Net Finance Costs

Annual finance costs may be analyzed as follows:

Finance Costs	2008	2007	2006
		US$ million	
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

	2008	2007	2006
		US$ million	
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

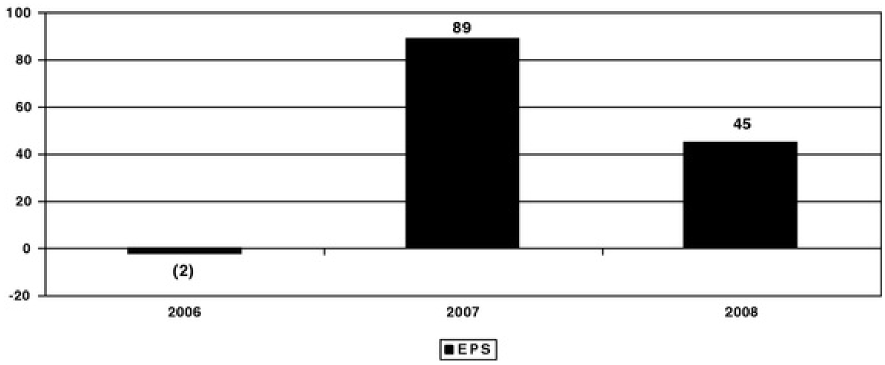
Group dividends paid during the year at a rate of 10%. For further information see "Item 10—Additional Information—Taxation".

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:

Earnings Per Share (US cents)



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