(1) Sales represents the net sales value of all products sold to outside parties after the deduction of rebates.

(2) The dividends per share were, in each case, declared after the end of the year indicated, out of profits earned for that year. Prior to the year ended September 2000, it was our policy to declare cash dividends in Rand. Dividends paid in Rand have been converted to US dollars at the ruling rate of exchange at the date of the declaration of the dividend. It is now our policy to declare cash dividends in US dollars. For further information on our dividend policy, see "Item 8—Financial Information—Dividend Policy".

(3) Certain items, which are included in Non-trading loss (profit) under SA GAAP, are included in Operating profit; and others in Extraordinary items for US GAAP. For more information refer to note 38 to our Group annual financial statements included elsewhere in this Annual Report.

(4) Net assets equals total assets less current liabilities.

(5) "Adjusted EBITDA" represents net profit before the deduction of depreciation, cost of timber harvested, amortisation, net interest, income taxes, other expenses/income and minority interest. Based on our experience in the paper industry, we believe that Adjusted EBITDA and related measures of cash flow provide an important tool for measuring paper companies in several areas, including liquidity, operating performance and the ability to borrow money (and to make payments on borrowings). Analysts and investors in the paper industry also use Adjusted EBITDA for a peer group valuation measurement. However, Adjusted EBITDA is presented on a Group basis, and there are regulatory and contractual limitations on our businesses' ability to transfer funds among each other. We may also incur tax costs with these transfers. As a result, Adjusted EBITDA generated by one business may not be available to make payments on borrowings by another business. Adjusted EBITDA should not be treated as an alternative to items determined under generally accepted accounting principles like operating profit or cash flow from operating activities. It also does not provide an indication of liquidity or operating performance. Different companies and analysts may calculate Adjusted EBITDA differently, so making comparisons among companies on this basis should be done very carefully.

The following table reconciles Net profit applicable to shareholders to EBITDA and to Adjusted EBITDA.

	Year Ended September				
	2002	2001	2000	1999	1998
	(US$ in million)				
South African GAAP:					
Net profit applicable to shareholders	220	138	363	114	107
Add back:					
Depreciation, amortisation and fellings	352	351	380	381	357
Net financing costs	74	92	97	145	216
Taxation	78	9	197	46	81
Minority interest	—	—	13	16	17
EBITDA	724	590	1,050	702	778
Add back:					
Non-trading loss (profit) before taxation	17	207	2	74	(12)
Adjusted EBITDA	741	797	1,052	776	766

	Year Ended September				
	2002	2001	2000	1999	1998
	(US$ in million)				
United States GAAP:					
Net profit applicable to shareholders	236	130	366	141	78
Add back:					
Depreciation, amortisation and fellings	349	350	388	387	367
Net financing costs	74	92	98	157	236
Taxation	84	46	218	99	100
Minority interest	—	—	13	16	36
EBITDA	743	618	1,083	800	817
Add back:					
Extraordinary items after taxation	6	5	10	5	6
Adjusted EBITDA	749	623	1,093	805	823

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 highly cyclical industry, which has in the past resulted in substantial fluctuations in our results

The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply/demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices. The timing and magnitude of price increases or decreases in the pulp and paper market have generally varied by region and by type of pulp and paper.

The selling prices of the majority of the products manufactured and purchase prices of many of our raw materials used generally fluctuate in line with commodity cycles. Other than maintaining a high level of pulp integration, no hedging techniques related to our raw materials and products are applied. Movements in prices of pulp and paper products are difficult to predict. Also, there may be periods during which demand for our products is insufficient to enable us to operate our production facilities in an economical manner. A sustained period of weak demand or excess supply would be likely to adversely affect pulp and paper prices which could have a material adverse effect on our operating rates and financial results.

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

The majority of our fine paper sales consist of sales to merchants. The pricing of products for merchant sales can generally be changed upon 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 less than 5% of consolidated sales during fiscal 2002.

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

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

We compete against a large number of pulp and paper producers located around the world. A recent trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that are lower cost producers of pulp and paper products than our mills. We cannot assure you that each of our mills will be competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities, which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including in southern Africa as import duties decrease in accordance with the terms of a free trade agreement

between South Africa and the European Union, 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.

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

Our operations are subject to a wide range of environmental requirements in the various jurisdictions in which we operate. We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade equipment at our mills and to meet new regulatory requirements, including those in the United States, South Africa and Europe. Expenditures to comply with future environmental laws and regulations could have a material adverse effect on our business and financial condition.

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

Insurance cover has become more restrictive, which may result in our paying significantly higher premiums and being unable to maintain the levels or types of insurance carried in the past.

We have a policy of externally insuring high severity, low frequency risk and self-insuring the balance. The insurance market has experienced significant premium increases over the last two years and this trend appears to be continuing. Major losses to the insurance industry and an increased degree of consolidation, coupled with a reduction of capacity, have been the cause. Insurers have withdrawn cover for losses from acts of terrorism under the usual property damage policies. Although, we may have been able to secure limited cover for that risk separately, we have decided not to take separate cover for losses from acts of terrorism. While this decision was given careful consideration and we believe it is in line with industry practice, it is an exception from our normal policy and the loss we might suffer from an act of terrorism could be material to our business.

For fiscal 2002, contrary to previous years, we were not able to cover property damage and losses from business interruption and machinery breakdown to full value. While we believe our insurance provides adequate coverage for reasonably foreseeable losses, we are unable to assure you that actual losses will not exceed our coverage or that such excess will not be material. In parallel, we are working on improved enterprise risk management to lower the risk of incurring losses from uncontrolled incidents.

Risks Related to Our Business

Our indebtedness may impair our financial and operating flexibility.

While our ratio of net debt to capitalisation has improved in recent years, from 58% at October 1, 1997, to 37% at September 29, 2002, our net debt increased by $483 million as a result of our Potlatch acquisition in May 2002. At September 29, 2002, our net debt was $1,419 million.

We are subject to South African exchange controls, which inhibit the free flow of funds from South Africa and can restrict activities of all members of the Sappi Group. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were financed with indebtedness incurred by companies in those regions. The level of our debt has important consequences. For example, our ability to obtain additional financing may be limited, which could limit, among other things, our ability to exploit growth opportunities; a substantial portion of our cash flow from operations may be required to make debt service payments; we are exposed to increases in interest rates because a portion of our debt bears interest at variable rates; we may be more leveraged than certain of our competitors; we may be more vulnerable to economic downturns

and adverse changes in our business; and our ability to withstand competitive pressure may be more limited.

In addition, certain of our financing arrangements contain covenants and conditions that significantly restrict the activities of members of our Group.

Exchange control restrictions may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries. We may also incur significant tax costs in connection with these transfers of funds. As a consequence, the ability of Sappi Limited or any of our subsidiaries to make scheduled payments on its debt will depend on its financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If Sappi Limited or any of our subsidiaries is unable to achieve operating results or otherwise obtain access to funds sufficient to enable it to meet its debt service obligations, it could face substantial liquidity problems. As a result, it might need to delay investment or dispose of material assets or operations. The timing of and the proceeds to be realised from any such disposition would depend upon circumstances at the time.

There are risks related to the recently completed Potlatch Acquisition.

The recently completed Potlatch acquisition, and any other acquisition, could result in unforeseen difficulties in integrating the acquired business with our existing businesses and could divert a disproportionate amount of management time and attention. In connection with the Potlatch acquisition, Sappi Fine Paper North America was required to negotiate new labour contracts for the Cloquet mill. As of December 2002 the new labour contracts are still being negotiated and employees have been working without a labour contract for over six months. We cannot assure you that the intended synergies and benefits, including the expected incremental increase in sales or the full benefit of the goodwill and know-how acquired, from this acquisition will be realised or that we will be able to negotiate a new labour contracts for Cloquet on terms that will be favourable to us.

We have assumed Potlatch's obligations under several long-term cross-border leases involving a substantial portion of the assets we acquired. There are no further lease payments foreseen; however, we have agreed to indemnify other parties to the lease arrangements for specified liabilities, including tax liabilities, that could be substantial if they arise. In addition, we are subject to a number of risks, which could affect our use of the assets or require payment of substantial amounts. Potlatch has agreed generally to indemnify us against losses resulting from these risks, but we cannot assure you that Potlatch will or will be able to fulfil its indemnity obligations. While these lease arrangements are in place, we will be subject to significant restrictions on our use of and ability to transfer our rights in the leased assets. These restrictions will limit our flexibility in conducting our business and could impair our ability to operate our business in the most efficient manner.

For further information on the recently completed Potlatch acquisition, see "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Mill Closures, Acquisitions and Dispositions" and "Item 8—Financial Information—Other Financial Information—Legal Proceedings".

Labour agreements are under negotiation at several North American mills.

The labour contracts for Cloquet, Allentown and Westbrook are currently being negotiated, and negotiations for new labour contracts at Somerset will commence in January. As a result of the Potlatch acquisition, we rejected the collective bargaining agreement between the unions and Potlatch and are operating under terms and conditions set by Sappi pending the conclusion of negotiations. The Westbrook and Allentown contracts expired in May 2002 and March 2001 respectively, and the affected parties are working under contract extensions. Somerset's labour contracts will expire in January 2003, and negotiations will commence in early 2003. While we anticipate reaching agreements on new contracts at all affected sites, and do not expect a work stoppage to occur in the event that agreements

cannot be reached and a prolonged work stoppage that results in a curtailment of output ensues at any or all such sites, our business could be adversely affected. Muskegon's contract will expire in June 2004.

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 rates 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 in those currencies and our shareholders' equity. We now have a negative balance in non-distributable reserves caused by the foreign currency translation reserve, which resulted from our change in reporting currency. This represents the cumulative translation effect of the strength of the US dollar on our equity in Rand and other currencies.

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 depreciated against the US dollar to approximately $0.98, $0.92 and $0.88 per euro at the end of fiscal 2002, 2001 and 2000, respectively. It reached a low of approximately $0.83 per euro on October 25, 2000 and, on December 11, 2002, was trading at approximately $1.01 per euro.

In recent years, the value of the Rand against the US dollar has depreciated considerably. It has depreciated against the US dollar to approximately R10.54, R8.94 and R7.22 per US dollar at the end of fiscal 2002, 2001 and 2000, respectively. The Rand reached a low of approximately R13.90 per US dollar on December 21, 2001. Since then, it has appreciated and on December 11, 2002 was trading at approximately R8.86 per US dollar.

For further information, see notes 16 and 33 to our Group annual financial statements included elsewhere in this Annual Report and "Item 5—Operating and Financial Review and Prospects—Operating Results—Overview—Inflation and Foreign Exchange".

There are risks relating to South Africa that could affect your investment in our Company.

We are incorporated in South Africa and own significant operations in southern Africa. As a result, there are risks relating to South Africa, which could affect an investment in our Company. These risks arise from the fact that we are subject to various economic, fiscal, monetary, regulatory, operational and political policies and factors that affect South African companies and their subsidiaries generally. See "Item 5—Operating and Financial Review and Prospects—South African Economic and Political Environment", "Item 5—Operating and Financial Review and Prospects—Foreign Exchange, Inflation and Interest Rates" and "Item 5—Operating and Financial Review and Prospects—South African Exchange Controls". Certain of these risks, for example regulatory and operational risks, are limited by the fact that in fiscal 2002, only 21% of our sales emanated from southern Africa, with Europe representing 47% and North America representing 32%, and only 21% of our net operating assets were located in southern Africa, with Europe representing 39% and North America representing 40%. We did, however, derive 50% of our operating profit in fiscal 2002 from our South African operations.

Several customers account for a significant amount of our revenues.

We sell a significant portion of our products to several major customers, including Buhrmann NV, Unisource Worldwide, Inc. and International Paper Company. 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—Business Review—Marketing and Distribution—

Sappi Fine Paper—Customers" and "Item 4—Business Review—Marketing and Distribution—Sappi Forest Products—Customers".

Risks Related to Our Shares

Your ability to sell a substantial number of ordinary shares may be restricted by the limited liquidity of shares held on the JSE Securities Exchange South Africa.

The principal trading market for the ordinary shares of Sappi Limited is the JSE Securities Exchange South Africa ("JSE") (formerly the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major markets. In fiscal 2002, 182 million ordinary shares of Sappi Limited were traded on the JSE and 48 million ADSs were traded on the New York Stock Exchange. See "Significant shareholders may be able to influence the affairs of our Company", "Item 7—Major Shareholders and Related Party Transactions—Major Shareholders", "Item 9—The Offer and Listing—Offer and Listing Details" and "Item 9—The Offer and Listing—Markets".

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

Although our investigation of beneficial ownership of our shares identified only four beneficial owners of more than 5% of our ordinary shares, holding a total of less than 28%, as shown in our shareholders' register at October 25, 2002, the four largest shareholders of record, three of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 90.1% of our ordinary shares. See "Item 7—Major Shareholders and Related Party Transactions—Major Shareholders".

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

Sappi Limited was founded and incorporated in 1936 in South Africa and is a corporation organised 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, such that for fiscal 2002, 79% of our sales and 50% of our operating profit, respectively, were generated, and 79% of our net operating assets were located, outside southern Africa, principally in North America and Europe. In December 1994, Sappi and a group of financial investors acquired S.D. Warren Company, the market leader in the United States in coated woodfree paper and a major producer of other speciality paper products. It now conducts business as Sappi Fine Paper North America. In December 1997, we acquired a 91.5% ownership interest in KNP Leykam, the leading European producer of coated woodfree paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. On May 13, 2002, we acquired Potlatch Corporation's coated fine paper business by purchasing Potlatch's Cloquet, Minnesota pulp and paper mill as well as the brands, order books and working capital of the Cloquet mill and the brands, order books and inventories of Potlatch's Brainerd, Minnesota paper mill for an aggregate cash purchase price of $483 million. We did not acquire Potlatch's Brainerd Minnesota paper mill, which Potlatch has closed.

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

We currently have our primary listing on the JSE and have secondary listings on the New York, London and Frankfurt Stock Exchanges.

BUSINESS OVERVIEW

Business Strategy

Our objective for the coming years is to build on our position as the global leader in the coated woodfree paper market, which is a rapidly growing market sector, as well as the dissolving pulp market and to support this with a high level of economic pulp integration. These represent our core products and sectors in the paper and forest products industry. The key elements of our business strategy are and have been as follows:

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

Although industry consolidation both in Europe and North America has resulted in the five largest producers in each of the respective markets now supplying approximately 80% of the respective coated woodfree paper demand, we believe that opportunities for further consolidation remain. We intend to be at the forefront of this consolidation, aiming to strengthen our position in Europe, North America, and eventually Asia. We intend to focus on investment and acquisition opportunities that fit our strategies, that offer a potential return that exceeds our expected cost of capital and that in the medium term are more advantageous than buying back our shares.

Maintain a global presence.

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

Maintain a high level of economic pulp integration.

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

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

We believe our asset base represents some of the lowest cost and most efficient assets in the coated woodfree paper