	Year Ended September				
	2001	2000	1999	1998	1997
	(US$ in million, except per share and number of shares data)				
Consolidated Income Statement Data:					
South African GAAP:					
Sales[1]	4,184	4,718	4,422	4,308	3,557
Operating profit	446	672	395	409	238
Net profit applicable to shareholders	138	363	114	107	20
Adjusted EBITDA[2]	797	1,052	776	766	516
Basic earnings per share (US cents)	59	153	51	53	13
Diluted earnings per share (US cents)	59	151	51	52	12
Dividends per share (US cents) [3]	26	25	19	18	—
United States GAAP:					
Sales[1]	4,184	4,718	4,422	4,308	3,557
Operating profit[4]	278	680	305	463	260
Net profit applicable to shareholders	153	374	143	80	14
Adjusted EBITDA[2]	620	1,084	810	832	530
Basic earnings per share (US cents)	66	158	68	40	9
Diluted earnings per share (US cents)	65	156	67	40	9
Consolidated Balance Sheet Data:					
South African GAAP:					
Total assets	4,506	4,768	5,334	6,336	5,166
Net assets[5]	3,146	3,667	3,679	4,823	3,954
Total long-term borrowings	1,014	1,278	1,404	2,558	2,087
Shareholders' equity	1,503	1,618	1,436	1,466	1,063
United States GAAP:					
Total assets	4,612	4,891	5,488	6,445	5,368
Net assets[5]	3,248	3,722	3,770	4,883	4,066
Total long-term borrowings	1,057	1,299	1,409	2,416	1,885
Shareholders' equity[6]	1,591	1,693	1,517	1,558	1,111
Other Information:					
Weighted average number of ordinary shares in issue (in million)	232.8	236.9	223.8	200.5	159.2

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

(2) "Adjusted EBITDA" represents net profit before the deduction of depreciation, cost of timber harvested, amortisation, net interest, income taxes, other expenses/income and outside shareholders 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). 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.

(3) 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".

(4) Operating profit for United States GAAP includes non-trading profit (loss) which is disclosed separately for South African GAAP purposes.

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

(6) Amounts differ from amounts previously reported, as explained in note 37 to our audited consolidated 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.

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, these markets historically have been highly cyclical, with volatile pulp and paper prices.

There have been periods of supply/demand imbalance in the pulp and paper industry, which have caused pulp and paper prices to be volatile. 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.

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 by amounts sufficient to maintain margins.

For further information, see "Item 4—Information on the Company—Business Overview—The Pulp and Paper Industry" and "Item 5—Operating and Financial Review and Prospects—Operating Results".

Fluctuations in the value of currencies, particularly the Euro and the Rand, 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 and on our shareholders' equity

We report in US dollars to facilitate a better understanding of our results, since the majority of our sales are in US dollars and the US dollar is the major currency of the pulp and paper industry. Fluctuations in the exchange rate between other currencies, particularly the Euro and Rand, and 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 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 US dollar per Euro), it has depreciated against the US dollar to approximately 0.92, 0.88 and 1.05 US dollar per Euro at the end of fiscal 2001, 2000 and 1999, respectively. It reached a low of approximately 0.83 US dollar per Euro on October 25, 2000 and, on December 17, 2001, was trading at approximately 0.90 US dollar 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 R8.94, R7.22 and R6.00 per US dollar at the end of fiscal 2001, 2000 and 1999, respectively. Subsequent to fiscal year end, the Rand reached a new low of

approximately R12.47 per US dollar on December 14, 2001 and, on December 17, 2001, was trading at approximately R12.05 per US dollar.

For further information, see notes 15 and 32 to our audited consolidated financial statements included elsewhere in this Annual Report and "Item 5—Operating and Financial Review and Prospects—Operating Results—Overview—Inflation and Foreign Exchange".

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 could not make us less competitive.

In addition, 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.

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.

Our indebtedness may impair our financial and operating flexibility

At September 30, 2001, our net debt was $1.1 billion. A significant portion of our debt was incurred in connection with the acquisition of KNP Leykam and S.D. Warren Company.

We are subject to South African exchange controls, which inhibit the free flow of funds from South Africa. These exchange controls have affected the geographic distribution of our debt. As a result, recent 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 to borrowing 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 its 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 its 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.

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 will 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, particularly in the United States and South Africa. 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".

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 generally. See "Item 5—Operating and Financial Review and Prospects Operating Results—South African Economic and Political Environment". Certain of these risks, for example regulatory and operational risks, are limited by the fact that in fiscal 2001, only 23% of our sales emanated from southern Africa, with Europe representing 43% and North America representing 34%, and only 28% of our net operating assets were located in southern Africa, with Europe representing 41% and North America representing 31%.

Insurance cover has become more restrictive since the events of September 11, 2001, which may result in our paying significantly higher premiums and being unable to maintain the levels or types of insurance carried in the past

The insurance market has experienced significant premium increases over the last two years. Major losses to the insurance industry and an increased degree of consolidation, coupled with a reduction of capacity, have been the cause. The unprecedented events of September 11, 2001 have compounded the situation further due to the financial impact on the insurance and reinsurance markets which has been estimated to be in excess of $50 billion. In general, insurers have withdrawn cover for losses from acts of terrorism and the process of negotiating renewed insurance cover with effect from November 1, 2001 has so far led to unsatisfactory results.

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. We aim to improve on this situation as we continue negotiations, also with a view to additional insurance capacities that might become available on January 1, 2002.

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

Several customers, including Buhrmann NV, account for a significant amount of our revenues

We sell a significant portion of our products to several major customers, one of which is Buhrmann NV. Any adverse development in 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".

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 2001, 240 million ordinary shares of Sappi Limited were traded on the JSE and 52 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 three beneficial owners of more than 5% of our ordinary shares, holding a total of less than 20%, as shown in our shareholders' register at November 15, 2001, the four largest shareholders of record, three of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 88.3% of our ordinary shares. Two of the fifteen Directors of Sappi Limited are affiliated with one of our four largest shareholders of record. 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 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. 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 and is wholly owned by Sappi.

On December 31, 1997, we acquired a 91.5% ownership interest in KNP Leykam, the leading European producer of coated woodfree paper. KNP Leykam is now wholly owned and is integrated into Sappi Fine Paper Europe, our European fine paper business. As a result of the completion of the acquisition of KNP Leykam, we are now the global leader in the coated woodfree paper business with a capacity of 3.2 million tonnes of coated woodfree paper per annum and a total of 3.9 million tonnes of fine paper per annum.

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

We intend to do this by:

- strengthening our position as a global paper company by growing the value-adding parts of our business through the efficient use of capital and the elimination of under-performing assets;
-