or above or below water), water (including water under or within land or in pipes, tanks, ditches or sewerage systems), soil and land and any ecological systems and living organisms supported by these media, including man;
“Environmental Authority”	means any legal person or body of persons (including any government or regional department or government or regional agency or court or tribunal) having jurisdiction to determine any matter arising under Environmental Law and/or relating to the Environment;
“Environmental Laws”	means all applicable statutes and other laws (including without limitation all codes of law, statutory instruments, treaties, regulations, directives, decisions, circulars, codes, guidance and by-laws) of any relevant jurisdiction which relate to or provide remedies in respect of Environmental Matters and are in force and legally binding in the relevant jurisdiction at or prior to Completion;
“Environmental Matters”	means:

- (i) the release, spillage, deposit, escape, discharge, leak, emission, leaching, migration, disposal or otherwise the presence of Hazardous Material at the Properties or in the Environment; or
- (ii) the creation of noise, vibration, radiation, common law or statutory nuisance or other impact on the Environment; or
- (iii) human health and safety including industrial disease; or
- (iv) other matters relating to the pollution, contamination or protection of the Environment including those in relation to the manufacturing, production, generation, storage, processing, treatment, keeping, handling, use (including as a building material), possession, supply,

“Environmental Permits”	means any permit, licence, consent, certificate, approval, registration, notification or authorisation required by Environmental Laws in relation to the operation of the business of any member of the Group or the occupation or use of any Property;
“Hazardous Material”	means any substance (whether solid, liquid or gas) which alone or in combination with any other substance is capable of causing harm to man or to the Environment or any other organism supported by the Environment; and
“Relevant Period”	means the period commencing four years before the relevant Closing and ending at the relevant Closing.

- (A) All material Environmental Permits have been obtained and are in full force and effect and, have been complied with in all material respects by each relevant member of the Group.
- (B) The Seller’ s Group has operated the Graphic Paper Business throughout the Relevant Period in compliance in all material respects with Environmental Laws.
- (C) Except as disclosed in the Data Room, no member of the Group has received any written notice from the relevant Environmental Authority or other third party of any material claims, investigations, enforcement actions or other proceedings which are outstanding as at the date of this Agreement against or involving the Group under the Environmental Laws in respect of

Environmental Matters and so far as the Sellers are aware, no such claims, investigations, enforcement actions or proceedings are pending or have been threatened in writing during the Relevant Period.

- (D) No member of the Group or Business Seller has received written notice during the Relevant Period that either:
 - (i) Environmental Authority is intending to revoke, suspend, or materially vary or limit any Environmental Permits; or
 - (ii) any amendment to any Environmental Permit is required to enable the continued operation of the business of the Group.
- (E) No member of the Seller’ s Group has sold, given as security, pledged or mortgaged any rights to or over or interest in Allowances or Compensations allocated or to be allocated in respect of operating assets within the Graphic Paper Business in respect of compliance year 2008 onwards.
- (F) So far as the Sellers are aware, no member of the Sellers’ Group has disposed of, dumped, deposited, or buried any Hazardous Materials at, on or under the Business Properties in breach of Environmental Laws or permitted the continued presence of Hazardous Materials at, on or under the Business Properties which action may reasonably be expected to give rise to material liability under Environmental Laws.
- (G) So far as the Sellers are aware, no member of the Group has received within the Relevant Period or is reasonably likely to receive written notice alleging any material liability under Environmental Law in respect of contamination at or emanating from any property formerly owned, leased or occupied by a member of the Group.

- (H) So far as the Sellers are aware, copies of all material environmental audits, reports, investigations or assessments externally prepared during the Relevant Period that relate to the presence of Hazardous Materials at, on or under the Properties and are within the ownership or control of the Sellers Group have been provided in the Data Room.

18. Intellectual Property and IT Systems

- (A) All:

- (i) registered Business Intellectual Property, and applications for registration therefor; and
- (ii) registered Intellectual Property, and applications for registration therefor, owned by the Group Companies,

is legally and beneficially owned by the Sellers' Group or the Group Companies (as applicable), and details of such registered Intellectual Property are referenced in the Disclosure Letter or contained in the Data Room.

- (B) So far as the Relevant Sellers are aware, no third party is infringing:

- (i) any Intellectual Property owned by any Group Company; or

(ii) any Business Intellectual Property,

which is material to the business of the Group Companies or the Business.

- (C) No Relevant Seller has received in the last three years any written notice of any challenge or opposition to any of the rights referred to in paragraph 18(A) of this Schedule.
- (D) The rights referred to in paragraph 18(A) are not subject to any options, charges, material licences (other than the licences referred to in paragraph 18(F) of this Schedule) or liens and so far as the Relevant Sellers are aware, the rights referred to in paragraph 18(A) are not subject to any licences (other than those referred to in paragraph 18(F) of this Schedule). So far as the Relevant Sellers are aware, the rights referred to in paragraph 18(B) are not subject to any options, charges, material licences (other than the licences referred to in paragraph 18(F) of this Schedule) or liens.
- (E) All renewal fees due as at the date of this Agreement in respect of the rights referred to in paragraph 18(A) of this Schedule have been paid and all administrative steps which are required for the payment of all renewal fees due before or within 3 months following Completion have been taken.
- (F) Details of all material written licences of Intellectual Property granted to, or by:
- (i) any Group Company; and
- (ii) the Relevant Sellers which are material to the Business,
- are contained in the Data Room.
- (G) Neither the Relevant Sellers nor, so far as the Relevant Sellers are aware, any Group Company has within the last two years received written notice of any material breach or termination of any of the licences referred to in paragraph 18(F) of this Schedule, no material disputes have arisen in respect thereof and, so far as the Relevant Sellers are aware, no party to any such licences is in breach in circumstances which would entitle the non-defaulting party to terminate them.
- (H) So far as the Relevant Sellers are aware, the activities of the Group Companies and the Business do not infringe the Intellectual Property of any third party where such infringement would adversely affect the business of the Group Companies or the Business and, so far as the Relevant Sellers are aware, no written claims of any such infringement of any such Intellectual Property have been received.
- (I) The Relevant Sellers have not received written notice of any claims against any of the Group Companies or the Business under any contract or under Section 40 of the Patents Act 1977 or any equivalent provision of any foreign law providing for employee compensation or ownership in respect of any patentable inventions made by employees of the Group Companies or the Business and used in the business of the Group Companies or the Business and so far as the Relevant Sellers are aware there is no factual basis for any such claim by an employee and no employees have threatened to make any such claims; so far as the Relevant Sellers are aware all patentable inventions made by employees of the Group Companies or the Business and used in the business of the Group Companies or the Business were made in the normal course of the

duties of the employees concerned; where applicable appropriate measures were taken in order to claim and effect the transfer of full title to the respective Group Company.

- (J) So far as the Relevant Sellers are aware, the rights and licences disclosed pursuant to paragraphs 18(A), (B) and (E) respectively comprise all the rights and interests in Intellectual Property reasonably necessary for the carrying on of the business of all of the Group Companies and the Business in and to the extent which it is presently conducted.
- (K) There are no material agreements relating to IT Systems used by the Companies or in relation to the Business (other than any agreement the benefit of which is intended to be used to provide transitional services pursuant to the Transitional Services Agreement).
- (L) No notice alleging non compliance with the Data Protection Legislation (including any enforcement notice, information notice or transfer prohibition notice) has been received by any of the Companies or the Business from any Data Protection Authority. There has been no disruption to the commercial or operational activities of the Group which has adversely affected the business of the Group in the nine months prior to the date of this Agreement which has been caused by any failure, error, security breach or breakdown of any material IT Systems.
- (M) So far as the Relevant Sellers are aware, and save as in the ordinary course of business or to its employees or as otherwise required by applicable law, no Company or member of the Sellers' Group has disclosed any material Business Information to any third party other than under an obligation of confidentiality, where such disclosure had a material adverse effect on the business of the Companies or the Business.

19. Insurance

- (A) Details of the Sellers' Group Insurance Policies in respect of the Graphic Paper Business are set out in the Data Room and, so far as the Sellers are aware, no individual or related claim in respect of the Graphic Paper Business for the amounts in excess of 2,000,000 are outstanding thereunder.
- (B) So far as the Sellers are aware, all premiums and any related insurance premium taxes have been duly paid or are due to be paid in respect of all such Sellers' Group.
- (C) Details of all claims made in respect of the Sellers' Group Insurance Policies during the period 1 January, 2007 ending 1 January, 2008 are contained in the Data Room.
- (D) Summary details of the Sellers' Group Insurance Policies are set out in the Data Room.

20. Employment

- (A) A list of the names, jobs and full details of the terms of employment (including the emoluments) of each of the Employees who is entitled to emoluments at a rate, or (in the case of fluctuating amounts) an average annual rate over the last three financial years, in excess of 200,000 per annum (or its equivalent in local currency at exchange rates prevailing at the date of this Agreement), and of every director of a Group Company (together "**Senior Employees**"), are set out in the Disclosure Letter.

- (B) A list of the names, jobs, salaries and copies of the pro forma terms of employment of Employees are contained in the Data Room.
- (C) None of the Senior Employees has given notice terminating his contract of employment nor is under notice of dismissal. No litigation, arbitration or mediation, administration or criminal proceeding has been commenced in connection with or arising from the employment of an Employee and there is no obligation or amount due to or in respect of any of the Employees in connection with or arising from his employment which is in arrear or unsatisfied other than his normal salary for part of the month current at the date of this Agreement.
- (D) Since the Accounts Date, no change has been made in the emoluments or other terms of employment of any Senior Employee except for increases in emoluments made in accordance with the Sellers' Group normal practice.
- (E) There is no dispute between any trade union, works council or other representative body (whether such body is formally recognised or not) existing, pending or (so far as the Sellers are aware) threatened in writing which would be material to the Graphic Paper Business.
- (F) Attachment 8 is an accurate list of all the Business Employees as of the date of this Agreement and there is no omission which makes it misleading.
- (G) There is no outstanding undischarged liability to pay to any governmental or regulatory authority in any jurisdiction any contribution, Taxation or other impost arising in connection with the employment or engagement of personnel in the Graphic Paper Business.
- (H) The Data Room contains copies of all material schemes, rules or policies providing for benefits to the Employees, including in respect of pension or other retirement benefits, any commission or sales-related bonus payments, and any share schemes.
- (I) Copies of any material collective bargaining agreements or other material arrangements (whether binding or not) with any employee representative body (whether such body is formally recognised or not) in respect of the Employees (or any subset of them) are contained in the Data Room.
- (J) The Business Employees are all predominantly engaged in the Graphic Paper Business.

21. Pensions

- (A) None of the Business Employees enjoy any pension or other benefits in excess of those provided by mandatory law, under the relevant collective bargaining agreement or the Swiss pension fund regulations and accident agreements.
- (B) None of the Companies has made any company pension commitment (other than any defined contribution schemes) to any of its current or former employees, except for any company pension commitments under the pension plans referred to in Disclosure Letter. True and complete copies of all actuarial reports relating to such pension commitments have been disclosed to the Relevant Purchasers prior to the date hereof.
- (C) Except as disclosed in Disclosure Letter the company pension commitments of the Stockstadt GmbH and the German Subsidiary have at all times materially complied and been duly managed and administered in accordance with all applicable laws, regulations and requirements relevant to

each company pension commitment. So far as the Sellers' are aware, the Disclosure Letter contains a true and complete list of all threatened or pending labour disputes against any of the German Companies or the German Subsidiary in connection with current or former Employees relating to any company pension commitment.

22. Tax

(A) The Accounts and Tax

- (i) No Group Company has any outstanding liability in excess of 500,000 (whether actual or contingent) for:
 - (a) Tax in any part of the world assessable or payable by reference to profits, gains, income or distributions earned, received or paid or arising or deemed to arise in any period ending on or before the Statutory Accounts Date; or
 - (b) purchase, value added, sales or other similar Tax in any part of the world referable to transactions effected on or before the Statutory Accounts Date,

that is not provided for in full or disclosed in the Accounts.

- (ii) The amount of the provisions and liabilities for Tax in respect of each Group Company contained in the Accounts was, at the Statutory Accounts Date, adequate and completely in accordance with accounting practices generally accepted in Germany or, in the case of the Swiss Company, Switzerland, and (in each case) commonly adopted by companies carrying on businesses similar to those carried on by that Group Company.

(B) Distributions

Since the Statutory Accounts Date, no Group Company has declared, made or paid any distribution or deemed distribution.

(C) Degrouping charges

The entry into or becoming unconditional of this Agreement or Completion will not result in any profit or gain being deemed to accrue to any Group Company for Taxation purposes.

(D) Payroll taxes and national insurance

Each Group Company has properly operated the applicable payroll taxes and national insurance contributions systems by making such deductions as are required by law from all payments made or deemed to be or treated as made by it or on its behalf, and by duly accounting to the appropriate Tax Authority for all sums so deducted and for all other amounts for which it is required to account under the applicable payroll taxes and national insurance contributions systems.

(E) Tax returns, disputes, records and claims, etc.

- (i) Each Group Company has made or caused to be made all proper returns and notices required to be made, and has supplied or caused to be supplied all information required

to be supplied, to any Tax Authority, and (a) all such returns, notices and information were made or supplied on a proper basis and within the requisite periods, and (b) none of them is currently the subject of any dispute with or

investigation by any Tax Authority, and (c) so far as any of the Relevant Sellers are aware, none of them is likely to be the subject of any material dispute with or non-routine investigation by any Tax Authority in the future.

- (ii) There is no dispute or disagreement outstanding nor is any contemplated at the date of this agreement with any Tax Authority regarding liability or potential liability to any Tax (including in each case penalties or interest) recoverable from any Group Company or regarding the availability of any Relief from Tax to any Group Company and, so far as M-real is aware, there are no circumstances which make it likely that any such dispute or disagreement of a material nature will commence.
- (iii) Each Group Company has sufficient records relating to past events, including any elections made, to calculate the Tax liability or Relief which would arise on any disposal or on the realisation of any asset owned at the Statutory Accounts Date by that Group Company or acquired by that Group Company since that date but before Completion.
- (iv) There are set out in the Disclosure Letter details of all consents, clearances, arrangements, agreements or elections which have been obtained or made within the last 3 years in relation to the Taxation affairs of any Group Company pursuant to which the relevant Group Company is authorised not to comply with what would otherwise be its legal obligations, and all material transactions have been carried out, to the extent appropriate, in accordance with the terms of such consents, clearances, agreements and/or elections.
- (v) Since the Statutory Accounts Date, so far as the Relevant Sellers are aware, each Group Company has duly and punctually paid all Tax which it has become liable to pay and in respect of which the due date for payment has passed.
- (vi) No Group Company has been involved in any scheme or arrangement a main purpose of which was the avoidance or reduction of Tax and which: (a) in respect of the German Companies or the German Subsidiary would be treated as involving the avoidance of Tax (*Steuerhinterziehung*) or a grossly negligent reduction of Tax (*leichtfertige Steuerverkürzung*) for German Tax purposes; or (b) in respect of the Swiss Company would be treated as involving Tax avoidance (*Steuerumgehung*) or Tax fraud (*Steuerbetrug*) within the meaning given by Swiss Tax legislation and Swiss Federal Supreme Court decisions.

(F) Tax Status

No Group Company benefits from any preferential Tax regime, granted by law or by special authorisation issued by any Tax Authority or by any other authority, which could in whole or in part be affected by the signature of this Agreement or Completion.

(G) Stamp duty, registration tax and transfer tax

All documents which are required to be stamped or are subject to a registration or transfer tax and which are in the possession of any Group Company or by virtue of which any Group Company

has any right have been duly stamped or such registration or transfer tax has been paid in respect of such documents.

(H) Value added tax

- (i) Each Group Company has complied with any obligations to register for the purpose of VAT, has complied in all material respects with its obligations under any Tax legislation or regulations relating to VAT, and has complied with the terms of any specific agreement reached by that Group Company with any Tax Authority in relation to VAT.

- (ii) Complete, correct and up-to-date records, invoices and other documents required for the purposes of any Tax legislation relating to VAT have been made, given, obtained and kept.
- (iii) There are set out in the Disclosure Letter full particulars of any land in which a Group Company has an interest or which is comprised in the Business Assets and, in each case, in relation to which an election has been made to waive exemption from VAT.
- (iv) Since 31 December 2001, no Group Company has at any time been a member of a group for VAT purposes (other than a group all the other members of which were Group Companies).

(I) Deductions and withholdings

Each Group Company has made all deductions in respect, or on account, of any Tax from any payments made by it which it is obliged to make and has accounted in full to the appropriate Tax Authority for all amounts so deducted.

(J) Residence

The country which is given in Schedule 7 as the tax residence of any Group Company is the only country whose Tax Authorities seek to charge Tax on the worldwide profits or gains of that Group Company. No Group Company has ever paid or been liable to pay Tax on income, profits or gains to any Tax Authority in any other country except that mentioned in Schedule 7.

(K) Tax on Business Assets

None of the Business Assets is subject to any charge, power of sale, mortgage or other form of security in favour of any Tax Authority nor, so far as M-real is aware, are there any circumstances which are likely to give rise to the same.

(L) Non-Arm's Length transactions

No Group Company has, within the last six years, entered into any material transactions or arrangements (including any material equity funding transaction or arrangement) which were not on arm's length terms in all material respects.

SCHEDULE 5

(LIMITATIONS ON LIABILITY)

1. Limitations on quantum and general

- (A) Subject to paragraph (B), neither the Relevant Sellers nor the Relevant Purchasers nor any member of the Relevant Sellers or the Relevant Purchasers Group shall be entitled in any event to damages or other payment in respect of any claim or claims under any of the Warranties, other than a Tax Warranty Claim or an Environmental Claim, (or the warranties set out in clause 18 of this Agreement, as applicable) in respect of any individual claim:
 - (i) for less than 1,000,000; or
 - (ii) unless and until the aggregate amount of all such claims (taking no account of those referred to in (i) above) exceeds 12,000,000, in which event the Sellers shall be liable for the whole amount of such claim over and above an excess amount of 6,000,000.
- (B) Neither the Relevant Purchasers nor any member of the Purchaser's Group shall be entitled in any event to damages or other payment in respect of any Tax Claim in respect of any individual claim unless and until the aggregate amount of all

such claims exceeds 500,000, in which event the Sellers shall be liable for the whole amount and not just the excess of such claim above that amount.

- (C) Neither the Relevant Purchasers nor any member of the Purchaser's Group shall be entitled in any event any payment in respect of any Environmental Claim in respect of any individual claim:
 - (i) for less than 50,000; or
 - (ii) unless and until the aggregate amount of all such claims exceeds 500,000, in which event the Relevant Sellers shall be liable for the whole amount and not just the excess of such claim above that amount.
- (D) The total aggregate liability of the Relevant Sellers or the Relevant Purchasers, as the case may be, in any event to damages or other payment in respect of any claim or claims under any of the Warranties (or the warranties set out in clause 18 of this Agreement, as applicable) in respect of any individual claim shall not in any event exceed 200,000,000.
- (E) Save for any liability incurred under the Husum Mill PM8 Exclusive Marketing Agreement or the Äänekoski PM2 Exclusive Marketing Agreement, the total aggregate liability of the Relevant Sellers or the Relevant Purchasers, as the case may be, under the Transaction Documents shall not in any event exceed 275,000,000.
- (F) The caps and limits referred to in paragraphs 1(A), (B) and (C) and 2(i), as appropriate, shall not apply to any claim by the Relevant Purchasers for a breach of paragraphs 1, 2, 4 and 6(A) of Schedule 4.
- (G) Neither the Relevant Sellers nor the Relevant Purchasers nor any member of the Sellers' Group or the Purchaser's Group shall be entitled to claim for any indirect or consequential loss or loss of profit (save that the Relevant Sellers shall be able to claim for loss of profit in respect of the

Kangas Property Option) in respect of this Agreement but not, for the avoidance of doubt, the other Transaction Documents which shall be governed by their own terms.

- (H) The Relevant Sellers and the Relevant Purchasers shall only be liable in respect of any claim if and to the extent that such claim is admitted by the Relevant Seller or Relevant Purchaser, as the case may be, or proven in a court of competent jurisdiction.
- (I) Nothing in this Agreement shall or shall be deemed to relieve or abrogate the Relevant Purchaser or Relevant Seller (or any member of the Purchaser's or Sellers' Group) of any common law or other duty to mitigate any loss or damage including, without limitation, enforcing against any person (other than the Relevant Sellers or Relevant Purchasers) any rights any member of the Purchaser's Group or Sellers' Group has or may have in respect of the fact, matter or circumstance giving rise to the claim.
- (J) The Relevant Purchaser (or the relevant member of the Purchaser's Group) shall give to the Relevant Sellers access to all such information and documentation within the possession or control of the Purchaser's Group as the Relevant Seller may reasonably require to enable it to satisfy itself as to whether any breach of the Warranties notified pursuant to paragraph 2 below shall have occurred.
- (K) As regards any Environmental Claim or Tax Indemnity Claim the provisions of this Schedule 5 shall operate to limit the liability of the Relevant Seller insofar as any provision of this Schedule 5 is expressed to be applicable to an Environmental Claim or Tax Indemnity Claim respectively and the provisions of Schedules 14 and 15 shall further operate to limit the liabilities of the Relevant Sellers in respect of an Environmental Claim or Tax Indemnity Claim respectively.
- (L) Each provision of this Schedule shall be read and construed without prejudice to each of the other provisions of this Schedule.

2. Time limits for bringing claims

No claim shall be brought against the Relevant Sellers or the Relevant Purchasers in respect of any of the Warranties (or the warranties set out in clause 18 of this Agreement, as the case may be) or under the Tax Indemnity or an Environmental Claim unless the Relevant Purchasers or Relevant Sellers shall have given to the Relevant Sellers or Relevant Purchasers, as the case may be, written notice of such claim:

- (i) subject to sub-paragraph (ii) and (iii) below, on or before the date falling 18 months after the Completion Date; or
- (ii) in respect of any Tax Claim, on or before the date falling three months after the final tax audit (or if the relevant Tax Authority issues an adjusted tax notice or other relevant final decision after the tax audit, three months after issuance of such notice or other final decision) for any of the Companies with respect to periods relevant for the purposes of Tax which commence prior to Completion and for which the Sellers might be liable has been completed (being the point when the tax audit can no longer be re-opened by the relevant authorities) or, if the relevant Group Company is not subject to a final tax audit, on or before the seventh anniversary of the Completion Date; or

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- (iii) in respect of any Environmental Claim or claims under the Environmental Warranties on or before the fifth anniversary of the Completion Date,

PROVIDED THAT the liability of the Relevant Sellers or the Relevant Purchasers, as the case may be, in respect of such claim shall absolutely determine (if such claim has not been previously satisfied, settled or withdrawn) if legal proceedings in respect of such claim shall not have been commenced within six months of the service of such notice and for this purpose proceedings shall not be deemed to have been commenced unless they shall have been properly issued and validly served upon the Relevant Sellers or Relevant Purchasers, as the case may be.

3. Conduct of Litigation

- (A) Upon the Relevant Purchaser or any member of the Purchaser's Group becoming aware of any claim, action or demand against it or any other matter likely to give rise to any claim in respect of any of the Warranties (other than a Tax Warranty Claim as to which the procedure set out in paragraph 6 of the Tax Indemnity shall apply) or otherwise under the Transaction Documents, the Relevant Purchaser shall:

- (i) as soon as practicable notify the Relevant Sellers thereof in writing;
- (ii) subject to the Relevant Sellers indemnifying the Relevant Purchasers in a form reasonably satisfactory to the Relevant Purchasers against any liabilities, loss, damages, payments, costs and expenses which may reasonably be incurred thereby (but without implying any admission of liability thereby), take such action and give such information and access to personnel, premises, chattels, documents and records to the Relevant Sellers, and their professional advisers as the Relevant Sellers may reasonably request and the Relevant Sellers shall be entitled to require any member of the Purchasers Group, to take such action and give such information and assistance in order to avoid, dispute, resist, mitigate, settle, compromise, defend or appeal any claim in respect thereof or adjudication with respect thereto;
- (iii) at the request of the Relevant Sellers, allow the Relevant Sellers (or the relevant one of them) to take the sole conduct of such actions as the Relevant Sellers may deem appropriate in connection with any such assessment or claim in the name of the Relevant Purchaser or any relevant member of the Purchasers Group and in that connection the Relevant Purchaser shall give or cause to be given to the Relevant Sellers all such assistance as

they may reasonably require in avoiding, disputing, resisting, settling, compromising, defending or appealing any such claim and shall instruct such solicitors or other professional advisers as the Relevant Sellers may nominate to act on behalf of the Relevant Purchasers or any member of the Purchasers' Group, as appropriate, but to act in accordance with the Relevant Sellers instructions; and

- (iv) make no admission of liability, agreement, settlement or compromise with any third party in relation to any such claim or adjudication without the prior written consent of the Relevant Sellers.
- (B) The Relevant Sellers shall be entitled at any stage and at their absolute discretion to settle any such third party assessment or claim other than a third party assessment or claim relating to Tax.

4. No liability if loss is otherwise compensated for

- (A) No liability shall attach to the Relevant Sellers or any member of the Sellers' Group by reason of an Environmental Claim or any breach of any of the Warranties or by reason of a Tax Indemnity Claim to the extent that the same loss has been recovered by the Relevant Purchaser or any other member of the Purchaser' s Group under any other Warranty or term of this Agreement (including, without limitation, the Tax Indemnity and Environmental Indemnity) or any other document entered into pursuant hereto and accordingly the Relevant Purchasers and each other member of the Purchaser' s Group may only recover once in respect of the same loss.
- (B) The Relevant Sellers and each member of the Sellers' Group shall not be liable for an Environmental Claim or breach of any of the Warranties (other than the Tax Warranties which shall be limited in accordance with the relevant provisions of the Tax Indemnity) to the extent that the subject of the claim has been or is made good or is otherwise compensated for.
- (C) In calculating the liability of the Relevant Sellers or any member of the Sellers' Group there shall be taken into account the amount by which any Taxation for which any member of the Group or the Relevant Purchaser is now or in the future accountable or liable to be assessed is reduced or extinguished as a result of the matter giving rise to such liability.

5. Recovery from Insurers and other Third Parties

- (A) If, in respect of any matter which would give rise to a claim under the Warranties, the Tax Indemnity or an Environmental Claim, any member of the Purchaser' s Group is entitled to claim under any policy of insurance, then no such matter shall be the subject of a claim under any such Warranties, the Tax Indemnity or an Environmental Claim unless and until the appropriate member of the Purchaser' s Group shall have made a claim against its insurers and used all reasonable endeavours to pursue such claim and any such insurance claim shall then reduce by the amount which may be recovered any such claims under any such Warranties, the Tax Indemnity or an Environmental Claim.
- (B) Where the Relevant Purchaser or any member of the Purchaser' s Group is at any time entitled to recover from some other person any sum in respect of any matter giving rise to a claim under the Warranties or an Environmental Claim (other than the Tax Warranties as to which the procedure set out in paragraph 12 of the Tax Indemnity shall apply), the Relevant Purchaser shall, and shall procure that each member of the Purchaser' s Group concerned shall, take all reasonable steps to enforce such recovery prior to taking action against the Relevant Sellers (other than to notify the Relevant Sellers of such claim) or any other member of the Sellers' Group and, in the event that the Relevant Purchaser or any member of the Purchaser' s Group shall recover any amount from such other person, the amount of the claim against the Relevant Sellers or any other member of the Sellers' Group shall be reduced by the amount so recovered.
- (C) If the Relevant Sellers or any other member of the Sellers' Group pay at any time to the Relevant Purchasers or any member of the Purchaser' s Group an amount pursuant to a claim (other than a Tax Claim as to which the provisions of paragraph 12 of the Tax Indemnity shall apply) in respect of the Warranties or an Environmental Claim or under any provision of this Agreement and the Relevant Purchasers or member of the Purchaser' s Group subsequently recovers from some other person any sum in respect of any matter giving rise to such claim, the Relevant Purchasers shall, and

them) to the Relevant Purchasers or other member of the Purchaser' s Group and (ii) the sum (including interest (if any)) recovered from such other person.

6. Acts of Purchaser

- (A) No claim shall lie against the Relevant Sellers under or in relation to the Warranties (other than the Tax Warranties as to which the relevant limitations in the Tax Indemnity shall apply) to the extent that such claim is attributable to:
- (i) any voluntary act, omission, transaction, or arrangement carried out by the Relevant Purchasers or by a member of the Purchaser' s Group on or after Completion; or
 - (ii) any admission of liability after the date hereof by the Relevant Purchasers or on its behalf or by persons deriving title from the Relevant Purchasers or by a member of the Purchaser' s Group on or after Completion.
- (B) The Relevant Sellers shall not be liable for any breach of any Warranty or an Environmental Claim (other than the Tax Warranties as to which the relevant limitations in the Tax Indemnity shall apply) which would not have arisen but for any reorganisation or change in ownership of any member of the Purchaser' s Group after Completion or change in any accounting basis on which any member of the Purchaser' s Group values its assets or any accounting basis, method, policy or practice of any member of the Purchaser' s Group which is different from that adopted or used in the preparation of the Completion Statements.

7. The Accounts, Carve-Out Accounts and the Completion Statements

No matter shall be the subject of a claim under the Warranties (other than the Tax Warranties as to which the relevant limitations in the Tax Indemnity shall apply) to the extent that allowance, provision or reserve in respect of such matter shall have been made in the Accounts, the Carve-Out Accounts, the Net Working Capital Adjustment, Adjustment Payment or the Completion Statements and no matter shall be the subject of an Environmental Claim to the extent that such allowance, provision or reserve in respect of such matter shall have been made in the Accounts, Carve-Out Accounts, the Net Working Capital Adjustment, Adjustment Payment or the Completion Statements.

8. Retrospective legislation

No liability shall arise in respect of any breach of any of the Warranties (other than the Tax Warranties as to which the relevant limitations in the Tax Indemnity shall apply) or the warranties set out in clause 17 of this Agreement to the extent that liability for such breach or such claim occurs or is increased directly or indirectly as a result of any legislation not in force on or prior to the date of this Agreement or as a result of the withdrawal of any agreement or arrangement currently granted by or made with any governmental authority or as a result of any change after the date of this Agreement of any generally accepted interpretation or application of any legislation or the enforcement policy or practice of the relevant authorities.

9. Purchaser' s knowledge

The Relevant Sellers shall not be liable under the Warranties in relation to any matter forming the basis of a claim of which the Relevant Purchasers were aware on or before the date of this

Agreement including any such matter referred to in Data Room or in any due diligence report prepared for the Relevant Purchasers if any Relevant Purchaser knew that such matter would form the basis of a claim for breach of Warranty.

10. Disclosure

The Relevant Purchasers (or any member of the Purchaser's Group) shall not be entitled to claim that any fact, matter or circumstance causes any of the Warranties to be breached to the extent that such fact, matter or circumstance is fairly disclosed in the Disclosure Letter or in any document fairly disclosed in the Data Room.

11. Environment

No claim shall lie against any Relevant Seller or any other member of the Sellers' Group under or in relation to the Environmental Warranties to the extent that such claim is attributable to any remedial works or other corrective action which exceeds the minimum necessary to comply with the requirements of the relevant Environmental Authority under Environmental Laws.

12. Claim to be a reduction of the Consideration

Any payment made by any Relevant Seller or any other person in respect of any claim under the Warranties, the Tax Indemnity or an Environmental Claim shall, so far as permitted by law, be deemed to be a reduction of the Consideration.

SCHEDULE 6

(COMPLETION STATEMENTS)

PART 1 Definitions

In this Schedule 6:

“Adjustment Payment”	means the Final Consideration less the Initial Consideration;
“Business CO₂ Obligation”	means any obligation of the Mill Business to acquire CO ₂ allowances in respect of the period up to the Completion Time;
“Business Merchant Rebates”	has the meaning given to it in <u>Schedule 1</u> ;
“Business Merchant Rebates at 30 June, 2008”	means the Business Merchant Rebates in such amount as is provided for in the Carve Out Accounts at 30 June, 2008;
“Business Net Debt”	means the Business Merchant Rebates at 30 June, 2008 and the Specific Business Net Debt Items;

“Company CO₂ Obligation”	means any obligation of Stockstadt GmbH or Biberist to acquire CO ₂ allowances in respect of the period up to the Completion Time;
“Company Merchant Rebates”	has the meaning given to it in <u>Schedule 1</u> ;
“Company Merchant Rebates at 30 June, 2008”	means the Company Merchant Rebates in such amount as is provided for in the Carve Out Accounts at 30 June, 2008;
“Completion Time”	means 23:59.59 on the Completion Date;
“Completion Time Business Net Debt”	at means the Business Net Debt as at the Completion Time;
“Completion Time Inter-Group Debt”	means the Inter-Group Debt as at the Completion Time;
“Completion Time Inter-Group Receivables”	means the Inter-Group Receivables as at the Completion Time;
“Completion Time Net Debt”	means the Net Debt as at the Completion Time;
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“Completion Time Net Working Capital”	means the Net Working Capital as at the Completion Time to be reported on the fourth Business Day after Completion;
“Enterprise Value”	means 749,016,246;
“Estimated Inter-Group Debt”	means the amount notified by M-real to the Purchaser 5 Business Days before the Completion Date as its good faith estimate of Inter-Group Debt on the Completion Time;
“Estimated Inter-Group Receivables”	means the amount notified by M-real to the Relevant Purchasers 5 Business Days before the Completion Date as its good faith estimate of the Inter-Group Receivables as at the Completion Time;
“Estimated Business Net Debt”	means the amount notified by M-real to the Relevant Purchasers 5 Business Days before the Completion Date as its good faith estimate of Business Net Debt as at the Completion Time;
“Estimated Net Debt”	means the amount notified by M-real to the Relevant Purchasers 5 Business Days before the Completion Date as its good faith estimate of Net Debt as at the Completion Time;
“Final Consideration”	shall be the Euro amount of the sum of $Z + Z_2 + Z_3 + Z_4 + Z_5 + G + H + I + J + K + L$

Where

$$Z_1 = A - X_1 + W_1,$$

A being 100,000,000 (the enterprise value of Biberist), X_1 the Completion Time Net Debt in respect of Biberist and W_1 the Net Working Capital Adjustment in respect of Biberist;

$$Z_2 = B - X_2 + W_2,$$

B being 135,000,000 (the enterprise value of Stockstadt GmbH and the German Subsidiary), X_2 the Completion Time Net Debt in respect of Stockstadt GmbH and the German Subsidiary and W_2 the Net Working Capital Adjustment in respect of Stockstadt GmbH and the German Subsidiary;

$$Z_3 = C - X_3 + W_3,$$

C being 2,000,000 (the enterprise value of CN

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Papiervertriebs GmbH), X_3 being the Completion Time Net Debt in respect of CN Papiervertriebs GmbH and W_3 the Net Working Capital Adjustment in respect of CN Papiervertriebs GmbH;

$$Z_4 = E - X_4 + W_4,$$

E being 50,000,000 (the enterprise value of the Mill Business at Kangas), X_4 being the Completion Time Business Net Debt in respect of the Mill Business at Kangas and W_4 the Net Working Capital Adjustment in respect of the Mill Business at Kangas;

$$Z_5 = F - X_5 + W_5$$

F being 450,000,000 (the enterprise value of the Mill Business at Kirkniemi) and X_5 being the Completion Time Business Net Debt in respect of the Mill Business at Kirkniemi W_5 the Net Working Capital Adjustment in respect of the Mill Business at Kirkniemi;

G = 1,500,000 (the enterprise value of the Kangas Property);

H = 2,100,000 (the enterprise value of the Kirkniemi Property);

I = 2,000,000 (the enterprise value of the Gohrsmühle Coaters);

J = 2,000,000 (the enterprise value of the Hallein Coater);

K = 4,416,246 (the enterprise value of the Know- How Business);

L = 20,000,000 unless M-real has failed to comply with its obligations in clause 14.9, at the time of the determination of the Completion Statements in which case $L = 0$,

“German Pension Liabilities”

means the IAS value of the pension and post retirement benefits of the German Companies and the German Subsidiary at the Completion Time in each case on the basis of the actuarial assumptions and judgements used in the actuarial valuation for the year ended 31 December, 2007 to determine the German Pension Liabilities in the Carve-Out Accounts (set out in Attachment 3), provided that for the purpose of the determination of the Initial Consideration the German Pension Liabilities shall be equal to 38,268,000;

“Initial Consideration”

means the Euro amount equal to the sum of $Y + Y_2 + Y_3 + Y_4 + Y_5 + G + H + I + J + K + L$

Where:

$$Y_1 = A - X_1,$$

A being 100,000,000 (the enterprise value of Biberist) and X_1 the Estimated Net Debt in respect of Biberist on the Completion Date;

$$Y_2 = B - X_2,$$

B being 135,000,000 (the enterprise value of Stockstadt GmbH and the German Subsidiary) and X_2 the Estimated Net Debt in respect of Stockstadt GmbH and the German Subsidiary on the Completion Date;

$$Y_3 = C - X_3,$$

C being 2,000,000 (the enterprise value of CN Papiervertriebs GmbH) and X_3 the Estimated Net Debt in respect of CN Papiervertriebs GmbH on the Completion Date;

$$Y_4 = E - X_4,$$

E being 50,000,000 (the enterprise value of the Mill Business at Kangas) and X_4 being the Estimated Business Net Debt in respect of the Mill Business at Kangas;

$$Y_5 = F - X_5,$$

F being 450,000,000 (the enterprise value of the Mill Business at Kirkniemi) and X_5 being the Estimated Business Net Debt in respect of the Mill

- G = 1,500,000 (the enterprise value of the Kangas Property);
- H = 2,100,000 (the enterprise value of the Kirkniemi Property);
- I = 2,000,000 (the enterprise value of the Gohrsmühle Coaters);
- J= 2,000,000 (the enterprise value of the Hallein Coater);
- K = 4,416,246 (the enterprise value of the Know-How Business); and
- L = 20,000,000, unless M-real would reasonably have been likely to fail to comply with its obligations in clause 14.9 on the Completion Date, in which case, L = 0;

“Hyperion Account Numbers”

means account numbers in the Sellers’ Group Hyperion Enterprise consolidation and reporting system, which is used for consolidating unaudited monthly reporting packages for the purposes of management accounting;

“Inter-Group Debt”

means all interest bearing liabilities, including any negative cash pooling balances (only if cash pooling arrangements have not been terminated before the Completion Time in accordance with clause 24.3) payable by any member of the Group to any member of the Sellers’ Group (excluding the Group), including for the avoidance of doubt, the Stockstadt Loans;

“Inter-Group Debt Adjustment Payment”

means Completion Time Inter-Group Debt (payable by any Group Company to a member of the Sellers’ Group (excluding the Group)) less Estimated Inter-Group Debt (payable by the relevant Group Company to the relevant member of the Sellers’ Group (excluding the Group));

“Inter-Group Net Debt”

means the Inter-Group Debt less the Inter-Group Receivables;

“Inter-Group Receivables”

means all interest bearing receivables and any claim for loss compensation under the Profit and

Loss Pooling Agreement for the period from 1 January, 2008 until the Completion Time owed to any Group Company by any member of the Sellers’ Group (excluding the Group) and, if such receivables have been satisfied pursuant to paragraph 1A(vii) of Schedule 3, the respective cash received by the Group Company;

“Inter-Group Receivables Adjustment Payment”

means Completion Time Inter-Group Receivables (of any Group Company against the relevant member of the Sellers’ Group) less Estimated Inter-Group Receivables (of the relevant Group Company against the relevant member of the Sellers’ Group);

“Merchant Rebates at 30 June, 2008”

means the Business Merchant Rebates at 30 June, 2008 and the Company Merchant Rebates at 30 June, 2008;

“Net Debt”

means the Inter-Group Net Debt plus the Other Net Debt;

“Net Working Capital”

means:

- (i) all inventories (24900), consisting of:
 - (a) materials and supplies (24000);
 - (b) work in progress (24100);
 - (c) finished goods and goods for resale (24200);
 - (d) other inventories (24300);
 - (e) advance payments (24400);

Plus

- (ii) trade receivables, consisting of:
 - (a) accounts receivable, short term (26000);

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- (b) receivables from affiliated companies, non-interest-bearing, short term (excluding, for the avoidance of doubt, any claim for loss compensation under the Profit and Loss Pooling Agreement for the period 1 January, 2008 until the Completion Time) (26150);
- (c) receivables from associated companies, non-interest-bearing, short term (26250);

Less

- (iii) trade payables, consisting of:
 - (a) accounts payable, short term (38300);

- (b) liabilities to affiliated companies, non-interest-bearing (excluding for the avoidance of doubt, any negative cash pooling balances only if the cash pooling arrangements have not been terminated before the Completion Time in accordance with clause 24.3) (38450);
- (c) liabilities to associated companies, non-interest-bearing (38550);

But

- (iv) excluding, for the avoidance of doubt, all cash in hand, cash at the bank and all positive cash pooling balances, only if the cash pooling arrangements have not been terminated before the

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Completion Time in accordance with clause 24.3), the Merchant Rebates and any amounts otherwise included in Net Debt or Business Net Debt;

The same accounting principles shall be consistently applied in the calculation of Target Net Working Capital and Completion Time Net Working Capital. Any adjustment to the Completion Time Net Working Capital arising from reclassification of items in the balance sheet shall lead to a retroactive adjustment of Target Net Working Capital accordingly;

The above account numbers refer to the Hyperion Account Numbers;

“Net Working Capital Adjustment”

means the Completion Time Net Working Capital less the Target Net Working Capital;

“Other Net Debt”

means in respect of the period up to and including the Completion Time, all interest bearing liabilities, the Company Merchant Rebates at 30 June, 2008 and the Specific Net Debt Items, in each case payable by any member of the Group other than Inter-Group Debt less all cash in hand, cash at the bank, positive cash pooling balances only if the cash pooling arrangements have not been terminated before the Completion Time in accordance with clause 24.3 and interest bearing receivables other than Inter-Group Receivables excluding, for the avoidance of doubt, all cash included in the definition of Inter-Group Receivables;

“Other Stockstadt”

means if and only if Sappi can satisfy M-real, in M-real’s discretion, that items presented as “Other Stockstadt - 1,032,000” in the Sappi paper headed “Allocation of Obligations” set out in Attachment 30 should be treated as debt at the Completion Time;

“Purchaser’s Accountants”

means Deloitte & Touche LLP;

“Sellers’ Accountant’s”

means PricewaterhouseCoopers;

“Specific Business Net Debt Items”

means the CHP Outstanding Lease Payments, the Take or Pay Obligation and the Business CO2 Obligation;

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“Specific Net Debt Items”

means the Stockstadt Lease, Other Stockstadt, German Pension Liabilities and the Company CO2 Obligation;

“Stockstadt Lease”

has the meaning given to it in Schedule 1;

“Take or Pay Obligation”

means the obligations of M-real in respect of the period after the Completion Time in relation to the share of fixed charges attributable to the ceased operation of the Kangas PM2 at the Kangas Mill specified in the energy supply contract “HEAT-2987” between M-real Corporation and Fortum dated 1 November 2004 and any amendment thereof; and

“Target Net Working Capital”

means 235,000,000.

PART 2 Allocation of Enterprise Value

The proportion of the Enterprise Value attributable to each of the Business Assets and the Shares shall be as follows:

(i)	<u>Business Assets</u>	<u>Amount ()</u>
	The business of the Kirkniemi Mill (excluding the Kirkniemi Property)	450,000,000
	The business of the Kangas Mill (excluding the Kangas Property)	50,000,000
	The Kirkniemi Property	2,100,000
	The Kangas Property	1,500,000
	The Know-How Business	4,416,246
	Gohrsmühle Coaters	2,000,000
	Hallein Coater	2,000,000

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(ii)	Companies	Amount ()
	Biberist	100,000,000
	Stockstadt GmbH (and the German Subsidiary)	135,000,000
	CN Papiervertriebs GmbH	2,000,000

PART 3 Preparation and determination of Completion Statements

- (A) Sappi shall (with such assistance from M-real as Sappi reasonably requires) procure the preparation by the appropriate Employees of a completion statement specifying:
- (i) the Completion Time Net Working Capital;
 - (ii) the Completion Time Net Debt (including the Completion Time Inter-Group Debt) specifying the Inter-Group Debt and the Inter-Group Receivables for each Group Company towards and from each member of the Sellers' Group as well as the Inter-Group Debt Adjustment Payment and the Inter-Group Receivables Adjustment Payment;
 - (iii) the Completion Time Business Net Debt; and
 - (iv) the Net Working Capital Adjustment,
- (the “**Draft Completion Statements**”). The Draft Completion Statements shall be delivered to M-real by Sappi in accordance with clause 36 as soon as reasonably practicable and in any event within (x) 25 Business Days following Completion and (y) 10 Business Days following the delivery of the audited Stockstadt Statutory Accounts to M-real by Sappi pursuant to paragraph (Q) below, whichever is later.
- (B) The Completion Statements shall be prepared in accordance with M-real' s accounting practices as consistently applied and M-real' s IFRS based accounting policies, principles, bases and methodologies.
- (C) M-real shall procure that the Sellers' Group and the Sellers' Accountants provide without charge such reasonable access to their personnel, Books and Records, calculations and working papers as Sappi or the Purchaser' s Accountants and advisers may request in connection with the preparation of the Completion Statements, subject to providing such undertakings as the Sellers' Accountants may reasonably request.
- (D) Save in accordance with the provisions of paragraph (H), no amendment shall be made to the Draft Completion Statements after their delivery to M-real in accordance with paragraph (A).
- (E) M-real may dispute the Draft Completion Statements by notice in writing (in this paragraph, the “**Notice**”) delivered to Sappi in accordance with clause 36 within 20 Business Days of receiving the Draft Completion Statements.

- (F) Sappi shall procure that the Group and the Purchaser' s Accountants provide without charge such reasonable access to their personnel, Books and Records, calculations and working papers and other information as M-real or the Sellers' Accountants and advisers may request in connection with their review of the Completion Statements, subject to providing such undertakings as the Purchaser' s Accountants may reasonably request.
- (G) If M-real does not serve the Notice under paragraph (E) above, the Draft Completion Statements shall constitute the Completion Statements.
- (H) If M-real does serve the Notice under paragraph (E) above, then Sappi and M-real shall use their reasonable endeavours to resolve the items in the Notice and either:

- (i) if Sappi and M-real reach agreement on the items in the Notice within 25 Business Days of the Notice being served (or such longer period as Sappi and M-real may agree in writing), the Draft Completion Statements shall be amended to reflect such agreement and shall then constitute the Completion Statements; or
 - (ii) if Sappi and M-real do not reach agreement in accordance with paragraph (i) above, Sappi or M-real may refer the dispute within 10 Business Days of expiry of the period described in paragraph (i) above, to Ernst & Young, failing whom, to KPMG, failing whom to such independent firm of chartered accountants of international repute in London as the parties agree and failing such agreement as the President of the Institute of Chartered Accountants in England and Wales may, on the application of either M-real or Sappi, nominate (the “**Expert**”), on the basis that the Expert is to make a decision on the dispute and notify Sappi and M-real of its decision within 10 Business Days of receiving the reference or such longer reasonable period as the Expert may determine.
- (I) Each party shall bear its own costs with respect to the finalisation of the Completion Statements. The costs of the Expert shall be borne by the parties as set out in paragraph (J)(iii) below.
- (J) In any reference to the Expert in accordance with paragraphs (H) and (I) above:
- (i) the Expert shall act as an expert and not as an arbitrator and shall be directed to determine any dispute by reference to M-real’s accounting practices as consistently applied and M-real’s IFRS based accounting policies, principles, bases and methodologies;
 - (ii) the decision of the Expert shall, in the absence of fraud or manifest error, be final and binding on Sappi and M-real and the Completion Statements shall be the Draft Completion Statements amended as necessary to reflect the decision of the Expert and, as amended, signed by the Expert;
 - (iii) the costs of the Expert shall be paid by M-real and Sappi equally or as otherwise determined by the Expert; and
 - (iv) each of M-real and Sappi shall respectively provide or procure the provision to the Expert of all such information as the Expert shall reasonably require including:
 - (a) by their respective advisers;
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- (b) in the case of Sappi, the Books and Records and personnel of the Group; and
 - (c) in the case of M-real, the books and records and personnel of the Sellers’ Group.
- (K) Following determination of the Completion Statements, the amount of the:
- (i) Completion Time Net Working Capital;
 - (ii) the Completion Time Net Debt, including the Completion Date Inter-Group Net Debt, specifying the Inter-Group Debt and the Inter-Group Receivables for each Group Company towards and from each member of the Sellers’ Group as well as the Inter-Group Debt Adjustment Payment and the Inter-Group Receivables Adjustment Payment;
 - (iii) the Completion Time Business Net Debt; and
 - (iv) the Net Working Capital Adjustment Amount,
- shall be determined by reference to the Completion Statements.
- (L) Sappi shall (with such assistance from M-real as Sappi reasonably requires) procure that the appropriate Employees prepare the Stockstadt Statutory Accounts and that the Stockstadt Auditor shall issue the auditor’s certificate (*Bestätigungsvermerk*) on the Stockstadt Statutory Accounts.

“**Stockstadt Statutory Accounts**” means the statutory annual accounts of M-real Stockstadt GmbH for the Stockstadt Current Fiscal Year.

“**Stockstadt Current Fiscal Year**” means the fiscal year of M-real Stockstadt GmbH ending either on 31 December, 2008, or at the end of the shortened fiscal year if the fiscal year has been changed in accordance with clause 4.6 of this Agreement.

“**Stockstadt Auditor**” means PricewaterhouseCoopers as statutory auditors of M-real Stockstadt GmbH.

- (M) The Stockstadt Statutory Accounts shall be prepared in accordance with accounting principles generally accepted in Germany, applied consistently with past practice, in particular with the accounting and consolidation policies, procedures and practices adopted in the statutory accounts of M-real Stockstadt GmbH for the fiscal year ending 31 December, 2007, applied consistently with past practice.
- (N) M-real shall procure that the Sellers’ Group and the Sellers’ Accountants provide without charge such reasonable access to their personnel, Books and Records, calculations and working papers as Sappi or the Purchaser’s Accountants and advisers may request in connection with the preparation of the Stockstadt Statutory Accounts, subject to providing such undertakings as the Sellers’ Accountants may reasonably request.
- (O) As soon as reasonably practicable after Completion and in any event within 5 Business Days following the delivery of the auditor’s certificate to M-real Stockstadt GmbH by the Stockstadt Auditor, the Stockstadt Statutory Accounts shall be delivered to M-real by Sappi in accordance with clause 36.

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- (P) Paragraphs (C) through (J) shall apply by analogy for the preparation and final determination of the Stockstadt Statutory Accounts. After final determination of the Completion Accounts and the Stockstadt Statutory Accounts the Relevant Purchaser in its capacity as sole shareholder in M-real Stockstadt GmbH undertakes to pass a shareholders resolution pursuant to which the audited Stockstadt Statutory Accounts are finally drawn up and approved (*aufgestellt und festgestellt*) as the final statutory annual accounts of M-real Stockstadt GmbH. For the avoidance of doubt the parties agree that in case of subsequent amendments of the Stockstadt Statutory Accounts, if any, clause 8.10 shall apply.

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SCHEDULE 7

(THE GROUP)

A. German Companies and German Subsidiary

Chemische Werke Zell-Wildshausen GmbH

Registered number:	10207
Court of incorporation:	Aschaffenburg
Place of incorporation:	Germany
Address of registered office:	Obernburger Strasse 1-9 D-63811 Stockstadt Germany
Issued share capital:	563,000.00

Managing Director:

Full name	Nationality	Resigning
Jürgen Bendt	German	No
Accounting reference date:	31 December	
Auditors:	PwC	
Tax residence:	Germany	
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CN Papiervertriebs GmbH

Registered number: HRB 11184

Court of incorporation: Amtsgericht Bonn

Place of incorporation: Germany

Address of registered office: Metternicher Str. 20
53919 Weilerswist
Germany

Issued share capital: 320,000.00

Managing Directors:

Full name	Nationality	Resigning
Martin Frank	German	No

Board Members:

Full name	Nationality	Resigning
<u>Henrik Damén</u>	Finnish	Yes
<u>Nils Hinterthan</u>	German	No

Accounting reference date: 31 December

Auditors: PwC

Tax residence: Germany

M-real Stockstadt GmbH

Registered number: HRB 8118

Court of incorporation: Aschaffenburg

Place of incorporation: Germany

Address of registered office: Obernburger Strasse 1-9
D-63811 Stockstadt
Germany

Issued share capital: EUR 40,100,000

Managing Directors:

Full name	Nationality	Resigning
Seppo Parvi	Finnish	Yes
Bernhard Jaggi	Swiss	No

Board Members:

Full name	Nationality	Resigning
<u>Dr. Soili Hietanen</u>	Finnish	Yes
<u>Robert Winkels</u>	German	Yes
<u>Frank Sehr</u>	German	No

Accounting reference date: 31 December

Auditors: PwC

Tax residence: Germany

B. Swiss Company**M-real Biberist**

Registered number: CH-251.3.000.460-7

Date of incorporation: 20 December, 1996

Place of incorporation: Biberist, Switzerland

Address of registered office: Fabrikstrasse 4
CH 4562 Biberist
Switzerland

Class of company: Corporation limited by shares
(*Aktiengesellschaft*)

Issued share capital: CHF 10,000,000

Directors:

Full name	Nationality	Resigning
Soili Hietanen, chairman of the board	Finnish	Yes
Robert Karrer, member of the board	Swiss	Yes
Peter Kienast, member of the board	Swiss	Yes

Accounting reference date: 31 December

Auditors: PricewaterhouseCoopers AG Bern

Tax residence: Switzerland

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SCHEDULE 8

(SHARES)

A. Companies

Company	Shares	Shareholder
CN Papiervertriebs GmbH	CN Shares	Deutsche Holding
Stockstadt GmbH	Stockstadt Shares	Deutsche Holding
Biberist	Biberist Shares 10,000 registered shares with a nominal value of CHF 1,000.	NL Holding

B. German Subsidiary

Company	Shares	Shareholder
Chemische Werke Zell-Wildshausen GmbH	CWZ Shares	Stockstadt GmbH

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SCHEDULE 9
(THE PROPERTIES)

A. Business Properties

<u>Country</u>	<u>Property Address</u>	<u>Mill Business</u>	<u>Registered Nos./Registered site of area</u>	<u>Property Owner</u>
Finland	FI-08800, Lohja, Finland	Kirkniemi	(i) 444-408-1-230 (ii) 444-414-1-209; (iii) 444-419-1-257; (iv) 444-419-1-475; (v) 444-419-1-479; (vi) 444-419-1-513; (vii) 444-419-1-514; (viii) 444-435-1-132; (ix) 444-435-1-171; (x) 444-435-1-212; (xi) 444-435-1-103; (xii) 444-435-1-106; (xiii) 444-419-1-287;	M-real Corporation

(xiv) 444-435-1-208 ;

(xv) 444-435-1-207;

(xvi) 444-435-1-46;

(xvii) 444-435-1-43;

(xviii) 444-419-1-290;

(xix) 444-419-1-440;

(xx) 444-419-1-441;

(xxi) 444-419-1-331;

(xxii) 444-419-1-332;

(xxiii) 444-419-1-156;

(xxiv) 444-419-1-157;

(xxv) 444-419-1-158;

(xxvi) 444-419-1-207;

(xxvii) 444-419-1-480;

(xxviii) 444-419-1-218;

(xxix) 444-419-1-483;

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(xxx) 444-419-1-213;

Finland	Kympinkatu 3, FI-40351 Jyväskylä, Finland	Kangas	(i) 179-14-11-18; (ii) 179-14-11-19; (iii) 179-14-11-20	M-real Corporation
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B. Company Properties

German Companies

Land register folio 4738

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
Folio (<i>Blatt</i>)	4738		

Property List (*Bestandsverzeichnis*)

Serial number

(laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
21		1833/1	building/open space; Am Schadenbruch 2	3,616

22	1834	building/open space; Am Schadenbruch 1	3,921
23	1957	industrial area; Am Schleusenweg	1,125
24	1958	industrial area; Am Schleusenweg	550
25	1964	industrial area; Beim Schleusenweg	462
26	2253/3	railway area; An der Aschaffener Straße	1,500
27	2253/4	railway area; Bei der Aschaffener Straße	1,736
133	408/2	railway area; An der Obernburger Straße	110
138	1560	agriculture area; Unterer Gebruch	710
140	577/5	building/open space; Nähe Hessenstraße	371

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
577/5	hereditary building right in favour of "Wohnungsfürsorge Franken", as mentioned serial number 3, 4 of the property list of the hereditary building right register, folio 3598
577/5	pre-emption right in favour of the respective owner of the hereditary building right
577/5	pedestrian and vehicular right of way in favour of the respective owner of plot 609, folio 4738, serial number 15 of the property list
577/5	pedestrian and vehicular right of way in favour of the Free State of Bavaria
577/5	right to pass supply lines in favour of the respective owner of plot 577/30, folio 4738, serial number 139 of the property list; plot 577/31, folio 8020, serial number 1 of the property list; plot 577/61, folio 8021, serial number 1 of the property list; plot 609, folio 4738, serial number 15 of the property list; plot 611, folio 8022, number 1 of the property list as well as of the respective owner of the hereditary building right of plot

577/5	right to pass supply lines in favour of the Free State of Bavaria
2253/4	right of way for power lines in favour of Bayernwerk AG in Munich
408/2	boundary development right in favour of the respective owner of plot 408, folio 7122, serial number 9 of the property list
1560	right of way for power lines in favour of Bayernwerk AG in Munich
1957, 1958	right of way for water and cable lines and right to keep installations on property in favour of municipal utility authority Aschaffenburg
Unclear	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Bayerwerk AG in Munich

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
none	
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Land register folio 4737

Register authority	Local Court of Aschaffenburg	Date of local authority search	30.07.2008
Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
Folio (<i>Blatt</i>)	4737		

Property List (*Bestandsverzeichnis*)

Serial number (laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
4		1400/2	storage area/fire station/administrative building/shop area/parking lots; Oberburger Straße 1,3,7,9	16,786
11		416/1	railway area; An der Obernburger Straße	1,017
37		1405	garden area; Beim alten Stadtweg	190
38		1833	building/open area; Am Schadenbruch	5,872
39		1853	agricultural area; Nähe Schleusenweg	19,907

48	1400/5	storage/industrial area (partially on plot 1400/3 and 1400/4)/clarifier; Zu Obernburger Straße 5	30,970
54	2300/13	building/open area; An der Aschaffener Straße	39,972
55	1400/1	building/open area; Obernburger Straße 5	51,683
56	1400/3	building/open area; Obernburger Straße 5	76,627
57	1400/4	building/open area; Nähe Obernburger Straße	22,930
58	1187	building/open area; Obernburger Straße 9a	41,248
59	1400/6	building/open area; Obernburger Straße 5	53,234
60	1400/7	building/open area; Nähe Wallstadter Straße	32,381

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
1400/5, 1400/1	right of way for power lines in favour of RWE Energie AG in Essen
1853	right of establishment and use of electricity lines in favour of the respective owner of plot 3641b Großwelzheim
1405, 1400/5, 1400/1	right of way for power lines and right of establishment of pole in favour of Bayernwerk AG in Munich
416/1	boundary development right in favour of the respective owner of plot 408, folio 7122, serial number 9 of the property list
2300/13	right of way for power lines in favour of RWE Energie AG in Essen
2300/13	right of way for power lines in favour of Überlandwerk Unterfranken AG in Würzburg
2300/13	right of establishment of a transformer station of way for low tension lines in favour of

municipality Stockstadt am Main

2300/13, 1400/7 right of way for water pipeline in favour of municipality Stockstadt am Main

1400/2 right of establishment of gas supply stations in favour of Gasversorgung Main-Spessart GmbH

1400/5 right of way for water and cable lines in favour of municipal utility authority Aschaffenburg

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
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none

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Land register folio 7461

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
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Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
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Folio (<i>Blatt</i>)	7461
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Property List (*Bestandsverzeichnis*)

Serial number (laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
2		1866/3	building/open area; Aschaffenburger Straße 1	20,401
8		4706/3	building/open area; Auf dem Grund 1 u. 3	8,632
9		416	operational area; Nähe auf dem Grund	1,832
10		4706	operational area; Nähe auf dem Grund	2,300
11		1872	traffic area; Schleusenweg	2,909

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
1866/3	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Preußische Elektrizitäts AG in Hannover
1866/3	right of way for power lines in favour of RWE Energie AG in Essen
1866/3	right of way for power lines in favour of RWE Energie AG in Essen
1866/3	right of way for water pipeline, cable right and right to maintain a facility in favour of municipal of Aschaffenburg
416, 4706	right of way for power lines and right to erect a pole (<i>Masterrichtungsrecht</i>) in favour of the Federal Republic of Germany (Bundeseisenbahnvermögen)
4706/3, 416, 4706	right of way for power lines in favour of RWE Energie AG in Essen
416, 4706	right of way for cable lines (<i>Fernmelledestrecken-kabel-Leitungsrecht</i>) in favour of Federal Republic of Germany (Bundeseisenbahnvermögen)
1872	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Bayernwerk AG in Munich
1872	right of way for power lines in favour of the respective owner of plot 3641 of the boundary Großwelzheim
1872	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Bayernwerk AG in Munich
1872	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Bayernwerk AG in Munich
1872	right of way for power lines in favour of the respective owner of plot 3641 of the boundary Großwelzheim

1872	right of way for gas pipelines in favour of Maingas Aktiengesellschaft in Frankfurt
1872	right of way for power lines in favour of RWE Energie AG in Essen
1872	right of way for power lines in favour of RWE Energie AG in Essen
1872	right of way for water pipeline, cable right and right to maintain a facility in favour of municipal of Aschaffenburg

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
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Land register folio 6858

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
Folio (<i>Blatt</i>)	6858		

Property List (*Bestandsverzeichnis*)

Serial number (laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
3		1866	industrial area; An der Aschaffener Straße	117,982
4		2300/16	building/open area; Dr. Platt Straße 6	3,604
5		2300/14	building/open area; An der Dr. Platt Straße	2,231
6		2300/15	building/open area; Dr. Platt Straße 4	2,523
7		1874	agricultural area; Nähe Schleusenweg	647

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
1866	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Preußische Elektrizitäts AG in Hannover
1874	right of way for power lines in favour of the respective owner of plot 3641 of the boundary Großwelzheim
1866	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Preußische Elektrizitäts AG in Hannover
1866	right of way for power lines in favour of RWE Energie AG in Essen
1866	right of way for power lines in favour of RWE Energie AG in Essen

1874	right of way for channels in favour of Zweckverband Abwasserbeseitigung Untermain in Kleinostheim
2300/16	right of way for power lines in favour of Überlandwerk Unterfranken AG in Würzburg
2300/16	right of way for power lines in favour of RWE Energie AG in Essen
1866, 1874	right of way for water pipeline, cable right and right to maintain a facility in favour of Stadtwerke Aschaffenburg

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
none	
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Land register folio 8311

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
Folio (<i>Blatt</i>)	8311		

Property List (*Bestandsverzeichnis*)

Serial number (laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
1		1866/16	building/open area; Nähe Aschaffenburger Straße	16,800
2		1866/17	building/open area; Nähe Aschaffenburger Straße	4,000

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
1866/16, 1866/17	right of way, access and use of/for power lines and right to demand omission of measures that could endanger the power lines in favour of Preußische Elektrizitäts AG in Hannover

1866/16, 1866/17	right of way for power lines in favour of RWE Energie AG in Essen
1866/16, 1866/17	right of way for power lines in favour of RWE Energie AG in Essen
1866/16, 1866/17	right of way for water pipeline, cable right and right to maintain a facility in favour of municipal of Aschaffenburg

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
none	
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Land register folio 6934

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
Land Register (<i>Grundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
Folio (<i>Blatt</i>)	6934		

Property List (*Bestandsverzeichnis*)

Serial number (laufende Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
1		1834/1	building/open area/garden; Am Schadenbruch 3	1,314
2		1834/2	garage/garden; Am Schadenbruch	1,163

Division I: Registered property owner

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
none	

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
none	

Hereditary building right register folio 6465

Register authority	Local Court of Aschaffenburg	Date of local authority search	18.08.2008
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Hereditary building right register (<i>Erbbaugrundbuch</i>)	Stockstadt	Boundary (<i>Gemarkung</i>)	Stockstadt
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Folio (<i>Blatt</i>)	6465
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Property List (*Bestandsverzeichnis*)

Serial number

(laufende

Nummer)	District (Flur)	Plot (Flurstück)	Use and location	Size (in m ²)
1		1866/5	Lerchenrain, Hutung	8,297

Division I: Registered holder of the hereditary building right

M-real Stockstadt GmbH

Division II: Encumbrances other than land charges and mortgages

Encumbered Plot	Encumbrances and restrictions
1866/5	ground rent of 8,696.49 per year on the hereditary building right in favour of the respective owner of plot 1866/5, folio 5602, serial number 3 of the property list
1866/5	right of way for power lines in favour of Bayernwerk AG in Munich
1866/5	ground rent of 8,569.22 on the hereditary building right in favour of the respective owner of plot 1866/5, folio 5602, serial number 3 of the property list
1866/5	real covenant, obligation of payment of 1,817.39 per year as a difference between the new ground rent on the hereditary building right and the ground rent registered under the serial number 5 in division II in favour of the respective owner of plot 1866/5; in case of judicial sale the main claim persists
1866/5	right of way for power lines in favour of Preußische Elektrizitäts-AG in Hannover

Division III: Land charges and mortgages

Encumbered Plot	Land charges and mortgages
	none

Property owner of encumbered property: Bayernhafen GmbH & Co. KG

Initial term of hereditary building right expires on 31.03.2032. The assignment and encumbrances of the hereditary building right require consent of the property owner.

Hereditary building right agreement

Owner of the property / Beneficiary	Property	Type of use	Date of signature (Owner of the property / Beneficiary)
Free State of Bavaria / Papierwerke "Waldhof- Aschaffenburg" AG (that is M- real Stockstadt GmbH today)	Parcel 1866/5 of the boundary of Stockstadt	Storage and handling of basic materials	24 March 1972 / 24 March 1972

Lease agreements with M-real Stockstadt GmbH as landlord

Landlord / Tenant	Property	Type of use	Date of signature (Landlord / Tenant)
M-real Stockstadt GmbH / H+B Holz- und Bodenrecycling GmbH & Co. KG	63811 Stockstadt, Aschaffener Straße 1	Storage	7 December 2007 / 7 December 2007
M-real Stockstadt GmbH / IBM Deutschland GmbH	63811 Stockstadt, Oberbürgerstraße 1-9	Storage and office	5 October 2007 / 8 October 2007
SCA FINE PAPER GmbH (that is M-real Stockstadt GmbH today) / Chemische Werke Zell- Wildshausen GmbH	Unclear	Preparation of special products (<i>Aufbereitung von Lignin -Produkten</i>)	9 October 1997 / not dated
M-real Stockstadt GmbH / Tiffany Long	63811 Stockstadt, Am Schadenbruch 1	Appartement	24 January 2005 / 24 January 2005
M-real Stockstadt GmbH / Renate Zang	63811 Stockstadt, Am Schadenbruch 1 (first floor, right)	Appartement	15 November 2004 / 29 November 2004

Lease agreements with CN Papiervertriebs GmbH, the German Subsidiary and M-real Stockstadt GmbH as tenant

Landlord / Tenant	Property	Type of use	Date of signature (Landlord / Tenant)
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Free State of Bavaria / PWA Grafische Papiere GmbH (that is M-real Stockstadt GmbH today)	Part of parcel 1866/4 of the city of Stockstadt	Storage	Illegible / not dated
Peter Notzon and Christa Notzon / CN Papiervertriebs GmbH	Unclear	Agency for trade with paper (<i>Papierhandelsagentur</i>)	27 December 1995 / 27 December 1995
PWA Waldhof GmbH / Chemische Werke Zell- Wildshausen GmbH	Parts of the property located in 6800 Mannheim, Sandhofer Straße 176	Factory regarding the production of caoutchouc materials (<i>Betrieb zur Herstellung von Kautschuk- Verarbeitungsmitteln</i>)	2 June 1987 / 15 May 1987
WeylChem GmbH / Chemische Werke Zell-Wildshausen GmbH	68305 Mannheim, Sandhofer Straße 96	Storage for special chemical material (<i>Magnesiumligninsulfat</i>)	10 February 2006 / 7 February 2006
Rasching GmbH (sub-landlord) / Chemische Werke Zell- Wildshausen GmbH (sub-tenant)	Mundenheimer Altrheinhafen	Storage for special chemical material (<i>Magnesiumligninsulfat</i>)	23 December 2004 / 21 December 2004

Licence agreement (*Gestattungsvertrag*)

Parties	Property	Type of use	Date of signature
Free State of Bavaria / PWA Grafische Papiere AG (that is M- real Stockstadt GmbH today) as beneficiary	Parcel 1866/1 of the boundary of Stockstadt	Construction and operation of facilities according to building plans in particular a facility to extinguish oil (<i>Öllöschanlage</i>), a pump station and a oil line	21 August 1978 / 22 December 1976 /

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User agreement (*Nutzungsvertrag*)

Parties	Property	Type of use	Date of signature
Federal Republic of Germany / SCA FINE PAPER GmbH (that is M-real Stockstadt GmbH today) as beneficiary	Boundary Stockstadt, parcels 5802 and 1400/8	Construction and operation of a special facility (<i>Molchstation</i>) and a loading platform with a pipeline to a pumping house (<i>Pumphaus</i>) regarding handling of calcium carbonate	21 May 1999 / 5 January 1999

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Swiss Company

Country	Property Address	Number	Nature of title	Use	Property Owner
Switzerland	Laubsack, Derendingen	Derendingen Nr. 86	Sole ownership		M-Real Biberist AG
Switzerland	Grütacker, Derendingen	Derendingen Nr. 87	Sole ownership		M-Real Biberist AG
Switzerland	Chessleren, Derendingen	Derendingen Nr. 1172	Sole ownership		M-Real Biberist AG
Switzerland	Chessleren, Derendingen	Derendingen Nr. 1179	Sole ownership		M-Real Biberist AG
Switzerland	Dorf, Biberist	Biberist Nr. 776	Collective ownership		Simple partnership: Emmenhof Immobilien AG, Scintilla AG, Hydroelectra (Emmenhof Immobilien AG, M- Real Biberist AG, Hydroelectra AG, ADEV Wasserkraftwerk AG)
Switzerland	Papierfabrik, Biberist	Biberist Nr. 777	Sole ownership		M-Real Biberist AG
Switzerland	Eichmatt, Biberist	Biberist Nr. 887	Sole ownership		M-Real Biberist AG
Switzerland	Grossmatt, Untergrütmatt, Biberist	Biberist Nr. 944	Sole ownership		M-Real Biberist AG
Switzerland	Grütschachen, Biberist	Biberist Nr. 975	Sole ownership		M-Real Biberist AG
Switzerland	Grütschachen, Biberist	Biberist Nr. 1495	Sole ownership		M-Real Biberist AG

Country	Property Address	Number	Nature of title	Use	Property Owner
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Switzerland	Grütschachen, Biberist	Biberist Nr. 1496	Sole ownership		M-Real Biberist AG
Switzerland	Winkelmatt, Biberist	Biberist Nr. 1989	Sole ownership		M-Real Biberist AG
Switzerland	Eichmatt, Biberist	Biberist Nr. 2838	Sole ownership		M-Real Biberist AG
Switzerland	Winkelmatt, Biberist	Biberist Nr. 3352	Sole ownership		M-Real Biberist AG
Switzerland	Hochwald, Wiler b. Utzenstorf	Wiler b. Utzenstorf Nr. 488	Sole ownership		M-Real Biberist AG
Switzerland	Hochwald, Wiler b. Utzenstorf	Wiler b. Utzenstorf Nr. 50	Sole ownership		M-Real Biberist AG
Switzerland	Hochwald, Wiler b. Utzenstorf	Wiler b. Utzenstorf Nr. 51	Sole ownership	Source right (<i>Quellenrecht</i>)	M-Real Biberist AG
Switzerland	Grütschachen, Biberist	Biberist Nr. 976	Sole ownership		M-Real Biberist AG

The above list is supplemented by the information contained in the public land register or in the supporting documents (*Belege* filed) filed with the respective land register.

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SCHEDULE 10

(MILL BUSINESS FIXED ASSET REGISTER)

(see Attachment 31)

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SCHEDULE 11

(BUSINESS INTELLECTUAL PROPERTY)

Part A: Business Intellectual Property (Trade Marks)

Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
Denmark	1468-1968	31/05/1998	HALLEIN	EUROART	16	31/05/2018	
Norway	74701	12/07/1998	HALLEIN	EUROART	16	12/07/2008	

Austria	130050	14/03/1990	HALLEIN	EUROART	16	14/03/2010	
International Trade Mark	554781	17/05/1990	HALLEIN	EUROART	16	17/05/2010	Bulgaria, Benelux, Switzerland, Algeria, Egypt, Spain, France, Hungary, Italy, Morocco, Montenegro, Portugal, Romania, Russian Federation, Serbia and Montenegro
Denmark	07437/1992	07/08/1992	M-REAL CORP	TAURO	16	07/08/2012	
United Kingdom	2007440		M-REAL CORP	GALERIE	16	11/01/2015	

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Country	AppIn/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
International Trade Mark	818672	24/09/2003	M-REAL CORP	GALERIE	16	24/09/2008	Austria, Australia, Bulgaria, Benelux, Switzerland, China, Czech Republic, Germany, Denmark, Estonia, Spain, France, United Kingdom, Greece, Hungary, Ireland, Iceland, Italy, Lithuania, Latvia, Morocco, Norway, Poland, Portugal, Romania, Russian Federation, Sweden, Singapore, Slovenia, Slovakia, Turkey, Ukraine
Germany	818672	24/09/2003	M-REAL CORP	GALERIE	16		
Argentina	2020588	12/04/2005	M-REAL CORP	GALERIE	16	12/04/2015	
Brazil	825840414		M-REAL CORP	GALERIE	16		
Canada	1192034	22/10/2003	M-REAL CORP	GALERIE	16		
Hong Kong	300081468	18/09/2003	M-REAL CORP	GALERIE	16	18/09/2013	

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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
South Africa	2003/16391		M-REAL CORP	GALERIE	16		
Malaysia	03012988	26/09/ 2003	M-REAL CORP	GALERIE	16	28/03/ 2013	
Indonesia	D00200326760-26981		M-REAL CORP	GALERIE	16		
U S A	3348038	04/12/ 2007	M-REAL CORP	GALERIE	16	04/12/ 2013	
Peru	93953	06/01/ 2004	M-REAL CORP	GALERIE	16	06/01/ 2014	
International Trade Mark	342786B	04/03/ 1968	M-REAL CORP	EUROART	16	04/03/ 2018	Benelux, Czech Republic, Germany, France, United Kingdom, Croatia, Hungary, Italy, Liechtenstein, Morocco, Monaco, Montenegro, Macedonia, Portugal, Romania, Slovenia, Slovakia, Serbia and Montenegro
Ireland	137285	30/01/ 1990	M-REAL CORP	EUROART	16	30/01/ 2017	

Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
Austria	61406	19/03/1998	M-REAL CORP	EUROART	16, 26, 27	19/03/2018	
Austria	61106	30/01/1998	M-REAL CORP	EUROART	16, 26, 27	30/01/2018	
International Trade Mark	807106	04/07/2003	M-REAL CORP	HEAD OF A BULL	16	04/07/2013	Austria, Benelux, Switzerland, Denmark, Spain, France, United Kingdom, Italy, Portugal
Germany	303184949	23/06/2003	M-REAL CORP	HEAD OF A BULL	16	30/04/2013	

Finland	239503	31/05/2007	M-REAL CORP	GALERIE	16	31/05/2017	
Germany	2008164*	14/01/1992	PWA	TAURO	16	11/03/2011	
International Trade Mark	582145*	24/01/1992	PWA	TAURO	16	24/01/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
United Kingdom	1489054*	30/07/1993	SCA FINE	TAURO	16	28/01/2009	
Canada	TMA453712*	09/02/1996	PWA GRAFISCHE PAPIERE GmbH	PURITY GLOSS & MATTE & DESIGN	16		

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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
International Trade Mark	582145*	24/01/1992	PWA GRAFISCHE PAPIERE GmbH	TAURO	16	24/01/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
Germany	2008164*	14/01/1992	PWA GRAFISCHE PAPIERE GmbH	TAURO	16	28/03/2011	
International Trade Mark	617884*	25/03/1994	PWA GRAFISCHE PAPIERE GmbH	Design only	16	25/03/2014	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	617296*	12/03/1994	PWA GRAFISCHE PAPIERE GmbH	DUOFLEX	20	12/03/2014	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	609192*	12/10/1993	PWA GRAFISCHE PAPIERE GmbH	WEBIO	16	12/10/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal

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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
International Trade Mark	608989*	30/09/1993	PWA GRAFISCHE PAPIERE GmbH	SABLANCA	16	30/09/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	608988*	30/09/1993	PWA GRAFISCHE PAPIERE GmbH	LAGLISSA	16	30/09/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	608990*	30/09/1993	PWA GRAFISCHE PAPIERE GmbH	YANGONA	16	30/09/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	608987*	30/09/1993	PWA GRAFISCHE PAPIERE GmbH	LADIFFE	16	30/09/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	602266*	12/05/1993	PWA GRAFISCHE PAPIERE GmbH	COBIO	16	12/05/2013	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal

Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
International Trade Mark	595829*	12/12/1992	PWA GRAFISCHE PAPIERE GmbH	Design only	16	12/12/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	591657*	27/08/1992	PWA GRAFISCHE PAPIERE GmbH	AMBIONA	16	27/08/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	591658*	27/08/1992	PWA GRAFISCHE PAPIERE GmbH	PROCOL	16	27/08/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal
International Trade Mark	591659*	27/08/1992	PWA GRAFISCHE	GOLDINA	16	27/08/2012	Austria, Benelux, Switzerland, Spain, France, Italy, Portugal

International Trade Mark	544055*	20/09/1989	PWA GRAFISCHE PAPIERE GmbH	PWA GRAFISCHE PAPIERE	16	20/09/2009	Austria, Benelux, Switzerland, Germany, Algeria, Egypt, Spain, France, Italy, Morocco, Portugal
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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
International Trade Mark	R 414877*	12/04/1975	PWA GRAFISCHE PAPIERE GmbH	PWA	1, 16	12/04/2015	Austria, Benelux, Switzerland, Czech Republic, Germany, Spain, France, Croatia, Italy, Liechtenstein, Macedonia, Portugal, Slovenia, Slovakia, Yugoslavia, Serbia & Montenegro
U.S.	2814409*	17/02/04	SCA FINE PAPER GmbH	EURO ART	16		
United Kingdom	1568931*	28/04/1995	SCA FINE PAPER GmbH	DUOFLEX	20	15/03/2011	
United Kingdom	1547644*	17/06/1994	SCA FINE PAPER GmbH	SABLANCA	16	03/04/2010	
United Kingdom	1489054*	30/07/1993	SCA FINE PAPER GmbH	TAURO	16	28/01/2009	
International Trade Mark	695222*	28/05/1998	SCA FINE PAPER GmbH	EURO DIGITAL	16	28/05/2018	Finland, Norway, Sweden

Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
Russian Federation	209216	28/02/2002	M-REAL CORP	GALERIE ART	16	11/02/2018	

Hungary	156609	04/05/1999	M-REAL CORP	GALERIE ART	16	18/03/2018	
Czech Republic	220250	27/09/1999	M-REAL CORP	GALERIE ART	16	20/03/2018	
Slovakia	189979	20/03/2000	M-REAL CORP	GALERIE ART	16	27/03/2018	
Poland	128980	20/04/2001	M-REAL CORP	GALERIE ART	16	19/03/2018	
International Register	798366		M-REAL CORP	GALERIE IMAGE	16	14/02/2013	AT, AU, BG, BX, CH, CN, CZ, DE, DK, EE, FR, GB, GR, HU, IE, IS, IT, LT, LV, NO, PL, PT, RO, RU, SE, SG, SI, SK, TR, UA
U.S.A.	2857938		M-REAL CORP	GALERIE IMAGE	16		

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<u>Country</u>	<u>Appln/Reg nr</u>	<u>Granted</u>	<u>Applicant</u>	<u>Mark</u>	<u>Classes</u>	<u>Renewal date</u>	<u>Designated countries</u>
U.S.A.	2860140		M-REAL CORP	GALERIE VISION	16		
Canada	TMA617754		M-REAL CORP	GALERIE VISION	16		
Finland	228137		M-REAL CORP	GALERIE IMAGE	16	29/08/2013	
Finland	228136		M-REAL CORP	GALERIE VISION	16	29/08/2013	
Canada	TMA617961		M-REAL CORP	GALERIE IMAGE	16		
International Register	798364	14/02/2003	M-REAL CORP	GALERIE VISION	16	14/02/2013	AT, AU, BG, BX, CH, CN, CZ, DE, DK, EE, FR, GB, GR, HU, IE, IS, IT, LT, LV, NO, PL, PT, RO, RU, SE, SG, SI, SK, TR, UA
EU	000516518	25/05/1999	M-REAL CORP	era	16	21/04/2017	Austria, Belgium, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain,

Finland, France, United Kingdom, Greece, Hungary, Ireland, Italy, Lithuania, Luxemburg, Latvia, Malta, The Netherlands, Poland, Portugal, Sweden, Slovenia, Slovakia

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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
EU	001503879	14/06/2001	M-REAL CORP	era ENVIRONMENTALLY RESPONSIBLE APPROACH	16	09/02/2010	Austria, Belgium, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, Italy, Lithuania, Luxemburg, Latvia, Malta, The Netherlands, Poland, Portugal, Sweden, Slovenia, Slovakia
United Kingdom	2047640	20/03/1998	M-REAL CORP	ERA	16	06/12/2015	
International Trade Mark	342786A	04/03/1988	M-Real Hallein AG	EUROART	16	17/05/2010	Tunisia
Denmark	VR004630 1994*		PWA GRAFISCHE PAPIERE	SYMBIO	16	15/07/2014	
Switzerland	431432		Papierfabrik	BIBER Q	16, 40	10/08/2017	

* Trade marks indicated with an asterisk are registered in the former name of a Group Company and will be transferred to the Relevant Purchasers under clause 3 of the Master Agreement

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Part B: Business Intellectual Property (Patents)

Patent name	Patent number	Granted / Application	Owner	
Calandered paper product and a method for producing a calandered paper web	F1111401	Granted	(M-real Corporation)	Kangas

Method of producing printed matter	FI109415	Granted	(M-real Corporation)	Kangas
Process and coating composition for coating and paper web	FI117875	Granted	(M-real Corporation)	Kangas
Methods for controlling print quality	FI20065394	Application	M-real Corporation	Kirkniemi/Kangas/Husum
Menetelmä ja laitteisto mekaanista massaa sisältävän ohuen paperirainan kaksipuoliseksi päällystämiseksi	FI924960	Granted	M-real Corporation / Valmet	Kirkniemi
Method and apparatus for producing mechanical fibers	FI20022050	Application	M-real Corporation	
Filler for the manufacture of base paper and method for the manufacture of base paper	FI20012328	Granted	M-real Corporation	Kirkniemi/Kangas/Husum/Stockstadt

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<u>Patent name</u>	<u>Patent number</u>	<u>Granted / Application</u>	<u>Owner</u>	
Procedure for the manufacture of paper	FI962701	Granted	M-real Corporation	Kirkniemi/Kangas/Husum/Stockstadt/Hallein
Process and coating colour for coating of paper and board	FI970133	Granted	M-real Corporation	Kirkniemi
Method for producing a paper for coating	FI971841	Granted	M-real Corporation	Kirkniemi/Kangas
Paper web and a method for the production thereof	FI973704	Granted	M-real Corporation	Kirkniemi/Husum

Utility models

<u>Name</u>	<u>Number</u>	<u>Owner</u>	
Marginaalipelti	U20060471	M-real Corporation	Kirkniemi

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Part C: GALERIE Marks

<u>Country</u>	<u>Appln/Reg nr</u>	<u>Granted</u>	<u>Applicant</u>	<u>Mark</u>	<u>Classes</u>	<u>Renewal date</u>	<u>Designated countries</u>
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Russian Federation	209216	28/02/2002	M-REAL CORP	GALERIE ART	16	11/02/2018	
Hungary	156609	04/05/1999	M-REAL CORP	GALERIE ART	16	18/03/2018	
Czech Republic	220250	27/09/1999	M-REAL CORP	GALERIE ART	16	20/03/2018	
Slovakia	189979	20/03/2000	M-REAL CORP	GALERIE ART	16	27/03/2018	
Poland	128980	20/04/2001	M-REAL CORP	GALERIE ART	16	19/03/2018	
United Kingdom	2007440		M-REAL CORP	GALERIE	16	11/01/2015	
International Register	798366		M-REAL CORP	GALERIE IMAGE	16	14/02/2013	AT, AU, BG, BX, CH, CN, CZ, DE, DK, EE, FR, GB, GR, HU, IE, IS, IT, LT, LV, NO, PL, PT, RO, RU, SE, SG, SI, SK, TR, UA

Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
U.S.A.	2857938		M-REAL CORP	GALERIE IMAGE	16		
U.S.A.	2860140		M-REAL CORP	GALERIE VISION	16		
Canada	TMA617754		M-REAL CORP	GALERIE VISION	16		
Finland	228137		M-REAL CORP	GALERIE IMAGE	16	29/08/2013	
Finland	228136		M-REAL CORP	GALERIE VISION	16	29/08/2013	
Canada	TMA617961		M-REAL CORP	GALERIE IMAGE	16		
International Register	798364	14/02/2003	M-REAL CORP	GALERIE VISION	16	14/02/2013	AT, AU, BG, BX, CH, CN, CZ, DE, DK, EE, FR, GB, GR, HU, IE, IS, IT, LT, LV, NO, PL, PT,

RO, RU, SE, SG, SI, SK, TR,
UA

EU	000516518	25/05/1999	M-REAL CORP	era	16	21/04/2017	Austria, Belgium, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece,
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Country	Appln/Reg nr	Granted	Applicant	Mark	Classes	Renewal date	Designated countries
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Hungary, Ireland, Italy,
Lithuania, Luxemburg,
Latvia, Malta, The
Netherlands, Poland,
Portugal, Sweden, Slovenia,
Slovakia

EU	001503879	14/06/ 2001	M-REAL CORP	era ENVIRONMENTALLY RESPONSIBLE APPROACH	16	09/02/ 2010	Austria, Belgium, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, Italy, Lithuania, Luxemburg, Latvia, Malta, The Netherlands, Poland, Portugal, Sweden, Slovenia, Slovakia
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United Kingdom	2047640	20/03/ 1998	M-REAL CORP	ERA	16	06/12/ 2015
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Part D: Registered Design

Country	Application number	Applicant	Design
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Switzerland	CH131884 (Design)	M-REAL CORP	Tragenheit
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SCHEDULE 12

(EMPLOYEES)

To the extent that in Germany a failure to fulfil such obligations may render this Agreement in its current form void or inoperable there is a legally binding obligation imposed on any member of the Sellers' Group which requires it to inform and consult with any recognised works council or other appointed employee representatives in that country before agreeing or implementing the terms of this Agreement, the Sellers and the Relevant Purchasers agree that:

- (a) the entering into of this Agreement is without prejudice to any legal requirement to comply with such informing and consulting obligations before implementing the terms of this Agreement;
- (b) they will cooperate with each other in good faith in order to ensure compliance with such informing and consulting obligations;
- (c) the Sellers have not taken any binding decision concerning the implementation of the terms of this Agreement, such binding decision being subject to the information and consultation obligation; and
- (d) reasonable changes to certain provisions of this Agreement may be necessary or desirable as a result of any such informing and consulting.

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SCHEDULE 13

(RELEVANT SELLERS AND RELEVANT PURCHASERS)

Part A: Details of the Share Sellers and the Share Purchasers

(1) Name of Share Seller	(2) Name of Company	(3) Shares	(4) Name of Share Purchaser
M-real Deutsche Holding GmbH	CN Papiervertriebs GmbH	CN Shares	Sappi Deutschland Holding GmbH
M-real Deutsche Holding GmbH	Stockstadt GmbH	Stockstadt Shares	Sappi Deutschland Holding GmbH
M-real NL Holding B.V.	M-real Biberist	Biberist Shares	Sappi Netherlands BV

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Part B: Details of the Business Sellers and the Business Purchasers

(1) Name of Business Seller	(2) Brief Description of Business / Business Asset	(3) Name of Business Purchaser
M-real	Mill Business	Sappi Finland Oy
M-real Zanders	Gohrsmühle Coaters	Sappi Netherlands BV
M-real Hallein AG	Hallein Coater	Sappi Netherlands BV

SCHEDULE 14

(TAX INDEMNITY)

1. Interpretation

In this Schedule 14, the headings shall not affect its interpretation and:

1.1 the following expressions bear the following meanings:

“**Employment Taxes**” has the meaning given in paragraph 3.2;

“**Pre-Completion Accounting Periods**” has the meaning given to that term in paragraph 5.1;

“**Purchaser’s Relief**” means any Relief which is not available on or before Completion, but arises as a consequence of or by reference to a Transaction or Transactions occurring after Completion and not as a consequence of or by reference to any Transaction or Transactions occurring on or before Completion;

“**Relevant Group Companies**” in respect of each Seller, means the Group Company or Group Companies the shares of which that Seller is selling under this Agreement together with any subsidiary of any of those Group Companies, and “**Relevant Group Company**” means each of them;

“**Relevant Purchaser**” means, as regards any Relevant Group Company, the Purchaser which is acquiring under this Agreement either (a) the shares of that Relevant Group Company or (b) the shares of a Relevant Group Company of which that Relevant Group Company is a subsidiary;

“**Relevant Seller**” means, as regards any Relevant Group Company, the Seller which is selling under this Agreement either (a) the shares of that Relevant Group Company or (b) the shares of a Relevant Group Company of which the Relevant Group Company is a subsidiary;

“**Straddle Period**” means any period relevant for Taxation purposes of each Group Company commencing before Completion but ending after Completion;

“**Tax**” or “**Taxation**” means:

- (i) all forms of taxation (other than deferred tax) and statutory, governmental, state, provincial, local governmental or municipal impositions, duties and levies in the nature of tax whether levied by reference to income, profits, gains, asset values, turnover, added value or other reference, in each case wherever and whenever imposed and whether chargeable directly or primarily against or attributable directly or primarily to a Group Company or any other person;

- (ii) all forms of social security contributions and employee taxes, wherever and whenever imposed and whether chargeable directly or primarily against or attributable directly or primarily to a Group Company or any other person;
- (iii) all penalties and interest relating to any matter within paragraphs (i) or (ii) above;

“**Transaction**” means any transaction, circumstance, action, event or omission of whatever nature and includes, without limitation, any change in the residence of any person for the purposes of any Taxation, Completion and any change in accounting reference date;

“**Tax Audits**” means any audit or other investigation carried out by a Tax Authority;

- 1.2 (A) references to any “**Tax Liability**” of any Group Company shall mean both:
- (i) liabilities of that Group Company to make actual payments of Tax (or amounts in respect or on account of Tax); and
 - (ii) the setting off against profits or against any Tax in respect of which a successful claim could have been made under this Schedule, of a Purchaser’s Relief; and
- (B) in any case falling within paragraph 1.2(A)(ii) the amount that is to be treated for the purposes of this Schedule as a Tax Liability of the Group Company (the “**Deemed Tax Liability**”) shall be determined as follows:
- (i) in a case where the Relief that was the subject of the setting off mentioned was a deduction from or offset against Tax, the Deemed Tax Liability shall be the amount of that Relief; and
 - (ii) in a case where the Relief that was the subject of the setting off mentioned was a deduction from or offset against profits, the Deemed Tax Liability shall be the amount of Tax in respect of which a successful claim could have been made under this Schedule but for such deduction or setting off;
- 1.3 references to “**profits**” include income, profits or gains (including chargeable or capital gains) of any description or from any source and references to profits earned, accrued, received or otherwise recognised include profits deemed to have been or treated as earned, accrued, received or otherwise recognised for Taxation purposes; and
- 1.4 in the case of any conflict between the provisions of the Agreement and this Schedule, this Schedule shall prevail.

2. Covenant

- 2.1 Subject to any other provisions of this Schedule, the Relevant Seller agrees to pay to the Relevant Purchaser on the due date for payment an amount equal to:

2.1.1 any Tax Liability of any Relevant Group Company arising:

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- (i) as a consequence of or by reference to any Transaction occurring or deemed to have occurred on or before the date on which Completion occurs; or
 - (ii) in respect of or by reference to any profits earned, accrued, received or otherwise recognised on or before the date on which Completion occurs; and
- 2.1.2 all reasonable external costs and expenses (including the costs and expenses of taking any action under this Schedule) reasonably and properly incurred or payable by any of the Purchasers and any of the Group Companies in connection with or in consequence of any matter for which a successful claim is made by any of the Purchasers under this Schedule.
- 2.2 If there is a dispute between the parties about the time at which Taxation arose (in order to determine whether the Taxation is: (i) in respect of or arising from a transaction occurring or deemed to have occurred before, on or after Completion; or (ii) referable to profits earned, accrued or received before, on or after Completion), then the parties agree that, for the purposes of resolving such dispute only, Completion shall be deemed to be an accounting period end for Taxation purposes, and the matter shall be determined by applying the accounting policies and practices adopted by the Group Company concerned which have effect immediately prior to Completion to the Transaction or profits in question.
- 2.3 Any payments made by a Relevant Seller under paragraph 2.1 or 7 shall, so far as permitted by law, be made by way of an adjustment to the consideration paid by the Relevant Purchaser for the Shares under the terms of this Agreement.

3 Exclusions

- 3.1 The Sellers shall not be liable under paragraph 2 above, paragraph 7 below or (mutatis mutandis) under the Tax Warranties in respect of any liability:
- 3.1.1 to the extent that, in accordance with the allocations of responsibility described in paragraph 3.2 below, such liability is a liability in respect of Employment Taxes for which the Purchaser is responsible; or
 - 3.1.2 to the extent that such liability would not have arisen but for a voluntary act carried out by a member of the Purchaser' s Group (at any time) or a Relevant Group Company (after Completion) outside the ordinary course of business of the company concerned (and for these purposes any distribution made after Completion shall constitute such a voluntary act outside the ordinary course of business) as carried on at Completion and which has been carried out otherwise than pursuant to a legally binding obligation entered into by any Group Company on or before Completion. An act carried out at the written request or with the written approval (expressly for the purposes of this paragraph) of any Seller shall not be a voluntary act for these purposes; or
 - 3.1.3 to the extent that such liability arises or is increased as a consequence of any change (including, for the avoidance of doubt, any change with retrospective effect) after Completion in any accounting policy or practice or bases or methods of accounting adopted by any member of the Purchaser' s Group or a Group Company, except where

such change was necessary in order to comply with any applicable legal, regulatory, financial reporting, accounting or other requirement in force before Completion by the relevant authority; or
 - 3.1.4 to the extent that any Relief other than a Purchaser' s Relief arising as a consequence of or by reference to any Transaction which occurred or was deemed to have occurred on or before Completion or in respect of a period ending on or before Completion is available to relieve or mitigate such liability; or
 - 3.1.5 to the extent that the liability arises or is increased as a consequence of any change (including any retrospective change), after Completion, in the law (including subordinate legislation) or in the generally published interpretation or practice of any Tax Authority or in financial reporting or accounting standards or practice coming into force after Completion or to the extent that the liability arises or is increased by a change in any rate of Taxation after Completion; or
 - 3.1.6 to the extent that the liability would not have arisen, but for an act carried out by any of the Sellers or the Group Companies prior to Completion at the written request of any member of the Purchaser' s Group; or
 - 3.1.7 to the extent that the liability arises by reason of a voluntary disclaimer by any Group Company after Completion of the whole or part of any allowance to which any of them is entitled or by reason of the revocation by any Group Company after Completion of any claim for Relief made (whether provisionally or otherwise) by any of them prior to Completion; or
 - 3.1.8 to the extent that the liability has been made good by insurers or otherwise compensated for without cost to Sappi, any member of the Buyer' s Group and/or any of the Group Companies; or
 - 3.1.9 to the extent that the liability would not have arisen or would have been reduced but for a failure or omission on the part of any of the Purchasers and/or any of the Group Companies to make any election or claim any Relief, the making or claiming of which was taken into account in computing the provision or reserve for Tax in the Accounts and it is reasonably clear from the Accounts that such election or claim had been taken into account or is otherwise notified in writing by any of the Sellers; or
 - 3.1.10 to the extent that the liability arises or is increased as a consequence of any failure by any of the Purchasers and/or any of the Group Companies to comply with any of their respective obligations under this Schedule or this Agreement; or

- 3.1.11 to the extent that the liability would not have arisen but for a cessation of, or any change in the nature or conduct of, any trade carried on by any of the Group Companies, being a cessation or change occurring on or after Completion; or
- 3.1.12 to the extent that the liability relates to any debt, liability or claim provided for in clause 4.6 of this Agreement and such liability in respect of Tax is taken into account in the Completion Statements; or

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- 3.1.13 to the extent that recovery has been made in respect of the same subject matter under this Schedule or this Agreement; or
- 3.1.14 to the extent that the liability is a liability to Swiss withholding Tax which arises in consequence of or in connection with the making of the distribution by Biberist to NL Holding prior to Completion as contemplated in clause 19.8 of this Agreement and such amount is deducted from the amount received by NL Holding; or
- 3.1.15 to the extent that the liability has been discharged prior to Completion; or
- 3.1.16 to the extent that the liability is a liability falling within clause 39.3 of this Agreement; or
- 3.1.17 to the extent that the liability is a liability in respect of VAT attributable to a period of time since the Statutory Accounts Date; or
- 3.1.18 to the extent that the liability is a liability in respect of German “Grundsteuer” which falls due for payment after Completion, and for these purposes it shall be assumed that, based on a calendar year, German Grundsteuer fall due for payment on a quarterly basis; or
- 3.1.19 to the extent that the liability is a liability in respect of any distribution made by Biberist after Completion.

3.2 This paragraph 3.2 explains the manner in which responsibility for certain employment related taxes is to be allocated for the purposes of this Schedule 14. Such allocation of responsibility is without prejudice to any other limitations on the liability of the Sellers under this Schedule 14 or otherwise under the Agreement.

- 3.2.1 The Sellers shall be responsible for all liabilities of any Group Company in respect of payroll or employee/ employer Taxes, including social security contributions (“**Employment Taxes**”), to the extent that they are properly due and payable on or before Completion.
- 3.2.2 The Purchaser shall be responsible for all Employment Taxes to the extent they are properly due and payable after Completion, except where such Employment Taxes fall within (i) or (ii) below (in which case the Sellers are responsible for them):
 - (i) The Purchaser is not responsible for Employment Taxes which are properly due and payable after Completion to the extent that they relate to bonus payments attributable to periods of time on or before Completion. If a bonus payment is attributable to periods of time both before and after Completion, the Purchaser shall be responsible for such part of the relevant Employment Taxes as is attributable (on a just and reasonable basis) to the period of time after Completion and the Sellers shall be responsible for such part of the relevant Employment Taxes as is attributable, on the same basis, to periods of time on or before Completion;
 - (ii) The Purchaser is not responsible for Employment Taxes which are properly due and payable after Completion to the extent that they are attributable (on a just and

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reasonable basis) to a calendar month ended prior to the beginning of the month in which Completion occurs.

4. Due Date for Payment

- 4.1 The due date for payment under paragraph 2.1 shall be the date falling ten (10) Business Days after service by the Relevant Purchaser of a notice containing a written demand in respect of the matter for which any of the Sellers are liable, or, where later and if applicable:
- 4.1.1 where a liability of the Relevant Sellers under paragraph 2.1 arises from a liability of the Relevant Purchaser or a Group Company to make a payment of Taxation which has not at the date of the notice under paragraph 6.1 become due to the relevant Tax Authority, the date falling five (5) Business Days before the latest date on which that Taxation may be paid to the relevant Tax Authority without a liability to interest or penalties accruing; or
 - 4.1.2 in the case of the setting off of a Purchaser's Relief within paragraph 1.2(A)(ii), the last date on which the relevant Tax liability would have been payable but for the setting off of the relevant Purchaser's Relief without a liability to interest or penalties accruing.
- 4.2 Any payment due to be made under this Schedule shall carry interest from the due date for payment or, if the claim under this Schedule arises from a payment which has been made before the date of the notice under paragraph 6.1, the date such payment was made, until actual payment at the Agreed Rate provided that interest shall not accrue for any period in respect of which interest due to the relevant Tax Authority is included in the payment due to be made under this Schedule before the application of this paragraph 4.2.

5. Tax Administration etc.

Pre-Completion Accounting Periods

- 5.1 Subject to and in accordance with the provisions of this paragraph 5, the Relevant Sellers or their duly authorised agents shall, at the Relevant Sellers' cost (except internal costs of the relevant Group Company):
- 5.1.1 prepare, submit and deal with (or procure the preparation and submission of and dealing with) all computations and returns relating to Taxation; and
 - 5.1.2 prepare, submit and deal with (or procure the preparation and submission of and dealing with) all claims, elections, surrenders, disclaimers, notices and consents for Taxation purposes (together with the documents referred to in paragraph 5.1.1, "**Tax Documents**"); and
 - 5.1.3 deal with all other matters which relate to Taxation including, without limitation, any correspondence, enquiry, dispute, negotiation or settlement involving any Tax Authority,

in respect of all periods relevant for Taxation purposes of each Group Company ending on or before Completion (the "**Pre-Completion Accounting Periods**").

- 5.2 The Relevant Sellers or their duly authorised agents shall deliver all Tax Documents relevant to Pre-Completion Accounting Periods ("**Pre-Completion Tax Documents**") that are required to be authorised and signed by any Group Company to Sappi for authorisation and signing prior to submission. If a time limit applies in relation to the submission of any Pre-Completion Tax Document, the Relevant Sellers shall ensure that Sappi receives the Pre-Completion Tax Document no later than ten (10) Business Days before the expiry of the time limit. Sappi shall:
- 5.2.1 subject to paragraph 5.2.2 below, procure that each Group Company shall cause any Pre-Completion Tax Document delivered to it under this paragraph 5.2 to be so authorised and signed as soon as reasonably practicable by and on behalf of the relevant Group Company, and submitted to the appropriate Tax Authority as soon as reasonably practicable (and in any event within any relevant time limit provided that the Sellers have complied with this paragraph 5.2);
 - 5.2.2 be under no obligation to procure the authorisation, signing or submission to a Tax Authority of any Pre-Completion Tax Document delivered to it under paragraph 5.2 which is false or misleading in a material respect, or which would require fraudulent conduct, conduct involving dishonesty or the commission or participation in any criminal offence on the part of Sappi or a Group Company, but for the avoidance of doubt Sappi shall be under no obligation to make any enquiry as to the completeness or accuracy thereof and shall be entitled to rely entirely on any of the Sellers and of their agents.

- 5.3 The Relevant Sellers hereby agree to cancel any existing authority held by any employee or agent of or adviser to the Relevant Sellers to sign Tax Documents on behalf of any Group Company with effect from Completion.
- 5.4 The Relevant Sellers shall procure that:
- 5.4.1 Sappi is kept fully informed of the progress of all material matters relating to the Taxation affairs of the Group Companies in relation to the Pre-Completion Accounting Periods;
 - 5.4.2 Sappi receives copies of, or extracts from, all written correspondence to, or from, any Tax Authority insofar as it is relevant to the matters referred to in paragraph 5.1 above; and
 - 5.4.3 Sappi receives drafts of any Pre-Completion Tax Documents which are to be submitted. If a time limit applies in relation to the submission of any Pre-Completion Tax Document, the Relevant Sellers shall ensure that the Purchaser receives the draft Pre-Completion Tax Document no later than twenty (20) Business Days before the expiry of the time limit;
 - 5.4.4 Sappi is consulted fully in relation to the matters referred to paragraph 5.4.1 above and any reasonable written comments of Sappi are taken into account in relation to such matters provided that Sappi's comments are received no later than ten (10) Business Days after the draft Pre-Completion Tax Document has been received by Sappi pursuant to paragraph 5.4.3.

- 5.5 The Relevant Sellers agree to devote reasonable resources to dealing with the Taxation affairs of the Group Companies in relation to Pre-Completion Accounting Periods, and shall use reasonable endeavours to ensure that they are finalised as soon as reasonably practicable. The Relevant Sellers shall ensure that all Pre-Completion Tax Documents are true and accurate in all respects and are not misleading. If the Relevant Sellers are in material breach of their obligations under paragraphs 5.1 to 5.4 (inclusive) and the Relevant Sellers have not taken reasonable steps to correct the breach within ten (10) Business Days of Sappi giving the Relevant Sellers notice of such breach, Sappi may take control of the Taxation affairs of the Group Companies in relation to Pre-Completion Accounting Periods and paragraphs 5.1 to 5.5 (inclusive) shall apply as if a reference to "Sappi" is a reference to "Relevant Seller" and a reference to "Relevant Seller" is a reference to "Sappi".

Straddle Period

- 5.6 Subject to paragraph 6 and paragraph 7, and subject to and in accordance with the provisions of this paragraph 5, Sappi or its duly authorised agents shall, at Sappi's cost:
- 5.6.1 prepare, submit and deal with all Tax Documents in respect of the Straddle Period ("**Straddle Period Tax Documents**"); and
 - 5.6.2 deal with all other matters which relate to Taxation including, without limitation, any correspondence, enquiry, dispute, negotiation or settlement involving any Tax Authority in respect of the Straddle Period.
- 5.7 Sappi shall procure that, to the extent that the Relevant Sellers' liability to Taxation or liability under paragraph 2 of this Schedule 14 may be affected:
- 5.7.1 the Relevant Sellers are kept fully informed of the progress of all material matters relating to the Taxation affairs of the Group Companies in relation to the Straddle Period;
 - 5.7.2 the Relevant Sellers receive copies of, or extracts from, all written correspondence to, or from, any Tax Authority insofar as it is relevant to the matters referred to in paragraph 5.6 above;
 - 5.7.3 the Relevant Sellers receive drafts of any Straddle Period Tax Documents which are to be submitted. If a time limit applies in relation to the submission of any Straddle Period Tax Document, Sappi shall ensure that the Relevant Sellers receive the Straddle Period Tax Document no later than twenty (20) Business Days before the expiry of the time limit.

- 5.7.4 the Relevant Sellers are consulted fully in relation to the matters referred to in paragraph 5.7.1 above and any reasonable written comments of the Relevant Sellers are incorporated (to the extent that their current liability to Tax or liability under this Schedule may be affected) or are taken into account (in all other cases) in relation to such matters provided the Relevant Sellers' comments are received no later than ten (10) Business Days after the draft Straddle Period Tax Document has been received by the Relevant Seller pursuant to paragraph 5.7.3.

- 5.8 Sappi agrees to devote reasonable resources to dealing with the Taxation affairs of the Group Companies in relation to the Straddle Period, and shall use reasonable endeavours to ensure that they are finalised as soon as reasonably practicable. Sappi shall ensure that all Straddle Period Tax Documents are true and accurate in all respects and are not misleading.

Tax Audits

- 5.9 The party which is responsible for preparing, submitting and dealing with the Tax Documents in respect of a particular period under this paragraph 5 shall also be responsible for dealing with any Tax Audits which a Tax Authority may conduct in relation to that period. If a Tax Audit affects or may affect the liability to Tax of the party which is not responsible for dealing with it under this paragraph 5, or that other party's liability under this Schedule or the Agreement, the party dealing with the Tax Audit shall ensure that:
- 5.9.1 the other party is kept fully informed of the progress of all matters relating to the Tax Audit;
- 5.9.2 the other party receives copies of all written correspondence insofar as it is relevant to the Tax Audit; and
- 5.9.3 the other party is consulted fully in relation to the Tax Audit and the party which is dealing with the Tax Audit shall act reasonably in incorporating (to the extent that the current liability to Tax or liability under this Schedule of the other party may be affected) or taking into account (in all other cases) all reasonable written comments that the other party may provide.

Access

- 5.10 Sappi shall procure that the Relevant Sellers and their duly authorised agents are (on reasonable notice in writing to Sappi) afforded such reasonable access to the books, accounts, personnel, correspondence and documentation of the Group Companies and such other reasonable assistance (including from any personnel and officers of the Group Companies) as may be reasonably required to enable the Relevant Sellers to discharge their obligations under this paragraph 5.
- 5.11 This paragraph 5 shall operate without prejudice to the provisions of paragraph 6.

6. Claims

- 6.1 If any of the Purchasers or any Group Company becomes aware after Completion of any matter which could give rise to a liability under this Schedule or under the Tax Warranties (a "Tax Claim"), Sappi shall procure that written notice of that matter (setting out reasonable particulars of the potential liability, the due date for payment and the time limits for any appeal) is given as soon as reasonably practicable to the Relevant Sellers and as regards any such matter Sappi shall itself or shall procure that the Group Company concerned shall at the request in writing of the Relevant Sellers take such action as they may reasonably request to deal with the matter but subject as set out in paragraph 6.3 and paragraph 6.4 and subject to Sappi and the Group Company concerned

being indemnified to their reasonable satisfaction by the Relevant Sellers against all losses (including additional Taxation), costs, damages and expenses which may be incurred as a result.

- 6.2 The actions which the Relevant Sellers may reasonably request under paragraph 6.1 above shall include (without limitation) the Group Company concerned applying to postpone (so far as legally possible) the payment of any Tax and/

or allowing the Relevant Sellers (subject to the conditions set out in paragraph 6.5) to take on or take over at their own expense the conduct of all or any proceedings of whatsoever nature arising in connection with the Claim in question.

- 6.3 Sappi and each Group Company shall be at liberty to deal with any Tax Claim if the Relevant Sellers delay unreasonably in giving any such request as is mentioned in paragraph 6.1 above provided that Sappi or the Group Company concerned has notified the Relevant Sellers in writing of its intention to so deal with the matter and Relevant Sellers have not responded within ten (10) days.
- 6.4 Sappi shall procure that the Relevant Sellers and their duly authorised agents are (on reasonable notice in writing to Sappi) afforded such reasonable access to the books, accounts, personnel, correspondence and documentation of the Group Companies and such other reasonable assistance as may be reasonably required to enable the Relevant Sellers to exercise their rights under this paragraph 6 including, without limitation, such information and assistance as the Relevant Sellers and/or their duly authorised agents may reasonably require in connection with the preparation for and conduct of those proceedings referred to in paragraph 6.3 above.
- 6.5 The conditions referred to in paragraph 6.2 are that Sappi is kept fully informed of the conduct of the relevant proceedings and its reasonable comments in respect thereof are taken into account by the Relevant Sellers.

7. Secondary Liabilities

- 7.1 The Sellers agree to pay to Sappi on the due date for payment an amount equal to the amount of any Taxation for which any of the following:

- (i) any Group Company;
- (ii) any member of the Purchaser' s Group; or
- (iii) any director or former director of any member of the Purchaser' s Group or of any Group Company (other than a person who was a director of any Group Company prior to Completion),

is or becomes liable by virtue of the failure of the Sellers to pay, or procure that there is paid, when due, any Tax properly assessed on them or on any member of the Sellers' Group (excluding, for the purposes of this paragraph 7.1, the Group Companies and including for the avoidance of doubt Hallein AG) except to the extent that such Taxation:

- (a) is either subject to a valid claim under this Schedule by the Sellers which has not been satisfied or could be the subject of any such valid claim; or

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- (b) is recoverable by Sappi, any member of the Purchaser' s Group, any Group Company or any such director or former director under any relevant statutory provision (and Sappi shall procure that no such recovery is sought to the extent that payment has been made under this paragraph 7.1)

together with all reasonable external costs and expenses (including the costs and expenses of taking any action under this Schedule) reasonably and properly incurred or payable by the Purchasers, any member of the Purchaser' s Group, any Group Company or any such director or former director thereof in connection with or as a consequence of any matter for which a successful claim is made by Sappi under this paragraph 7.

- 7.2 Without prejudice to the generality of paragraph 7.1 above, the Sellers undertake to Sappi that they shall fully indemnify the Relevant Purchaser with regard to any amount of Taxation that Stockstadt GmbH and/or Chemisch Werke Zell-Wildhausen GmbH may be required to pay under sec. 73 of the Tax Code (*Abgabenordnung*).

8. Counter-indemnity

- 8.1 Sappi agrees to pay to the Sellers on the due date for payment an amount equal to the amount of any Taxation for which any of the following:

- (i) the Sellers;

- (ii) any member of the Sellers' Group (excluding the Group Companies); or
- (iii) any director or former director of any of the Sellers or of any member of Sellers' Group (excluding the Group Companies),

is or becomes liable by virtue of the failure of any of the Group Companies to pay, or procure that there is paid, when due, any Tax properly assessed on them except to the extent that such Taxation:

- (iv) is either subject to a valid claim under this Schedule by the Purchasers which has not been satisfied or could be the subject of any such valid claim; or
- (v) is recoverable by the Sellers or any member of the Sellers' Group or any such director or former director under any relevant statutory provision (and the Seller shall procure that no such recovery is sought to the extent that payment has been made under this paragraph 8.1)

together with all reasonable external costs and expenses (including the costs and expenses of taking any action under this Schedule) reasonably and properly incurred or payable by the Sellers, any member of the Sellers' Group or any such director or former director thereof in connection with or in consequence of any matter for which a successful claim is made by the Sellers under this paragraph 8.

- 8.2 To the extent that based on a fiscal unity (*Organschaft*) under German tax law any of the Sellers is debtor vis-à-vis the Tax Authorities for Taxes caused by the business of any of the Group

Companies and allocable to Tax periods up to the Completion Date, the Seller shall remain liable for such Taxes. However, if amended assessments, e.g. as a consequence of tax audits or of amended tax returns, regarding such Taxes result in a Tax benefit in periods after the Completion Date (e.g. in cases of higher depreciations or a recognition of accruals as deductible expenses only for periods after the Completion Date) the Purchaser shall compensate the Seller or its parent company, as the case may be, for any such Tax benefit (including in particular the reduction of taxable income (*steuerliches Minderergebnis*) or an increase of a tax loss for the period after the Completion Date) which any of the Group Companies or any Relevant Purchaser or any of its affiliates will derive therefrom during a Tax period commencing after Completion, provided, however, that the compensation shall be limited to the net present value of the Tax benefit which shall be calculated on a lump sum basis by multiplying the reduction of taxable income with the Tax rates in effect at the time the obligation of Purchaser under this paragraph becomes due and discounted at an interest rate of five (5) per cent. per annum for a period not exceeding five (5) years. The compensation payable by the Purchasers shall become due twenty (20) Business Day after the assessment relating to the aforementioned Taxes becomes formally binding (*formell bestandskräftig*).

- 8.3 The provisions of paragraph 4 (Due Date for Payment) and paragraph 6 (Claims) shall apply to this paragraph 8 mutatis mutandis.

9. Savings

- 9.1 If the auditors for the time being of a Group Company certify in writing to any of the Sellers and Sappi that Taxation which has resulted in a payment by a Relevant Seller falling due pursuant to paragraph 2 gives rise to an actual saving (the "**Saving**") of Taxation for a Group Company or a Purchaser in a tax period ending prior to the tenth anniversary of Completion then the amount of the Saving shall be set off against any payment then due from the Sellers or any of them under paragraph 2.1 of this Schedule 14 and, to the extent there is an excess, a refund shall be paid to the Sellers of any previous payment or payments made by the Sellers under this Schedule and not previously refunded under this paragraph up to the amount of excess, and (to the extent that it is not so set off or refunded) shall be carried forward and set off against any future payments which become due from the Sellers under this Schedule 14. Ten (10) Business Days after the time at which pursuant to paragraph 2 of Schedule 5 (Limitations on Liability) no Tax Claim can be made any amount not so set off shall be paid to the Seller.

- 9.2 If any Group Company or any of the Purchasers discovers that there has been a Saving, Sappi shall, or shall procure that the Group Company concerned shall, as soon as reasonably practicable give full details thereof to the Sellers and Sappi shall, or shall procure that the Group Company concerned shall, supply to the Sellers such information as they may reasonably require to verify the amount of the Saving.
- 9.3 For the purposes of paragraph 9.1 a person obtains a Saving if as a result of the Taxation which results in a claim by a Purchaser under paragraph 2 or the Tax Warranties that person is relieved in whole or in part of a liability to make some other payment of Taxation which it would otherwise have been liable to make or obtains a right to repayment of Taxation which would not otherwise have been available.

10. Tax Refunds

- 10.1 If a Group Company (or a member of the Purchaser's Group on behalf of a Group Company) has received a refund of Taxation (including, for the avoidance of doubt, the amount of any reduction or refund of corporate income tax in the amount of a corporate income tax credit (*Körperschaftsteuerguthaben*) within the meaning of Section 37 of the German Corporate Income Tax Act, but excluding any refund (whether in cash or by way of credit or set off against a liability to Tax) in respect of VAT which relates to periods since the Statutory Accounts Date) in respect of a period ending on or before Completion and whether in cash or by way of credit or set-off against a liability to Tax (the "**Tax Refund**") (for reasons other than the availability of a Purchaser's Relief) then the amount of the Tax Refund (less any Taxation due on any interest element of the Tax Refund (or less any Taxation that would have been due but for the availability of any Purchaser's Relief)) shall be set off against any payment then due from the Sellers under paragraph 2.1 of this Schedule or (to the extent that it is not so set off) shall be paid by the Purchaser to the Sellers within ten (10) Business Days of the Tax Refund being obtained.
- 10.2 If any Group Company or Sappi discovers that it has obtained or is entitled to a Tax Refund, Sappi shall, or shall procure that the Group Company concerned shall, as soon as reasonably practicable give full details thereof to the Sellers and Sappi shall, or shall procure that the Group Company concerned shall, supply to the Sellers such information as they may reasonably require to verify the amount of the Tax Refund.
- 10.3 A Group Company that discovers that it is entitled to a Tax Refund shall (if so required by the Sellers and if indemnified to its reasonable satisfaction by the Sellers against all losses (including additional Taxation), costs and expenses (except internal costs and expenses of the relevant Group Company) and damages which may be incurred as a result) take all reasonable steps to obtain that Tax Refund.

11. Effect of Waiver, Release etc.

Any liability under this Schedule may in whole or in part be released, compounded or compromised or time or indulgence given by the person to whom the liability is owed in its absolute discretion as regards any of the persons under such liability without in any way prejudicing or affecting its rights against any other or others of those persons under the same or a like liability whether joint and several or otherwise.

12. Recovery from Third Parties

If the Sellers pay or procure payment of an amount either in respect of Taxation under paragraph 2 or paragraph 7 or an amount in respect of any circumstances giving rise to a claim under the Tax Warranties and the Relevant Purchaser or any Relevant Group Company is or becomes entitled, before the sixth anniversary of such payment, to recover or obtain from some other person (other than a Group Company) any sum in respect of that Taxation or circumstance then the Relevant Purchaser shall:

- (a) as soon as reasonably practicable notify the Sellers of such entitlement and shall, if so requested by the Sellers and subject to the Purchaser and the Group Company being indemnified to their reasonable satisfaction by the Sellers against all losses (including additional Taxation), damages, costs and expenses which may be reasonably incurred, take and procure that the Group

Company takes all reasonable steps to enforce that recovery (keeping the Sellers informed of the progress of any action taken); and

- (b) account to the Sellers within ten (10) Business Days of recovering any such amount for the whole of any sum so recovered (including any interest or repayment supplement paid to the Purchaser or a Group Company) less any costs and expenses of recovery (including any Taxation which would not have been incurred but for the recovery of that amount) up to an amount not exceeding the amount of any such payment previously made by the Sellers in respect of such Taxation.

12. Mitigation

The Purchasers shall, at the direction in writing of the Sellers, procure that the Group Companies take all such reasonable steps as the Seller may reasonably require to:-

- (a) use in the manner hereinafter mentioned all such Reliefs arising as a consequence of or by reference to any Transaction occurring (or deemed to occur) on or before Completion or in respect of a period ended on or before Completion and not as a consequence of or by reference to any Transaction occurring (or deemed to occur) after Completion or in respect of a period commencing after Completion as are available to any Group Company or Group Companies to reduce or eliminate any liability to Tax in respect of which the Purchasers or any of them would have been able to make a claim against the Sellers or any of them under this Schedule (such Reliefs including, without limitation, Reliefs made available for no consideration to a company by means of a surrender from another company), the said use being to effect the reduction or elimination of any such liability to Tax to the extent specified by the Seller and permitted by law, and to provide to the Seller, at the Seller's expense, a certificate from the auditors (for the time being) of the Relevant Group Company or Relevant Group Companies confirming that all such Reliefs have been so used;
- (b) make all such claims and elections specified by the Sellers or any of them in respect of any accounting period of any of the Group Companies commencing before Completion as have the effect of reducing or eliminating any such liability to Tax as is mentioned in paragraph (a) above, provided that no such claim or election shall require the any of the Group Companies to use any Relief which arises solely as a consequence of or by reference to any Transaction occurring (or deemed to occur) after Completion or in respect of a period commencing after Completion; and
- (c) allow the Sellers to reduce or eliminate any liability to Tax by surrendering, or procuring the surrender by any company other than the any of the Group Companies of any Relief to the Relevant Group Company for no consideration to the extent permitted by law but without any payment being made in consideration for such surrender.

13 Payments on an After-Tax basis

13.1 All sums payable under this Schedule 14 (other than interest) shall be made on an after-Tax basis.

13.2 For the purposes of paragraph 13.1 above, "after-Tax basis" means that to the extent that the sum payable (the "Payment") is subject to a deduction or withholding required by law in respect of Tax

or is chargeable to any Tax in the hands of the recipient it shall be increased so as to ensure that, after taking into account:

- (i) the Tax chargeable on such amount (including on the increased amount); and
- (ii) any Tax credit, repayment or other Tax benefit which is available to the recipient of the Payment solely as a result of the matter giving rise to the obligation to make the Payment or as a result of receiving the Payment (which amount of Tax and Tax credit, repayment or other Tax benefit is to be determined by the auditors of the recipient at the shared expense of both parties and is to be certified as such to the party making the Payment),

the recipient of the Payment is in the same position as it would have been in if the matter giving rise to the obligation to make the Payment had not occurred.

- 13.3 If any party to this Agreement assigns the benefit in whole or in part of this Agreement, the liability of any other party to make an increased payment in accordance with paragraph 13.1 shall be limited to that (if any) which it would have been liable to make if no such assignment had taken place.

SCHEDULE 15

(ENVIRONMENTAL INDEMNITY)

In this Schedule the following expressions (which are additional to those defined in Schedule 1 (Interpretation) of this Agreement) shall have the meanings assigned to them below:

1. DEFINITIONS

“Contamination” means the presence of Hazardous Materials in soil, or in groundwater or surface water (including for the avoidance of doubt, rivers, lakes, ponds and other watercourses) at the Indemnified Properties, or emanating from the Indemnified Properties on or before Completion or emanating from the Indemnified Properties after Completion provided such Hazardous Materials were so present at the Indemnified Properties on or before Completion, but excluding for the avoidance of doubt those Hazardous Materials which are contained in any operational man-made structure, plant or machinery above or below ground at or prior to Completion and have not entered soil or groundwater or surface water at or prior to Completion;

“Environment” means all or any of the following, alone or in combination, any part of the air (including, without limitation, the air within buildings and the air within other natural or man-made structures above or below ground or above or below water), water (including water under or within land or in pipes, tanks, ditches or sewerage systems), soil and land and any ecological systems and living organisms supported by these media, including man;

“Environmental Authority” means any legal person or body of persons (including any government or regional department or government or regional agency or court or tribunal) having jurisdiction to determine any matter arising under Indemnified Environmental Law and/or relating to the Environment;

“Environmental Claim” means a claim brought against a Relevant Seller by a Relevant Purchaser under paragraph 2 of this Schedule 15 for Environmental Losses;

“Indemnified Environmental Laws” means all applicable statutes and other laws (including without limitation all codes of law, statutory instruments, treaties, regulations, directives, decisions, circulars, codes, guidance and by-laws) of any relevant jurisdiction which relate to or provide remedies in respect of Contamination and are in force and legally binding in the relevant jurisdiction at or prior to Completion, and shall be deemed to include any national legislation implementing the Environmental Liability Directive 2004/5/EC (to the extent that it implements such directive) in due course;

“Environmental Losses” means any losses, damages, fines, penalties, charges, and reasonable costs or expenses suffered or incurred by the Purchasers or any member of the Purchaser’s Group excluding indirect and consequential losses but including reasonable costs of Remedial Action as a result of an Environmental Trigger Event;

“Environmental Permit” means any permit, licence, consent, certificate, approval, registration, notification or authorisation required by Indemnified Environmental Laws in relation to the operation of the business of any member of the Group or the occupation or use of any Property, and in Switzerland shall be deemed to include any agreement reached with the relevant Environmental Authority where it is in the normal course of business to enter into such agreement in place of any of the above;

“Environmental Proceeding” means any civil or criminal proceeding or suit or any regulatory or administrative enforcement proceeding or claim which forms the basis of an Environmental Trigger Event;

“Environmental Trigger Event” means:

- (A) the service on or the receipt by any member of the Relevant Purchasers’ Group of written notification of the commencement of (or an intention to commence) any civil or criminal proceedings or suit or any formal regulatory or formal administrative enforcement proceedings issued under Indemnified Environmental Law brought or taken by the Environmental Authority or other third party against such member of the Relevant Purchaser’ s Group in respect of Contamination; or
- (B) an emergency, that is a state of affairs where immediate and very grave harm to the Environment occurs or is imminent and requires Remedial Action;
- (C) the identification of Contamination at any Indemnified Property by any member of the Relevant Purchaser’ s Group acting reasonably in the ordinary course of trading (as if it did not have the benefit of this indemnity), and seeking to minimise its liabilities in relation to Contamination, which, if the relevant Environmental Authority had the information held by such member of the Relevant Purchaser’ s Group, would cause such Environmental Authority to serve written notice of an obligation to undertake Remedial Action in respect of such Contamination;

“Hazardous Material” means any substance (whether solid, liquid or gas) which alone or in combination with any other substance is capable of causing harm to man or to the Environment or any other organism supported by the Environment; and

“Indemnified Properties” means the Properties;

“Investigative Works” means intrusive investigation, sampling and monitoring works relating to Contamination;

“Kirkniemi Discharge Compensation” has the meaning given to it in clause 19.9(ii) of this Agreement; and

“Remedial Action” means such measures as are reasonably necessary to investigate, inspect, monitor, remove, remedy, abate, contain, control, treat or ameliorate Contamination.

2. INDEMNITY

2.1 The Relevant Sellers hereby agree to indemnify and keep indemnified the Relevant Purchasers (for themselves and in trust for each member of the Relevant Purchaser’ s Group) against any and all Environmental Losses suffered or incurred by any Relevant Purchaser or any member of the Relevant Purchaser’ s Group after the Completion Date PROVIDED THAT the Relevant Seller shall not be liable in respect of any Environmental Losses under this paragraph 2 unless and until:

- (A) an Environmental Trigger Event has occurred in respect of the Environmental Losses which the Relevant Purchaser seeks to claim; and

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- (B) the Relevant Seller has received a written notice of claim in respect of the Environmental Losses (in accordance with the provisions of clause 36 (Notice) of this Agreement) relating thereto from the Relevant Purchaser setting out reasonable details of the Environmental Trigger Event in respect of which the claim is made, including details of the Contamination and an estimate of the amount of the claim in each case to the extent reasonably practicable or then known (**“Notice”**).

3. CAP

3.1 Without prejudice to paragraph 1 of Schedule 5, in no event shall the aggregate liability of each member of the Relevant Seller and each other member of the Relevant Seller’ s Group under this Schedule in relation to Contamination exceed 275,000,000.

4. THRESHOLD AND PERCENTAGE SHARE

- 4.1 The Relevant Purchasers shall not be entitled to bring an Environmental Claim unless and until:
- (A) the aggregate of the Environmental Losses incurred by the Relevant Purchasers under this Schedule 15 (but for this paragraph 4) in respect of such an Environmental Claim exceeds 50,000; and
 - (B) the aggregate of the Environmental Losses incurred by the Relevant Purchasers in respect of all Environmental Claims (but for this paragraph 4) exceeds 500,000, in which case the liability of the Relevant Sellers shall be for the full amount and not only for the excess.
- 4.2 The liability of the Relevant Sellers under this Schedule 15 in respect of Environmental Losses which (after applying sub-paragraph 4.1) is finally determined to be payable under this Schedule 15 shall be as follows:
- (A) the Relevant Sellers shall be liable for 80% of Environmental Losses up to and including 20,000,000;
 - (B) the Relevant Sellers shall be liable for 90% of Environmental Losses in excess of 20,000,000 and up to and including 50,000,000; and
 - (C) the Relevant Sellers shall be liable for 100% of Environmental Losses in excess of 50,000,000.
- 4.3 For the avoidance of doubt, the apportionment of liability set out in paragraph 4.2 above shall apply to the aggregate of all Environmental Losses subject to an Environmental Claim under this Schedule 15 and shall not be reapplied in respect of each new Environmental Claim.

5. TIME LIMIT

- 5.1 The indemnity contained in paragraph 2 above will expire on the fifth anniversary of Completion (the “**Expiry Date**”) and no Environmental Claim may be brought after the Expiry Date unless Notice is received by the Relevant Seller prior to the Expiry Date.

6. GENERAL LIMITATIONS ON LIABILITY

- 6.1 The Relevant Seller shall not be liable in relation to any Environmental Claim to the extent that the Environmental Loss in respect of which the Environmental Claim is made, or any increase in such Environmental Loss, results from or would not have occurred but for:
- (i) any act, omission or transaction of the Relevant Purchasers or any member of the Relevant Purchaser’s Group after Completion or by their respective directors, officers, employees after Completion in each case which is unreasonable or negligent;
 - (ii) the enactment of new laws in relation to Environmental Matters or changes to Indemnified Environmental Laws which come into force after the Completion Date;
 - (iii) the disclosure of information (or the authorisation of such disclosure) by the Relevant Purchaser or any member of the Relevant Purchaser’s Group or their respective officers, directors, employees, partners, agents, contractors sub-contractors or consultants concerning Contamination to any Environmental Authority or any third parties, except where:

- (a) the Relevant Sellers have given their prior written consent provided that such consent shall not be withheld in circumstances where a reasonable operator acting in the ordinary course of business as if it did not have the benefit of this indemnity and seeking to minimise its liabilities in relation to Contamination would disclose such information (or authorise such disclosure) as a reasonable means to mitigate any Environmental Loss or to limit or to avoid significant harm or a significant risk of significant harm to the Environment, where in advance of such disclosure there is reasonable objective evidence that a matter exists or is likely to exist which would satisfy one of the Environmental Trigger Events;
 - (b) it is required by law or under or for the purpose of obtaining any Environmental Permit or for the purpose of any judicial or regulatory proceedings;
 - (c) it is requested in writing by any Environmental Authority under Indemnified Environmental Laws (without prompting or solicitation on the part of the Relevant Purchasers); or
 - (d) it is an emergency, that is a state of affairs where immediate and very grave harm to the Environment occurs or is imminent;
- (iv) the carrying out of Investigative Works by the Relevant Purchaser or any member of the Relevant Purchaser's Group or their respective officers, directors, employees, partners, agents, contractors sub-contractors or consultants, except where:

- (a) the Relevant Sellers have given their prior written consent provided that such consent shall not be withheld in circumstances where a reasonable operator acting in the ordinary course of business as if it did not have the benefit of this indemnity and seeking to minimise its liabilities in relation to Contamination would carry out such Investigative Works as a reasonable means to mitigate any Environmental Loss or to limit or avoid significant harm or a significant risk of significant harm to the Environment, where in advance of such Investigative Works there is reasonable objective evidence that a matter exists or is likely to exist which would satisfy one of the Environmental Trigger Events;
 - (b) it is required by law or under or for the purpose of obtaining any Environmental Permit or for the purpose of any judicial or regulatory proceedings;
 - (c) it is requested in writing by any Environmental Authority under Indemnified Environmental Laws (without prompting or solicitation on the part of the Relevant Purchasers);
 - (d) it is required in connection with any Remedial Action; or
 - (e) it is an emergency, that is a state of affairs where immediate and very grave harm to the Environment occurs or is imminent;
- (v) any actual or proposed change in use or development to an environmentally more sensitive use, or any actual or proposed demolition or closure of all or a significant proportion of any Indemnified Property after Completion; and
- (vi) the cost of repair or replacement or upgrade of any plant and or equipment or other structures where such works would have been reasonably required to be carried out in the ordinary course of business irrespective of the Contamination giving rise to the Environmental Claim; and
- (vii) the Remedial Action exceeds the minimum that would be expressly required in writing by the Environmental Authority under Indemnified Environmental Laws were it to be aware of such Contamination, and assuming all reasonable efforts had been made as provided for in paragraph 7 of this Schedule 15.

7. CONDUCT OF CLAIMS

- 7.1 With effect from Completion, the Relevant Purchasers shall have control and conduct of any Environmental Proceeding and/or Remedial Action subject to paragraphs 7.2 and 7.3 below.
- 7.2 Subject to paragraph 7.3 below, the Relevant Sellers have the right to take conduct and control of any Environmental Proceeding which forms the subject of an Environmental Claim, including the appointment of legal and other professional advisers and the making of any settlement or compromise of the Environmental Proceeding, provided written notice is given to the Relevant

Purchasers, in which case the Relevant Purchasers shall provide the Relevant Sellers with any such assistance and access to information and to facilities or the Indemnified Properties as the Relevant Sellers may reasonably require in relation to such Environmental Proceeding.

- 7.3 In relation to any Environmental Proceeding which forms the subject of an Environmental Claim, the Relevant Purchasers (in the event that paragraph 7.1 applies) or the Relevant Sellers (in the event that paragraph 7.2 applies) as appropriate (referred to in this paragraph as the “**Conduct Party**”) shall ensure that (subject to appropriate arrangements to maintain confidentiality and privilege):
- (A) the party who is not the Conduct Party (the “**Other Party**”) is provided with regular updates as to the steps which are being taken in connection with any Environmental Proceeding and any relevant Remedial Action;
 - (B) copies of all material documentation and correspondence in relation to the Environmental Proceeding and any relevant Remedial Action shall be provided at the Other Party’ s cost including drafts where they are material;
 - (C) reasonable requests of the Other Party will be complied with at the Other Party’ s cost where applicable;
 - (D) the Other Party (including their legal and other professional advisors) is given a reasonable opportunity to review and comment in advance on any proposed specifications for Remedial Action and/or work programmes relating to that Environmental Claim, provided that such comments are received within a period to be specified by the Conduct Party at that time and the Conduct Party shall have reasonable regard to such comments;
 - (E) the Other Party is allowed to attend meetings with the Environmental Authority as an observer (to the extent permitted to do so by the Environmental Authority) as an observer, provided that such meetings shall not be rearranged if the Other Party is unable to attend at the proposed time;
 - (F) the Other Party is allowed to attend meetings with consultants and advisors when planning any Remedial Action as an observer, provided that such meetings shall not be rearranged if the Other Party is unable to attend at the proposed time;
 - (G) without prejudice to paragraph 9 (Mitigation) all reasonable efforts are made in the conduct of the claim to minimise the amount of Environmental Losses;
 - (H) where the Relevant Purchasers are the Conduct Party, such action is taken as the Relevant Sellers may reasonably require (having regard to the operations and reputation of the Graphic Paper Business and any of the other businesses within the Relevant Purchaser’ s Group) to resist, dispute, contest, avoid, appeal, compromise or defend the Environmental Proceeding and progress the Remedial Action (including making all available counter-claims and exercising all rights of set-off against third parties);

- (I) material Remedial Action shall not be carried out without prior written notice to the Relevant Sellers; and

- (J) where the Relevant Purchasers are the Conduct Party, no admission of liability, agreement, settlement or compromise in relation to the Environmental Proceeding is made without the prior written consent of the Relevant Sellers which consent shall not be unreasonably withheld.

8. ONLY RIGHT TO CLAIM

- 8.1 This Schedule 15 contains the Relevant Purchasers' only right to claim against the Relevant Sellers under the Agreement in relation to Contamination at the Indemnified Properties and the Relevant Purchasers and any other member of the Relevant Purchasers' Group irrevocably waives, releases and discharges the Relevant Sellers and each member of the Relevant Seller's Group from any claims or causes of action, known or unknown, whether based on statute, regulation or common law in relation to Contamination except for claims under the Warranties set out in Schedule 4, paragraph 17 (Environment). For the avoidance of doubt, this paragraph 8 shall not be construed as an admission of liability by any person.
- 8.2 This indemnity, and for the avoidance of doubt paragraph 8.1 of this Schedule 15 above, shall not apply to the Kirkniemi Discharge Compensation.

9. MITIGATION

- 9.1 Subject to the other provisions of this Schedule, the Relevant Purchasers shall (and shall procure that any member of the Relevant Purchaser's Group shall) procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Environmental Losses which in the absence of mitigation might give rise to an Environmental Claim against the Relevant Sellers under this Schedule 15.

10. RELEVANT PURCHASER TO INDEMNIFY RELEVANT SELLER

- 10.1 The Relevant Purchasers undertake to the Relevant Sellers (for themselves and as trustees for each other member of the Relevant Seller's Group) that it shall indemnify and keep indemnified the Relevant Sellers (for themselves and as trustees for each other member of the Relevant Seller's Group) against any claims, damages, costs, expenses, losses or liabilities incurred by the Relevant Sellers and/or any other member of the Relevant Seller's Group after the Expiry Date referred to in paragraph 5 above arising as a result of, or in relation to Contamination at the Kirkniemi Property save to the extent that:
- (A) Notice of any Environmental Claim has been received by the Relevant Sellers prior to the Expiry Date; or
- (B) the relevant damages, costs, expenses, losses or liabilities are recoverable from the Relevant Sellers by the Relevant Purchasers under clause 19.9(ii) of this Agreement.

SCHEDULE 16

(ANTI DILUTION PROVISIONS)

1. If, prior to the date that the obligation to deliver Consideration Shares under this Agreement is settled with M-real, Sappi shall issue or grant to holders of Sappi Shares a Rights Issue, in each case at a price per Sappi Share which is less than the Current Market Price on the day immediately preceding the announcement of the full terms of the Rights Issue, Sappi acknowledges and agrees that the Consideration Share Price shall be adjusted, with effect from the date of closing and settlement with Sappi of the last of the proceeds of the Rights Issue, by multiplying the Consideration Share Price in force immediately prior to such issue or grant by the following fraction:

$$(A \times B) + C$$

$$(A \times D)$$

where:

- A means, the Current Market Price in respect of a Sappi Share on the day immediately preceding the announcement of the full terms of the Rights Issue,
- B is the number of Sappi Shares in issue immediately before the announcement of the full terms of the Rights Issue (excluding any Sappi Shares held in treasury by Sappi or any of its subsidiaries);
- C is the aggregate proceeds raised by Sappi pursuant to the Rights Issue expressed in ZAR after the deduction of the fees, expenses and other costs of the Rights Issue; and
- D is the number of Sappi Shares in issue immediately following completion of the Rights Issue (excluding any Sappi Shares held in treasury by Sappi or any of its subsidiaries),

PROVIDED THAT where the effect of any adjustment would be that the Consideration Share Price would be less than ZAR 1.00 being the nominal value of a Sappi Share, the Consideration Share Price shall be ZAR 1.00 and Sappi shall compensate M-real by way of a payment in cash of an amount per share which is equal to the amount by which the Consideration Share Price falls short of the nominal value of ZAR 1.00.

2. If, prior to the date the obligation to deliver Consideration Shares under this Agreement is settled with M-real, Sappi shall have announced or completed a share capital reorganisation or special dividend or capital distribution or any other action (other than the declaration or payment of an ordinary dividend) in respect of the capital of Sappi, the effect of which would be to disadvantage M-real as compared to the position they would have been in had all of the Consideration Shares been issued and delivered on the date of this Agreement (and in each such case no adjustment for the relevant event is made under paragraph 1 Sappi undertakes that it shall at its own expense and acting reasonably, request an international investment bank selected by it and being reasonably acceptable to M-Real, acting as expert, to determine as soon as practicable what adjustment (if any) to the Consideration Share Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall take effect in accordance with such determination PROVIDED THAT where the effect of any adjustment would be that the Consideration Share Price would be less

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than ZAR 1.00 being the nominal value of a Sappi Share, the Consideration Share Price shall be ZAR 1.00 and Sappi shall compensate M-real by way of a payment in cash of an amount per share which is equal to the amount by which the Consideration Share Price falls short of the nominal value of ZAR 1.00.

3. An example of the application of the principles in Part 1 of this Schedule 16 are set out in Part 2 of this Schedule 16.

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Part 2

Assumptions

	ZAR	
Share Price		
Consideration Share Price (30 day VWAP at announcement)	82.39	7.16
Current Market Price (5 day VWAP prior to full terms of rights offer set)	81.50	6.81
FX Rates		
Current ZAR/EUR FX	11.964	
30 Day Avg ZAR/EUR FX prior to announcement	11.5044	
Other		
Dividend Post Closing/ Pre Rights Offering (Per Share)	2.41	
Rights Issue Discount to Current Market Price	40%	

Determination of Consideration Shares

Consideration Share Proceeds (MM)	575	50
Consideration Share Price	82.39	7.16
Consideration Shares (# MM)	6.98	6.98

If 450 MM Rights Issue is Taken Up by Shareholders

Consideration Shares

Shareholders Take Up (MM)	5384	450
Less: Proceeds Used to Pay Rights Issue Costs (MM)	(215)	(18)
Rights Issue Proceeds Net of Issue Costs (MM)	5169	432
Current Price	81.50	6.81
Rights Issue Discount to Current Market Price	40%	40%
Underwrite Price	48.90	4.09
Rights Issue Proceeds (MM)	5,384	450
Shares Issued to Rights Holders / Underwriters (# MM)	110.10	110.10
Total Shares Outstanding Pre Rights Issue Excl Consideration Shares(# MM)	229	229
TSO Post Rights Issue (# MM)	339.10	339.10
Theoretical Ex Rights Price	70.28	5.87
<i>Adjustment Factor</i>	<i>86.23%</i>	<i>86.23%</i>
Consideration Share Price	82.39	7.16
Adjusted Consideration Share Price	71.04	6.18
Consideration Share Proceeds (MM)	575	50
Consideration Shares Adjusted for Rights Issue (# MM)	8.10	8.10

IN WITNESS whereof the parties have entered into this Agreement the day and year first before written.

SIGNED by _____
for and on behalf of **M-REAL CORPORATION**

/s/ Esa Kaikkonen

SIGNED by _____
for and on behalf of **M-REAL DEUTSCHE HOLDING GMBH**

/s/ Esa Kaikkonen

SIGNED by _____
for and on behalf of **M-REAL HALLEIN A.G.**

/s/ Esa Kaikkonen

SIGNED by _____
for and on behalf of M-REAL NL HOLDING B.V.

}

/s/ Esa Kaikkonen

SIGNED by _____
for and on behalf of M-REAL ZANDERS GMBH

}

/s/ Esa Kaikkonen

SIGNED by _____
for and on behalf of SAPPI LIMITED

}

/s/ R J Boöttger and RD Hope

SIGNED by _____
for and on behalf of SAPPI DEUTSCHLAND
HOLDING GMBH

}

/s/ R J Boöttger and RD Hope

SIGNED by _____
for and on behalf of SAPPI NETHERLANDS BV

}

/s/ R J Boöttger and RD Hope

SIGNED by _____
for and on behalf of SAPPI PAPIER HOLDING
GMBH, AUSTRIA

}

/s/ R J Boöttger and RD Hope

SIGNED by _____
for and on behalf of SAPPI FINLAND I OY



/s/ R J Boëttger and RD Hope

M-real Corporation

and

Sappi Limited

LOCK-UP DEED

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone (44-20) 7456 2000
Facsimile (44-20) 7456 2222
Ref: L-155244 C. Jacobs/D. Josselson

THIS DEED 31 December 2008

BETWEEN:

- (1) **M-real Corporation**, a public company incorporated in Finland with registered address at Revontulentie 6, FI-02100 Espoo, Finland (“**M-real**”); and
- (2) **Sappi Limited**, a public company incorporated in South Africa with registered address at Sappi House, 48 Ameshoff Street Braamfontein, Johannesburg, South Africa (the “**Company**”).

WHEREAS:

- (A) The Company intends to acquire part of M-real’s graphic paper business on the terms of the Master Agreement entered into between the parties on 29 September, 2008 (the “**Transaction**”).
- (B) In part consideration for the Transaction, the Company shall allot and issue to M-real the Shares.
- (C) M-real has agreed not to Dispose of any of the Shares on the terms of this Deed.

It is agreed as follows:

1 Interpretation

1.1 Definitions

In this Deed unless the context otherwise requires:

“**Board**” means the board of directors of the Company from time to time;

“**Business Day**” means a day when the JSE is open;

“**Code**” means the Securities Regulation Code on Take-overs and Mergers and the Rules of the SRP issued pursuant to the Companies Act, South Africa;

“**Companies Act, South Africa**” means the Companies Act, 1973 (Act 61 of 1973), as amended;

“**Competitor**” means any entity competing with the Company;

“**Confidentiality Agreement**” means the Confidentiality Agreement entered into between the Company and M-real on 15 May 2008 as amended from time to time;

“**Deed**” means this Lock-Up Deed;

“**Dispose**” includes, directly or indirectly, any offer, issue, sale or contract to sell, issue or grant of any options in respect of or over, transfer, charge, pledge or other disposal or agreement to dispose of any Shares and “**Disposal**” and “**Disposing**” shall be construed accordingly;

“**Effective Date**” means the Completion Date as defined in the Master Agreement;

“**FX Hedge**” means a foreign exchange hedging arrangement including, without being limited to any spot, option, forward or swap currency contract or any interest rate swaps and options;

“**Group Company**” means, in relation to any person, its subsidiaries or subsidiary companies (each such term as defined in the Companies Act, South Africa, whether or not such company is incorporated in South Africa);

an “**interest**” in Shares shall have the meaning given to that term in Section 208 of the Companies Act 1985 (for the avoidance of doubt, ignoring for these purposes the provisions of Section 209 thereof) and the term “**interested**” shall be construed accordingly;

“**JSE**” means the JSE Limited, a company incorporated in South Africa and licensed as an exchange under the Securities Services Act, 2004 (as amended);

“**Master Agreement**” means the Master Business and Share Sale and Purchase Agreement entered into between the Company and others and M-real and others at the same time as this Agreement;

“**Restricted Period**” means the period beginning on the Effective Date and ending on the date falling 9 months from the Effective Date;

“**Shares**” means the ordinary shares of ZAR1.00 each in the capital of the Company allotted and issued to M-real pursuant to the Transaction;

“**South Africa**” means the Republic of South Africa;

“**ZAR**” means Rand, the lawful currency of South Africa.

1.2 Recitals, Clauses etc.

References in this Deed to Recitals, Clauses, sub-clauses and Schedules are to the Recitals, Clauses and sub-clauses of and Schedules to this Deed.

1.3 Headings

Headings shall be ignored in construing this Deed.

2 Restrictions

2.1 Restrictions on Disposals of Shares

Save for the exceptions set out Clause 3, M-real undertakes to the Company that, during the Restricted Period, it will not, without the Company's prior written consent, Dispose of or, directly or indirectly, announce an offering of, any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or enter into any transaction with the same or a substantially similar economic effect as, or agree to do, any of the foregoing, including, without being limited to, entering into or agreeing to enter into any derivative transaction in respect of the Shares.

2.2 Restrictions on Disposals to Competitors

Save for the exceptions set out in Clauses 3.1.1, 3.1.2 and 3.1.7, M-real undertakes to the Company that, during the Restricted Period, it will not, without the Company's prior written consent, Dispose of any of the Shares to a Competitor or, directly or indirectly, announce an offering of, any of the Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Shares or enter

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into any transaction with the same economic effect as, or agree to do, any of the foregoing, including, without being limited to, entering into or agreeing to enter into any derivative transaction in respect of the Shares to or with a Competitor, as the case may be.

3 Exceptions

The restrictions set out in Clause 2.1 shall not prohibit M-real from:

- 3.1.1 accepting a general offer made to all holders of issued and allotted shares in the capital of the Company made in accordance with the Code on terms which treat all such holders alike (whether by way of takeover, scheme of arrangement or otherwise);
- 3.1.2 executing and delivering an irrevocable commitment or undertaking to accept a general offer as is referred to in sub-paragraph 3.1.1 above as recommended by the Board;
- 3.1.3 transferring or Disposing of any Shares pursuant to a compromise or arrangement between the Company and its creditors or any class of them which is agreed to by the creditors or members and sanctioned by the court under the Companies Act, South Africa;
- 3.1.4 selling or otherwise Disposing of any Shares pursuant to any offer by the Company to purchase its own shares which is made on identical terms to all holders of shares in the Company;
- 3.1.5 placing any of the Shares with a third party (subject to the Company's prior written consent not to be unreasonably withheld or delayed) provided that prior to the making of any Disposal pursuant to this sub-paragraph the transferee shall have agreed to be bound by the restrictions of this Deed as if it were the transferor, by execution and delivery to the Company of a Deed of Adherence in (or substantially in) the form set out in **Schedule 1**;
- 3.1.6 Disposing of any of the Shares in accordance with any order made by a court of competent jurisdiction or as required by law, regulation or a competent authority to which M-real is subject;
- 3.1.7 subject to the Company's prior written consent, not to be unreasonably withheld or delayed, Disposing of any of the Shares to the extent the sale proceeds (net of costs) are required by M-real to avoid M-real or a Group Company triggering a default of a financial covenant to which they are subject;
- 3.1.8 Disposing of any of the Shares to the extent the sale proceeds (net of costs) are required by M-real to satisfy a breach of warranty claim or other liability to the Company (including any adjustment to the net working capital) in respect of the Transaction; or

4 General

4.1 Whole Agreement

Save for the terms incorporated by reference into this Deed by the Master Agreement, this Deed contains the whole agreement between the parties relating to the subject matter of

this Deed at the date hereof to the exclusion of any terms implied by law which may be excluded by contract.

4.2 Counterparts

This Deed may be entered into in any number of counterparts all of which taken together shall constitute one and the same instrument. Any party may enter into this Deed by executing any such counterpart.

4.3 Invalidity

If any provision in this Deed shall be held to be illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Deed but the legality, validity and enforceability of the remainder of this Deed shall not be affected.

4.4 Assignment

This Deed is personal to the parties and the rights and obligations of the parties may not be assigned, held on trust or otherwise transferred.

4.5 Confidentiality

The parties have entered into the Confidentiality Agreement. The terms of the Confidentiality Agreement shall remain in force, save as varied or amended by the terms of the Master Agreement or any supplementary confidentiality undertaking. In the event of any inconsistency between the terms and obligations of this Deed, the Confidentiality Agreement and the Master Agreement, the terms and obligations of the Master Agreement shall take precedence.

4.6 Further assurance

At any time after the date of this Deed, M-real shall, and shall use its reasonable endeavours to procure that any necessary third party shall, execute such documents and do such acts and things as the Company may reasonably require for the purpose of giving the Company the full benefit of all the provisions of this Deed in relation to the obligations of M-real, but not in relation to any obligation of any other person.

4.7 Variation

No variation of this Deed shall be effective unless in writing and signed by or on behalf of each of the parties.

4.8 Waiver

No failure of any party to exercise, and no delay by it in exercising, any right, power or remedy in connection with this Deed (each a “**Right**”) will operate as a waiver thereof, nor will any single or partial exercise of any Right preclude any other or further exercise of such Right or the exercise of any other Right. The Rights provided in this Deed are cumulative and not exclusive of any other Rights (whether provided by law or otherwise). Any express waiver of any breach of this Deed shall not be deemed to be a waiver of any subsequent breach.

4.9 Third Party Rights

A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed.

5 Notices

5.1 Any notice or other communication in connection with this Deed (each, a “**Notice**”) shall be:

5.1.1 in writing in English;

5.1.2 delivered by hand, fax, registered post or by courier using an internationally recognised courier company.

5.2 A Notice to the Company shall be sent to the following address, or such other address as the Company may notify in writing to M-real from time to time:

Address: Sappi Limited
Sappi House
48 Ameshoff Street
Braamfontein
Johannesburg 2001
South Africa

Fax: +27 11 339 8022

Attention: Robert Hope with a copy to the General Counsel

5.3 A Notice to M-real shall be sent to the following address, or such address as M-real may notify in writing to the Company from time to time:

Address: M-real Corporation
Revontulentie 6
FI-02100 Espoo
Finland

Fax: +358104654201

Attention: Esa Kaikkonen

5.4 A Notice shall be effective upon receipt and shall be deemed to have been received:

(i) at the time of delivery, if delivered by hand, registered post or courier;

(ii) at the time of transmission in legible form, if delivered by fax.

6 Appointment of Process Agent

6.1 Appointment

6.1.1 M-real hereby irrevocably appoints Sappi (U.K) Limited at Blackburn Mill, Feniscowles, Blackburn, Lancashire BB2 5HX (for the attention of Willy Heckers) as its agent for the service of process in England in relation to any matter arising

out of this Deed, service upon whom shall be deemed completed whether or not forwarded to or received by M-real.

6.1.2 The Company hereby irrevocably appoints M-real UK Services Limited at Sittingbourne, Kent, ME10 3ET (for the attention of David Scudder) as its agent for the service of process in England in relation to any matter arising out of this Deed, service upon whom shall be deemed completed whether or not forwarded to or received by the Company.

6.2 Change of Address

Each party shall inform the other, in writing, of any change in the address of its process agent within 28 days.

6.3 Process Agent Ceasing to Have Address in England

If any process agent appointed pursuant to Clauses 6.1.1 and 6.1.2 ceases to have an address in England, M-real or the Company, as the case may be, irrevocably agrees to appoint a new process agent acceptable to the other and to deliver to the other within 14 days a copy of a written acceptance of appointment by such process agent.

7 Governing Law and Submission to Jurisdiction

7.1 Governing Law

This Deed and the documents to be entered into pursuant to it shall be governed by and construed in accordance with English Law.

7.2 Submission to Jurisdiction

All the parties irrevocably agree that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Deed and that accordingly any proceedings arising out of or in connection with this Deed shall be brought in such courts.

In witness whereof this Deed has been executed by the Company and M-real and delivered on the date first stated above.

SIGNED and DELIVERED by

on behalf of **SAPPI LIMITED** and
thereby executed by it as a DEED

}

/s/ R Sanz and RD Hope

SIGNED and DELIVERED by

on behalf of **M-REAL CORPORATION**
and thereby executed by it as a

}

/s/ E Kaikkonen and M Mörsky

Dated 31 December 2008

INSTRUMENT

-constituting-

GUARANTEED UNSECURED LOAN NOTES 2008

BRINGING THIS DOCUMENT OR ANY CERTIFIED COPY OF THIS DOCUMENT INTO THE REPUBLIC OF AUSTRIA AS WELL AS ANY WRITTEN CONFIRMATION (INCLUDING E-MAIL AND FAX) OR WRITTEN REFERENCE (INCLUDING E-MAIL AND FAX) TO THIS DOCUMENT MAY CAUSE THE IMPOSITION OF AUSTRIAN STAMP DUTY TAX. PLEASE READ CLAUSES 12 (FEES, DUTIES AND TAXES AND STAMP TAXES), 14 (NOTICES) AND 17 (PLACE OF PERFORMANCE AND PAYMENTS) OF THIS INSTRUMENT IN CONNECTION WITH THE FOREGOING.

Linklaters

One Silk Street
London EC2Y 8HQ

Telephone (44-20) 7456 2000
Facsimile (44-20) 7456 2222

Ref L-155244/C Jacobs

GUARANTEED UNSECURED LOAN NOTES

This Instrument is entered into as a deed this 31st day of December 2008 by

- (1) **SAPPI PAPIER HOLDING GMBH** a limited liability company incorporated under the laws of Austria registered in the commercial registry of the regional court of Graz under FN 167931h having its registered office at A-8101 Gratkorn, Brucker Strasse 21, Austria (the "**Company**");
- (2) **SAPPI LIMITED** a company incorporated in the Republic of South Africa whose registered office is at Sappi House, 48 Ameshoff Street, Braamfontein, Johannesburg, South Africa ("**Sappi**");
- (3) **SAPPI INTERNATIONAL S.A.** a company incorporated in Belgium having its registered office at Chaussee de la Hulpe 154, 1170 Watermael-Boitsfort, Belgium ("**Sappi International**"); and
- (4) **SAPPI TRADING PULP AG** a company incorporated in Switzerland whose registered office is at Gotthardstrasse 23, 8800 Thalwil, Switzerland ("**Sappi Trading Pulp**"),

(Sappi, Sappi International and Sappi Trading Pulp together being the "**Guarantors**").

Whereas:

- (A) Sappi, the Company and M-real, among others, entered into a Master Business and Share Sale Agreement on 29 September 2008 (the "**Master Agreement**").
- (B) The Company has in accordance with its Memorandum and Articles of Association and by a resolution of its Board of Directors passed on 12 December 2008, resolved to create the Guaranteed Unsecured Loan Notes 2008 having a value of 250,000,000 to be issued to M-real pursuant to Sappi and the Company' s obligations under the Master Agreement (the "**Notes**").

- (C) The Guarantors have agreed to guarantee payment of principal and interest in respect of the Notes on the terms and subject to the Conditions set out in the Second Schedule to this Instrument.
- (D) This Instrument is entered into and the Notes are to be issued to M-real, on the Completion Date in accordance with the terms of the Master Agreement.

Now this Instrument witnesses and declares as follows:

1 Definitions

1.1 In this Instrument and the Schedules the following expressions shall where the context permits have the following meanings:

“**Business Day**” means any day (which is not a Saturday, Sunday or a bank or public holiday) on which banks are open for business in Helsinki, Johannesburg, Zurich, Vienna and London;

“**Certificate**” means a certificate duly executed by the Company relating to the Notes represented by it;

“**Competitor**” means any person that directly or indirectly competes with the Sappi;

“**Completion Date**” shall have the meaning given in the Master Agreement;

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“**Conditions**” means the conditions set out in the Second Schedule as modified from time to time in accordance with the provisions of this Instrument;

“**Consideration Shares**” shall have the meaning given in the Master Agreement;

“**Default**” means an Early Repayment Event or any event or circumstance specified in Condition 2 of the Second Schedule which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Note Documents or any combination of any of the foregoing) be an Early Repayment Event;

“**Directors**” means the Board of Directors for the time being of the Company or a duly authorised committee thereof;

“**Early Repayment Event**” means any event or circumstance specified in Condition 2 of the Second Schedule;

“**Extraordinary Resolution**” has the meaning given to it in paragraph 17 of the Third Schedule;

“**Financial Indebtedness**” means (without double counting) any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any hire purchase agreement, conditional sale agreement or lease which would, in accordance with generally accepted accounting standards in the relevant jurisdiction be treated as a finance or capital lease;

- (e) any guarantee, bond, stand-by letter of credit or other similar instrument issued in connection with the performance of contracts;
- (f) any interest rate or currency swap agreement or any other hedging or derivatives instrument or agreement;
- (g) any arrangement entered into primarily as a method of raising finance pursuant to which any asset sold or otherwise disposed of by that person is or may be leased to or re-acquired by a Group Company (whether following the exercise of an option or otherwise); or
- (h) any guarantee or indemnity for any of the items referred to in paragraphs (a) to (g) above,

except that indebtedness owing by one Group Company to another Group Company shall not be taken into account as Financial Indebtedness;

“**Guarantee**” means the guarantee and indemnity of the Guarantors referred to in Clause 9, subject to and in accordance with the conditions and the terms of the Fourth Schedule;

“**Guaranteed Unsecured Loan Notes 2008**” shall have the meaning given in Clause 4;

“**Instrument**” means this instrument and the Schedules (inclusive) hereto as from time to time modified in accordance with the provisions herein contained;

“**Interest Payment Date**” has the meaning given to it in Condition 6;

“**Interest Period**” has the meaning given to it in Condition 6;

“**Lock-up Agreement**” means the agreement dated [the same day as this Agreement] entered into by M-real and Sappi which sets out certain restrictions on the disposal of the Consideration Shares;

“**Material Adverse Effect**” means a material adverse effect on the ability of the Obligors (taken together) to perform their payment obligations under the Note Documents or the ability of the Company to comply with the financial covenants contained in Condition 16 by reference to clause 21 (*Financial Covenants*) of the RCF;

“**M-real**” means M-real Corporation, a company incorporated in Finland whose registered office is at Revontulentie 6, 02100 Espoo, Finland/P.O. Box 20, FIN-02020 Metsä, Finland (registered in Finland with No. 0635366-7);

“**Note Document**” means:

- (a) this Instrument; or
- (b) a Note;

“**Notes**” means the Guaranteed Unsecured Loan Notes 2008 constituted by this Instrument or, as the case may be, the principal amount thereof for the time being issued and outstanding;

“**Noteholder**” means a person for the time being entered on the Register as the holder of a Note;

“**Obligor**” means the Company or a Guarantor;

“**Paper Business**” means, any one or more of the following businesses:

- (a) the production, manufacture, distribution, supply, sale, purchase and trading in respect of paper (including but not limited to fine paper, coated and uncoated woodfree paper, packaging paper, publication paper and newsprint);
- (b) pulp (including all chemical or other manufacturing processes relating to pulp); and
- (c) wood products (including all initial processes, manufacturing or otherwise relating to paper, pulp and paper pulp), the growing of timber supplies,

and any other businesses related or ancillary to any of the foregoing;

“Proceedings” means any proceeding, suit or action arising out of or in connection with this Instrument or the Notes;

“Qualifying Noteholder” means a Noteholder which is (on the date a payment falls due) entitled (subject to the completion of any necessary procedural formalities) to payment of interest under the Notes from the Company without a Tax Deduction for or on account of Austrian tax;

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“RCF” means the EUR 600,000,000 revolving credit facility agreement dated 29 June 2005 arranged for Sappi Limited by BNP Paribas, J.P. Morgan Plc and SG Corporate & Investment Banking as amended on 11 September 2006 and as further amended, restated or novated from time to time;

“Register” means the register of Noteholders to be maintained by the Registrar on behalf of the Company in accordance with Clause 8;

“Registrar” means the person appointed by the Company from time to time to maintain the Register;

“Relevant Purchasers” shall have the meaning given in the Master Agreement;

“Relevant Sellers” shall have the meaning given in the Master Agreement;

“Security” means a mortgage, charge, pledge, lien or any other security interest securing any obligation of any person or any other agreement or arrangement having the effect of giving security or preferential ranking to a creditor;

“Service Document” means a claim form, summons, order, judgement or other document issued in connection with any Proceedings;

“Stamp Duty Sensitive Document” means (i) any original of: this Instrument (including the Schedules hereto); the Certificates relating to the Notes; the Guarantee; the Vendor Loans (as defined in the Master Agreement), any transfer document transferring the Vendor Loans (as defined in the Master Agreement) to Sappi as contemplated by clause 7.5 of the Master Agreement; or the Master Agreement (but excluding the Hallein Coater Asset Sale and Transfer Agreement (as defined in the Master Agreement) and any document relating to the transfer of Austrian IP as contemplated in the Master Agreement) and (ii) any notarised copy or any certified copy of the documents above;

“Tax Credit” means a credit against, relief or remission for, or repayment of, any Tax;

“Tax Deduction” means a deduction or withholding for or on account of Tax from a payment under a Note Document;

“Tax Payment” means an increased payment made by an Obligor to a Noteholder under Clause 13.2 (*Tax gross-up*).

“Working Hours” means 9.00 a.m. to 5.00 p.m. on a Business Day.

1.2 References herein to “this Instrument” include, where the context so admits, the Schedules hereto.

- 1.3** Save as expressly defined any words and expressions defined in the Companies Act 2006 shall have the same meanings when used in this Instrument.
- 1.4** References herein to any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof from time to time in force.
- 1.5** Words used herein denoting persons shall include corporations, the masculine gender shall include the feminine and the singular shall include the plural and vice versa.
- 1.6** The headings herein are for convenience only and shall not affect the interpretation hereof.

- 1.7** References herein to Clauses, Conditions, paragraphs, sub-paragraphs or Schedules are to clauses, conditions, paragraphs and sub-paragraphs hereof or to the schedules hereto.
- 1.8** Unless otherwise defined or construed in this Instrument, terms defined and references construed in the RCF have the same meaning and construction in this Instrument.
- 1.9** An Early Repayment Event is “**continuing**” if it has not been remedied or waived.

2 Amount of the Notes

- 2.1** The principal amount of the Notes constituted by this Instrument shall not exceed 250,000,000 in aggregate nominal amount. The Notes shall be issued fully paid in amounts and integral multiples of 10,000,000 and shall only be transferable as provided in the Second Schedule.
- 2.2** The principal amount of the Notes constituted by this Instrument will be a maximum of 250,000,000 in aggregate nominal amount but shall be finally determined in accordance with Clause 7.2 of the Master Agreement.

3 Repayment

Unless previously repaid, redeemed or purchased, the Notes shall be repaid in full at par on the date which is 48 months from the Completion Date, together with any accrued interest up to but excluding that date.

4 Status of the Notes

The Notes shall be known as the “**Guaranteed Unsecured Loan Notes 2008**” and when issued each Obligor shall ensure that they rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

5 Conditions of Issue

The Conditions, the Guarantee and the provisions contained in the Schedules shall have effect in the same manner as if such Conditions, Guarantee and provisions were set out herein. The Notes shall be held subject to and with the benefit of the Conditions, the Guarantee and of the provisions in the Schedules, all of which shall be binding on the Company, the Guarantors and the Noteholders and all persons claiming through them respectively.

6 Covenants by the Obligors

The Company and the Guarantors covenant with the Noteholders and each of them duly to perform and observe the obligations on its part contained in this Instrument (including, without limitation, the Second and Third Schedules in the case of the Company and the Fourth Schedule in the case of the Guarantors) to the intent that this Instrument shall

7 Certificates for Notes

- 7.1** Each Noteholder will be entitled without charge to one Certificate for the aggregate amount of Notes registered in his name in the Register. Each Certificate shall bear a denoting number and shall be executed by the Company. Every Certificate shall be in the form or substantially in the form set out in the First Schedule and shall have the Conditions endorsed thereon.
- 7.2** When a Noteholder transfers or has redeemed part only of his Notes, the old Certificate shall be cancelled and a new Certificate for the balance of such Notes shall be issued without charge.

8 Register of Notes

- 8.1** The Company shall appoint a Registrar (initially to be Willy Heckers of Sappi (UK) Limited, Blackburn Mill, Feniscowles, Blackburn, Lancashire BB2 5HX) who shall at all times keep at an address in the United Kingdom a Register showing:
- 8.1.1** the names and addresses of the holders for the time being of the Notes;
 - 8.1.2** the amount of the Notes held by each registered holder;
 - 8.1.3** the date on which the name of each individual registered holder is entered in the Register in respect of the Notes standing in its name; and
 - 8.1.4** the denoting number of each Certificate for the Notes issued and the date of issue thereof.
- 8.2** Any change of name or address on the part of any Noteholder shall forthwith be notified to the Registrar and the Register shall be altered accordingly.
- 8.3** Any change of the name or address of the Registrar shall be notified to the Noteholders in accordance with Clause 14 of this Instrument and Condition 13 of the Second Schedule.

9 Guarantee

The Guarantors give the guarantee and indemnity set out in the provisions of the Fourth Schedule.

10 Compliance with laws

So long as any Note is outstanding, the Company undertakes that it will comply with all applicable laws to which it may be subject, to the extent that failure to comply does not have, or is not reasonably likely to have, a Material Adverse Effect.

11 Representations and warranties

Each Obligor represents and warrants and undertakes to the Noteholders that:

- 11.1** it is a limited liability company, duly incorporated and validly existing under the laws of its jurisdiction of incorporation;
- 11.2** the obligations expressed to be assumed by it in this Instrument and the Notes are, subject to any general principles of law limiting its obligations, legal, valid, binding and enforceable obligations;

- 11.3** the entry into and performance by it of this Instrument and the Notes do not and will not conflict with:
- 11.3.1** any applicable law or regulation;
 - 11.3.2** its constitutional documents; or
 - 11.3.3** to the extent which could reasonably be expected to have a Material Adverse Effect, any agreement or instrument binding upon it or any of its assets or constitute a default or termination event (however described) under any such agreement or instrument;
- 11.4** it has the power to enter into, perform and deliver, and has taken all necessary actions to authorise entry into, performance and delivery of this Instrument and the Notes; and
- 11.5** all authorisations required to enable it lawfully to enter into, exercise its rights and comply with their obligations in this Instrument and the Notes have been obtained or effected and are and will continue to be in full force and effect.
- 12 Fees, duties and taxes and Stamp Taxes**
- 12.1 Fees, duties and taxes**
- The Company will pay any stamp, issue, registration, documentary and other fees, duties and taxes, including interest and penalties, payable on or in connection with (i) the execution and delivery of this Instrument and (ii) the constitution and original issue and registration of the Notes.
- 12.2 Stamp Taxes**
- 12.2.1** The Company shall pay and, within five Business Days of demand, indemnify each Guarantor or Noteholder against any cost, loss or liability that that Guarantor or Noteholder incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of this Instrument, the Guarantee and any other documents in connection herewith provided, however, that the Company shall not be so liable to pay and indemnify the Guarantors or the Noteholders against any cost, loss or liability that the Guarantor or the Noteholder so incurs to the extent that such cost, loss or liability results from the Guarantor or the Noteholder breaching its obligations under paragraph 12.2.2 below.
 - 12.2.2** No Guarantor or Noteholder shall bring, send to or otherwise produce in Austria a Stamp Duty Sensitive Document other than in the event that:
 - (i) this does not cause a liability of the Company to pay stamp duty or other Tax in Austria;
 - (ii) the Guarantors or the Noteholders wish to enforce or preserve (e.g. by interim injunction) any of their rights, powers and remedies under or in connection with the Stamp Duty Sensitive Documents in Austria and required and/or desirable (including, without limitation, for reason of any objection or defence raised by the Guarantors or the Noteholders in any form of proceedings in Austria) to bring, send to or otherwise produce in Austria a Stamp Duty Sensitive Document for the purpose

of enforcement or preservation of any of their rights under or in connection with a Stamp Duty Sensitive Document or either the judge, arbitrator or other person responsible for the determination of such proceedings has ruled that a Stamp Duty Sensitive Document or any document relating to it must be brought into Austria, or has indicated that a Stamp Duty Sensitive Document must be brought into Austria in order to avoid adverse effects for the Guarantors or the Noteholders enforcing or preserving their rights under or in connection with a Stamp Duty Sensitive Document, or the rules governing the conduct of such proceedings provided that a Stamp Duty Sensitive Document or any document relating to it, or any other form of evidence of the matters which are the subject of such proceedings, cannot be produced as adequate evidence of the purposes of such proceedings and it would not be sufficient for that Guarantor or Noteholder to bring, send to or otherwise produce in Austria a simple copy (a copy which is not an

original copy, notarised copy or certified copy) of the Stamp Duty Sensitive Document for the purposes of such enforcement; in furtherance of the foregoing, but without prejudice to it, no Guarantors and no Noteholders shall (1) object to the introduction into evidence of an uncertified copy of any Stamp Duty Sensitive Document or raise a defence to any action or to the exercise of any remedy on the basis of an original or certified copy of any Stamp Duty Sensitive Document not having been introduced into evidence, unless such uncertified copy actually introduced into evidence does not accurately reflect the content of the original document and (2) if such Guarantor or Noteholder is a party to the proceedings before such Austrian court or authority, contest the authenticity (*Echtheit*) of an uncertified copy of any such Stamp Duty Sensitive Document, unless such uncertified copy actually introduced into evidence does not accurately reflect the content of the original document; or

- (iii) the Guarantors or the Noteholders are required by law, governmental body, court, authority or agency pursuant to any law or legal requirement (whether for the purposes of initiating, prosecuting, enforcing or executing any claim or remedy or enforcing any judgment or otherwise), to bring a Stamp Duty Sensitive Document into Austria.

12.2.3 The exclusive place of performance (Erfüllungsort) for all rights and obligations under any Stamp Duty Sensitive Document shall be in any case a place outside of Austria, which especially means that the payment of any amounts shall be made to a bank account and, respectively, from a bank account outside of Austria. It is expressly agreed between the parties hereto that any such performance within Austria will not establish Austria as the place of performance and shall be deemed not effective with respect to any Party hereto; in particular such performance shall not discharge a Party from its obligations under any Transaction Document.

12.2.4 To the extent that a breach by the Guarantors or the Noteholders of their obligations under paragraphs 12.2.2 or 12.2.3 of this Clause 12.2

result in any cost, loss or liability being incurred by the Company in relation to any stamp duty, registration and other similar Taxes payable in respect of this Instrument, the Guarantee and any other documents in connection herewith, the Guarantors or the Noteholders responsible for such breach shall indemnify the Company for any such cost, loss or liability incurred.

13 Withholdings or Deductions

13.1 Each Noteholder shall at the time it becomes a Noteholder and at the request of the Company or the Registrar confirm that as at such time it is beneficially entitled to interest payable to it under the Notes and that it does not have its corporate seat or place of effective management in Austria and that it does not have a permanent establishment in Austria with which that Noteholder's participation in the Notes is effectively connected.

13.2 Tax gross-up

13.2.1 Each Obligor shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

13.2.2 If a Tax Deduction is required by law to be made by an Obligor (subject to Clause 13.2.3 below), the amount of the payment due from that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

13.2.3 An Obligor is not required to make an increased payment under Clause 13.2.2 above if, on the date the payment falls due:

- (i) the payment could have been made to the Noteholder without a Tax Deduction if it was a Qualifying Noteholder, but on that date the Noteholder is not or has ceased to be a Qualifying Noteholder other than as a result of any change after the date of this Instrument in (or in the interpretation, administration, or

application of) any law or double taxation treaty, or any published practice or published concession of any relevant taxing authority; or

- (ii) the Obligor making the payment is able to demonstrate that the payment could have been made to the Noteholder without a Tax Deduction had that Noteholder complied with its obligations under Clause 13.3 below.

13.2.4 If an Obligor is required to make a Tax Deduction, that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

13.3 Filings

In circumstances where an Obligor is required (or would in the absence of any such filing be required) to make a deduction or withholding for or on account of Taxes from a payment due to a Noteholder or any other deduction contemplated by this Clause 13.3, such Obligor and each relevant Noteholder shall cooperate in good faith following a reasonable request by the relevant Obligor to file such forms and

documents as the appropriate taxation authority may reasonably require in order to enable such Obligor to make relevant payments under the Note Documents without having to make such deduction or withholding.

13.4 Tax Credit

If an Obligor makes a Tax Payment and the relevant Noteholder determines that:

13.4.1 a Tax Credit is attributable to that Tax Payment; and

13.4.2 that Noteholder has obtained, utilised and retained that Tax Credit, on a consolidated group basis,

the Noteholder shall pay an amount to the Obligor which that Noteholder determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Obligor.

13.5 The obligation of any of the Obligors to make an increased payment under clause 13.2 shall be no greater in respect of any assignee or transferee of any rights or obligations of any Noteholder than it would have been in respect of the original Noteholder.

14 Notices

14.1 Any notice or other communication given or made in connection with this Instrument or the Notes shall be in writing and not be made to or from a place located in Austria. Telexes and faxes are not permitted.

14.2 Any such notice or other communication shall be addressed to the Registrar if made to the Company addressed as provided in Clause 14.3 or in Condition 13 and, if so addressed, shall be deemed to have been duly given or made as follows:

14.2.1 if sent by personal delivery, upon delivery at the address of the relevant party; or

14.2.2 if sent by courier, two Business Days after the date of posting,

PROVIDED THAT where any such notice or other communication is deemed to be given or made outside Working Hours, such notice or other communication shall be deemed to be given or made at the start of Working Hours on the next Business Day.

14.3 The relevant addressee and address of each of the Registrar, the Guarantors and M-real (as the first of the Noteholders), subject to Clause 14.4, are:

Address

M-real (as the first Noteholder)

For the attention of: Esa Kaikkonen

Revontulentie 6
02100 Espoo,
Finland

P.O. Box 20,
FIN-02020 Metsä,
Finland

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The Registrar

For the attention of: The Registrar,
Willy Heckers

Sappi (UK) Limited
Blackburn Mill
Feniscowles
Blackburn
Lancashire BB2 5HX Sappi House
48 Ameshoff Street
Braamfontein
Johannesburg
South Africa

With a copy to: Each of Mark
Thompson and Ria Sanz

The Guarantors

For the attention of: Jörg Passler

Chaussee de la Hulpe 154
1170 Watermael-Boitsfort
Belgium

With a copy to: Each of Mark
Thompson and Ria Sanz

Sappi House
48 Ameshoff Street
Braamfontein
Johannesburg
South Africa

- 14.4** Any of the Registrar, the Guarantors or the Noteholders may notify each other of a change to its name, relevant addressee or address for the purposes of Clause 14.3 (or, in the case of Noteholders other than M-real, for the purposes of Condition 13) PROVIDED THAT such notification is not made to or from a place that is in Austria and shall only be effective on:

14.4.1 the date specified in the notification as the date on which the change is to take place; or

14.4.2 if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.

- 14.5** The provisions of this Clause 14 shall not apply in relation to the service of any notice or document relating to or in connection with any Proceedings.

15 AGENT FOR SERVICE

- 15.1** Each of the Guarantors and the Company irrevocably undertakes that any notice or document may be sufficiently and effectively served on it in connection with any Proceedings in England and Wales by service on Sappi (UK) Limited,

Blackburn Mill, Feniscowles, Blackburn, Lancashire BB2 5HX (the “**Process Agent**”), if no replacement agent has been appointed and notified to the Noteholders pursuant to clause 15.2 below, or on the replacement agent if one has been so appointed and notified to the Noteholders. Any notice or document served pursuant to this clause 15.1 shall be marked for the attention of Willy Heckers or such other person as is appointed as agent for service pursuant to clause 15.2 below at the address notified pursuant to clause 15.2 below.

- 15.2** If the agent referred to in clause 15.1 above (or any replacement agent appointed pursuant to this clause) at any time ceases for any reason to act as such, the Company and the Guarantors shall appoint a replacement agent to accept service having an address for service in England or Wales and shall notify the Noteholders of the name and address of the replacement agent; failing such appointment and notification, the Noteholders shall be entitled by notice to the Registrar and the Guarantors to appoint such a replacement agent to act on the Company's and the Guarantors' behalf PROVIDED THAT in cases where service is effected upon a replacement agent appointed by the Noteholders in accordance with this clause 15.2 a copy of the relevant notice or document shall at the same time be forwarded to the last known business address of the Company and the Guarantors.
- 15.3** Any Service Document shall be deemed to have been duly served on the Company and the Guarantors if marked for the attention of the Process Agent at the addresses specified in clause 15.1 or in accordance with clause 15.2 and:
- 15.3.1** left at the specified or last known business address (as the case may be); or
- 15.3.2** sent to the specified or last known business address (as the case may be) by first class post or air mail.
- 15.4** In the case of clause 15.3.1, the Service Document shall be deemed to have been duly served when it is left. In the case of clause 15.3.2, the Service Document shall be deemed to have been served two clear Business Days after the date of posting.

16 Governing Law

This Instrument and the Notes constituted by it shall be governed by and construed in accordance with English law. The Company and the Guarantors irrevocably agree that the courts of England are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Instrument and the Notes and that accordingly any proceedings arising out of or in connection with this Agreement shall be brought in such courts.

17 Place of performance and Payments

17.1 Performance

The Obligors shall perform their liabilities and obligations under or in connection with this Instrument, the Guarantee and any other documents connected herewith exclusively at the Place of Performance (as defined below), but in no event at a place in Austria and the performance of any obligation or liability under or in connection with this Instrument, the Guarantee and any other documents connected herewith within the Republic of Austria shall not constitute discharge or performance of such obligation or liability. For the purposes of the above, “**Place of Performance**” means:

- 17.1.1** in relation to any payment by an Obligor under or in connection with this Instrument, the Guarantee and any other documents connected herewith, the place at which such payment is to be made pursuant to Clause 17.2; and
- 17.1.2** in relation to the delivery of any document under or in connection with this Instrument, the Guarantee and any other documents connected

herewith the premises of the Registrar or any other place outside of Austria as the Registrar specifies from time to time.

17.2 Payments

17.2.1 Payments under this Instrument, the Guarantee and any other documents connected herewith shall in no event be made in Austria.

17.2.2 Any payment made by or to any Obligor under or in connection with this Instrument, the Guarantee and any other document in connection herewith shall be made from and to an account outside of Austria.

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In witness whereof this Instrument has been duly executed and delivered as a deed the day and year first above written.

SIGNED and DELIVERED by [name
of attorney or other signatory] on
behalf of **SAPPI PAPIER HOLDING
GMBH** and thereby executed by it as
a DEED

}

/s/ B Wiersum

[place outside of Austria]

/s/ R.D Hope

[place outside of Austria]

SIGNED and DELIVERED by [name
of attorney or other signatory] on
behalf of **SAPPI LIMITED** and
thereby executed by it as a DEED

}

/s/ R Sanz

[place outside of Austria]

/s/ R.D Hope

[place outside of Austria]

SIGNED and DELIVERED by [name
of attorney or other signatory] on
behalf of **SAPPI INTERNATIONAL
S.A** and thereby executed by it as a
DEED

}

/s/ B Wiersum

[place outside of Austria]

/s/ R.D Hope

[place outside of Austria]

SIGNED and DELIVERED by [name
of attorney or other signatory] on
behalf of **SAPPI TRADING PULP AG**
and thereby executed by it as a
DEED

}

/s/ B Wiersum

[place outside of Austria]

/s/ R.D Hope

[place outside of Austria]

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THE FIRST SCHEDULE
Form of Certificate [to be embossed]

Certificate No. _____

Issue Date _____

SAPPI PAPIER HOLDING GMBH

a limited liability company incorporated under the laws of Austria registered in the companies register of the district court of Graz under FN 167931h having its registered office at A8101 Gratkorn, Bruckner Strasse 21, Austria (the “**Company**”)

GUARANTEED UNSECURED LOAN NOTES 2008

THIS IS TO CERTIFY THAT the undermentioned is the registered holder of the amount set out below of the Guaranteed Unsecured Loan Notes 2008 (the “**Notes**”) constituted by an instrument entered into by the Company, Sappi Limited, Sappi International S.A. and Sappi Trading Pulp AG on 31 December 2008 (the “**Instrument**”) and issued with the benefit of and subject to the provisions contained in, the Instrument. Where the context so admits, words and expressions defined in the Instrument shall bear the same meanings in the Conditions endorsed on, or attached to, this Certificate.

Capitalised terms used in this Certificate but not otherwise defined herein shall have the meaning given to them in the Instrument.

Name of Noteholder _____

Amount of Notes _____

SAPPI PAPIER HOLDING GMBH BY:

Authorised Signatory

/s/ R D Hope

DATED 31 December 2008

[to be signed outside of Austria]

NOTES:

- 1 The Notes are repayable in accordance with the Conditions endorsed.
- 2 The Notes are transferable only in accordance with the Conditions, which include restrictions on the transferability of the Notes. This Certificate must be lodged together with the instrument of transfer (which must be signed by the transferor or by a person authorised to sign on behalf of the transferor) at the office of the Registrar at [the address stated in Clause 14 of the Instrument].
- 3 This Certificate must be surrendered to the Registrar before any transfer can be registered or any new Certificate issued in exchange.
- 4 A copy of the Instrument is available for inspection at the office of the Registrar referred to above.
- 5 This security (or its predecessor) was originally issued in a transaction exempt from registration under the United States Securities Act of 1933, as amended (the

“**Securities Act**”), and this security may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom.

- 6 The Place of Performance and Payments shall be determined according to Clause 17 (*Place of performance and Payments*), but shall, in any case, be outside of Austria.

BRINGING THIS DOCUMENT OR ANY CERTIFIED COPY OF THIS DOCUMENT INTO THE REPUBLIC OF AUSTRIA AS WELL AS ANY WRITTEN CONFIRMATION (INCLUDING E-MAIL AND FAX) OR WRITTEN REFERENCE (INCLUDING E-MAIL AND FAX) TO THIS DOCUMENT MAY CAUSE THE IMPOSITION OF AUSTRIAN STAMP DUTY TAX. PLEASE READ CLAUSES 12 (FEES, DUTIES AND TAXES AND STAMP TAXES), 14 (NOTICES) AND 17 (PLACE OF PERFORMANCE AND PAYMENTS) OF THIS INSTRUMENT IN CONNECTION WITH THE FOREGOING.

THE SECOND SCHEDULE

The Conditions

1 Repayment, Prepayment, Purchase and Redemption

- 1.1 Subject as provided below, the Company shall repay the whole of the principal amount of each Noteholder's holding of Notes at par, together with accrued interest thereon up to but excluding the date of repayment, on the date which falls 48 months after the date of issue of the relevant Notes.
- 1.2 Subject to Condition 18 (*Acceleration under the RCF*), if an Early Repayment Event is continuing the Noteholders shall be entitled with the sanction of an Extraordinary Resolution or by written resolution of the holders of at least 75 per cent in nominal amount of the Notes then in issue, to require the Company to immediately repay the whole of the outstanding principal amount of the Notes at par, together with accrued interest thereon up to but excluding the date of repayment, which shall be no earlier than the date of the passing of such Extraordinary Resolution or the date of such written resolution. A notice of demand given under this Condition shall be irrevocable and shall bind all of the Noteholders.
- 1.3 The Company may at any time on or after the date of issue purchase any Notes (in integral multiples of 10,000,000) then in issue at par, together with accrued interest up to but excluding the date of purchase.
- 1.4 Change of Control
- 1.4.1 For the purposes of this Condition 1.4, “**associated person**” means, in relation to any person, a person who is acting in concert (as defined in The City Code on Takeover and Mergers) with that person or is a connected person (as defined in section 839 of the Income and Corporation Taxes Act 1988) of that person.
- 1.4.2 If, on any date (an “**Obligor Change of Control Date**”) the whole of the issued share capital of any Obligor ceases to be wholly owned, directly or indirectly, by Sappi, then the Noteholders shall be entitled with the sanction of an Extraordinary Resolution or by written resolution of the holders of at least 75 per cent. in nominal amount of the Notes then in issue, by written notice to the Company, to demand on or following the date falling 30 days after the Obligor Change of Control Date that the Company shall prepay the whole of the principal amount of each of the Noteholders' holding of the Notes at par, together with accrued interest thereon up to but excluding the date of prepayment.
- 1.4.3 If, on any date (a “**Change of Control Date**”) a person (whether alone or together with any associated person or persons acting in concert) becomes the beneficial owner of shares in the issued share capital of Sappi carrying the right to exercise, or control the exercise of, more than 35 per cent. of the maximum number of votes exercisable at a general meeting of Sappi then, the Noteholders shall be entitled with the sanction of an Extraordinary Resolution or by written resolution of the holders of at least 75 per cent. in nominal amount of the Notes then in issue, by written notice to the Company to demand on or following the date falling 30 days after the Change of Control Date that the Company shall prepay the whole

of the principal amount of each of the Noteholders' holding of the Notes at par, together with accrued interest thereon up to but excluding the date of prepayment.

2 Early Repayment Events

Each of the events or circumstances set out in Conditions 2.1 to 2.13 inclusive is an Early Repayment Event.

2.1 Non-payment

An Obligor does not pay on the due date any amount payable pursuant to a Note Document at the place at and in the currency in which it is expressed to be payable unless:

2.1.1 its failure to pay is caused by administrative or technical error; and

2.1.2 payment is made within five Business Days of its due date.

2.2 Financial covenants

Any requirement of the financial covenants contained in Condition 16 by reference to clause 21 (*Financial Covenants*) of the RCF is not satisfied.

2.3 Other obligations

An Obligor does not comply with any provision of a Note Document (other than those referred to in Condition 2.1 (*Non-payment*) or Condition 2.2. (*Financial covenants*)) and, if the failure to comply is capable of remedy, it is not remedied within 30 days of a Noteholder giving notice to the Registrar or an Obligor becoming aware of the failure to comply.

2.4 Misrepresentation

2.4.1 Any representation or statement made or deemed to be made by an Obligor in the Note Documents or any other document delivered by or on behalf of any Obligor under or in connection with the Note Documents is or proves to have been incorrect in any respect when made and where the circumstances making such representation or statement incorrect are capable of being altered so that such representation or statement is correct, such circumstances are not so altered within 30 days of a Noteholder notifying the Registrar or a Guarantor of such representation or statement being incorrect.

2.4.2 Any representation or statement made, deemed to be made or repeated by an Obligor in the RCF or any other document delivered by or on behalf of any Obligor under or in connection with the RCF is or proves to have been incorrect in any respect when made, deemed to be made or repeated and where the circumstances making such representation or statement incorrect are capable of being altered so that such representation or statement is correct, such circumstances are not so altered or the breach is not waived under the RCF within 30 days of a Noteholder notifying the Registrar or a Guarantor of such representation or statement being incorrect.

2.5 Cross default

2.5.1 Any Financial Indebtedness of any Group Company is not paid when due and payable nor within any applicable grace period.

2.5.2 Any Financial Indebtedness of any Group Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of a default or an event of default (however described).

2.5.3 Any creditor of any Group Company becomes entitled to declare any Financial Indebtedness of any Group Company due and payable prior to its specified maturity as a result of a default or an event of default (however described).

2.5.4 No Early Repayment Event will occur under this Condition 2.5 if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within sub-paragraphs 2.5.1 to 2.5.3 above is less than 10,000,000.

2.6 Creditors' process

Expropriation, attachment, sequestration, distress or execution affects any asset or assets of Group Companies having an aggregate value of at least 10,000,000 and is not discharged within 30 days.

2.7 Insolvency

2.7.1 An Obligor or any Material Subsidiary is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or commences negotiations with one or more of its creditors with a view to rescheduling any class of its indebtedness.

2.7.2 A moratorium is declared in respect of any class of indebtedness of an Obligor or any Material Subsidiary.

2.7.3 The Company is declared (or declares itself) bankrupt, is in a situation of illiquidity (*Zahlungsunfähigkeit*), within the meaning of § 66 of the KO, as interpreted by Austrian courts, or over indebtedness (*Überschuldung*), within the meaning of § 67 of the KO, as interpreted by Austrian courts, is unlikely to be able to pay its debts as they fall due (*drohende Zahlungsunfähigkeit*), within the meaning of § 1 (1) of the AO, as interpreted by Austrian courts or the preconditions for the opening of re-organisation proceedings (*Reorganisationsbedarf*) under the URG, as set out in the URG and interpreted by Austrian courts, have been satisfied in respect of the Company (save for any solvent re-organisation previously approved by the Noteholders in writing, such approval not to be unreasonably withheld).

2.7.4 Without limitation to sub-paragraphs 2.7.1 and 2.7.2 above, in relation to Sappi Trading Pulp AG, the following events occur:

- (i) it becomes unable to pay its debts (*Zahlungsunfähigkeit*);
- (ii) it suspends making payments (*Zahlungseinstellung*); or
- (iii) half of its share capital and the legal reserves are not covered or it becomes over-indebted (*hälftiger Kapitalverlust oder Überschuldung*) within the meaning of article 725 of the CO;
- (iv) its balance sheet is filed with a judge due to over-indebtedness or insolvency pursuant to article 725a of the CO;
- (v) a moratorium is declared (*Stundung and Nachlassstundung*); or
- (vi) any maturity of its indebtedness is postponed (*Fälligkeitsaufschub*).

2.8 Insolvency proceedings

Any legal proceeding or other formal procedure is taken or a meeting is convened for the purpose of considering a resolution in relation to:

2.8.1 the bankruptcy, the suspension of payments, winding-up, dissolution, liquidation, annulment as a legal entity, administration or re-organisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of an Obligor or any Material Subsidiary other than a solvent liquidation or re-organisation of any Material Subsidiary;

2.8.2 a general composition, assignment or arrangement with all of the creditors of an Obligor or any Material Subsidiary relating to a general rescheduling of its financial indebtedness;

2.8.3 the appointment of a liquidator (other than (i) a winding up petition which is frivolous or vexatious and which is, in any event, discharged within 30 days of its presentation and (ii) in respect of a solvent liquidation of any Material Subsidiary), receiver, administrator, administrative receiver, compulsory manager, an *administrateur judiciaire*/

gerechtigd bestuurder, a speciaal commissaris/commissaire spécial, a séquestre/sekwester or other similar officer in respect of an Obligor or any Material Subsidiary or all or any part (having an aggregate value of at least 10,000,000) of its assets; or

2.8.4 enforcement of any Security over all or substantially all of the assets of an Obligor or any Material Subsidiary which is not discharged within 30 days of the relevant legal proceeding or formal procedure being taken, or any analogous procedure or step is taken in any jurisdiction including, without limitation, if the Company is subject to:

- (i) any bankruptcy proceedings (*Konkursverfahren*) commenced pursuant to the KO, unless the application for such proceedings is dismissed within thirty days from (but excluding) the day it is filed (unless dismissed on the ground that the costs of the bankruptcy proceedings were likely to exceed the assets of such person (*Abweisung mangels kostendeckenden Vermögens*)); or
- (ii) any composition proceedings (*Ausgleichsverfahren*) commenced pursuant to the AO; or
- (iii) any re-organisation proceedings (*Reorganisationsverfahren*) under the URG (save for any solvent re-organisation previously approved by the Noteholders in writing, such approval not to be unreasonably withheld),

unless, in relation to sub-paragraphs 2.8.4(ii) and 2.8.4(iii), the opening of the relevant proceedings is the only action that has occurred,

or, without limitation, if Sappi Trading Pulp AG is subject to:

- (iv) bankruptcy proceedings (*Betreibung auf Konkurs*);
- (v) composition with creditors (*Nachlassverfahren*) including in particular moratorium (*Nachlassstundung*), proceedings regarding composition agreements (*Nachlassvertrag*) and emergency moratorium (*Notstundung*);

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- (vi) proceedings regarding postponement of maturity (*Fälligkeitsaufschub*);
- (vii) postponement of the opening of bankruptcy or moratorium proceedings pursuant to article 725a or article 817 of the CO respectively (*Konkursaufschub/Gesellschaftsrechtliches Moratorium*); or
- (viii) a notification to a judge of a capital loss or over-indebtedness under these provisions.

2.9 Unlawfulness

It is or becomes unlawful for an Obligor to perform any of its obligations under the Note Documents.

2.10 Repudiation

An Obligor repudiates a Note Document or evidences an intention to repudiate a Note Document.

2.11 Cessation of business

An Obligor or any Material Subsidiary ceases to carry on all or a substantial part of its business (other than as a result of a solvent liquidation or reorganisation of any Material Subsidiary or disposal permitted hereunder) and such cessation would result in the Group, as a whole, ceasing to carry on the Paper Business.

2.12 Litigation adversely determined

Any litigation is determined against any Group Company which has, or is reasonably likely to have, a Material Adverse Effect.

2.13 South Africa

Any Authorisation provided by the Exchange Control Department of the South African Reserve Bank in connection with the Note Documents, the guarantee given by Sappi under the Note Documents or the fulfilment by Sappi of its obligations under the Note Documents is amended adversely, repealed, revoked or terminated or expires.

- 2.14 The Company shall give the Noteholders notice in writing from a place outside of Austria of the happening of any of the Early Repayment Events promptly after becoming aware of the same.

3 Payment

Subject to Clause 17 of the Instrument (*Place of Performance and Payments*), payment of the principal or interest for the time being due and owing on the Notes, or any part thereof, will be made in immediately available funds to an account located outside of Austria nominated by the relevant Noteholder 3 or more Business Days before such payment is due.

4 Surrender of Certificate and Prescription

- 4.1 Without prejudice to any other provisions of this Instrument, every Noteholder any part of whose Notes is due to be repaid or redeemed under any of the provisions of these Conditions shall, not later than five Business Days before the due date for such repayment or redemption, deliver up to the Registrar, at the office for the time being of

the Registrar, the Certificate for its Notes which are due to be repaid (or such indemnity and other documentation as the Directors may require under Condition 14 in the case of a lost, defaced or destroyed certificate) in order that it may be cancelled. Unless payment of the amount due to be repaid has already been made in accordance with Condition 3, upon such delivery and against a duly signed or authenticated receipt for the principal moneys payable in respect of the Notes to be repaid, the Company shall, subject to Clause 17 of the Instrument (*Place of Performance and Payments*) on the due date for repayment, pay to the Noteholder the amount payable to him in respect of such repayment or redemption. If any Certificate so delivered to the Registrar includes any Notes not then repayable or redeemed, a new Certificate for the balance of the Notes not then repayable or redeemed shall be issued free of charge to the Noteholder delivering such Certificate to the Registrar.

- 4.2 If any Noteholder any part of whose Notes is liable to be repaid or redeemed under these Conditions fails or refuses to deliver up the Certificate for such Notes (or such indemnity and other documentation as the Directors may require under Condition 14 in the case of a lost, defaced or destroyed certificate) at the time and place fixed for repayment thereof, or fails or refuses to accept payment of the moneys payable in respect thereof, the moneys payable to such Noteholder shall be paid subject to Clause 17 of the Instrument (*Place of Performance and Payments*) into a separate interest-bearing bank account in the name of the Company. The payment of such moneys into a bank account shall not constitute the Company a trustee of such moneys but shall discharge the Company from all obligations in respect of the Note. The Company shall not be responsible for the safe custody of such moneys or for interest thereon except such interest (if any) as the said moneys may earn whilst on deposit, less any expenses incurred by the Company in connection therewith. Any such amount so paid or deposited which remains unclaimed after a period of [12] years from the making of the payment or deposit shall revert and belong to the Company, notwithstanding that in the intervening period the obligation to pay the same may have been provided for in the books, accounts and other records of the Company. Subject as aforesaid, any amount so paid or deposited will forthwith be paid directly to the Noteholder or his successors upon delivery of the relevant Certificate.

5 Cancellation

All Notes repaid, redeemed or purchased by the Company shall be cancelled and the Company shall not be at liberty to re-issue them.

6 Interest

6.1 Until such time as the Notes are repaid, redeemed or purchased by the Company in accordance with the provisions of the Instrument or these Conditions, the Company shall pay subject to Clause 17 of the Instrument (*Place of Performance and Payments*) to the Noteholder interest on the outstanding principal amount of the Notes at the rate specified in subparagraph 6.3 semi-annually in arrear on 15 June and 15 December in each year or, if such a day is not a Business Day, on the immediately preceding Business Day (the “**Interest Payment Dates**”) in respect of the Interest Periods (as defined below) ending on but excluding those dates. Except where Notes have previously been repaid, redeemed or purchased, the final interest payment will be made on the date which is 48 months after the Completion Date.

6.2 In these Conditions the period from and including the Completion Date up to but excluding the first Interest Payment Date and the period from and including that or any subsequent Interest Payment Date up to but excluding the next following Interest Payment Date is called an “**Interest Period**”. On or as soon as practicable following each Interest Payment Date, the Company shall deliver to each Noteholder a certificate as to the gross amount of the relevant interest payment and the amount of tax deducted.

6.3 The rate of interest on the Notes will be:

6.1.1 for the first Interest Period - 9 per cent per annum;

6.1.2 for the second Interest Period - 12 per cent per annum;

6.1.3 for the third Interest Period - 14 per cent per annum; and

6.1.4 for each Interest Period following the third Interest Payment Date - 15 per cent per annum.

6.4 Each instalment of interest shall be calculated by applying the rate of interest specified in paragraph 6.3 above to the aggregate principal amount of Notes held by each Noteholder, multiplying such product by the actual number of days in the relevant Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6.5 Each interest payment shall be made to the Noteholder registered on the Register at the close of business on the seventh day preceding the due date for payment of such interest and every such Noteholder shall be deemed for the purposes of these Conditions to be the holder on such Interest Payment Date of the Notes held by him on such preceding date, notwithstanding any intermediate transfer or transmission of any such Notes.

6.6 Interest on any Notes becoming liable to repayment shall cease to accrue as from the due date for repayment of such Notes unless (and subject to compliance by the Noteholder with the provisions of Condition 4) payment of the moneys is not made by the Company (in which case interest will continue to accrue until, but excluding, the date of actual payment).

7 Transfer of Notes

7.1 The Notes will be transferable only as set out in this Condition 7, but shall not under any circumstances be transferable to a Competitor or to a person or entity resident in the Republic of Austria.

7.2 The Notes are transferable only by instrument in writing in the usual or common form (or in such other form as the Directors may approve) in nominal amounts or integral multiples of 10,000,000, upon and subject to the Conditions. There shall not be included in any instrument of transfer any securities other than the Notes constituted by the Instrument.

7.3 Every instrument of transfer must be signed by the transferor (or by a person authorised to sign on behalf of the transferor) at a place outside of Austria and the transferor shall be deemed to remain the owner of the Notes to be transferred until the name of the transferee is entered in the Register in respect thereof.

7.4 Every instrument of transfer must be sent for registration to the Registrar accompanied by the Certificate(s) for the Notes to be transferred together with such other evidence as the Company may require to prove the title of the transferor or his

right to transfer the Notes and, if the instrument of transfer is executed by some other person or entity on his or its behalf, the authority of that person to do so. All instruments of transfer which are registered may be retained by the Company. No transfer of Notes shall be registered in respect of which a notice requiring repayment has been given. No transfer will be registered during the seven days immediately preceding an Interest Payment Date or at any time when the Register is closed.

- 7.5** No fee shall be charged for the registration of any transfer or for the registration of any probate, letters of administration, certificate of confirmation, certificate of marriage or death, power of attorney or other document relating to or affecting the title to any Notes.
- 7.6** This security (or its predecessor) was originally issued in a transaction exempt from registration under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and this security may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom.
- 7.7** Each Noteholder shall not offer to sell or otherwise dispose of any Notes acquired by it in violation of:
- 7.7.1** the securities laws of South Africa, Australia, Canada, Japan or any other jurisdiction; or
- 7.7.2** any provisions of the Instrument, the Master Agreement or the Lock-up Agreement.
- 7.8** Any original of the instrument of transfer (including PDF, TIF and other comparable formats), any certified copy thereof or any signed document (including PDF, TIF and other comparable formats) that constitutes a deed (*Urkunde*) in the meaning of § 15 of the Austrian Stamp Duty Act (as interpreted by the Austrian tax authorities), whether documenting the entering into the relevant transaction (*rechtserzeugende Urkunde*) or documenting or confirming that the relevant transaction has been entered into (*rechtsbezeugende Urkunde*), or a substitute deed (*Ersatzurkunde*) in the meaning of § 15 of the Austrian Stamp Duty Act (as interpreted by the Austrian tax authorities), including, without limitation, any notarised copy, any certified copy and any written minutes recording the instrument of transfer may not be sent to or produced in Austria and shall remain at a place outside of Austria at all times. The transferor and the transferee shall perform their liabilities and obligations under or in connection with this instrument of transfer in no event at a place in Austria and the performance of any obligations or liabilities under in connection with this instrument of transfer within the Republic of Austria shall not constitute discharge or performance of such obligation or liability. The transferor and the transferee shall not make any payments under this instrument of transfer in Austria and any such payments shall be made from and to an account outside of Austria.

8 Modification

- 8.1** The provisions of the Instrument or of the Notes and the rights of the Noteholders may from time to time be modified, abrogated or compromised or any arrangement or amendment agreed in any respect with the sanction of an Extraordinary Resolution or

by written resolution of the holders of at least 75 per cent in nominal amount of the Notes then in issue subject, in either case, to the prior consent of the Company and the Guarantors.

- 8.2** Any such modification abrogation, compromise or arrangement effected pursuant to paragraph 8.1 shall be binding on all Noteholders.

9 Dealings

The Notes shall not be capable of being dealt in on any stock exchange in South Africa or elsewhere and no application has been or is intended to be made to any stock exchange for the Notes to be listed or otherwise traded.

10 Substitution and Exchange and Right of Substitution of Guarantor

- 10.1** The Company shall be entitled, without the consent of Noteholders, to substitute one or more subsidiaries or one or more holding companies of the Company or one or more subsidiaries of any such holding company (as such terms are defined in the Companies Act 1985) (each a “**Substituted Company**”) as the principal debtor or debtors each in respect of some or all of the Notes under the Instrument and Notes [or to require all or any of the Noteholders to exchange their Notes for

loan notes issued on the same terms (save for any provisions as to exchange which do not impose any obligation on the Noteholders of a financial or other nature other than an obligation to surrender the Notes in exchange for such other loan notes) *mutatis mutandis* by any such company] provided that:

10.1.1 the Guarantors guarantee such Substituted Company's obligations thereunder to at least the same extent as under the Guarantee;

10.1.2 an instrument is executed by the Substituted Company agreeing to be bound by the terms of the Instrument as fully as if the Substituted Company had been party to the Instrument and named in and on the Notes as the principal debtor in place of the Company (or of any previous substitute under this Condition); and

10.1.3 no Noteholder shall have any lesser rights under this Instrument or any Note (including the right to any increased payment under Clause 13) than it would have had but for such substitution or exchange.

10.2 References to the Company shall, if substitution occurs under Condition 10.1 and where the context so permits, be deemed to be references to such Substituted Company.

10.3 Without prejudice to Condition 10.1.1, any substitution under Condition 10.1 shall operate to release the Company or any previous Substituted Company as principal debtor from any or all of its obligations under the Instrument and the Notes.

10.4 The Guarantors shall be entitled, without the consent of the Noteholders, to substitute as the Guarantors (i) a bank with a credit rating at least equivalent to the Guarantors at the date of the Instrument, or (ii) its successor pursuant to a merger, consolidation, statutory share exchange, conversion, business combination or other transaction whereby such person succeeds to a majority of the business of the Guarantors, or such person is the transferee of all or substantially all of the assets of the Guarantors (the "**Substituted Guarantor**") under the Instrument and the Notes on the same

terms, *mutatis mutandis*, as the terms of the Guarantee, provided that an instrument is executed by the Substituted Guarantor agreeing to be bound by the terms of the Instrument as fully as if the Substituted Guarantor had been party to the Instrument as the Guarantors and provided that no Noteholder shall have any lesser rights under this Instrument or any Note (including the right to any increased payment under Clause 13) than it would have had but for such substitution or exchange.

10.5 References to the Guarantors shall, if such substitution occurs under Condition [10.4] and where the context so permits, be deemed to be references to the Substituted Guarantor.

10.6 Any substitution under Condition 10.4 shall operate to release the Guarantors as guarantors under the Instrument and the Notes.

10.7 Not later than 14 days after the execution of any instrument for the substitution of the Company or the Guarantors, the Company shall give notice of such substitution to Noteholders in accordance with Condition 13.

11 Replacement of Certificates

If the Certificate for any Notes is lost, defaced or destroyed, it may, upon payment by the Noteholder of any out-of-pocket expenses of the Company, be replaced, on such terms (if any) as to evidence and indemnity as the Directors may require, but so that, in the case of defacement, the defaced Certificate shall be surrendered before the new Certificate is issued.

12 Risk to Noteholders

All Certificates, other documents and remittances sent through the post shall be sent by first class post but otherwise at the risk of the Noteholder(s) entitled thereto.

13 Notices

- 13.1** Any notice or other document (including Certificates) may be given or sent to any Noteholder by sending it by post in a pre-paid envelope addressed to such Noteholder at its or his registered address in the United Kingdom or (if it or he has no registered address within the United Kingdom) to the address (if any) within the United Kingdom supplied by it or him to the Registrar for the giving of notice to it or him. Save as otherwise provided in this paragraph, only Noteholders with a registered address in the United Kingdom shall be entitled to receive any notice, demand or other document.
- 13.2** Any notice, demand or other document (including Certificates and transfers of Notes) may be served on the Company either personally or by sending the same by post in a pre-paid envelope addressed to the Registrar at [the address given in clause 14 of the Instrument] (marked for the attention of the Registrar) or to such other address in England as the Company or the Registrar may from time to time notify to Noteholders in accordance with Clause 14 of the Instrument.
- 13.3** Any notice given or document sent by first class post shall be deemed to be served or received at the expiry of 24 hours (or, where second class post is employed, 48 hours) after the time when it is posted. In proving such service or receipt, it shall be

sufficient to prove that the envelope containing the notice or document was properly addressed, stamped and posted.

14 General

- 14.1** A certification of the Directors, the Registrar or the Company's financial adviser as to any matter relating to the Notes shall, in the absence of manifest error, be conclusive evidence as against the Noteholders. None of the Directors, the Registrar or the Company's financial adviser shall, in the absence of negligence or wilful default, have any liability of any nature whatsoever in connection with any exercise of, or omission to exercise, any function assigned to them or it as described in the Instrument.
- 14.2** Each Noteholder shall be recognised by the Company as entitled to his Notes free from any equity, set-off or counterclaim on the part of the Company against the original or any intermediate holder of the Notes.
- 14.3** The Instrument and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

15 Meetings of Noteholders

Meetings of Noteholders may be convened and held in accordance with the provisions of the Third Schedule.

16 Incorporation of Certain Provisions of the RCF

16.1 Undertakings

The provisions of clauses 20.1 (*Financial Statements*), 20.2 (*Compliance Certificate*), 20.3 (Requirements as to financial statements), 20.4 (*Information: miscellaneous*), 20.5 (*Notification of default*), 20.6 (*Change in Material Subsidiaries*), 21 (*Financial covenants*) and 22 (*General Undertakings*) (other than clauses 22.7(b) (*Financial Indebtedness*) and 22.11 (*Undertakings relating to Guarantee by Austrian Guarantor*)) are incorporated by reference into these Conditions as if:

- 16.1.1** references to this "Agreement" or the "Finance Documents" were to the "Note Documents";
- 16.1.2** references to "any Commitment is in force" were deleted;
- 16.1.3** references to the "Agent", the "Finance Parties" or the "Lenders" were to the "Noteholders";
- 16.1.4** references to the "Majority Lenders" were to the "holders of at least 75% per cent in nominal amount of the Notes then in issue";
- 16.1.5** [references in the definition of "Material Subsidiary" were to "in each case as set out, until the first Compliance Certificate is delivered, in the list provided to the Agent pursuant to Schedule 2 (*Conditions precedent*) paragraph (3)(e) and thereafter" were deleted; *NB – a list of material subsidiaries will be provided on Completion*]

- 16.1.6** references to Financial Indebtedness “referred to in Schedule 10 (*Existing Subsidiary Indebtedness*)” were to Financial Indebtedness “incurred prior to the date of this Instrument”;
- 16.1.7** references to the “Obligors” or to “Guarantors” are references to the Obligors or Guarantors under the RCF;
- 16.1.8** references to the “Company” were to “Sappi”;
- 16.1.9** references to “Schedule 8 (*Form of Compliance Certificate*)” were to “schedule 8 (*Form of Compliance Certificate*) of the RCF”;
- 16.1.10** references to “Security listed in Schedule 9 (*Existing Security*)” were to “Security in place at the date of this Instrument”; and
- 16.1.11** all cross-references were up-dated appropriately.

16.2 Amendments and Waivers Under the RCF

If any amendment or waiver is made or given under the RCF in respect of any of clauses 20.1 (*Financial Statements*), 20.2 (*Compliance Certificate*), 20.3 (Requirements as to financial statements), 20.4 (*Information: miscellaneous*), 20.5 (*Notification of default*), 20.6 (*Change in Material Subsidiaries*), 21 (*Financial covenants*) or 22 (*General Undertakings*) (other than clauses 22.7(b) (*Financial Indebtedness*) and 22.11 (*Undertakings relating to Guarantee by Austrian Guarantor*)) of the RCF, or to definitions or terms used in those clauses, an equivalent amendment or waiver is deemed to be made or given to the equivalent provision incorporated in these Conditions under Condition 16.1 above. Sappi shall promptly notify the Registrar of any request made by a Group Company to amend or waive the RCF and of any waivers or amendments actually given or made in respect of the RCF.

17 Acceleration under the RCF

No demand for early repayment of the Notes may be made in respect of any Early Repayment Event caused by a breach of any Condition incorporated by reference pursuant to Condition 16 above or under Condition 2.4.2 above unless the Agent has served a notice to Sappi pursuant to paragraph (a) or (b) of clause 23.14 (*Acceleration*) of the RCF on the basis of an Event of Default under clause 23.2 (*Financial covenants*) or clause 23.3 (*Other obligations*) of the RCF caused by a breach of the equivalent provision in the RCF. Sappi shall promptly notify the Registrar if it receives any such notice under the RCF.

18 Replacement of RCF

To the extent that the RCF is prepaid and cancelled in full and replaced with a new revolving credit facility agreement available to the Company and/or its subsidiaries (a “**Replacement Facility**”), each Obligor shall enter into negotiations in good faith with the Noteholders to agree such amendments to the Note Documents to reflect the equivalent terms of the Replacement Facility to those incorporated by reference under Condition 16.1 above. In the event that the Obligors and the Noteholders fail to agree such amendments within 30 days of the commencement of such negotiations, the dispute shall be referred to such independent bank or financial institution (the “**Expert**”) as may be agreed between the Obligors and the Noteholders for resolution.

The Expert shall act in the capacity of expert and not arbitrator and, in the absence of any manifest error, the decision of the Expert shall bind each of the Obligors and each of the Noteholders.

19 Additional Guarantors

- 19.1** The Company and the Noteholders agree that any Group Company that becomes a Guarantor under the RCF after the date of this Instrument shall, no later than the date falling 30 days after the date that Group Company becomes a guarantor under the RCF, accede to the Instrument as a Guarantor on equivalent terms to those under the RCF.
- 19.2** The Company and the Noteholders agree to make such amendments to the terms of the Instrument to effect the provision of a guarantee by the relevant Group Company in accordance with Condition 20.1 above.

20 Confidentiality

Each Noteholder undertakes with each Obligor:

- 20.1** to keep confidential and not to disclose to anyone any information (including any projections) received by it in its capacity as Noteholder relating to the Obligors, the Group, any member of the Group or any Note Document, in whatever form, and including information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information except:
- (i) for any lawfully obtained from any other source, or that is or becomes public knowledge, other than as a direct or indirect result of any breach of any obligation of confidentiality;
 - (ii) disclosure to persons to the extent that such information is required to be disclosed by any applicable law or regulation;
 - (iii) disclosure by any original Noteholder which is expressly permitted under the terms of the Confidentiality Agreement referred to in the Master Agreement;
 - (iv) disclosure to any person that a Noteholder assigns or transfers (or may potentially assign or transfer) all or any of its rights and obligations under the Notes; or
 - (v) disclosure to any person with whom a Noteholder enters into (or may potentially enter into) any sub-participation of the Notes or any other transaction under which payments are to be made by reference to the Notes or any Obligor;

if, in relations to sub-paragraphs (iv) and (v) above the person to whom the information is disclosed has entered into a confidentiality undertaking on substantially the same terms as this Condition 20.1.

- 20.2** to ensure that such information is protected with security measures and a degree of care that would apply to that Noteholder's own confidential information;

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- 20.3** to use that information only for the purpose of, or as permitted by, the Note Documents; and

- 20.4** to use all reasonable endeavours to ensure that any person to whom that Noteholder passes any such information acknowledges and complies with the provisions of this Condition 21 as if that person were also bound by it.

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THE THIRD SCHEDULE

Provisions for meetings of the Noteholders

1 Calling of meetings

The Company may at any time and shall, upon request in writing signed by the registered holders of not less than one-third in nominal value of the Notes for the time being outstanding (excluding any in respect of which a notice requiring

repayment shall have been given), convene a meeting of the Noteholders to be held at such time and place as the Company shall determine, but in no event in Austria.

2 Notice of meetings

- 2.1** The Company shall give to the Noteholders at least 14 or, in the case of a meeting convened for the purpose of passing an Extraordinary Resolution, at least 21 clear days' notice, of any meeting of Noteholders, specifying the place, day and time of meeting. Any such notice shall specify the general nature of the business to be transacted at the meeting thereby convened but, except in the case of a resolution to be proposed as an Extraordinary Resolution, it shall not be necessary to specify the terms of any resolution to be proposed.
- 2.2** The accidental omission to give notice of a meeting, or to send a form of proxy with a notice, to any person entitled to receive the same, or the non-receipt of a notice of meeting or form of proxy by any such person, shall not invalidate the proceedings, including any resolution duly passed at that meeting.

3 Chairman of meetings

Some person nominated by the Company shall be entitled to take the chair at any such meeting and if no such nomination is made or, if at any meeting the person nominated shall not be present within 30 minutes after the time appointed for holding the meeting, the Noteholders present shall choose one of their number to be Chairman.

4 Quorum at meetings

At any such meeting, persons (at least two in number) holding or representing by proxy at least one-tenth (or at any such meeting at which an Extraordinary Resolution is to be considered, one-quarter) in nominal value of the Notes for the time being outstanding shall form a quorum for the transaction of business. No business (other than the choosing of a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.

5 Absence of quorum

If within 30 minutes from the time appointed for any meeting of the Noteholders a quorum is not present, the meeting shall, if convened upon the requisition of the Noteholders, be dissolved. In any other case it shall stand adjourned to such day and time (being not less than 14 nor more than 42 days thereafter) and to such place as may be appointed by the Chairman. At such adjourned meeting, the Noteholders present in person or by proxy and entitled to vote, whatever the number of persons or the nominal value of the Notes held by them, shall form a quorum and shall have

power to pass any Extraordinary Resolution or other resolution and to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place.

6 Notice of adjourned meetings

At least seven days' notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the manner provided by this Instrument and such notice shall state that the Noteholders present in person or by proxy at the adjourned meeting will form a quorum. Notice is not required for any adjourned meeting at which no Extraordinary Resolution is to be submitted.

7 Adjournment of meetings

The Chairman may, with the consent of (and shall if directed by) any such meeting, adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

8 Resolution on show of hands

Every question submitted to a meeting of Noteholders shall be decided in the first instance by a show of hands and, in case of an equality of votes, the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Noteholder or as a duly appointed proxy of a Noteholder.

9 Demand for poll

At any meeting of Noteholders, unless (before or on the declaration of the result of the show of hands) a poll is demanded by the Chairman or by one or more Noteholders present in person or by proxy and holding or representing in aggregate not less than one-tenth in nominal value of the Notes then outstanding, a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact.

10 Manner of taking poll

If at any such meeting a poll is so demanded it shall be taken in such manner as the Chairman may direct and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

11 Time for taking poll

Any poll demanded at any such meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment. A poll demanded on any other question shall be taken in such manner and place immediately or at any time within ten days of such demand, as the Chairman may direct. No notice need be given of a poll not taken immediately. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded. The demand for a poll may be withdrawn.

12 Persons entitled to attend and vote

12.1 The registered holder of any of the Notes shall be entitled to vote in respect thereof either in person or by proxy.

12.2 The Directors and the Secretary and solicitors to and auditors of the Company and any other person authorised by the Directors may attend and speak (but not vote) at any such meeting.

13 Instrument appointing proxy

Every instrument appointing a proxy must be in writing signed by the appointor or his attorney or, in the case of a corporation, under its common seal or signed by its attorney or a duly authorised officer and shall be in the usual or common form or in such other form as the Directors may approve. Such instrument of proxy shall unless the contrary is stated thereon be valid as well for an adjournment of the meeting as for the meeting to which it relates and need not be witnessed. A person appointed to act as a proxy need not be a Noteholder.

14 Deposit of instrument appointing proxy

The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power or authority shall be deposited at such place or places as the Company may in the notice of meeting direct or, if no such place is specified, then at the registered office of the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting or the taking of a poll at which the person named in such instrument proposes to vote; in default the instrument of proxy shall not be treated as valid. A vote given in accordance with the terms of an instrument appointing a proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the instrument of proxy or of the authority under which the instrument of proxy is given or transfer of the Notes in respect of which it is given, unless previous notice in writing of such death, insanity,

revocation or transfer shall have been received at the registered office of the Company. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution.

15 Votes

On a show of hands, every Noteholder who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative shall have one vote and, on a poll, every Noteholder present in person or by proxy shall have one vote for every 1 in nominal amount of the Notes of which he or it is the holder. A Noteholder entitled to more than one vote need not use all his or its votes or cast all the votes he or it uses in the same way.

16 Powers of Meetings of Noteholders

A meeting of the Noteholders shall, in addition to any other powers, have the following powers exercisable by Extraordinary Resolution namely:

- 16.1** power to sanction any compromise or arrangement proposed to be made between, on the one hand, the Company or the Guarantors or both and, on the other hand, the Noteholders;

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- 16.2** power to sanction any abrogation, modification or compromise or any arrangement in respect of the rights of the Noteholders against the Company or the Guarantors or both or their respective properties, whether such rights arise under the Instrument or otherwise;

- 16.3** power to sanction any scheme or proposal for the sale or exchange of the Notes or for the conversion of the Notes into shares, stock, debentures, debenture stock or other obligations or securities of the Company or any other company formed or to be formed or cash or partly for or into such shares, stock, debentures, debenture stock or other obligations or securities as aforesaid and partly for or into cash and for the appointment of some person with power on behalf of the Noteholders to execute an instrument of transfer of the Notes held by them in favour of the person to or with whom the Notes are to be sold or exchanged respectively;

- 16.4** power to assent to any modification or abrogation of the provisions of this Instrument or of the Notes which shall be proposed by the Company and for which the consent of Noteholders is required and to authorise the Company and/or the Guarantors to execute an instrument supplemental to this Instrument embodying any such modification or abrogation;

- 16.5** power to give any authority or sanction which under the provisions of this Instrument is required to be given by Extraordinary Resolution;

Provided that no modification of the Conditions or the Instrument shall be made or take effect unless the Company and the Guarantors shall have consented to any such modification.

17 Definition of Extraordinary Resolution

The expression “**Extraordinary Resolution**” means a resolution passed at a meeting of the Noteholders, duly convened and held in accordance with the provisions herein contained, by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or, if a poll is demanded, by a majority consisting of not less than three-fourths of the votes given on such poll.

18 Extraordinary Resolution binding on all Noteholders

An Extraordinary Resolution shall be binding upon all the Noteholders whether or not present at such meeting and each of the Noteholders shall be bound to give effect to it accordingly. The passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof, the intention being that it shall rest with the meeting to determine without appeal whether or not the circumstances justify the passing of such resolution.

19 Resolutions in writing

A resolution in writing signed by the holders of not less than 75 per cent in nominal amount of the Notes for the time being outstanding who are for the time being entitled to receive notice of meetings in accordance with the provisions herein contained shall for all purposes be as valid and effectual as an Extraordinary Resolution. Such resolution in writing may be contained in one document or in several documents in similar form each signed by one or more of the Noteholders.

20 Minutes of meetings

Subject to Clause 12.2 of the Instrument (*Stamp Taxes*), minutes of all resolutions and proceedings at every meeting of Noteholders shall be made and duly entered in books to be from time to time provided for that purpose by the Company. Any such minutes, if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings held or by the Chairman of the next succeeding meeting of the Noteholders, shall be conclusive evidence of the matters therein contained. Until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly convened and held and all resolutions passed at that meeting to have been duly passed.

THE FOURTH SCHEDULE

Terms and Conditions of the Guarantee

1 Guarantee and Indemnity

Each Guarantor irrevocably and unconditionally jointly and severally and subject to Clause 17 (*Place of Performance and Payments*) of the Instrument:

- (i) guarantees to each Noteholder punctual performance by the Company of all the Company's obligations under the Note Documents;
- (ii) undertakes with each Noteholder that whenever the Company does not pay any amount when due under or in connection with any Note Document, that Guarantor shall immediately on demand pay that amount as if it was the principal obligor; and
- (iii) indemnifies each Noteholder immediately on demand against any cost, loss or liability suffered by that Noteholder if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which that Noteholder would otherwise have been entitled to recover.

2 Continuing guarantee; Nature of guarantee

- (i) This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by any Obligor under the Note Documents, regardless of any intermediate payment or discharge in whole or in part.
- (ii) Notwithstanding anything to the contrary herein or in any other of the Note Documents, this guarantee is meant to be and shall be interpreted as "abstract guarantee" (*abstrakter Garantievertrag*) and the obligations of the Guarantors hereunder shall be obligations of the Guarantors as principal debtors and not as sureties (*Buergschaft*) and not as a joint obligation as a borrower (*Mitschuldner*) and the Guarantors undertake to pay

the amounts due under or pursuant to this guarantee unconditionally, irrevocably, upon first demand and without raising any defences (*unbedingt, unwiderruflich, auf erste Aufforderung und unter Verzicht auf alle Einwendungen*).

3 Reinstatement

If any payment by an Obligor or any discharge given by a Noteholder (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is avoided or reduced as a result of insolvency or any similar event:

- (i) the liability of each Obligor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- (ii) each Noteholder shall be entitled to recover the value or amount of that security or payment from each Obligor, as if the payment, discharge, avoidance or reduction had not occurred.

4 Waiver of defences

The obligations of each Guarantor under this Fourth Schedule will not be affected by an act, omission, matter or thing which, but for this Fourth Schedule, would reduce, release or prejudice any of its obligations under this Fourth Schedule (without limitation and whether or not known to it or any Noteholder) including:

- (i) any time, waiver or consent granted to, or composition with, any Obligor or other person;
- (ii) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- (iii) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (iv) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- (v) any amendment (however fundamental) or replacement of a Note Document or any other document or security;
- (vi) any unenforceability, illegality or invalidity of any obligation of any person under any Note Document or any other document or security; or
- (vii) any insolvency or similar proceedings.

5 Immediate recourse

Each Guarantor waives any right it may have of first requiring any Noteholder (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Guarantor under this Fourth Schedule. This waiver applies irrespective of any law or any provision of a Note Document to the contrary.

6 Appropriations

Until all amounts which may be or become payable by the Obligor under or in connection with the Note Documents have been irrevocably paid in full, each Noteholder (or any trustee or agent on its behalf) may:

- (i) refrain from applying or enforcing any other moneys, security or rights held or received by that Noteholder (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor shall be entitled to the benefit of the same; and
- (ii) hold in an interest-bearing suspense account any moneys received from any Guarantor or on account of any Guarantor's liability under this Fourth Schedule.

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7 Deferral of Guarantors' rights

Until all amounts which may be or become payable by the Obligor under or in connection with the Note Documents have been irrevocably paid in full and unless the Noteholders otherwise direct, no Guarantor will exercise any rights which it may have by reason of performance by it of its obligations under the Note Documents:

- (iii) to be indemnified by an Obligor;
- (iv) to claim any contribution from any other guarantor of any Obligor's obligations under the Note Documents; and/or
- (v) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Noteholders under the Note Documents or of any other guarantee or security taken pursuant to, or in connection with, the Note Documents by any Noteholder.

8 Additional security

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by any Noteholder.

9 Belgian Guarantee Limitation

In the case of Sappi International S.A. (the "**Belgian Guarantor**"), with respect to the obligations of any Obligor which is not a Subsidiary of the Belgian Guarantor, its liability under this Guarantee shall be limited, at any time, to a maximum aggregate amount equal to the greater of (i) an amount equal to 90% of the Belgian Guarantor's net assets (as determined in accordance with the Belgian Companies Code and accounting principles generally accepted in Belgium, but not taking intra-group debt into account as debts) as shown by its then most recent audited annual financial statements and (ii) the aggregate amount of the principal amount raised by the Belgian Guarantor pursuant to the Notes and the aggregate amount of any intra-group loans or facilities made to it by any other member of the Group directly and/or indirectly using all or part of the proceeds of the Notes (whether or not such intra-group loan is retained by the Belgian Guarantor for its own purposes or on-lent to another Group company) outstanding at any given time between the date of the issue of the Notes and the date on which the relevant demand is made.

10 Swiss Restrictions

In respect of Sappi Papier Holding GmbH's obligations under the Note Documents, the Restricted Obligations of Sappi Trading Pulp AG, if and to the extent required by any applicable Swiss law in force at the relevant point in time under the Note Documents, shall, subject to the proviso below, be limited to the amount obtained by applying the following formula on the date on which the guarantee is called (the "**SPH Maximum Guaranteed Amount**"):

- (i) EUR 150 million, multiplied by
- (ii) the principal amount of Notes issued by Sappi Papier Holding GmbH under the Note Documents, divided by

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- (iii) the total principal amount outstanding of Sappi Papier Holding GmbH's borrowings under any facility where Sappi Trading Pulp AG has issued a guarantee in respect of such borrowings (including, for the avoidance of doubt, under the Note Documents),

provided that payments of the SPH Maximum Guaranteed Amount shall be limited to the maximum amount of Sappi Trading Pulp AG's profits available for distribution as dividends at any given time (being the balance sheet profits and any reserves made for this purpose, in each case in accordance with articles 804, 675(2) and 671(1) and (2), no. 3 of the Swiss Federal Code of Obligations), and further provided that, to the extent permitted by law, such further limitation (as may apply from time to time or not) shall not (generally or definitively) free Sappi Trading Pulp AG from its payment obligations under the Note Documents in respect of the payment of the SPH Maximum Guaranteed Amount, but merely postpone the payment date of the unpaid portion of the SPH Maximum Guaranteed Amount until such time as payment is again permitted notwithstanding such further limitation.

In this Fourth Schedule, "**Restricted Obligations**" means to the extent Sappi Trading Pulp AG guarantees obligations other than obligations of one of its subsidiaries (i.e. obligations of its direct or indirect parent companies (up-stream guarantee) or sister companies (cross-stream guarantee)).

11 General Limitation

Without prejudice and in addition to any limitation on the liability of any entity that becomes an additional guarantor under Condition 20 (an "**Additional Guarantor**"), the liability of each Additional Guarantor under this guarantee shall not at any time exceed the lower of the amount of that Additional Guarantor's outstanding indebtedness (excluding for this purpose any indebtedness owing by one Group Company to another Group Company) or any limits imposed upon its maximum liability under this guarantee by mandatorily applicable law.

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The Sappi Code of Ethics

Growing & Living our Values

The Sappi Code of Ethics

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A. LEADERSHIP PLEDGE

To all Sappi colleagues:

At Sappi we aim to become a world-class leader in the global pulp and paper sector, and to do so in a responsible and sustainable manner. To achieve this goal requires us to commit to the highest levels of performance in every sphere of our business, including our standards of ethics.

We are a global company often operating in regions with different laws, regulations and customs. It is vital that we develop a uniform understanding of the core values on which our decisions and actions should be based. To this end we launched our first *Sappi Code of Ethics for the group* in 2002. We have now decided that it is time to review this code to align with where Sappi is today and where we want to grow to as an organisation. We believe that this second version of the *Sappi Code of Ethics* will give you the guidance you need to act in line with our core values.

These values of **excellence**, **integrity** and **respect** form the heart of the *Code*. They demonstrate our commitment to leadership by investing in the growth of all our employees, suppliers, customers and contractors, through the provision of clear guidelines on what they can expect from us and what we expect of them.

Our values are also intrinsically linked to our commitment to sustainable development. Our commitment to ethical behaviour cannot be separated from our commitment to building a sustainable organisation.

The Sappi Code of Ethics does not stand alone, but supports the laws of the countries in which we operate, the relevant regulations applicable to our industry, and all Sappi's policies, practices and procedures.

If you encounter a situation in which it is unclear what the ethical choice is, use *The Sappi Code of Ethics* for guidance. If the *Code* does not assist you, seek advice using the appropriate options as indicated in this booklet.

In cases where you observe unethical conduct, we urge you to report such incidents through the channels provided in this document. We at Sappi commit to take these reports seriously. Anyone who in good faith reports a possible violation of the Sappi Code of Ethics will not be intimidated or disciplined. We will not tolerate any retaliation against an employee who in good faith reports a suspected misconduct.

The motto '*Growing and Living our Values*' suggests that we have not yet arrived – that we should strive towards a culture of continuous improvement, in the performance of our business units, in our environmental practices, and towards ethical conduct. We ask each of you to read the *Sappi Code of Ethics*, and become familiar with its meaning and significance for you and your duties at Sappi.

I believe that personal commitment to live up to these values with passion and enthusiasm will lead to a better organisation as well as personal fulfilment. I personally commit myself to Sappi's values and high standards, and appeal to each of you to do the same.

/s/ R J Boëttger

Chief Executive Officer
Sappi Ltd

B. OUR VISION

As a global paper and pulp company we aim to create value and grow faster than the market in a sustainable way, to benefit our shareholders, customers, employees, suppliers and the communities in which we operate.

C. OUR COMMITMENT TO SUSTAINABILITY

What does sustainable development mean to Sappi?

At Sappi, we define sustainable development as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.



This icon represents the interlinked nature of the three key factors inherent in sustainability as set out by the World Summit on Sustainable Development, Johannesburg 2002 – prosperity, people and planet.

The plant represents economic growth and prosperity, illustrating the fact that at Sappi, we create value from a renewable resource.

The three people indicate the diversity of Sappi's employees and the communities in which we operate.

The circles represent the earth and environment, reminding us that actions in one part of the globe impact on the total environment and on all the world's people.

Refer to the Sappi Charter on Sustainable Development for more information

D. ABOUT THE CODE

How Does the Code Work?

The Sappi Code of Ethics revolves around 3 **core values**: *Excellence, Integrity and Respect*. We grow these values by expressing and living them in the way we conduct ourselves. For this reason the *Sappi Code of Ethics* also contains **principles** and **conduct provisions** to provide more clarity on how our core values are put into action.

In the *Code* this is addressed as follows:

First you will find the **core value**. This is followed by certain **principles**, which indicate areas of our activities where that value will find expression. Each principle again contains certain **conduct provisions** which are a list of do's and don'ts that show in more detail what these principles mean in practice. Some of these provisions are further explained by means of examples to which employees, suppliers and contractors can relate. Please note that these examples are fictitious and do not relate to any actual events which happened at Sappi. They merely illustrate the type of conduct which must be avoided.

The principles and conduct provisions described in the *Sappi Code* are by no means intended to be exhaustive, but we hope they provide sufficient clarity on what conduct is in line with our values and what is not. Should a particular situation not be explicitly or directly addressed in the *Sappi* conduct provisions, employees, suppliers and contractors should always refer first to the three *Sappi* core values and seek advice to guide your deliberations, decisions and actions.

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Where appropriate, *The Sappi Code of Ethics* will direct you to Sappi policies, procedures or other standards. It is important to understand the *Code* does not function in isolation, the *Code* is designed to be consistent with, but not replace all relevant legislation, regulations, policies and procedures with which employees must be familiar.

Should you be uncertain about what to do in any situation, ask for assistance and guidance (see Section F below).

To Whom Does the Code Apply?

The *Code* applies firstly to all Sappi directors, officers and employees. It shows what can be expected of us, both by the organisation and other stakeholders.

Furthermore we also expect and request our suppliers, contractors, customers and other stakeholders to become aware of our *Code*, comply with the values and principles in our *Code* and thereby help us to live up to our values.

How is the Code Enforced?

Because we take our values seriously, we must take action against employees who do not abide by the spirit and conduct provisions of our *Code*. As Sappi employees we need to ensure that we are familiar with the *Code* as it is a standard to which we will be held accountable in our personal capacity as well as in the teams, groups and committees within which we work. Transgressions of the *Sappi Code of Ethics* could result in disciplinary action.

Furthermore, if we encounter a supplier, contractor, customer or other stakeholder who refuses to embrace the principles and values contained in the *Code*, we will carefully evaluate whether a relationship with that party can be maintained.

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E. OUR CORE VALUES

Growing our values:
Excellence

Delivering goods and services of the highest standards thereby creating value and prosperity for all our stakeholders, and taking full responsibility for all our decisions and actions.

- Working according to the highest standards of service and productivity
- Maintaining a safe and healthy operating and working environment
- Using resources effectively
- Keeping proper records
- Protecting Sappi's name and reputation
- Protecting Sappi's physical assets
- Protecting Sappi's intellectual property and respecting the intellectual property of others
- Maintaining the confidentiality of information
- Maintaining security.

Growing our values:

Integrity

Being truthful, and building trust through all our actions.

- Being truthful in all communications and actions
- Complying with all applicable laws, industry regulations and Sappi policies
- Refraining from anti-competitive behaviour
- Refraining from engaging in political party activities
- Combating criminal activities such as theft, fraud, violations of trade controls and corruption
- Avoiding both actual and perceived conflicts of interest

Growing our values:

Respect

Recognising the inherent worth of the environment, and of people, while being impartial and avoiding discrimination

- Treating people with impartiality and respecting their human rights
- Creating and sustaining a respectful working environment
- Providing a working environment free from all forms of discrimination and harassment
- Valuing diversity
- Working in unity as a team
- Taking into account the expectations of the communities in which we are located
- Protecting the natural environment in which we operate.

1. Excellence

To be **excellent** at our job means delivering goods and service of the highest standards and taking full responsibility for all our decisions and actions by:

1.1 Working according to the highest standards of service and productivity

I will:

- Conduct business according to the highest professional standards of accuracy and completeness;
- Perform my work so as to yield only the highest quality transactions;
- Perform my work in a manner that will reduce risk;
- Ensure that I only make promises to internal or external customers I can reasonably expect to fulfil; and
- Continuously seek better and more efficient ways of performing my work.

1.2 Maintaining a safe and healthy operating and working environment

I will:

- Take all reasonable measures to prevent workplace accidents and injuries;
- Adhere to all safety, health and environmental laws;
- Adhere to Sappi's safety, health and environmental policies, regulations and procedures; and
- Refrain from putting others' lives and health at risk.

Refer to Sappi's Workplace Safety policies for more information

Example - An unsafe and unhealthy operating environment:

At one of Sappi's operations it seems that there is a possibility that harmful gases are leaking into the workspace. In order to verify this the mill will have to be closed for about half a day. The mill manager decides to wait for the routine inspection, which is 5 days away, rather than losing valuable production time.

1.3 Using resources effectively

I will:

- Contribute to creating working conditions conducive to high productivity;
- Complete tasks and projects cost-efficiently and without wasting time, that is, in the shortest reasonable time frame;
- Ensure the effective and efficient use of "company time" – time for which one is considered "at work" and is being paid;
- Use my knowledge and skills in the best interest of the company;
- Conduct business or perform tasks with good judgment and due care, and refrain from negligent or reckless conduct; and
- When in doubt about any action to be taken on behalf of Sappi, seek advice from others, including supervisors, management and legal staff.

1.4 Keeping proper records

I will:

- Ensure the accuracy of all records, reports, invoices, and other documents submitted to or on behalf of Sappi, including all financial reports;
- Maintain accurate records in line with Sappi's record-keeping procedures and requirements; and
- Ensure the timeliness of statements prepared or submitted, such as financial statements.

Refer to the Accounting Policies for more information (Intranet - Group Finance site)

Example - Improper record keeping:

A mill manager has received various letters of complaints from the community regarding the levels of emissions from the mill. He decides not to include them in the complaints register and throws them away.

1.5 Protecting Sappi's name and reputation

I will:

- Avoid using the company' s name or my status as an employee for purposes outside of work (for example, seeking preferential treatment, like a discount from a Sappi' s supplier, when purchasing something for personal use unless previously negotiated by Sappi on behalf of its employees);
- Avoid creating the impression that I am acting on the company' s behalf when this is not the case;
- Avoid making commitments on behalf of Sappi on which I cannot personally deliver; and
- Protect Sappi' s image or reputation.

1.6 Protecting Sappi' s physical assets

I will:

- Avoid using Sappi property, assets, or equipment in an improper manner, (for example, for purposes other than conducting company business);
- Treat assets, such as vehicles, tools, or equipment, with care and respect;
- Treat the assets of Sappi' s suppliers, contractors, customers, and employees with care and respect; and
- Report immediately the theft or misuse of company equipment or assets.

1.7 Protecting Sappi' s intellectual property and respecting the intellectual property of others

I will:

- Ensure that Sappi' s intellectual property and those of suppliers and contractors are only disclosed to appropriate parties internal and external to the organisation, with prior relevant approval and then on a professional and work-related need-to-know basis only;
- Refrain from exploiting intellectual property over which I cannot rightfully claim ownership, during or after employment or during or after the fulfilment of contractual relationships; and
- Refrain from acquiring, possessing or using the intellectual property of others without authorisation and approval by Sappi.

Refer to the *Intellectual Property Policy and Guidelines* for more information (*Intranet - Group Legal site*)

Example - Intellectual property violations:

While employed by Sappi, Mrs Ndlovu leads a team of engineers who develop a new methodology for producing coated paper. Sappi decides not to implement it at this stage as it is not clear that it improves on the current process. Mrs Ndlovu and a colleague decide to use the work they have done up to now and start their own company.

1.8 Maintaining the confidentiality of information

I will:

- Refrain from discussing Sappi' s proprietary, confidential or sensitive information when dealing with competitors or other people who do not have a legitimate interest in that information;
- Refrain from disclosing any sensitive customer information without proper prior authorisation from the customer;
- Maintain the confidentiality of information received from suppliers where Sappi is obliged to do so;
- Refrain from disclosing employee information that Sappi is legally obliged to record, unless obliged to disclose for legitimate reasons;
- Refrain from disclosing any information relating to employee salaries, unless there is proper authorisation from the employee or manager of the function; and
- Refrain from disclosing any information relating to an employee' s medical status unless prior consent is received from the employee.

Example - Confidentiality breaches:

Sappi have a good relationship with Company Y who provide their IT support. Every 2 years this contract is re-assessed and a number of companies are asked to bid for the contract. Mrs Burger works in procurement and gives a good friend of hers (who owns an IT support company) the tender documents which Company Y submitted 6 months ago.

1.9 Maintaining security

I will:

- Ensure that visitors to Sappi buildings and plants are authorised to be there;
- Ensure that visitors to Sappi facilities follow the appropriate procedures to prevent unauthorised access to materials, information, or persons;
- Refrain from introducing to the workplace alcohol, drugs, firearms, weapons or other items that could adversely affect safety and security; and
- Take adequate measures to ensure protection of the integrity of computer systems, including password protection, and minimising exposure to computer viruses or other threats to information systems.

Example - Security violations

While going to get supplies Mrs. Alvarez finds two men in the stock room. She asks them what they are doing there and they reply that they have come to make a delivery. She accepts their answer and does not ask them for their entry cards, nor does she call security to come and verify that they should indeed be there.

2. Integrity

To have **integrity** means being truthful and building trust through all our actions by:

2.1 Being truthful in all communications and actions

I will:

- Always tell the truth – and tell it in such a manner that it does not create false impressions, mislead or deceive;
- Make every reasonable effort to keep any and all promises I make to any stakeholder;
- When necessary, assist peers and colleagues in ensuring that they are able to deliver on their promises – since a breach of trust anywhere in Sappi harms the company's reputation for trustworthiness and thus harms us all;
- Avoid making any false or misleading statements to others who may rely on the accuracy and truthfulness of the information being provided;
- Avoid untruths, untruthful omissions, deception, concealment and overstatement in my communications;
- Avoid any form of intentional misrepresentation, fraud, corruption, or illegal practices or actions; and
- Effectively communicate both the letter and intent (spirit) of business policies, procedures and directives.

2.2 Complying with all applicable laws, industry regulations and Sappi policies

I will:

- Observe all applicable international and national laws and regulations external to Sappi, including all stipulations governing labour relations and conditions of employment;
- Follow all internal Sappi policies and procedures; and
- Before acting, ask for guidance if unsure whether the activity is in compliance with laws, regulations and Sappi policies.

2.3 Refraining from anti-competitive behaviour

I will:

- Avoid participating, or creating the impression of participating, in cartels typified by activities like fixing prices with competitors, collaborating with competitors to establish or maintain discounts, rebates or joint boycotts of suppliers or customers;
- Refrain from collaborating with one or more competitors to deny another competitor access to markets, territories or customers.

For a detailed description of the prohibitions on and descriptions of anti-competitive behaviour, please consult the *Anti-Competition/Anti-Trust Policy and Guidelines (Intranet - Group Legal site)*

2.4 Refraining from engaging in political party activities

I will:

- Refrain from using Sappi funds, resources, or services to contribute to political parties or their candidates; and
- Refrain from making available Sappi facilities to political candidates or campaigns for political meetings.

2.5 Combating criminal activities such as theft, fraud, violations of trade controls and corruption

I will:

- Refrain from theft and report observed theft of Sappi, supplier, customer or competitor

property;

- Refrain from fraudulent conduct (wilful misrepresentation yielding undue gain) and report observed fraud;
- Comply with applicable export controls or government-imposed trade restrictions;
- Refrain from corrupt conduct (such as bribery or giving/receiving kickbacks) and report observed corruption*;
 - Refrain from offering any Sappi staff member any item of value, including money, in return for a certain action or inaction by the staff member;
 - Refrain from offering any government official any item of value to obtain official action, obtain business from a government agency or secure an unfair competitive advantage;
 - Refrain from soliciting or accepting any item of value, including money, in return for a certain action or inaction, or that could reasonably be perceived to create such an obligation; and
- Refrain from insider trading (trading in Sappi securities while in possession of material non-public information) and dealing in shares during closed periods.**

* **For a detailed description of bribery and fraudulent activities and other prohibited transactions please consult the *Sensitive Payments and Conflicts of Interest Policy and Guidelines. (Intranet - Group Legal site)***

** **For a detailed description of the prohibitions and guidelines governing trade in Sappi shares please consult the *Trade in Sappi Limited Securities Policy and Guidelines. (Intranet - Group Legal site)***

Example - Fraudulent behaviour:

Mr van Zyl works with employee salary payments. He creates a profile for an imaginary employee using a forged ID document. He then proceeds to have a salary for this false employee paid into his bank account. Fraud is when someone uses deception to get an undue benefit.

Example - Corrupt behaviour:

A potential supplier is good friends with Mr. Young who works for Sappi. The supplier offers to pay Mr. Young R3000/ \$500/ 300 if he gives him the quotes of the other suppliers for a specific contract. Corruption requires at least two people to be involved – a person who offers or asks for a benefit and a person who accepts or gives the benefit in order to bring about an undue result.

2.6 Avoiding both actual and perceived conflicts of interest

Conflicts of interest occur any time an individual places his or her personal interest ahead of the interests of Sappi. All Sappi personnel must avoid actual conflicts of interest as well as an activity that could create an appearance of conflict of interest.

Example - Conflicts of Interest:

Miss. Anderson works in the department that is managed by Mr. Brugg. They become close and start having a relationship. They are quite open about it believing that they have nothing to hide. The other office staff however believe that Miss Anderson is given all the best assignments and are all very unhappy when she receives the best performance evaluation at the end of the year.

2.6.1 Transparency and disclosure

I will:

- Disclose any personal interest I, or a member of my immediate family, have in relation to Sappi's business (conflicts of interest could include involvement with a supplier, contractor or customer as well as directorships, significant shareholdings, or employment of family members).

Example - Conflicts of Interest:

Mrs. Long is asked to lead a large tender process to buy new equipment. She however knows that her husband's company will in all probability submit a tender and still accepts this task believing that she will be able to be objective. At the end of the process the entire tender committee agrees that her husband's company has submitted the best tender. The competitors however hear about their relationship and take the matter to court believing that there was a conflict of interests.

2.6.2 Outside activities, full or part-time employment, and directorships

I will:

- Ensure compliance with all provisions of The Sappi Code of Ethics when invited to hold outside directorships;
- Refrain from tendering, in any capacity, for Sappi business if I am a Sappi employee;
- Obtain approval from the functional head when invited to become a director of any non-Sappi entity, with final approval vesting in the Chief Executive Officer of Sappi Limited;
- Refrain from using my position for personal gain or to advance the interests of family members, friends, or others with whom I have a personal relationship;
- Refrain from taking full-time or part-time outside employment without the prior, written approval of my functional head; and
- Refrain from acquiring business interests or participating in any activity outside Sappi that:
 - Creates, or appears to create, an excessive demand on my time, attention and energy, that would deprive Sappi of my best efforts in executing my daily tasks; or

- Would interfere, or appear to interfere, with the independent exercise of judgment in Sappi's best interest.

2.6.3 Relationships with customers and suppliers

I will:

- Refrain from compromising, or creating the impression of compromising, my independence when engaging with customers and suppliers; and
- Refrain from investing, or acquiring a direct or indirect financial interest, in a customer or supplier organisation, if such an investment or acquisition influences, or creates the impression of influencing, my ability to pursue Sappi's best interest.

Example – Conflict of Interest:

Mr Jones works in shipping and order fulfilment for Sappi. He is widely admired for his experience in this field. He is approached by an air freight company that is used by Sappi to ship product and agrees to serve as a paid consultant for this air freight company.

2.6.4 Accepting gifts and entertainment

I will:

- Declare all gifts or promotional material exceeding (in the aggregate annually) R500/\$100/ 100 or equivalent in commercial value;
- Refrain from accepting business entertainment from suppliers, customers, contractors, other than invitations to occasional lunches, cocktail parties, or dinners;
- Refrain from accepting personal hospitalities from business-related sources other than occasional tickets to local sporting events, conferences or cultural events in which the business source does not provide my transportation and accommodation; and
- Declare all these permissible gifts, invitations, or tickets to my manager.

Example – Conflict of Interest:

Miss Chang works in treasury/finance for Sappi. Her duties include managing Sappi's outside banking relationships. Without reviewing the subject with her manager, Miss Chang accepts an invitation from the bank with which Sappi has an extensive relationship to attend a "customer conference" sponsored by the bank and held at a resort on the coast of Spain.

2.6.5 Giving gifts and entertainment

I will:

- Refrain from giving gifts or promotional material exceeding (in the aggregate annually) R500/\$100/ 100 or equivalent in commercial value;
- Refrain from offering or providing business entertainment other than invitations to occasional lunches, cocktail parties, or dinners;
- Refrain from offering or providing personal hospitalities other than occasional tickets to local sporting or cultural events or conferences; and
- Refrain from giving gifts or promotional materials of any kind to government officials.

Example – Conflict of Interest:

Mr Smith is a salesperson for Sappi. Mr Smith's family has a ski home in Colorado that is rarely used. To express his appreciation to the purchasing officer for a major customer, Mr Smith offers the purchasing officer the free use of his family's home for a week during the ski season.

For a detailed description of bribery and fraudulent activities and other prohibited transactions please consult the *Sensitive Payments and Conflicts of Interest Policy and Guidelines*. (Intranet - Group Legal Site)

2.6.6 Receipt of commission

I will:

- Restrict my receipt of compensation for my actions as a Sappi employee to compensation paid to me by Sappi; and
- Waive any offers of commission or monetary remuneration made to me related to the sale of any Sappi product or service and inform my manager of the offer made.

For a detailed description of conflict of interest situations please consult the *Sensitive Payments and Conflicts of Interest Policy and Guidelines*. (Intranet - Group Legal Site)

3. Respect

To be **respectful** means being impartial and avoiding discrimination by:

3.1 Treating people impartially and respecting their human rights

I will:

- Deal justly, fairly and objectively with each individual, irrespective of social, political, racial, gender, sexual-orientation, ethnic, or religious considerations, economic status, or physical characteristics; and
- Comply with all applicable wage and hour laws.

3.2 Creating and sustaining a respectful working environment

I will:

- Respect the inherent dignity of all people;
- Treat people with courtesy and sensitivity;
- Refrain from creating a hostile or disrespectful working environment;
- Refrain from acts of intimidation;
- Refrain from using offensive language or insensitive communications;
- Refrain from actions that amount to or could be understood as sexual intimidation or harassment or the tacit approval thereof; and
- Avoid creating/sending/forwarding e-mail messages unrelated to Sappi's business, including for example emails containing statements or material that are discriminatory, offensive, defamatory, sexual, illegal or harassing in nature.

Refer to the *Sexual Harassment Policy* for more information (Intranet - Group HR site)

Example - Not creating and sustaining a respectful working environment

Mr. A, who is a line manager, often makes sexual advances to his female staff members. Even though it is clear that the women are very uncomfortable with this, no one in the office has raised the matter with him or his manager.

3.3 Providing a working environment free from all forms of discrimination and harassment

I will:

- Refrain from any form of unfair discrimination based on race, religion, gender, political conviction, sexual orientation or disabilities;
- Refrain from illegal discrimination; and
- Report practices of unfair or illegal discrimination.

3.4 Valuing diversity

I will:

- Respect the traditions and cultures of all people
- Respect the right to freedom of social, religious and political association; and
- Respect the rights of differently abled people.

3.5 Working in unity as a team

I will:

- Promote inter-departmental, inter-divisional and interpersonal cooperation for the good of Sappi and all its stakeholders, internal and external;
- Refrain from debilitating workplace politics and hidden agendas; and
- Proactively share successful means of enhancing any and all aspects of efficiency or service quality with management and other employees in order to multiply the benefits derived from their use.

3.6 Taking into account the expectations of the communities in which we are located

I will:

- Be sensitive to the needs of local communities and consider their well-being in all policies and actions; and
- Aim to contribute to the economic well-being and social development of the communities where we conduct business.

For more information, please consult Sappi' s Charter on Sustainable Development.

Example: Not taking the expectations of communities where we are located into account

While negotiating with a local community about purchasing a piece of land to put up a mill it was agreed that as much of the labour as possible would be taken from this community. Mrs. Chi, who is managing the project, however has an argument with Mr. Schmit, one of the community leaders, about the dust created during construction. When the hiring starts she takes her anger at Mr. Schmit out on the community and decides not to give them preference for jobs. When they complain she tells them to take up the matter with Mr. Schmit.

3.7 Protecting the natural environment in which we operate

I will:

- Treat the environment as a sustainable resource for future generations;
- Limit to permissible levels air, soil, noise, or any other form of pollution emanating from Sappi activities; and
- Comply with environmental laws, secure permits and respond appropriately to inquiries, inspections or monitoring provided by government agencies engaged in environmental regulation.

For more information, please consult Sappi's *Charter on Sustainable Development*.

F. USING THE SAPPI CODE OF ETHICS

There will be times when employees are uncertain whether a decision or action they are considering is consistent with both the letter and spirit of *The Sappi Code of Ethics*.

There will be other times when an employee suspects or believes he or she has observed unethical or illegal conduct.

In both these situations, Sappi provides mechanisms for employees or external stakeholders (such as customers, clients, suppliers, or contractors) that are both safe and effective.

Seeking guidance

There are many ways to obtain guidance:

Speak to your line manager

If you have any queries or concerns, remember that your line manager knows your work situation well and might be able to address your concern.

Speak to a Sappi senior manager or executive

If you do not feel comfortable contacting your line manager, there are others in management you might feel more comfortable approaching. Every Sappi manager must maintain the highest ethical standards, and

accept, as part of their responsibility, fielding questions or concerns from fellow employees and guiding employees in the application of *The Sappi Code of Ethics*.

Speak to Human Resources, Legal Services or Internal Audit

You can also contact Human Resources, Legal Services or Internal Audit for advice, especially concerning issues that may require specific expertise.

Reporting a concern confidentially

Directors and employees are required to report any conduct that violates the Sappi Code of Ethics. There are many channels to report a suspected violation or impending violation of the Sappi Code of Ethics:

Speak to your line manager

If you suspect or believe you have observed unethical or illegal conduct, your line manager should be promptly notified.

Speak to a Sappi senior manager or executive

If you do not feel comfortable bringing an allegation of unethical or illegal conduct to your line manager's attention, there are others in management you could approach. Every Sappi manager is available to receive such reports and to ensure that they are appropriately acted upon.

Speak to Human Resources, Legal Services or Internal Audit

You may report incidences of unethical conduct to Human Resources, Legal Services or Internal Audit.

Confidentiality means that the Sappi official to whom you report misconduct will know your identity but will not make it known to any other parties unless, in the interest of Sappi, he or she is required to do so.

Refer to the *Whistle-Blowing Policy* for more information (Intranet - Group Legal site)

Reporting a concern anonymously - Sappi Hotline

Telephone the Sappi Hotline, which assures anonymity

Anonymity means that you do not have to give your name. Nobody will know your identity. You will be assigned a reference number in the event that you need to make follow-up calls.

If you prefer remaining anonymous, please contact the 24- hours a day, 365 days a year, Sappi Hotline. All calls are treated confidentially and you may choose to remain anonymous. You can speak to an agent in English or another language as detailed below.

Phone calls will be answered by an independent third party agent. The agent will ask you a number of questions which will help to create a report focusing on the facts surrounding your concern.

You will be given a reference number that identifies your call, should you wish to call back later to provide additional information or follow up on what has been done about the violation which you reported.

If you report anonymously to the Sappi Hotline and wish to remain anonymous, it is also your responsibility to maintain anonymity by not making any disclosure to a third party.

Global Contact Details of the Sappi Hotline

The international toll-free numbers are only accessible within the country specified.

Country	Dial Code	International Toll Free Nr	Language Option 1	Language Option 2
Australia	61	1-800-14-1924 or 1-800-20-8932	English	
Austria	43	0800-298-689	German	English
Belgium	32	0800-7-4665	Dutch	English
Brazil	55	0800-891-4354 / 4654	Portuguese	English

China	86	10-800-711-0709 or 10-800-110-0652	Mandarin	English
Czech	420	800-143-169	Czech	English
France	33	0800-91-0698	French	
Germany	49	0800-187-6411	German	English
Greece	30	00-800-11-005-0481	Greek	English
Hong Kong	852	800-962-881	Cantonese	English
Italy	39	800-788670	Italian	English
Mexico	52	001-877-563-6582	Spanish	English
Netherland	31	0800-022-7255	Dutch	English
Poland	48	0-0-800-111-1686	Polish	English
Russia	7	Dial a Russian AT&T access number, then 800-443-1986	Russian	English
Shanghai	86	10-800-110-0577	Mandarin	English
Singapore	65	800-110-1519	Mandarin	English
South Africa	27	0800-00-32-35	English, Afrikaans, isiZulu, isiXhosa, Sesotho, Setswana, Sepedi, Tshivenda, Xitsonga, SiSwati, isiNdebele	Dutch, French, German, Portuguese
Spain	34	###-##-####	Spanish	English
Swaziland	27	12-543-5380	English	SiSwati, Afrikaans, isiZulu, isiXhosa, Sesotho, Setswana, Sepedi, Tshivenda, Xitsonga, isiNdebele
Sweden	46	###-##-####	Swedish	English
Switzerland	41	0800-56-4879	German	French
Taiwan	886	00801-10-4095	Mandarin	English
Turkey	90	704-526-2302 or Dial the Turkish AT&T access number, then 866-623-1477	Turkish	English
United Kingdom	44	877-540-5068	English	
United States	1	800-233-8213	English	

Responsibility to report

It is Sappi's responsibility to ensure that there are safe and effectively managed channels and procedures for employees and external stakeholders (such as customers, suppliers, or contractors) to report unethical or illegal conduct.

In turn, it is the responsibility of all Sappi employees and external stakeholders to report unethical or illegal conduct, or to seek guidance when there is uncertainty about the ethics or legality of a course of action.

Reporting is especially important for the success of our efforts to combat criminal activity (see Section E.2.5 above on combating criminal activities).

Employees who fail to honour these obligations may (dependent on the circumstances) be subject to disciplinary action, up to and including possible termination of employment and legal action. External stakeholders who fail to honour these obligations may (dependent on the circumstances) face various penalties, including termination of service and legal action.

Custodianship

Every Sappi employee, supplier and contractor owns *The Sappi Code of Ethics*. The Group Corporate Counsel is the formal custodian of *The Sappi Code of Ethics* and is responsible for its management and improvement.

If you have any questions or suggestions regarding the content of *The Sappi Code of Ethics*, please feel free to telephone the Group Corporate Counsel on +27 (0)11 407 4040.

PRINCIPAL EXECUTIVE OFFICER' S CERTIFICATION

I, Roeloff Jacobus Boëttger, certify that:

1. I have reviewed this annual report on Form 20-F of Sappi Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company' s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company' s internal control over financial reporting; and
5. The company' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company' s auditors and the audit committee of the company' s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company' s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company' s internal control over financial reporting.

Dated: January 26, 2009

by: /s/ Roeloff Jacobus Boëttger

Roeloff Jacobus Boëttger
Chief Executive Officer

PRINCIPAL EXECUTIVE OFFICER' S CERTIFICATION

I, Mark Richard Thompson, certify that:

1. I have reviewed this annual report on Form 20-F of Sappi Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company' s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company' s internal control over financial reporting; and
5. The company' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company' s auditors and the audit committee of the company' s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect

the company' s ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company' s internal control over financial reporting.

Dated: January 26, 2009

by: /s/ Mark Richard Thompson

Mark Richard Thompson
Chief Financial Officer

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICERS
PURSUANT TO 18 U.S.C. SECTION 1350**

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Sappi Limited, a corporation organized under the laws of the Republic of South Africa (the "Registrant") for the period ending September 28, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Registrant certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to such officer's knowledge that:

1. the Report fully complies, in all material respects, with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of, and for, the periods presented in the Report.

BY: /s/ ROELOFF J BOETTGER

Name: Roeloff J Boëttger

Title: *Chief Executive Officer*

BY: /s/ MARK R THOMPSON

Name: Mark R Thompson

Title: *Chief Financial Officer*

Date: January 26, 2009

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-11304, No. 333-121276, No. 333-121300, and No. 333-130552, on Form S-8 as amended, of our report dated January 26, 2009, relating to the financial statements and financial statement schedule of Sappi Limited, and the effectiveness of Sappi Limited' s internal control over financial reporting, appearing in this Annual Report on Form 20-F of Sappi Limited for the year ended September 2008.

/s/ Deloitte & Touche

Per M J Comber

Partner

January 26, 2009

Deloitte & Touche - Registered Auditors

Buildings 1 and 2, Deloitte Place

The Woodlands Office Park, Woodlands Drive, Sandton

Johannesburg, South Africa

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer

GM Pinnock Audit DL Kennedy Tax and Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance

CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request
