Operating Income

Consolidated operating income increased significantly by $265 million, or 65.1%, to $672 million in fiscal 2000. This increase in consolidated operating income is primarily attributable to an increase in operating income at Sappi Fine Paper Europe and at Sappi Forest Products.

Operating margin increased significantly to 14.2% in fiscal 2000 from 8.9% in fiscal 1999. This increase is primarily attributable to increases in the average prices realised in local currencies (US dollar, Euro and Rand), internal efficiencies and cost containment as well as the depreciation of the Rand and the Euro against the US dollar in fiscal 2000.

Sappi Fine Paper. Operating income for Sappi Fine Paper increased by 47.4% to $451 million in fiscal 2000. This is mainly due to the significant increase in operating income at Sappi Fine Paper Europe. Operating margin increased to 11.8% in fiscal 2000 from 8.3% in fiscal 1999.

Operating income for Sappi Fine Paper Europe more than doubled to $252 million in fiscal 2000. Operating margin increased to 12.6% in fiscal 2000 from 6.9% in fiscal 1999. This increase is primarily attributable to higher selling prices realised in Euro terms coupled with improved productivity and cost reductions. The increase in operating margin was achieved despite higher input costs for pulp.

At Sappi Fine Paper North America, operating income increased by 25.2% to $179 million in fiscal 2000. This increase was achieved despite significant pressure from pulp and energy costs, low-priced imports and excess producer inventories. Price realisation, mix improvement and cost containment were major factors in the improvement. As the growth of the US economy began to slow, production was curtailed late in the last quarter of fiscal 2000 to match output and demand. Operating margin increased to 11.1% in fiscal 2000 from 9.6% in fiscal 1999.

Operating income for Sappi Fine Paper South Africa decreased by 48.7% to $20 million in fiscal 2000. This decrease is partly attributable to higher input cost of pulp, inflationary increases in the costs of goods, services and wages, as well as the depreciation of the Rand against the US dollar. In nominal Rand terms, operating income decreased by 44.1% in fiscal 2000. As a result, operating margin decreased to 8.8% in fiscal 2000 from 15.6% in fiscal 1999.

Sappi Forest Products. Operating income for Sappi Forest Products more than doubled increasing by $137 million to $224 million in fiscal 2000. This increase is primarily attributable to the increase in volumes sold; higher selling prices realised in Rand terms as well as cost containment and internal efficiencies. As a result, operating margin increased significantly to 25.2% in fiscal 2000 from 11.6% in fiscal 1999.

Non-trading Profit (Loss)

Non-trading profit (loss) represents all income and expenditure received from activities which do not constitute what is regarded as normal trading and includes profits and losses on the disposal of fixed assets. Also included are mill closure costs when these occur.

Non-trading loss was $207 million in fiscal 2001, $2 million in fiscal 2000 and $74 million in fiscal 1999.

- Non-trading loss in fiscal 2001 consisted primarily of a $183 million ($110 million after tax) charge for the write-off of the assets and closure costs relating to the Mobile mill closure, and a non-recurring charge of $9 million relating to the write-off of deferred finance cost relating to the refinancing of the North American credit facility in 2001.

- Non-trading loss in fiscal 2000 consisted primarily of a $21 million profit on the sale of Sappi Novobord, offset by a charge of $8 million for further asset impairment costs relating to our UK operations and a non-recurring charge of $17 million relating to the cost of refinancing the $232 million Sappi Fine Paper North America's 12% high-yield debt in fiscal 2000.

- Non-trading loss in fiscal 1999 consisted primarily of a pre-tax charge of $43 million relating to the closure of the Westbrook mill at our North American operations, a pre-tax charge of $25 million relating to UK asset impairment costs, a pre-tax charge of $7 million relating to restructuring costs at our UK operations and Sappi Forest Products, a loss of $6 million on the sale of our US timberlands, partly offset by a $7 million profit on sale of fixed assets pursuant to a sale and leaseback transaction.

Net Finance Costs

Net finance costs consists of interest expense, net of interest received, interest capitalised and foreign exchange gains and losses. Net finance costs decreased to $92 million in 2001 from $97 million in fiscal 2000. The decrease of $5 million in net finance costs resulted primarily from lower levels of borrowings, the refinancing of certain higher cost loans and a decrease in interest rates prevailing in the countries in which we operate.

Net finance costs decreased significantly by 33% to $97 million in fiscal 2000 from $145 million in fiscal 1999. The reduction in finance cost in fiscal 2000 resulted primarily from lower levels of borrowings and the refinancing of certain higher cost loans. Cash interest cover decreased to 6.2 times for fiscal 2001 compared to 7.3 times for fiscal 2000, after having increased from 4.1 times in fiscal 1999.

Our policy is to capitalise the holding costs of forests and the pre-commissioning finance costs on major capital projects. Finance costs capitalised in fiscal 2001 were $33 million compared to $47 million in fiscal 2000 and $45 million in fiscal 1999. Finance costs capitalised related mainly to the holding cost of forests and to capitalised interest on major projects under construction. The South African Producer Price Index is used as a limit in determining the amount of the interest to be capitalised in respect of the holding cost of forests. The reduction in interest capitalised in fiscal 2001 is also due to lower interest rates and the effect of the appreciation of the US dollar against the Rand.

Taxation

We began to apply the comprehensive method of calculating deferred tax effective from fiscal 1999. The statutory corporate tax rate in South Africa was reduced from 35% to 30% in 1999.

Total taxation amounted to $9 million in fiscal 2001, $197 million in fiscal 2000 and $46 million in fiscal 1999. Total taxation in 2001 decreased by $188 million from 2000, mainly due to lower levels of profit and the $73 million tax credit relating to the Mobile closure charge, resulting in a 6% effective rate for the year. The effective rate for ongoing operations excluding Mobile was approximately 25% for the full

financial year and was reduced by the geographic split of earnings, in particular the lower proportion of earnings in North America, and a reduction in the German tax rate.

The effective tax rate was 34.4% and 26.1% for fiscal 2000 and fiscal 1999, respectively. The increase in the effective tax rate in fiscal 2000 is mainly the result of fiscal 1999 being favourably affected by the impact of the reduction of the corporate tax rate in South Africa in 1999 on the opening balance of deferred tax at the beginning of fiscal 1999.

Current taxation amounted to $88 million in fiscal 2001, $73 million in fiscal 2000 and $21 million in fiscal 1999. The increase in current taxation in fiscal 2001 is mainly due to profits at our South African operations no longer being shielded by tax losses, as well as a prior year adjustment (at one of our European mills) which was raised in the current year, offset by an equal and opposite prior year adjustment to deferred tax. The increase in current taxation in fiscal 2000 is mainly due to increased profits and profits no longer being shielded by tax losses.

Deferred taxation in the income statement was a release of $79 million in fiscal 2001, and a charge of $124 million in fiscal 2000 and $25 million in fiscal 1999. The release in fiscal 2001 is mainly due to the $73 million tax credit relating to the Mobile closure charge. The increase in deferred taxation in fiscal 2000 is mainly due to temporary differences associated with the increased net income levels in fiscal 2000. The decrease in deferred taxation in fiscal 1999 is mainly due to the impact of the reduction of the corporate tax rate in South Africa in 1999 on the opening balance of deferred tax at the beginning of fiscal 1999 (contributing $27 million of the decrease), partly offset by a correction relating to a prior year underprovision for deferred taxation by a division of Sappi, as well as temporary differences arising during fiscal 1999.

Certain of our companies are subject to taxation queries which could give rise to additional taxation costs. While amounts have been provided for such costs in addition to amounts disclosed as contingent liabilities, management currently believes, based on legal counsel opinion, that no further material costs will arise. See note 28 to our audited consolidated financial statements included elsewhere in this Annual Report.

The effective tax rate in fiscal 2001 is lower than the weighted-average statutory tax rate in the countries in which we operate, mainly due to deductible permanent differences in Belgium, Austria and South Africa. The effective tax rate in fiscal 1999 is lower than the weighted-average statutory tax rate in the countries in which we operate, mainly due to the impact of the reduction of the corporate tax rate in South Africa in 1999 on the opening balance of deferred tax at the beginning of fiscal 1999. Excluding this tax rate adjustment, our effective tax rate in fiscal 2000 and 1999 is higher than the weighted-average statutory tax rate in the countries in which we operate, mainly due to valuation allowances raised against deferred tax assets and expenses for which no tax relief is available.

The South African government has recently enacted or proposed changes in the tax laws that are likely to affect our effective tax rate in the future. The enacted and proposed changes that are more relevant to us are the following:

Residence-Based Taxation and the Taxation of Foreign Dividends. The South African tax system has been based on the source plus principle. However, in terms of legislation promulgated during fiscal 2001 and 2000, residents of South Africa will be taxed on their worldwide income for years of assessment commencing on or after January 1, 2001. This will apply to our fiscal 2002 year. A company will be regarded as a South African tax resident if it is incorporated, established, formed or has its place of effective management in South Africa. All income of a controlled foreign entity, i.e., a foreign company more than 50% owned by a South African resident or residents, will also be imputed to the residents in the proportion of their shareholding or interest in the entity. The business profits which are derived from a permanent establishment of either a resident or a controlled foreign entity in certain designated countries identified by the Minister of Finance of South Africa will be excluded, if the foreign income has been or

will be subject to tax at a statutory (not effective) rate of at least 27%, although assessed tax losses can be taken into account. Any foreign taxes paid or payable on the foreign income without any right of recovery by any person will be allowed as a credit against the tax payable in South Africa.

As an interim step in the introduction of the residence basis of taxation, foreign dividends are to be included in the taxable income of South African residents. This measure applies to foreign dividends, which have accrued to or were received by residents on or after February 23, 2000. However, foreign dividends paid out of profits generated in certain designated countries will not be taxable where the income from which the dividend was distributed has been or will be subject to tax at a statutory rate of at least 27% and the resident holds an interest of at least 10% in the company declaring the dividend. A resident will be able to claim foreign tax paid by the resident on the dividend as a credit to the extent that South African tax is payable on the foreign dividend. In addition, South African companies are not able to claim taxable foreign dividends as a credit in the calculation of their liability for secondary tax on companies.

Our non-South African manufacturing activities are located in countries that are included in the list of designated countries published by the Ministry of Finance of South Africa. See "Item 10—Additional Information—Taxation".

Capital Gains Tax. During fiscal 2001 a tax on capital gains was legislated effective October 1, 2001. Affected capital assets for companies will include virtually all business assets. Companies will be liable to normal tax on 50% of the net capital gain. At the current corporate tax rate of 30%, the effective tax rate on net capital gains will therefore be 15%. See "Item 10—Additional Information—Taxation".

Income Attributable to Minority Interests

Income attributable to minority interests was zero in fiscal 2001, compared to $13 million in fiscal 2000 and $16 million in fiscal 1999, mainly due to the acquisition of the minority interests in Leykam-Mürztaler AG and Usutu Pulp mill during fiscal 2000 and fiscal 1999. See "—Liquidity and Capital Resources—Acquisition and Dispositions—Acquisition of Minority Interests in Leykam-Mürztaler AG" and "—Acquisition of Minority Interests in the Usutu Mill".

Net Income

As a result of the foregoing, and particularly due to lower sales volumes and selling prices and the $110 million after tax charge resulting from the closure of the Mobile mill in the third quarter of 2001, net income decreased significantly by $225 million or 62%, to $138 million in fiscal 2001 from $363 million in fiscal 2000. Net income was $114 million in fiscal 1999.

Liquidity and Capital Resources

Operations

Net cash retained from operating activities amounted to $543 million in fiscal 2001, $789 million in fiscal 2000 and $608 million in fiscal 1999. The decrease in fiscal 2001 as compared to fiscal 2000 is primarily attributable to our lower level of operating profit in fiscal 2001, combined with higher taxation payments, partially offset by a decrease in working capital (decreased receivables and inventories, offset by decreased payables) and lower finance cost payments. The increase in fiscal 2000 as compared to fiscal 1999 is primarily attributable to our higher level of operating profit in fiscal 2000, combined with a reduction in finance costs and partially offset by an increase in working capital (receivables and inventories). The increase in fiscal 1999 as compared to fiscal 1998 is primarily attributable to a reduction in finance costs in fiscal 1999 and a further decrease in working capital (payables) in 1999, partially offset by a reduction in operating profit and dividends paid.

Investing

Cash utilised in investing activities was $305 million in fiscal 2001, $68 million in fiscal 2000 and $88 million in fiscal 1999. Cash utilised in investing activities in fiscal 2001 related mainly to capital expenditure investment in non-current assets of $321 million, reduced by a decrease of $12 million in investments and loans. Cash utilised in investing activities in fiscal 2000 related mainly to capital expenditure investment in non-current assets of $253 million, reduced by the proceeds from the sale of Sappi Novobord for $57 million, and a decrease in investments of $91 million, reflecting the realisation of a $104 million collateral deposit which was utilised to repay indebtedness of Heritage Springer. Cash utilised in investing activities in fiscal 1999 related mainly to capital expenditure investment in non-current assets of $257 million, reduced by approximately $180 million proceeds from the sale of the timberlands of our North American operations.

Financing

Net cash used in financing activities was $88 million in fiscal 2001, $564 million in fiscal 2000 and $868 million in fiscal 1999. The decrease in net cash used in fiscal 2001 as compared to fiscal 2000 is primarily attributable to an increase in short-term borrowings, reduced by the effect of our share buy back programme. The decrease in net cash used in fiscal 2000 as compared to fiscal 1999 is primarily attributable to a smaller decrease in short-term borrowings in fiscal 2000. Net cash used in fiscal 2000 also reflects the acquisition of minority interests in Leykam-Mürztaler AG and Usutu Pulp for $126 million as well as the receipt of $114 million of proceeds from a global offering of our ordinary shares.

At the end of 2001, we had aggregate unused borrowing facilities availability of $1,359 million ($188 million in South Africa, $79 million in the United States and $1,092 million in Europe). Unused borrowing facilities at the end of 2000 were $784 million. At the end of 2001, the ratio of net debt to total capitalisation was 30%, down from 33% at the end of 2000. The ratio of net debt to equity at the end of 2001 was 75%, down from 76% at the end of 2000.

We have access to capital from a range of external sources. In accessing external sources of funds, consideration is given to the following factors:

- age profile of repayment of debt;
- cost of financing;
- availability of sources;
- availability of natural and artificial hedges against currency and/or interest rate fluctuations;
- availability of tax efficient structures to moderate financing costs; and
- a target net debt to total capitalisation range of between 25% to 50%, depending on where we are in the cycle, except when we undertake large capital projects or acquisitions.

Our borrowings are not seasonal and we mainly borrow in the currencies in which we operate, and accordingly our net debt and cash and cash equivalents are mainly denominated in US dollars, Euro and Rand. See note 16 to our audited consolidated financial statements included elsewhere in this Annual Report. For a profile of our debt repayment schedule see note 16 to our audited consolidated financial statements included elsewhere in this Annual Report.

For a description of financial instruments and our treasury/funding policies, see note 32 to our audited consolidated financial statements included elsewhere in this Annual Report.

All loans raised in currencies other than the domestic operating currency of the entity to which the funds are applied, are immediately and continuously protected by forward exchange contracts. We also have a policy of maintaining a balance between fixed rate and variable rate loans that enables us to

minimise, on a cost effective basis, the impact to reported earnings, while maintaining a reasonably competitive, market-related cost of funding. The specific balance is determined separately for our European, North American and southern African businesses to reflect more accurately the different interest rate environments in which these businesses operate. We monitor market conditions and may utilise interest rate derivatives to alter the existing balance between fixed and variable interest loans in response to changes in the interest rate environment. See note 32 to our audited consolidated financial statements included elsewhere in this Annual Report.

Our rapid expansion, mainly through acquisitions, had been demanding on our capital resources and on the profile and mix of the funding actually used. At September 30, 2001, our net debt, calculated using components derived under South African GAAP, was $1.1 billion, down by $142 million, or 11.2%, from $1.2 billion at September 27, 2000. Despite the difficult market conditions in 2001, this reduction has been achieved primarily as a result of strong internal cash generation, working capital control and to a lesser extent the effect of the translation of the depreciation of the Rand against the US dollar. Of our net debt of $1.1 billion at the end of fiscal 2001, $489 million is payable within one year. This is an increase of $327 million over 2000, mainly as a result of $243 million principal amount of convertible notes maturing in August 2002. The Group has adequate working capital, cash on hand and short and long-term banking facilities to meet these short-term commitments.

In the third quarter of fiscal 2001, we arranged a E900 million ($770 million) finance facility, which comprises two tranches, on an unsecured basis at between 55 and 70 basis points above the EURIBOR rate. The first tranche is a E562.5 million five-year revolving credit facility for general corporate purposes. The second tranche of E337.5 million was partly utilised in September 2001 when we completed the refinancing of the S.D. Warren term loan and revolving credit facility ($250 million). This resulted in the write-off of $9 million of deferred finance costs and will result in lower ongoing cash finance costs. We have, subsequent to year-end 2001, also announced our intention to refinance the approximately $140 million principal amount of 14% debentures due December 2001 of S.D. Warren Company with this Euro facility.

There are at present limitations on our ability to utilise facilities in any one of our divisions to finance activities, or refinance indebtedness, of any other division due to covenant restrictions and exchange controls. These limitations have been mitigated by the refinancing of our North American credit agreement. A constraint applicable to South African companies is the application of exchange controls, which inhibit the free flow of funds from South Africa. See "Item 10—Additional Information—Exchange Controls". This affected the geographic distribution of our debt. As a result, our acquisitions in the United States and Europe were financed with indebtedness incurred by companies in these regions. We have access to and have extensively utilised long-term borrowings of either a secured nature in the United States, or generally unsecured in Europe and South Africa (except in the case of asset-linked finance). Interest rates reflect the long-term rates for the currencies being borrowed except in the case of funds raised for leveraged acquisitions, which may include an additional margin. Short-term borrowings are generally freely available at commercial rates in all countries in which we operate and are used mainly to finance working capital. Certain of the remaining SDW Holdings and S.D. Warren's debt financing agreements contain restrictive covenants which, among other things, limit dividends and require prepayment of this indebtedness with the proceeds of certain asset sales, incurrences of certain additional indebtedness and issuances of equity by SDW Holdings, S.D. Warren or their subsidiaries. These restrictive covenants significantly limit our ability to utilise cash generated by Sappi Fine Paper North America for purposes other than the repayment of existing indebtedness. These restrictive covenants and limitations will be eliminated after the refinancing of the 14% debentures of S.D. Warren Company.

We have sold approximately $300 million of non-core assets since 1998 and used the proceeds largely to reduce indebtedness.

While reduction of net debt is a priority, opportunities to grow within our core businesses will continue to be evaluated. The financing of any future acquisition may involve the incurrence of additional indebtedness or the use of proceeds from asset dispositions.

Capital Expenditures

Capital expenditures in fiscal 2001, fiscal 2000 and fiscal 1999 consisted of the following:

	Year Ended September		
	2001 (audited)	2000 (audited)	1999 (audited)
		(US$ in million)	
Sappi Fine Paper			
Sappi Fine Paper North America[1]	99	96	107
Sappi Fine Paper Europe[2]	116	78	93
Sappi Fine Paper South Africa	35	9	6
Total	250	183	206
Sappi Forest Products	43	35	26
Corporate	—	3	2
Consolidated Total[3]	293	221	234

(1) Sappi Fine Paper North America's prior corporate parent invested approximately $1 billion on capital and investment expenditures from 1988 to 1994.

(2) In addition, there were approximately NLG1,383 million of capital expenditures at KNP Leykam in the two years preceding our acquisition of that company.

(3) Excludes investment in timberlands. In fiscal 2000 and fiscal 2001, investment in timberlands amounted to $32 million and $28 million, respectively.

We operate in an industry that requires high capital expenditures and need to devote a significant part of our cash flow to capital expenditure programmes, including investments relating to maintaining operations.

Capital spending for investment relating to maintaining operations during fiscal 2001, fiscal 2000 and fiscal 1999 amounted to approximately $154 million, $129 million and $122 million, respectively. The capital expenditure programme for these three fiscal years was funded primarily through internally generated funds.

Our mills are generally well invested. Sappi Fine Paper North America's prior corporate parent invested approximately $1 billion on capital and investment expenditures from 1988 to 1994. In addition, there were approximately NLG1,383 million of capital expenditures at KNP Leykam in the two years preceding our acquisition of that company, which included the commissioning of PM 11 at Gratkorn. Consequently, during fiscal 1997 to fiscal 2001, capital spending incurred related mainly to maintaining existing operations and selected high-return capacity expansion or quality-enhancing projects. Our capital expenditure to expand our operations in fiscal 2001 was focused on high return projects. At Muskegon in North America, Gratkorn in Europe, and Stanger in South Africa, major projects were completed to upgrade operating equipment. These projects will improve product quality, reduce costs and increase capacity. Capital spending for the Sappi Group during fiscal 2002 is expected to total approximately $243 million or approximately 70% of depreciation and will consist mainly of normal maintenance expenditure and several rebuild projects. Capital spending is expected to be funded primarily through internally generated funds. For further details about our capital commitments, see note 27 to our audited consolidated financial statements included elsewhere in this Annual Report.

Dividends

Sappi Limited declared total cash dividends in respect of the ordinary shares of $0.26 per share in fiscal 2001, $0.25 per share in fiscal 2000, and R1.15 ($0.19) per share in fiscal 1999. Dividends paid in years prior to fiscal 2000 have been paid in South African Rand, and have been converted to US dollars at the rate of exchange at the date of declaration of the dividend. In May 1998, we announced that future dividends would be considered only on an annual basis. The current dividend policy of Sappi Limited is to provide dividend payments which incorporate, over time, real growth for shareholders by providing dividend payments varying in line with changes in the business cycle, but maintaining a long-term average dividend "cover" of three times. Our dividends were covered 2.3, 6.1 and 2.7 times in fiscal 2001, 2000 and 1999, respectively. See "Item 8—Financial Information—Other Financial Information—Dividend Policy".

Mill Closures, Acquisitions and Dispositions

Closure of Mobile Mill. In the third quarter of fiscal 2001, we announced the closure of the Mobile mill in Alabama, and have provided a $110 million after tax charge for the write-off of the assets and closure costs. The Mobile mill is located on a multi-user site. The energy supplier filed for bankruptcy after the closure of a pulp mill on the site, resulting in dramatically increased energy costs. Because we were unable to invest on the site without a better overall cost structure, we decided to close the mill. Had the Mobile mill been closed (with associated overhead cost reductions) at the beginning of 2001, there would have been a benefit of approximately $35 million before tax or approximately 9 US cents per share after tax in this year. In addition, our North American operations have also embarked on corporate and mill overhead reductions through a staff downsizing programme.

Closure of Transcript Mill. Subsequent to year-end, on October 9, 2001, we announced the intention to close the Transcript mill in Scotland. This facility produced carbonless paper products which is non-core and being rapidly replaced by other products or electronic media.

Acquisition of KNP Leykam. On December 31, 1997, we completed the acquisition of a 91.5% ownership interest in KNP Leykam from KNP BT. The aggregate consideration paid in connection with the KNP Leykam acquisition amounted to approximately NLG1.8 billion. We paid part of the consideration through the issuance of 44,600,423 ordinary shares (which were valued at approximately NLG0.8 billion). We also issued indebtedness in the amount of approximately NLG1 billion, including the interest-free short-term liability referred to above. This indebtedness matured on December 31, 1999. We financed the settlement of this indebtedness with a syndicated two-year term loan facility of Euro 343 million ($346 million) arranged by a group of international banks. This facility was repaid in September 2000. During February 1999, we increased our ownership interest in KNP Leykam to 92.2% and in March 2000, we increased this interest to 100%.

Acquisition of Minority Interests in Leykam-Mürztaler AG. During September 1999, we commenced a major reorganisation of our North American and European fine paper interests. The reorganisation was aimed at amalgamating these interests under a single holding company, improving access to operating cash flows, centralising borrowings and improving tax and operating efficiency. The reorganisation resulted in the delisting of Leykam-Mürztaler from the Vienna and Frankfurt Stock Exchanges and the acquisition of the minority interests in that company for approximately $98 million. This was funded from a portion of the proceeds to us from our global equity offering. The acquisition of these minority interests increased our ownership interest in KNP Leykam to 100%. The first part of this process was successfully completed in January 2000 when the minority interests in Leykam-Mürztaler had been reduced to 8.2%. On March 9, 2000, the shareholders of Leykam-Mürztaler approved the merger of that company with a wholly-owned subsidiary of Sappi and we subsequently paid 35 Euro per share to the minority shareholders. Profits were recognised and consolidated from April 1, 2000.

Acquisition of S.D. Warren Minority Interests. During fiscal 1997, we undertook a series of transactions for the purpose of acquiring ownership or the right to acquire 100% of SDW Holdings' common equity for an aggregate purchase price of $155 million. As a result of these transactions and related transactions during fiscal 2000, we acquired all of the minority common equity interests (including both common stock and warrants) in SDW Holdings held by certain investors and repaid related financings. The acquisition of the minority common equity interests of SDW Holdings was accounted for as a purchase transaction.

Disposal of Novobord and Mining Timber. We sold our South African particle board business, Novobord, for $57 million, effective September 2000. We disposed of our mining timber operations in South Africa effective October 1, 2000.

Sale/Leasebacks; Securitisations. During the periods covered by our financial statements, we have entered into a number of sale/leaseback and securitisation transactions, including agreements relating to our facilities in North America (Somerset) and southern Africa (Usutu, Saiccor, Stanger and Enstra). Securitisation agreements are in place in South Africa, North America, Europe and at Sappi Trading. The proceeds from such transactions have been or are being used principally for the repayment of indebtedness and preferred equity.

Changes in Accounting Policies

South African GAAP

There have been a number of accounting policy changes in 2001. This is mainly due to the numerous changes to the South African accounting standards to harmonise with International Accounting Standards. We changed our accounting policy with respect to leases, events after the balance sheet date (dividends), employee benefits, discontinuing operation, impairment of assets, intangible assets, provisions, contingent liabilities and contingent assets, business combinations, consolidated financial statements and accounting for investments in subsidiaries, financial instruments: recognition and measurement, government grants, consolidation: special purpose entities, and Share capital—reacquired own equity instruments (treasury shares). These changes had no material effect on current year and comparable period earnings, but had the effect of decreasing equity by $3 million at the beginning of the year.

In fiscal 2000, we changed our accounting policy with respect to the revaluation of property, plant and equipment. All these assets are now stated at cost. This change had no effect on net income but had the effect of reducing equity by $58 million for both fiscal 2000 and fiscal 1999.

In fiscal 1999, we changed our accounting policies with respect to deferred taxation, the classification of liabilities from equity and minority interests and offsetting of financial assets and liabilities. These changes are as follows:

- we began using the comprehensive method of calculating deferred taxation.
- we decided to repay certain of our obligations in cash rather than through the delivery of shares. We therefore disclosed these obligations as debt or minority interests. Previously these obligations were disclosed as deferred equity.
- we now disclose a subsidiary's redeemable preference stock as debt. Previously it was disclosed as minority interests.
- we now only offset certain liabilities and collateral deposits if there is a legal right to do so and we intend to settle on a simultaneous basis.

Data for prior fiscal years has been restated to reflect these changes in accounting policy.

As a result of the above changes in accounting policy, the value and number of our reconciling items from South African GAAP to United States GAAP has been substantially reduced.

New Accounting Standards

For a discussion of new South African and US accounting standards, see note 37 of our audited consolidated financial statements included elsewhere in this Annual Report.

United States GAAP Reconciliation

Our audited consolidated financial statements are prepared in accordance with South African GAAP, which differs from United States GAAP in certain significant respects. A comparison of our results for the years ended September 2001, 2000 and 1999 under South African GAAP and after reflecting certain adjustments which would arise if United States GAAP were to be applied instead of South African GAAP, is shown below.

	Year Ended September		
	2001 (audited)	2000 (audited)	1999 (audited)