(4) Cash and overdraft have been restated to gross up amounts previously set-off where no legal right of set-off existed. The impact thereof was to increase both cash and overdraft by US$130 million as at September 2003 (September 2002: US$92 million; September 2001: US$59 million and September 2000: US$73 million). There has been no effect on net income or shareholders' equity.

(5) Operating assets are defined in note 34 to our Group annual financial statements included elsewhere in this Annual Report.

(6) US GAAP restricts the ability to offset to where the right of set-off exists between two parties (that is, where a debtor-creditor relationship exists), however, US GAAP does not permit set-off under three party netting agreements. Consequently, the relevant assets and liabilities have been restated and increased by US$90 million for September 2003, (September 2002: US$71 million; September 2001: US$64 million; September 2000: US$60 million and September 1999: US$67 million), with no effect on net income or shareholders' equity.

(7) In connection 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 and recalculated EBITDA. As a result our definition has been amended to retain non-trading profit/loss and minority interest as part of EBITDA. EBITDA represents earnings before interest (net finance costs), tax, depreciation and amortisation (including fellings). We use EBITDA as an internal measure of performance and believes it is a useful and commonly used measure of financial performance in addition to operating profit and other profitability measures under SA GAAP or US GAAP. EBITDA is not a measure of performance under SA GAAP or US GAAP. EBITDA should not be construed as an alternative to operating profit as an indicator of the company's operations in accordance with SA GAAP or US GAAP. EBITDA is also presented to assist our shareholders and the investment community in interpreting our financial results. This financial measure is regularly used as a means of comparison of companies in our industry by removing certain differences between companies such as depreciation methods, financing structures and taxation regimes. However, 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, EBITDA generated by one business may not be available to make payments on borrowings by another business. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. See note 7 to our Group annual financial statements included elsewhere in this Annual Report for an explanation of the computation of net finance costs.

The following table reconciles Net profit to EBITDA.

	Year Ended September				
	2003	**2002**	**2001**	**2000**	**1999**
	(US$ in million)				
South African GAAP:					
Net profit	**149**	**220**	**138**	**363**	**114**
Add back:					
Depreciation and amortisation (fellings)	395	352	351	380	381
Net finance costs	90	74	92	97	145
Taxation	20	78	9	197	46
EBITDA	**654**	**724**	**590**	**1,037**	**686**
United States GAAP:					
Net profit	**154**	**236**	**130**	**366**	**141**
Add back:					
Depreciation and amortisation (fellings)	385	349	350	388	387
Net finance costs	90	74	92	98	157
Taxation	37	84	46	218	99
EBITDA	**666**	**743**	**618**	**1,070**	**784**

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 Depository 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 2003.

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 events of September 11, 2001, and property damage losses seriously affected the insurance industry, and led to significant premium increases over the last few years in some of the components of our insurance structure. However, we successfully placed the renewal of our fiscal 2004 insurance cover in November 2003 at rates substantially lower than fiscal 2003. Self-insured deductibles for any one property damage occurrence have remained at $25 million, with a reduced aggregate limit of $40 million for fiscal 2004, compared to an aggregate limit of $75 million in fiscal 2003. 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.

From 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 working on improved enterprise 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 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 utilise 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 impact consumption of our products.

Risks Related to Our Business

Our indebtedness may impair our financial and operating flexibility.

Our ratio of total interest-bearing borrowings to shareholders' equity has improved significantly in recent years, from 142% at September 1999, to 98% at September 2003. At September 2003, our total interest-bearing borrowings was $1,912 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 subsidiaries 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 restrict the activities of certain Group companies.

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 investments 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.

Labour agreements are under negotiation at several of our mills.

The labour contracts for Westbrook and Somerset are currently being negotiated. The Westbrook and Somerset contracts expired in May 2002 and January 2003 respectively, and the affected parties are working under contract extensions. Collective labour agreements have been renegotiated for all sites in Europe during the current year, with minor disruption to operations at only one site. Contracts expire in 2004 and 2005 and were settled on terms consistent with current economic frameworks. Muskegon's contract will expire in June 2004. 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.

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.

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 to approximately $1.15, $0.98 and $0.92 per euro at the end of fiscal 2003, 2002 and 2001, respectively. It reached a low of approximately $0.83 per euro on October 25, 2000 and, on December 8, 2003, was trading at approximately $1.22 per euro.

In recent years, the value of the Rand against the US dollar has fluctuated considerably. It has moved against the US dollar to approximately R7.13, R10.54 and R8.94 per US dollar at the end of fiscal 2003, 2002 and 2001, 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 8, 2003 was trading at approximately R6.41 per US dollar.

For further information, see notes 17 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 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 2003, 24% of our sales emanated from southern Africa, 44% from Europe and 32% from North America, and 30% of our operating assets were located in southern Africa, 38% in Europe and 32% in North America. We did, however, derive 46% of our operating profit in fiscal 2003 from our South African 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 worker's time associated with HIV/AIDS may adversely affect our southern 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, which was acquired by Paperlinx Ltd. in November 2003, 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 international markets. In fiscal 2003, 225 million ordinary shares of Sappi Limited were traded on the JSE and 49 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 23%, as shown in our shareholders' register at September 26, 2003, the four largest shareholders of record, three of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 86.8% 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 2003, 87% of our sales and 54% of our operating profit, respectively, were generated, and 70% of our operating assets were located, outside southern Africa and 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 fine 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 fine 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 sold to Missota Paper Company LLC.

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 fine paper market, which was from the beginning of the 1990's one of the fastest growing market sectors in the paper industry, 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.

We believe that opportunities for further consolidation remain in our sector. 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 a modest presence in 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 fine paper sector in the world. We maintain a rigorous focus on costs, and actively manage our asset base, including divesting or closing non-performing assets. We have closed 13 paper machines since 1994, including recent closures of our Mobile mill in North America and the Transcript mill in the United Kingdom and we announced the closure of the Number 14 paper machine in Westbrook.

We maintain an investment policy that is focused on high return projects. A significant portion of our investments are designed to increase production capacity, reduce costs and improve product quality.

Drive growth through innovation.

The Sappi Group operations represent the originators of many of the major innovations in the industry in the last century. We continue to maintain a focus on innovation through our research and development centres in Europe, North America and South Africa and have established multi-regional, multi-discipline teams to ensure that we transfer knowledge throughout the Group and implement best practice. Through our partnership with a leading global software provider, we are focused on developing unique information technology solutions that satisfy our customers' requirements and production capabilities, resulting in improved service delivery and operational efficiency.

The Pulp and Paper Industry

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