In 2007 fixed costs in local currency increased R 79 million. The major contributors to this increase were personnel costs (R 43 million) and maintenance (R 16 million). These cost increases have, in US$, been offset by the impact of the exchange rate on translation of the costs into the US$ reporting currency. The net result in US$ was an increase of US$ 3 million. Personnel costs are under pressure from labour rate increases due to cost of living adjustments and the impact of the skills shortage on labour rates, particularly in the skilled technical functions.

Forest Products

	2007			2006			2005
		Variance			Variance		
Fixed costs	**Costs**	**Value**	**%**	**Costs**	**Value**	**%**	**Costs**
				US$ million			
Forest Products	**374**	**(3)**	**(1)**	**377**	**(36)**	**(9)**	**413**

In 2007 fixed costs in local currency increased ZAR 194 million. The major contributors to this increase were personnel costs (ZAR 131 million), maintenance (ZAR 26 million) and depreciation (R 38 million). These cost increases have, in US$, been offset by the impact of the exchange rate on translation of the costs into the US$ reporting currency. The net result in US$ being a decrease of US$ 3 million. Personnel costs are under pressure from labour rate increases due to cost of living adjustments and the impact of the skills shortage on labour rates, particularly in the skilled technical functions.

Net Finance Costs

Net finance costs consists of gross interest and other finance costs net of interest received, interest capitalised, foreign exchange gains and losses and change in fair value of financial instruments. Net finance costs were US$ 134 million in 2007, US$ 130 million in 2006 and US$ 80 million in 2005. Gross interest cost increased from 2006 by US$ 11 million to US$ 173 million.

Cash interest cover (cash generated by operations divided by net finance costs (before capitalised interest)) increased from 2.9 times in 2006 to 3.8 times for 2007. The increase in 2007 is mainly due to higher cash generated by operations.

Finance costs capitalised were US$ 14 million in 2007 and US$ 2 million in 2006. Finance costs capitalised relate primarily to the capitalised interest on major projects under construction, in particular the Saiccor upgrade.

Taxation

The expected taxation (2007: US$ 68 million charge; 2006: US$ 13 million benefit; 2005: US$ 109 million benefit), which is derived by applying the average statutory tax rate applicable to our profit and loss making tax entities respectively, was favorably impacted by announced tax rate reductions in Germany (2007: US$ 19 million; 2006: nil; 2005: nil), the Netherlands (2007: US$ 2 million; 2006: US$ 1 million; 2005: US$ 4 million) and South Africa (2007: nil; 2006: nil; 2005: US$ 9 million). Certain of the group's profits are not taxed; as a result of losses carried forward or favorable permanent differences. Tax relief was not taken on the taxation losses of certain loss-making entities due to management's judgment that these taxation losses may not be recoverable in the near future (net impact 2007: US$ 1 million benefit; 2006: US$ 3 million charge; 2005: US$ 93 million charge). The Secondary Tax on Companies (2007: US$ 8 million; 2006: US$ 9 million; 2005: US$ 8 million) relates to South African tax on the group dividend paid during the year at a rate of 12.5%.

The items explained above lead to a taxation charge of US$ 47 million (2006: US$ 1 million benefit; 2005: US$ 5 million benefit) and an effective tax rate of 19% (2006: 15%; 2005: 3%).

For further information see "Item 10—Additional Information—Taxation".

Net Profit

Net profit increased to US$ 202 million in fiscal 2007 from a loss of US$ 4 million in fiscal 2006 and a loss of US$ 184 million in fiscal 2005. The improved profitability in fiscal 2007 was mainly due to improved sales as a result of improved Fine Paper volumes (145,000 tonnes) and improved pricing at Forest Products (US$ 174 million) and Fine Paper South Africa (US $41 million), partly offset by lower prices at Fine Paper Europe (US$ 35 million) and Fine Paper North America (US$ 9 million). The weakening of the US$ against the Euro resulted in an increase in sales of US$ 190 million, which was partly offset by a decline in sales, due to the impact of the weakening of the ZAR against the US$ on the South African businesses sales of US$ 122 million. Net loss in fiscal 2005 was impacted by the Muskegon and Usutu impairment charges of US$ 231 million pre-tax. Restructuring charges in Europe were partly offset, in fiscal 2006, by the reversal of impairment on Usutu Mill at Sappi Forest Products.

Basic earnings per share increased from a loss of 2 US cents per share in 2006 (2005: 81 US cents loss per share) to an income of 89 US cents per share in 2007.

Liquidity and Capital Resources

Cash Flow—Operations

Cash retained from operating activities amounted to US$ 388 million in fiscal 2007 compared to US$ 160 million in fiscal 2006 and US$ 301 million in fiscal 2005.

During fiscal 2007 we generated cash from operations of US$ 585 million compared to US$ 396 million in fiscal 2006, an increase of US$ 189 million in cash generated compared to fiscal 2006 (fiscal 2005 cash generated by operations was US$ 569 million). Operating profit (US$ 383 million) improved by US$ 258 million as against fiscal 2006 operating profit (US$ 125 million). Fiscal 2005 Operating loss was US$ 109 million. Cash generated was reduced by finance costs paid (net of interest income) of US$ 183 million (US$ 19 million more than fiscal 2006), taxation paid of US$ 27 million (US$ 14 million more than fiscal 2006). Finance costs paid in fiscal 2006 were US$ 164 million (fiscal 2005 US$ 162 million) and taxation paid US$ 13 million (fiscal 2005 US$ 43 million). Working capital reduced by US$ 60 million in fiscal 2007 and increased US$ 17 million in fiscal 2006 and US$ 30 million in fiscal 2005.

Total non-cash items in fiscal 2007 amounted to US$ 202 million, compared to US$ 271 million in fiscal 2006 and US$ 678 million in fiscal 2005, and included:

	2007	2006	2005
		US$ million	
Depreciation	374	390	422
Fellings & Amortisation	71	76	68
Asset Impairments, Mill Closure & Non-cash items	(12)	(23)	306
Increase in Post Employment Benefits	(101)	(68)	—
Fair value price adjustment	(130)	(104)	(118)
	202	271	678