

SAPPI LTD  
Form 6-K  
October 24, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the month of October, 2008

Commission file number: 1-14872

SAPPI LIMITED

(Translation of registrant's name into English)

48 Ameshoff Street  
Braamfontein  
Johannesburg 2001

REPUBLIC OF SOUTH AFRICA  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

X

Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

X

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If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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## INCORPORATION BY REFERENCE

Sappi Limited's Circular to Shareholders, dated October 10, 2008, furnished by the Registrant under this Form 6-K is incorporated by reference into (i) the Registration Statements on Form S-8 of the Registrant filed December 23, 1999 and December 15, 2004 in connection with The Sappi Limited Share Incentive Scheme, (ii) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited Share Incentive Scheme, (iii) the Registration Statements on Form S-8 of the Registrant filed December 15, 2004 and December 21, 2005 in connection with The Sappi Limited 2004 Performance Share Incentive Plan and (iv) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited 2004 Performance Share Incentive Plan.

## FORWARD-LOOKING STATEMENTS

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 (the "Reform Act"), Sappi Limited (the "Company") is providing the following cautionary statement. Except for historical information contained herein, statements contained in this Report on Form 6-K may constitute "forward-looking statements" within the meaning of the Reform Act. The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions which are predictions of or indicate future events and future trends which do not relate to historical matters identify forward-looking statements. In addition, this Report on Form 6-K may include forward-looking statements relating to the Company's potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond the control of the Company, together with its subsidiaries (the "Group"), and may cause the actual results, performance or achievements of the Group to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to: the highly cyclical nature of the pulp and paper industry; pulp and paper production, production capacity, input costs including raw material, energy and employee costs, and pricing levels in North America, Europe, Asia and southern Africa; any major disruption in production at the Group's key facilities; changes in environmental, tax and other laws and regulations; adverse changes in the markets for the Group's products; any delays, unexpected costs or other problems experienced with any business acquired or to be acquired; consequences of the Group's leverage; adverse changes in the South African political situation and economy or the effect of governmental efforts to address present or future economic or social problems; and the impact of future investments, acquisitions and dispositions (including the financing of investments and acquisitions) and any delays, unexpected costs or other problems experienced in connection with dispositions. These and other risks, uncertainties and factors are discussed in the Company's Annual Report on Form 20-F and other filings with and submissions to the Securities and Exchange Commission, including this Report on Form 6-K. Shareholders and prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the submission of this Report on Form 6-K and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

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Attached is the Form S-8 Version of the Circular posted by Sappi Limited on October 10, 2008 in connection with the Rights Offering as described therein.

**FORM S-8 VERSION:  
REQUIRES YOUR IMMEDIATE ATTENTION**

**THIS CIRCULAR IS IMPORTANT AND**

The definitions and interpretations commencing on page 12 apply to the cover of this Circular.

Shareholders are referred to page 9 of this Circular, which sets out the action required of them with regard to the Transaction, full details of which are set out in this document. If you are in any doubt as to the action that you should take, please consult your broker, CSDP, banker, legal advisor, accountant or other professional advisor immediately.

If you have disposed of some or all of your ordinary shares in Sappi, then a copy of this Circular, together with the attached form of proxy, should be forwarded to the purchaser to whom, or the broker, CSDP or agent through whom, you disposed of your Sappi Shares or your interest in Sappi Shares.

A form of proxy (pink) is attached for use by Certificated Shareholders and Dematerialised Shareholders, other than those with Depository Interests in CREST, with own name registration who cannot attend the General Meeting and who wish to vote at the General Meeting. It should be properly completed and lodged with the transfer secretaries, Computershare Investor Services (Proprietary) Limited, or Capita Registrars (Jersey) Limited by no later than 15:00 on 1 November 2008. Dematerialised Shareholders, other than those with own name registration or with Depository Interests in CREST, must inform their CSDP or broker of their intention to attend the General Meeting or provide their CSDP or broker with their voting instructions should they not be able to attend the General Meeting in person but wish to be represented at the General Meeting. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned. Holders of Depository Interests in CREST who wish to vote at the General Meeting should complete the form of direction attached (yellow), and lodge it with the Depository, Capita IRG Trustees Limited, by no later than 13:00 UK time on 31 October 2008.

The Rights Offering referred to in this Circular will be made in accordance with the South African Companies Act and will only be addressed to persons to whom it may lawfully be made. By subscribing for any shares offered in the proposed Rights Offering, you will be deemed to have represented and agreed that you are not (and any person for whom you are acting is not) (i) resident in any jurisdiction in which such offer would be unlawful or (ii) a person to whom such offer may not lawfully be made.

JSE Category 1 – pages 1 to 182

Revised Listing Particulars – pages 183 to 220

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Sappi Limited  
(Incorporated in the Republic of South Africa)  
Registration number: 1936/008963/06  
JSE share code: SAP ISIN: ZAE000006284  
("Sappi" or "the Company")

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**CIRCULAR TO SHAREHOLDERS OF SAPPI**

regarding:

- the proposed acquisition by Sappi of the business, specific assets and liabilities of the graphic paper business

of M-real and the allotment and issue of consideration shares;

- the creation of up to 1,000,000,000 new ordinary shares in the authorised share capital of Sappi;
  - the placing of the unissued shares under the control of the directors for a possible rights offer; and
  - the approval of a waiver of any requirement to make a mandatory offer that may arise from the underwriting of the possible rights offer,
- and including:
- revised listing particulars (prepared on the assumption that the resolutions proposed in the notice of general meeting forming part of this document will be passed at the General Meeting and, where applicable, be registered);
  - a notice of general meeting; and
  - a form of proxy to be completed by holders of Certificated Shares and holders of Dematerialised Shares with “own name” registration. A separate form of direction is attached for holders of Depository Interests with CREST to complete.

The directors of Sappi whose names appear on page 4 of this Circular, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and certify that, to the best of their knowledge and belief, there are no facts the omission of which would make any statement in this Circular false or misleading and that they have made all reasonable inquiries to ascertain such facts and that this Circular contains all information required in law and by the JSE Listings Requirements.

Morgan Stanley South Africa (Pty) Ltd which is regulated in terms of the JSE Listings Requirements, is acting for Sappi and no-one else in relation to the preparation of this Circular and will not be responsible to anyone other than Sappi in relation to the preparation of this Circular.

Morgan Stanley & Co. Limited is acting exclusively for Sappi and for no-one else in connection with the proposed acquisition and will not be responsible to anyone other than Sappi for providing the protections afforded to customers of Morgan Stanley & Co. Limited nor for providing advice in relation to the proposed acquisition.

Date of issue: 10 October 2008

This Circular is available in English only. Copies may be obtained from the registered office of Sappi, the Transaction Sponsor or the Transfer Secretaries whose addresses are set out in the “Corporate information” section of this Circular from 10 October 2008.



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CERTAIN FORWARD-LOOKING STATEMENTS

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This Circular includes “forward-looking information” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Except for historical information contained herein, statements contained in this Circular may constitute forward-looking statements.

The words “believe,” “anticipate,” “expect,” “intend,” “estimate,” “plan,” “assume,” “positioned,” “will,” “may,” “should,” similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters identify forward-looking statements. Forward-looking statements include but are not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans and objectives. In addition, this Circular includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements).

Certain factors that may cause such differences include, but are not limited to the risk that the Acquired Business will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; expected revenue synergies and cost savings from the Transaction may not be fully realised or realised within the expected time frame; revenues following the Transaction may be lower than expected; any anticipated benefits from the consolidation of the European paper business may not be achieved; the ability to obtain governmental or regulatory approvals of the acquisition on the proposed terms and schedule; the failure of shareholders of Sappi to approve the acquisition or the related financings; the highly cyclical nature of the pulp and paper industry; pulp and paper production, production capacity, input costs (including raw materials, energy and employee costs) and pricing levels in North America, Europe, Asia and southern Africa; any major disruption in production at our key facilities; changes in environmental, tax and other laws and regulations; adverse changes in the markets for our products; any delays, unexpected costs or other problems experienced with any business acquired or to be acquired or with any expansion of existing facilities and achieving expected savings and synergies; consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed; adverse changes in the political situation and economy in the countries in which Sappi operates or the effect of governmental efforts to address present or future economic or social problems; and the impact of future investments, acquisitions and dispositions (including the financing of investments and acquisitions) and any delays, unexpected costs or other problems experienced in connection with dispositions.

Sappi undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sappi cautions you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Circular might not occur.

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NOTICE TO SHAREHOLDERS IN THE UNITED STATES

The proposed Rights Offering described in this Circular has not been and will not be registered under the U.S. Securities Act. Accordingly, the rights may only be exercised, and the new shares may only be offered and sold, in transactions that are exempt from registration under the U.S. Securities Act. The new shares offered in the proposed

Rights Offering described in this Circular may be acquired outside of the United States in accordance with Regulation S under the U.S. Securities Act. Holders of Sappi Shares and ADSs in the United States are permitted to vote on the resolutions to which this Circular refers.

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**NOTICE TO SHAREHOLDERS IN THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM**

The proposed Rights Offering described in this Circular will only be addressed to and directed at persons in member states of the European Economic Area, or EEA, who are “Qualified Investors” within the meaning of Article 2(1)(e) of the European Parliament and Council Directive 2003/71/EC, including any measure implementing such Directive in any member state of the EEA ( the “Prospectus Directive”). In addition, in the United Kingdom, the proposed Rights Offering will only be addressed to and directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”), or high net worth entities falling within Article 49(2)(a) – (d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “Relevant Persons”). The new shares will only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with (1) in the United Kingdom, Relevant Persons and (2) in any member state of the EEA, other than the United Kingdom, Qualified Investors.

Persons (1) in the United Kingdom who are not Relevant Persons and (2) in any member state of the EEA other than the United Kingdom, who are not Qualified Investors are permitted to vote on the resolutions to which this Circular refers. However, no such persons shall have any entitlement or ability to participate in the proposed Rights Offering described in this Circular following its approval by resolution at the general meeting of shareholders of Sappi.

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**NOTICE TO SHAREHOLDERS IN AUSTRALIA, CANADA AND JAPAN**

The proposed Rights Offering described in this Circular will not be made to persons who are residents of Australia, Canada or Japan, except in accordance with applicable law. Persons in Australia, Canada and Japan are permitted to vote on the resolutions to which this Circular refers. However, no such persons shall have any entitlement or ability to participate in the proposed Rights Offering described in this Circular following its approval by resolution at the general meeting of shareholders of Sappi.

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CORPORATE INFORMATION

Directors

Executive

Roeloff Jacobus Boëttger

Mark Richard Thompson

Non-executive

Daniel Christiaan Cronjé (Chairman)

David Charles Brink

Meyer Feldberg

James Edward Healey

Deenadayalen Konar

Helmut Claus-Jurgen Mamsch

John David McKenzie

Karen Rohn Osar

Bridgette Radebe

Sir Anthony Nigel Russell Rudd

Franklin Abraham Sonn

Registered office and company secretary of Sappi Sappi Management Services (Proprietary) Limited 48 Ameshoff Street Braamfontein Johannesburg, 2001 South Africa (PO Box 31560, Braamfontein, 2017, South Africa)	Registered office of M-real Corporation (Registration number: 06353 66-7) Revontulentie 6 F1- 02100 Espoo Finland (PO Box 20, Fin-02020 Metsä, Finland)
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Transaction Sponsor to Sappi  
Morgan Stanley South Africa (Pty) Ltd  
(Registration number 1994/000261/07)  
1st Floor 160 Jan Smuts Avenue  
Rosebank, 2196  
South Africa

Financial advisor to Sappi  
Morgan Stanley & Co. Ltd.  
25 Cabot Square  
Canary Wharf  
London, E14 4QA  
United Kingdom

Financial advisor to M-real  
Goldman Sachs International  
Peterborough Court  
133 Fleet Street  
London, EC4A 2BB  
United Kingdom

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1 Goldman Sachs International, which is regulated in the United Kingdom by the Financial Services Authority, is acting for M-real and no one else in connection with the transaction and will not be responsible to anyone other than M-real for providing the protections afforded to clients of Goldman Sachs International nor for providing advice in connection with the transaction or any other matters referred to in this Circular.



South African legal advisor to Sappi  
Bowman Gilfillan Inc.  
(Registration number 1998/021409/21)  
165 West Street  
Sandton, 2146  
South Africa  
(PO Box 785812, Sandton, 2146, South Africa)

South African Legal advisor to M-real  
Werksman Inc.  
(Registration Number 1990/007215/21)  
155 - 5th Street  
Sandton, 2196  
South Africa  
(Private Bag 10015, Sandton, 2146)

U.S. legal advisor to Sappi  
Cravath, Swaine & Moore LLP  
CityPoint, One Ropemaker Street  
London, EC2Y 9HR  
United Kingdom

U.K. legal advisor to Sappi  
Linklaters LLP  
One Silk Street  
London, EC2Y 8HQ  
United Kingdom

U.K. legal advisor to M-real  
Slaughter and May  
One Bunhill Row  
London, EC1Y 8YY  
United Kingdom

Reporting accountants and Due Diligence in  
respect of Sappi  
Deloitte & Touche - Registered Auditors  
Buildings 1, 2 and 6, Deloitte Place  
The Woodlands  
20 Woodlands Drive  
Woodmead, 2196  
South Africa  
(Private Bag X6, Gallo Manor, 2052, South  
Africa)

Reporting accountants in respect of M-real  
PricewaterhouseCoopers Inc – Registered  
Auditors  
(Registration number 1998/012055/21)  
2 Eglin Road  
Sunninghill, 2157  
South Africa  
(Private Bag X36, Sunninghill, 2157, South  
Africa)

Sponsor to Sappi  
UBS South Africa (Pty) Ltd.  
64 Wierda Road East  
Wierda Valley  
Sandton, 2196  
South Africa  
(PO Box 652863, Benmore, 2010, South Africa)

Depository Interest  
Capita IRG Trustees Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent, BR3 4TU  
United Kingdom

Jersey Branch Registrar to Sappi  
Capita Registrars (Jersey) Limited  
12 Castle Street  
St Helier  
Jersey, JE2 3RT  
Channel Islands

Transfer Secretaries to Sappi  
Computershare Investor Services (Proprietary)  
Limited  
(Registration number 2004/003647/07)  
Ground Floor, 70 Marshall Street  
Johannesburg, 2001  
South Africa  
(PO Box 61051, Marshalltown, 2107, South  
Africa)

UK Transfer Agent to Sappi  
Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent, BR3 4TU  
United Kingdom

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1 Goldman Sachs International, which is regulated in the United Kingdom by the Financial Services Authority, is acting for M-real and no one else in connection with the transaction and will not be responsible to anyone other than M-real for providing the protections afforded to clients of Goldman Sachs International nor for providing advice in connection with the transaction or any other matters referred to in this Circular.

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**ACTION REQUIRED BY SAPPI SHAREHOLDERS**

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If you are in any doubt as to what action you should take, you should consult your CSDP, broker, banker, accountant, legal advisor or other professional advisor immediately.

**INFORMATION RELATING TO THE GENERAL MEETING**

A General Meeting will be held at the registered office of Sappi, Sappi Offices, 48 Ameshoff Street Braamfontein, Johannesburg on 3 November 2008 at 15:00 at which Shareholders will be asked to consider and, if deemed fit, approve resolutions for, inter alia:

- the proposed acquisition by Sappi of specific assets of the graphic paper business of M-real and the allotment and issue of consideration shares;
- the creation of up to 1,000,000,000 new ordinary shares in the authorised share capital of Sappi;
- the placing of the unissued shares under the control of the directors for a possible rights offer; and
- an approval of a waiver of any requirement to make a mandatory offer that may arise from the underwriting of the possible rights offer.

The notice convening the General Meeting on page 174 forms part of this Circular and a form of proxy to be completed by holders of Certificated Shares and holders of Dematerialised Shares with “own name” registration is attached to this Circular. A separate form of direction is attached for holders of Depository Interests in CREST to complete.

Action required by holders of certificated Sappi shares and holders of dematerialised Sappi shares who have elected own-name registration other than holders of Depository Interests

Certificated Shareholders and Own Name Dematerialised Shareholders who are unable to attend the General Meeting but wish to be represented at the General Meeting, must complete and return the form of proxy attached to this Circular in accordance with the instructions contained in it to the Transfer Secretaries, Computershare Investor Services (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), or to Capita Registrars (Jersey) Limited, 12 Castle Street, St. Helier, Jersey JE2 3RT, Channel Islands so that it is received no later than 15:00 on 1 November 2008.

Action required by holders of dematerialised Sappi shares other than holders of Depository Interests in CREST

Dematerialised Shareholders who have not elected own-name registration in the sub-register maintained by a CSDP and who wish to attend the General Meeting must instruct their CSDP or broker to issue them with the necessary letter of representation to attend. Dematerialised Shareholders who do not wish to attend the General Meeting may provide their CSDP or broker with their voting instructions pursuant to the terms of the custody agreement they entered into with their CSDP or broker.

Action required by holders of Depository Interests in CREST

Holders of Depository Interests in CREST who wish to attend the General Meeting must instruct the Depository to issue them with the necessary letter of representation to attend. Depository Interest holders who are unable to attend the General Meeting but wish to be represented at the General Meeting, must complete and return the form of direction attached to this Circular in accordance with the instructions contained in it to the Depository, Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so that it is received no later than 13:00 UK time on 31 October 2008.



IMPORTANT DATES/TIMES

SALIENT DATES FOR THE GENERAL MEETING	2008
Circular posted on	10 October
Receipt of forms of direction in respect of the General Meeting by holders of Depository Interests in CREST, by no later than 13:00 UK time on	31 October
Receipt of forms of proxy in respect of the General Meeting, by no later than 15:00 on	1 November
General Meeting to be held at 15:00 on	3 November
Results of General Meeting released on SENS on	3 November
Results of General Meeting published in the press on	4 November

Notes:

1. The above important dates and times in relation to the General Meeting are subject to change. Any changes will be released on SENS and published in the press.
2. If the General Meeting is adjourned or postponed, forms of proxy in respect of the adjourned or postponed meeting must be received by no later than 48 hours prior to the time of the adjourned or postponed General Meeting other than holders of Depository Interests in CREST for whom forms of direction in respect of the adjourned or postponed meeting must be received by no later than 72 hours prior to the time of the adjourned or postponed General Meeting.
3. Unless otherwise indicated, all times are South African times.

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DEFINITIONS, INTERPRETATIONS AND OTHER INFORMATION

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In this Circular and its annexures, unless inconsistent with the context, an expression which denotes a gender includes the other gender, a natural person includes a juristic person and vice versa, the singular includes the plural and vice versa and the expressions set out in the first column bear the meaning assigned to them in the second column:

“the Acquired Business”	the business, specific assets and liabilities being acquired by Sappi from M-real pursuant to the Master Agreement as set out in Section 4.2 below;
“the Act” or “the Companies Act”	the South African Companies Act, 1973 (Act 61 of 1973), as amended;
“the Board”	the board of directors of Sappi Limited;
“Business Day”	any day other than a Saturday, Sunday or official public holiday in South Africa;
“Carve-out Financials”	financial statements of the Acquired Business prepared on a “carve-out” basis from M-real’s consolidated financial statements using the historical results of operations, assets and liabilities attributable to the Acquired Business and include allocations of expenses and assets from M-real;
“Certificated Shareholders”	Shareholders who hold Certificated Shares;
“Certificated Shares”	Sappi Shares which have not yet been dematerialised into the Strate system, title to which is represented by physical documents of title;
“this Circular”	all the documents contained in this bound document, including the notice of general meeting, the form of proxy and revised listing particulars;
“coated paper”	paper which has been coated by a compound to impart certain qualities to the paper, such as weight, surface gloss, smoothness or ink absorbency;
“Completion Date”	the first day that falls on the end of a month and follows the fifth business day after fulfilment of all of the Conditions Precedent provided that certain requirements about accounting periods have been met;
“Conditions Precedent”	the conditions precedent to which the Transaction is subject, which are referred to in Section 3.5 below;
“CREST”	is the United Kingdom’s electronic registration and settlement system for equity share trading;



“CSDP”	a Central Securities Depository Participant, accepted as a participant in terms of the Securities Services Act, 2004 (No. 36 of 2004);
“CWF”	coated woodfree paper, meaning paper made from chemical pulp;
“Deloitte South Africa”	Deloitte & Touche, registered auditors of Sappi;
“Dematerialised Shareholders”	Shareholders who hold Dematerialised Shares;
“Dematerialised Shares”	shares which have been incorporated into the Strate system as electronic entries;
“Depository Interests in CREST”	rights representing Sappi Shares on a one for one basis through the CREST system, being the system enabling title to Sappi Shares to be evidenced and transferred in dematerialised form operated by Euroclear UK & Ireland Limited in accordance with the CREST Regulations being the Uncertificated Securities Regulations 2001, as amended;
“EBITDA”	earnings before interest (net finance costs), taxation, depreciation and amortisation. Net finance costs include gross interest paid, interest received, interest capitalised, net foreign exchange gains, and net fair value adjustments on interest rate financial instruments;
“Enterprise Value”	the value of a business equivalent to its market capitalisation plus debt;
“EPS”	Earnings Per Share;
“EUR, euro or €”	the official currency of the European Union;
“Exchange Control Regulations”	Exchange Control Regulations, 1961, as amended, promulgated in terms of Section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933), as amended;
“Financial Advisor”	Morgan Stanley & Co. Limited;
“General Meeting”	the general meeting of Shareholders called for the purpose of considering and, if deemed fit, approving the resolutions contained in the notice of general meeting attached to this Circular on page 174;
“graphic paper”	coated wood-free paper or coated wood-containing paper other than coated speciality paper, paperboard and paper that is cast coated or coated on one side only;

“Helsinki Stock Exchange”	OMX Nordic Exchange, Helsinki;
“HEPS”	Headline Earnings Per Share;
“Independent Reporting Accountants” or “Reporting Accountants”	Deloitte South Africa in respect of Sappi and PricewaterhouseCoopers Inc. in respect of M-real;

“the JSE”	JSE Limited (Registration number 2005/022939/06), a public company incorporated in accordance with the laws of South Africa and licensed as a securities exchange under the Securities Services Act, 2004, often referred to as the Johannesburg Stock Exchange;
“Last Practicable Date”	2 October 2008, being the last practicable date prior to the finalisation of this Circular;
“Lock-Up Deed”	the lock-up deed entered into between Sappi and M-real at the same time as the Master Agreement which sets out restrictions on the disposal by M-real of the Settlement Shares, as amended from time to time;
“Master Agreement”	the Master Business and Share Sale and Purchase Agreement entered into between Sappi and others and M-real and others, dated 29 September 2008, as amended from time to time;
“M-real”	M-real Corporation, a public company organised under the laws of Finland and listed on the Helsinki Stock Exchange (Registration no. 0635366-7);
“M-real Financial Year”	M-real’s financial years ended December 2007, 2006 and 2005 refer to M-real’s twelve month financial period ended on 31 December of each year;
“NAV”	Net Asset Value, total assets less total liabilities;
“Own Name Dematerialised Shareholders”	Dematerialised Shareholders who have elected own-name registration;
“R”, “Rand” or “ZAR”	South African Rand;
“Reserve Bank”	the South African Reserve Bank;
“Rights Offering”	the rights offer intended to be made to the Shareholders other than certain excluded Shareholders, prior to the Completion Date for so many new Sappi Shares as need to be issued in order to raise €450 million (USD636 million);
“Sappi” or “the Company”	Sappi Limited (Registration number 1936/008963/06), a public company incorporated in accordance with the laws of South Africa;
“Sappi Financial Period”	Sappi Financial Period ended June 2008 and 2007 refer to Sappi’s 39 weeks accounting period ended 29 June 2008 and 1 July 2007, respectively;
“Sappi Financial Year”	

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Sappi Financial Year ended September 2007 and 2006 refers to Sappi's 52 weeks accounting period ended on 30 September 2007 and 1 October 2006, respectively. The Sappi Group's financial period ends on the Sunday closest to the year-end date and results are reported as at the year end date;

“Sappi Group”

Sappi and its Subsidiaries, taken as a whole;

“Sappi International”

Sappi International S.A, incorporated in Belgium having its registered office at Chaussee de la Hulpe 154, 1170 Watermael-Boitsfort, Belgium and an indirect wholly owned subsidiary of Sappi Limited;

“Sappi Papier Holding”	Sappi Papier Holding GHBH, a limited liability company incorporated under the laws of Austria, registered in the companies register of the district court of Graz under FN167931h and an indirect wholly owned subsidiary of Sappi Limited;
“Sappi Shares”	ordinary shares, with a par value of R1.00 each, in the issued share capital of Sappi;
“Sappi Trading Pulp”	Sappi Trading Pulp AG, incorporated in Switzerland whose registered office is Gotthardstrasse 23, 8800 Thalwil, Switzerland and an indirect wholly owned subsidiary of Sappi Limited;
“SENS”	the Securities Exchange News Service, the news service operated by the JSE;
“Settlement Shares”	Sappi Shares to be issued to M-real (or M-real’s nominee) in terms of the Master Agreement, on the Completion Date as part of the Transaction Consideration, as more fully described in Section 3.1.2;
“SG&A”	Selling, General & Administration expenses;
“Shareholders”	the holders of Sappi Shares;
“Significant Adverse Change”	a change, event or circumstance which or up to 3 separate changes, events and circumstances which, in aggregate: (i) cause or would be reasonably likely to cause production volumes of graphic paper in respect of the Biberist Mill, Kangas Mill, Kirkiniemi Mill, and Stockstadt Mill to cease or be reduced by 200,000 tonnes (in aggregate) over a period of 12 months from the date of such change, event or circumstance; or (ii) lead or would be reasonably likely to lead to a liability in respect of the Acquired Business, which would have to be settled in cash, having a net present value in excess of €110 million from the date of such change, event or circumstance;
“South Africa”	the Republic of South Africa;
“Special Items”	special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit and loss on disposal of property, investments and businesses, asset impairments, restructuring charges, financial impacts of natural disasters and non-cash gains or losses on the price fair value adjustments of plantations;





“Strate”	Strate Limited (Registration number 1998/022242/06), a limited liability public company duly incorporated in accordance with the laws of South Africa, which is a registered central securities depository and which is responsible for the electronic settlement system used by the JSE;
“Subsidiary”	a subsidiary as defined in section 1(3) of the Companies Act or an entity which would have been a subsidiary as defined in section 1(3) of the Companies Act but for the fact that it is incorporated outside of South Africa, and “Subsidiaries” has a corresponding meaning;
“TNAV”	Tangible Net Asset Value, net asset value less goodwill and other intangible assets;
“Transaction”	the acquisition of the Acquired Business;
“Transaction Agreements”	the agreements pursuant to which the Acquired Business is being acquired, including the Master Agreement, the Vendor Loan Note and the Lock-up Deed, in each case, as amended from time to time;
“Transaction Consideration”	the amount payable by Sappi comprising cash, the Settlement Shares and the Vendor Loan Note for the Acquired Business, being approximately €750 million subject to adjustments based on the fair value of the Settlement Shares and the working capital and net debt of the Acquired Business;
“Transaction Sponsor”	Morgan Stanley South Africa (Proprietary) Limited;
“Transfer Secretaries”	Computershare Investor Services (Proprietary) Limited (Registration number 2004/003647/07), a private company incorporated in accordance with the laws of South Africa;
“Uncoated Paper”	paper without any kind of coating;
“USD, US Dollar(s), US\$ or \$”	United States Dollars, the currency of the United States of America;
“VAT ”	value added tax as levied by the South African Revenue Service Value-Add Tax Act, 1991 (Act 89 of 1991); and
“Vendor Loan Note”	the loan notes having a maximum principal amount of €250 million to be issued by Sappi Papier Holding to M-real as part of the Transaction Consideration, to be repaid over a period of 48 months, which are guaranteed by Sappi, Sappi International and Sappi Trading Pulp and which have an interest rate of 9% that steps up after 6 months to 12%, after 12 months to 14%

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and after 18 months to 15%.

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CURRENCY TRANSLATION

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This Circular contains translations of certain Euro amounts into US Dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Euro amounts actually represent such US Dollar amounts or could be converted into US Dollars at the rate indicated as of the dates mentioned herein or at any other rate.

ESTIMATES OF PRODUCTION CAPACITY AND MARKET INFORMATION

Except as otherwise indicated, in this Circular the amounts of “capacity” or “production capacity” of our or M-real’s facilities or machines are based upon our best estimates of production capacity at the date of filing of this Circular. Actual production by machines may differ from production capacity as a result of products produced, variations in product mix and other factors.

Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflect our best estimates. We have based these estimates upon information obtained from our customers, trade and business organisations and associations and other contacts in our industries.

(Incorporated in the Republic of South Africa)  
Registration number: 1936/008963/06  
JSE share code: SAP ISIN: ZAE000006284  
("Sappi" or "the Company")

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## CIRCULAR TO SHAREHOLDERS

### 1. INTRODUCTION

As announced on SENS on 29 September 2008 and published in the press on 1 October 2008, Sappi has entered into an agreement to acquire, subject to the fulfilment of the Conditions Precedent, the coated graphic paper business of M-real and certain related uncoated graphic paper business activities. M-real is listed on the OMX Nordic Exchange, Helsinki and is 38.6% owned by the Metsäliitto Group. It was also announced on 29 September 2008 that Sappi is proposing to launch a Rights Offering to raise up to €450 million, the proceeds of which will be used to pay the cash portion of the Transaction Consideration and to settle the costs relating to the Transaction and the Rights Offering, estimated to be €50 million. Sappi will provide Shareholders with more information on the rights offer when the terms and conditions of the Rights Offering are finalised. A circular will be posted in respect of any Rights Offering.

M-real is a leading producer of paperboard and paper and offers premium solutions for consumer packaging, communications and advertising. M-real has 23 production units in six European countries.

M-real's Graphic Paper division produces coated fine paper, coated magazine paper and uncoated fine paper and provides these products directly or through merchant partners to customers including printers, publishers, advertising agencies and corporations. M-real Graphic Paper has a production capacity of approximately 3 million tonnes of graphic paper per annum through its eight mills located in Europe. For the years ended 31 December 2007 and 2006, the M-real Graphic Paper division had sales of €1,972 million and €2,390 million, respectively, and EBITDA of approximately €120 million and €93 million, respectively. M-real is considering reducing its capacity in Europe for the production of fine coated paper by 0.6 million tonnes.

The Transaction includes the acquisition by Sappi of four graphic paper mills, namely Kirkniemi mill and Kangas mill in Finland, Stockstadt mill in Germany and Biberist mill in Switzerland, and all of the know-how, brands order books, customer lists, intellectual property and goodwill of the coated graphic paper business (other than in respect of M-real's South African business) of M-real. The sale of the coaters is subject to works councils by M-real. The Acquired Business has a total annual production capacity of approximately 1.9 million tonnes of coated graphic paper and in 2007 generated net sales of €1,333 million. Sappi will also enter into long term supply agreements with Metsäliitto for wood, pulp and other services. M-real will retain ownership of the Husum PM8 Mill in Sweden and the Äänekoski PM2 Mill located in Finland, and will enter into transitional marketing agreements with Sappi as part of the Transaction whereby M-real will produce graphic paper products which Sappi will market and sell.

The tables below highlight certain operational and financial metrics of the pro forma combined group (being Sappi and the Acquired Business) post the completion of the Transaction, based on the financial statements of Sappi for the year ended 30 September 2007 and Carve-out Financials of the Acquired Business for the year ended 31 December 2007. The pro forma operational metrics represent the summation of the historical operational metrics for Sappi and the Acquired Business, without adjustment. The pro forma financial information is set out in more detail in section 12 and Annexure 3 of this Circular. Pro forma financial information is presented for informational purposes only, and does not purport to represent what Sappi's actual results of operations or financial condition would have been had the Transaction occurred as of 1 October 2006, nor are they necessarily indicative of future results of operations or financial condition. In addition to other matters noted in Section 12 and Annexure 3, the pro forma financial statements do not reflect the effect of:

- anticipated synergies and efficiencies associated with combining the Sappi Group and the Acquired Business due to the adoption of best practices;
  - efficiencies in the permanent funding structure; and
  - movements in the US Dollar / Euro exchange rate.

In addition, the pro forma financial statements do not give pro forma effect to the long term supply agreements with M-real for wood, pulp and other services and the transitional marketing agreements for the outputs of the Husum PM8 machine and the Äänekoski PM2 machine.

Description	Sappi 2	Acquired Business 3	Adjustments	Pro forma	Percentage Change
Operational metrics					
Mills	14	4	-	18	29 %
Annual Capacity - Tonnes ('000)	4,250	1,875	-	6,125	44 %
Staff	9,480	2,111	-	11,591	22 %
Financial Information					
USD million					
Revenue	5,304	1,833	-	7,137	35 %
Operating profit	383	125	29	537	40 %
Profit before tax	249	109	4	362	45 %
Profit / (loss) for the period	202	91	3	296	47 %
EBITDA <sup>4</sup>	758	221	-	979	29 %

<sup>2</sup> Operational metrics and Financial information for Sappi has been extracted from, or can be derived from, Sappi's audited financials for the year ended September 2007.

<sup>3</sup> Operational metrics and Financial information for the Acquired Business has been extracted from, or can be derived from, the M-real's graphic paper business combined financial statements for the year ended 31 December 2007. M-real's graphic paper business combined financial statements have been prepared on a full carve-out basis in accordance with IFRS as issued by the IASB, and are presented in Euros. Financial information for the Acquired Business has been converted from Euros into US Dollars using the average exchange rate for the year ended 31 December 2007 of €1 to US\$1.4566.

<sup>4</sup> EBITDA represents earnings before interest (net finance costs), taxation, depreciation and amortisation. Net finance costs include: gross interest paid; interest received; interest capitalised; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful and commonly used measure of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and

should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.



## Reconciliation from profit for the period to EBITDA

USD million	Sappi	Acquired Business	Adjustments	Pro forma
Profit (loss) for the period	202	91	3	296
Taxation	47	18	1	66
Finance costs	134	16	25	175
Depreciation	375	96	(29)	442
EBITDA	758	221	-	979

## Special Items

	USD million	Acquired Business	USD million
Sappi			
Plantation price fair value adjustment	(54)	Impairment Reversal	(208)
Restructuring and closure provisions	(7)	Write – downs	54
Profit on sale of assets	(26)	Other	21
Fire, flood, storm and related events	17		
Total	(70)	Total	(133)

The purpose of this Circular and the accompanying notice of general meeting is to provide Shareholders with information regarding the Transaction and the financing thereof and to convene the General Meeting to be held at the registered office of Sappi, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, South Africa at 15:00 on 3 November 2008, at which Shareholders will be asked to consider and, if deemed fit, pass the resolutions relating to the Transaction and the financing thereof.

## 2. RATIONALE FOR THE TRANSACTION

The Transaction meets Sappi's strategic and financial criteria for acquisitions as it enhances Sappi's global presence, provides an opportunity to increase Sappi's customer base, improves Sappi's strategic flexibility in regards to capacity utilization, increases the range of products offered and provides anticipated growth and cost synergies. Sappi also expects benefits from increased profitability and returns and improved cash flows for the group.

The Transaction allows Sappi to strengthen its competitive position in the graphic paper industry in Europe and globally. The Transaction has been identified as a good fit with the Sappi coated graphic paper business. Sappi's European production capacity is expected to increase from 2.6 million tons per annum to 4.5 million tons per annum. The Acquired Business will enhance Sappi's position in the market by expanding its geographical footprint in Europe to include Finland and Switzerland. Through this acquisition Sappi would significantly increase its exposure to coated magazine paper and as a result the combined group would be the largest coated fine paper company in Europe with strong positions in both coated woodfree and coated magazine grades.



In addition, the Transaction adds to Sappi's product range a number of well-known brands which complement Sappi's existing products and provide access to an enlarged customer base. Furthermore, the integration of the Acquired Business with the existing Sappi operations is expected to strengthen the profitability of Sappi's European operations through increased coated graphic paper production, benefiting from the economies of scale and the ability to optimise capacity utilisation. Other expected annual synergies coming from distribution, the integration of sales and administration, and the rationalisation of manufacturing across the Sappi Group are anticipated to further enhance the performance of Sappi's European business.

Sappi estimates total annual synergies of approximately Euro 120 million from the Transaction which should be realisable in full within three years and without material capital investments. This estimate of synergies Sappi expects to achieve following the Transaction is based on assumptions which in the view of Sappi's management were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of Sappi's management's knowledge and belief, the expected course of action and the expected future financial impact on performance of Sappi due to the Transaction. However, the assumptions about these expected synergies are inherently uncertain and, though considered reasonable by management as of the date of preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this estimate of synergies. There can be no assurance that Sappi will be able to successfully implement the strategic or operational initiatives that are intended, or realize the estimated synergies.

This synergy estimate is not a profit forecast or a profit estimate and should not be treated as such nor relied on by shareholders or prospective investors to calculate the likely level of profits or losses for Sappi for the financial year ended 30 September 2008 or beyond. This synergy estimate has not been included in the pro forma financial effects referred to in Section 12 below. The reporting of the synergy estimate complies with the accounting policies of Sappi.

3. PRINCIPAL TERMS AND CONDITIONS OF THE TRANSACTION

3.1. Transaction Consideration and Funding

The proposed Transaction Consideration is based on a cash and debt free Enterprise Value of the Acquired Business of €750 million (USD1.1 billion). The Transaction Consideration will be adjusted by the deduction of net debt and an adjustment for the difference between the target working capital and the actual working capital at closing. The Transaction Consideration will be settled as follows:

- €400 million of cash paid out of the proceeds of the Rights Offering;
- €50 million of newly issued Sappi Shares, being the Settlement Shares; and
- the balance by the Vendor Loan Note of a maximum of €250 million.

3.1.1 Cash

The Company will pay €400 million of the Transaction Consideration on the Completion Date out of the proceeds of the Rights Offering. The Transaction is conditional upon the Rights Offering having closed and settled in accordance with its terms. Details on the Rights Offering will be contained in a rights offer circular that will be released when the terms and conditions of the Rights Offering are finalised.

3.1.2 Settlement Shares

The Settlement Shares will be listed on the JSE. The price at which each Settlement Share will be issued is Euro 7.16 (R82.39) per share, which was determined based on the volume weighted average price of Sappi Shares on the JSE over 30 trading days prior to the announcement of signing of the Master Agreement and the average EUR / ZAR daily exchange rate for the same period.

At this price, the total number of Settlement Shares will be 6,982,105. This number of shares will be adjusted if the subscription price for the Rights Offering is below Sappi's share price on the day before announcement of the terms of the Rights Offering. In such circumstances, the adjustment to the number of Settlement Shares will be based on the number of shares issued in the rights offering and the net proceeds of the Rights Offering. An adjustment to the number of Settlement Shares will also be made if Sappi were to take any other action with the effect of diluting the value of its shares, or otherwise disadvantaging M-real in respect of the Settlement Shares, prior to the date it is required to deliver the Settlement Shares. Such dilutive actions include announcement and completion of the payment of special dividends (but not ordinary dividends), capital distributions or capital reorganisations. Any such adjustment is to be determined by an international investment bank appointed by Sappi.

Sappi and M-real have entered into a Lock-up Deed under which M-real undertakes, subject to exceptions, not to dispose of the Settlement Shares for a period of 9 months from the Completion Date. Under the exceptions, M-real may:

- accept a general offer made to all holders of Sappi Shares made in accordance with the South African Securities Regulation Code on Takeovers and Mergers on terms which treat all such holders alike (whether by way of takeover, scheme of arrangement or otherwise);
- execute and deliver an irrevocable commitment or undertaking to accept such a general offer as recommended by the Board;
- transfer or dispose of any Settlement Shares pursuant to a compromise or arrangement between Sappi and its creditors or any class of them which is agreed to by the creditors or members and sanctioned by the court under the Companies Act;
- sell or otherwise dispose of any Settlement Shares pursuant to any offer by Sappi to purchase its own shares which is made on identical terms to all holders of Sappi Shares;
- place any of the Settlement Shares with a third party (subject to Sappi's prior written consent which may not be unreasonably withheld or delayed) provided that prior to the making of any disposal pursuant to this exception the transferee shall have agreed to be bound by the restrictions of the Lock-up Deed as if it were the transferor, by executing and delivering to Sappi a deed of adherence;
- dispose of any of the Settlement Shares in accordance with any order made by a court of competent jurisdiction or as required by law, regulation or a competent authority to which M-real is subject;
- subject to Sappi's prior written consent (which may not be unreasonably withheld or delayed), dispose of any of the Settlement Shares to the extent the sale proceeds (net of costs) are required by M-real to avoid M-real or a company in its group triggering a default of a financial covenant to which it is subject;

- dispose of any of the Settlement Shares to the extent the safe proceeds (net of costs) are required by M-real to satisfy a breach of warranty claim or other liability to Sappi (including any adjustment to the net working capital) in respect of the Transaction; or
  - enter into or agree to enter into a foreign exchange rate hedge in respect of the Settlement Shares.

### 3.1.3 Vendor Loan Note

The Vendor Loan Note of a maximum of €250 million, with a tenor of 48 months and that will rank pari passu with the Sappi Group's existing long-term debt will be issued to M-real by Sappi Papier Holding. The Vendor Loan Note will be guaranteed by Sappi, Sappi International and Sappi Trading Pulp. Interest on the Vendor Loan Note will be payable every six months in arrears and will step up progressively every six months, from an interest rate of 9% in the first six months, to 12% in the second six months, to 14% in the third six months and to 15% after 18 months from the issue date. Sappi may refinance the Vendor Loan Note when the global financial markets permit it to do so. (Refer to Annexure 5 for details of the Vendor Loan Note.)

### 3.2. Warranties

Warranties, representations and related undertakings, as are customary for a transaction of this type, have been obtained from M-real.

### 3.3. Restraint of trade

M-real has undertaken that it will not be directly or indirectly engaged or interested in carrying on a coated graphic paper business anywhere in the world, other than South Africa, for a period of three years from the Completion Date. However, M-real may:

- hold shares in a listed company if the shares do not confer more than 10 percent of the company's voting power at a general meeting of the company;
- continue to carry on anywhere in the world its retained business at the Completion Date including its paperboard business, uncoated graphic paper production business, coated speciality paper business, cast coated paper business and one-sided coated paper business;
- acquire an entity or business which carries on a coated graphic paper business if the acquisition is not made with the main purpose of acquiring the coated graphic paper business, the coated graphic paper business of the entity or business acquired is no more than 30 per cent of the total turnover of the acquired entity or business taken as a whole and does not represent annual production of more than 200,000 tonnes; and

- carry on any business contemplated by the Transaction Agreements.

3.4. Completion Date and Effective Date

The effective date for the Transaction will be the Completion Date. The Completion Date shall be no later than 30 April 2009.

3.5. Conditions Precedent and Termination Rights

The Transaction is subject to the satisfaction of, inter alia, the following conditions:

- the Sappi Shareholders, in a General Meeting, approving the ordinary resolution necessary to effect the Transaction, approving a special resolution to increase the share capital of Sappi and granting the directors the required authority to allot and issue shares for the Transaction;
- the obtaining of certain regulatory approvals required for implementing the Transaction, including competition law approvals and all relevant approvals from the Reserve Bank;
- the transfer by M-real of Hallein AG from M-real Stockstadt GmbH to a M-real entity unconnected to the Transaction;
  - the approval of the JSE for the listing of the Settlement Shares on the JSE; and
  - the Rights Offering having closed and settled in accordance with its terms.

The Transaction will automatically terminate if the Rights Offering has not been announced by midnight on 28 February 2009 or, if announced by that time, if it has not closed and settled by 30 April 2009. In addition either Sappi or M-real may terminate the Transaction on 31 January 2009 if the condition relating to EU merger clearance has not been satisfied by 11 January 2009 and the parties having entered into good faith negotiations are unable to reach a mutually acceptable agreement by 31 January 2009.

In addition, Sappi may terminate the Transaction prior to the anticipated completion if a Significant Adverse Change occurs or is likely to occur prior to completion.

3.6. Other

There are no guaranteed book debts in the Acquired Business.

There is no accrued taxation, which will be settled in terms of Transaction Agreements.

Other than as Shareholders of Sappi, no promoter or director has any beneficial interest in terms of the Transaction.

The Acquired Business will be transferred to Sappi and its subsidiaries and has not been ceded or pledged by M-real.

Allan Gray Limited and RMB Asset Management (Proprietary) Limited, which both currently act as investment managers for clients holding, in aggregate, approximately 34% of Sappi's issued ordinary shares, have agreed to vote the shares over which they have voting rights (representing, in aggregate, approximately 10% of Sappi's issued ordinary shares) in favour of the resolutions required to implement the Transaction and the financing of the Transaction and to recommend to their clients having the voting rights over the remaining shares (representing, in aggregate, approximately 24% of Sappi's issued ordinary shares) to vote in favour of such resolutions.

#### 4. OVERVIEW OF INDUSTRY AND THE M-REAL GRAPHIC PAPER MARKET

##### 4.1. Industry Overview

The paper industry is broadly divided into the printing and writing paper segment and the packaging segment. The printing and writing paper segment consists of newsprint, groundwood paper and fine paper, including graphic paper. The packaging segment consists of containerboard, boxboard and sackkraft. There is a continuum of grades within the printing and writing paper segment. At the high-end are coated woodfree grades used for commercial printing and for high quality books and magazines. At the low end of the scale is newsprint. Between these two are coated mechanical papers used largely for magazine publishing and uncoated papers for books and office use. Sappi and M-real focus on the higher quality grades.

In both the high end and low end market segments, consumption has grown over the long-term in line with overall economic growth, but consumption patterns have fluctuated in the short-term. Prices are largely influenced by the supply and demand balance for individual products. In the past, industry-wide over-investment in production capacity has led to significant oversupply, resulting in lower prices.

This effect has been exacerbated by inventory speculation by purchasers buying more than their needs with the view that the surplus will increase in value from the price trend. As a result, the financial performance of graphic paper producers has deteriorated during periods of significant oversupply and improved when demand has increased to levels that support the implementation of price increases.



In recent years, the industry has experienced significant strategic changes. The high costs associated with building new paper mills in the developed world has led to a focus on consolidation rather than the construction of new capacity. Many leading industry producers currently focus on fewer core grades and have divested non-core assets not part of their target market or which are inconsistent with their long-term strategy.

Another important trend has been the rise of competition from China. Rapid economic growth and government incentives have spurred massive investment of capital by Chinese pulp and paper producers. Over the last five years, China's paper board and fine paper capacity increased considerably, transforming China from a net importer to a net exporter of coated fine paper.

#### 4.2. Overview of the Acquired Business

Sappi is acquiring specific assets of the graphic paper business of M-real. M-real is a Finnish-domiciled leading producer of paperboard and paper and is listed on the Helsinki Stock Exchange. The assets will be acquired as a going concern and will include, inter alia, the know-how, brands, order books, customer lists, intellectual property and goodwill.

The Acquired Business also includes specific assets from the graphic paper business of M-real, with a total annual production capacity of approximately 1.9 million tonnes. M-real's graphic paper business currently has a total annual production capacity of approximately 3 million tonnes.

The Acquired Business includes the following assets:

- (a) four mills, namely, the Kirkniemi Mill (Finland), Kangas Mill (Finland), Stockstadt Mill (Germany) and the Biberist Mill (Switzerland), to be acquired by acquisition of:
  - i. the business of the Kirkniemi mill in Finland and the Kangas mill in Finland; and
  - ii. all of the shares in M-real Stockstadt GmbH, a German incorporated company (and its subsidiary Chemische Werke Zell-Wildshausen GmbH, a German incorporated company); and
  - iii. all the shares in M-real Biberist AG, a Swiss incorporated company;
- (b) coaters from the Gohrsmülle Mill (Germany) and the Hallein mill (Austria);
- (c) all of the shares in CN Papiervertriebs GmbH in Germany, which holds a full service print broker; and

(d) all of the know-how, brands, order books, customer lists, intellectual property and goodwill in M-real's coated graphic paper business (including the know-how, brands, order books, customer lists, intellectual property and goodwill in relation to M-real mills at Husum (Sweden), Äänekoski (Finland), Hallein (Austria) and Gohrsmühle (Germany)) but excluding all of the know-how, brands, order books, customer lists, intellectual property and goodwill in M-real's coated graphic paper business in South Africa.

As part of the Transaction, Sappi will enter into:

- (a) long term supply agreements under which Metsäliitto will supply wood, energy and pulp; and
- (b) transitional marketing agreements whereby M-real will produce products at certain graphic paper machines at the Husum Mill (Sweden) and the Äänekoski Mill (Finland) and Sappi will market and distribute those products.

As outlined above, elements of the assets and businesses being acquired that relate to M-real's business and operations in South Africa will be excluded (the "South African Component"). Sappi has an option to acquire the South African Component, and M-real has an option to require Sappi to acquire the South African Component, upon receipt of any necessary regulatory approvals and clearances, including the approval of the South African competition authorities.

A further description of the Acquired Business and certain marketing agreements being entered into as a result of the Transaction follows:

1) Mills being acquired

(i) Kirkniemi

The mill at Kirkniemi has an annual production capacity of approximately 740,000 tonnes. Kirkniemi is located 70km west of Helsinki, in southern Finland. The products of the Kirkniemi mill are:

- Galerie Lite – coated ultra light-weight paper with high bulk and opacity;
- Galerie Brite – coated light-weight paper with high bulk, soft gloss and improved brightness; and
- Galerie Fine – coated magazine paper with high brightness, smoothness and improved opacity.

(ii) Kangas Mill

The mill has an annual production capacity of approximately 210,000 tonnes. The mill produces Galerie Silk, a coated magazine paper with silk finish, and is located in Jyväskylä, in central Finland.

(iii) Stockstadt Mill

The Stockstadt mill has an annual production capacity of approximately 420,000 tonnes. The mill produces coated and uncoated fine paper for sheet fed offset printing. The Stockstadt mill is located at Stockstadt, Germany.

The products of the Stockstadt mill are:

- EuroArt Plus - Woodfree coated paper;
- Tauro - Uncoated Woodfree paper; and
- Hardwood Pulp.

(iv) Biberist Mill

The Biberist mill has an annual production capacity of approximately 505,000 tonnes. The mill produces woodfree coated fine paper for the graphic arts industry/offset printing as well as woodfree uncoated pre-printed paper for office, pre-printed and offset applications. The mill is located in Biberist, Switzerland.

The products of the Biberist mill are:

- Cento - Woodfree multi-purpose uncoated printing paper;
- Allegro - Woodfree coated paper; and
- Furioso - Woodfree coated paper.

2) Transitional marketing agreements for the output of the following assets remaining in M-real's ownership

(i) Husum Mill PM8

The Husum PM8 machine is owned by M-real Sverige AB and is located in Sweden. Husum PM8 produces Galerie Fine paper, a coated fine paper with high brightness, smoothness and improved capacity.

(ii) Äänekoski Mill PM2

The Äänekoski PM2 machine is owned by M-real Corporation. It produces triple blade coated wood-free art paper on one paper machine, under the brand name Galerie Art. The mill is situated in Äänekoski, Finland.

The map below sets out the locations of the mills and machines being acquired and the comparative location of existing Sappi mills in Europe:

Pan-European Coated Paper Assets

		Annual production capacity (kt)	
Sappi Europe Mills		Paper	Pulp
1	Alfeld, Germany	360	120
2	Blackburn(1), UK	120	
3	Ehingen, Germany	250	140
4	Gratkorn, Austria	860	250
5	Lanaken, Belgium	490	170
6	Maastricht(1), Netherlands	320	
7	Nijmegen, Netherlands	240	
	TOTAL	2,640	680

		Annual production capacity (kt)	
M-real Mills		Paper	Pulp
A	Biberist, Switzerland	505	
B	Kangas, Finland	210	
C	Kirkniemi, Finland	740	338
D	Stockstadt, Germany	420	160
	Capacity acquired	1,875	498
E 1	Gohrsmühle, Germany	370	
E 2	Hallein, Austria	310	170
F 1	Husum PM8, Sweden	285	
F 2	Äänekoski PM2, Finland	200	
	TOTAL	3,040	668

2 + 6 Planned to be shut down (Note 1)

F 1 & F 2: Will remain in M-Real's ownership and continue as contract producers for Sappi under long term supply agreements.

E 1 & E 2: Acquisition of know-how, brands, order books, customer lists, intellectual property and goodwill. M-Real announced plans that will result in reduction of coated woodfree capacity by 0.6 million tons per annum.

Notes

1. Blackburn & Maastricht PM5 machine to be closed with a combined reduction in capacity of 190Kt

Source: Sappi and M-real information

4.3. Brands

The Acquired Business includes well known and reputable brands in the coated magazine paper and commercial printing paper markets. Sappi expects that the acquisition of these brands will allow Sappi the opportunity of retaining the Acquired Business's existing customer base and consolidate its footprint throughout Europe and export markets. The Galerie family of brands is highly valued, and Galerie Fine, a high quality mechanical fibre containing product, has been one of the most successful product developments in the industry in recent years. The Transaction will add to the Sappi stable of brands the high end "Furioso" product and the various coated wood free brands. Further, Sappi expects M-real's strong brand recognition to bolster Sappi's ability to derive financial benefits from the Transaction.

4.4. Industry Position

The Acquired Business currently has a share of the coated wood-free capacity in Europe of approximately 15% and Sappi has a share of the coated wood-free capacity in Europe of about 20%. Sappi will continue to face strong competition from Stora, UPM, Lecta and Burgo, all with capacity shares of between 12% and 16%.

In the coated mechanical segment, Sappi currently has a low capacity share of less than 5% in Europe, compared to the Acquired Business's capacity share of approximately 12%. If the Transaction is implemented, Sappi expects to hold a meaningful position in the European market, behind UPM (estimated 24% market share) and close to Stora (estimated 15% market share).

In terms of the total coated graphic paper capacity in Europe, should the Transaction be implemented, the combined business after integration would have an anticipated capacity share of 18% in Europe. This position would be followed by UPM at an estimated 17%, Stora at an estimated 14%, and Burgo at an estimated 12%. As a percentage of the world coated paper capacity, the combined business is expected to have a capacity share greater than 10%.

4.5. Competitive position

The graphic paper business of M-real, includes coated magazine papers, coated fine papers and uncoated fine papers from mills in Finland, Sweden, Germany, Austria and Switzerland. It distributes its graphic paper throughout Europe. Outside Europe, it mainly distributes to North America and Australia.

The anticipated production flexibility and synergy benefits that the Transaction brings are expected to lead to a lower production cost base for Sappi in Europe. Kirkniemi is a large efficient mill and a low cost producer. Although the coated wood-free paper mills are of a smaller scale, transport costs are not significant. Stockstadt also has an integrated pulp mill.

4.6. Management

The Acquired Business's key management have strong management skills and are highly experienced in the paper production industry. It is expected that as part of the Transaction, a number of selected key individuals will be retained and will become part of the enlarged Sappi Group. Key management of the Acquired Business are as follows:

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Name	Age	Position	Experience
Martti Savelainen	46	Vice President & Mill Manager of M-real Kirkniemi (since November 2007)	<p>January 2007 – November 2007 Technology and mill manager, M-real Kirkniemi paper mill</p> <p>March 2004 – January 2007 Mill manager, M-real Kirkniemi paper mill</p> <p>January 2003 – February 2004 Technology Manager, M-real Corporation, Publishing Business Area</p> <p>January 1999 – April 2003 Mill manager, M-real Kangas and Äänekoski Paper Mills</p> <p>Earlier positions of production manager, development and production engineer &amp; sales manager in M-real or its subsidiaries</p>
Petri Jantunen	44	Vice President & Mill Manager of M-real Kangas and Äänekoski Paper Mill (since April 2003)	<p>October 2000 – March 2003 Production Manager, Vice Mill Manager, Cartiere Burgo Spa, Duino Paper Mill, Italy</p> <p>January 1998 – September 2000 Production Manager Paper Machine 3-line Metsä-Serla Oyj (now M-real Corporation), Kirkniemi, Finland</p> <p>August 1996 – December 1997 Assistant Production Manager Paper Machine 3-line Metsä-Serla Oyj, Kirkniemi, Finland</p> <p>May 1995 – July 1996 Project Engineer PM3-project Metsä-Serla Oyj, Kirkniemi, Finland</p>
Bernhard Jäggi	44	Vice President & Mill Manager of M-real Stockstadt	15 years in forest industry

Nicolas Mühleemann	48	Vice President & Mill Manager of M-real Biberist (since January 2004)	19 years in forest industry
Frank Rinkens		Operative Director of CN Papiervertrieb	15 years in forest industry
Jürgen Bendt	53	Managing Director of the CWZ GmbH (since 2001)	July 1997 – January 2001 Deputy Managing Director of the CWZ GmbH  January 1993 – October 1996 Deputy Managing Director of Lignobond Verkaufsgesellschaft  1989 – 1991 Kaufm. Leiter/Leiter Controlling  1980 – 1989 Thyssen Finesteels AG

4.7. Conclusion

Sappi directors believe the acquisition meets all of Sappi's strategic and financial criteria for acquisitions which are:

increased profitability and returns arising from revenue and cost synergies;

improved cash flows;

increased customer base and market share;

maximised flexibility of capacity utilisation; and

expanded product and brand range.

The Transaction adds a number of well known brands to the Sappi brands and is expected to strengthen Sappi's competitive position in the graphic paper industry in Europe and globally. Sappi believes that the Transaction will provide an opportunity for its European operations to generate returns in excess of their cost of capital.



## 5. FINANCIAL INFORMATION ON THE ACQUIRED BUSINESS

Historical financial information on the Acquired Business for the three financial years ended 31 December 2007, 2006 and 2005, the three months ended 31 December 2007 and 2006, and the six months ended 30 June 2008 and 2007 is set out in Annexure 1 to this Circular. This should be read in conjunction with the independent reporting accountants' reports on such historical financial information set out in Annexure 2 to this Circular. This information has been provided to the Company by M-real and is the responsibility of the M-real board of directors.

## 6. INFORMATION RELATING TO THE DIRECTORS OF THE ACQUIRED BUSINESS

Directors at the Acquired Business who will become part of the enlarged Sappi Group are as follows:

Name	Designation
Directors – Germany	
M-real Stockstatdt GmbH	
Seppo Parvi	Managing Director
Bernhard Jaeggi	Managing Director
Dr. Soili Hietanen	Member of the Supervisory board
Robert Winkels	Member of the Supervisory board
Frank Sehr	Member of the Supervisory board
Chemische Werke Zell-Wildshausen GmbH	
Jürgen Berndt	Managing Director
CN Papiervertriebs GmbH	
Frank Martin	Managing Director
Henrik Damén	Member of the Advisory board
Nils Hinterthan	Member of the Advisory board
Directors - Switzerland	
Soili Hietanen	President of the board
Rober Karrer	Member of the board
Peter Kienast	Member of the board
Nicolas Mühlemann	Managing Director
Riccardo Incerti	Director Finance & HR
Christian Schori	Director Customer Service Center
Jörn Schmidt	Production & Technical Director

7. MATERIAL BORROWINGS OF THE SAPPI GROUP AND THE ACQUIRED BUSINESS

Sappi is acquiring certain liabilities with the Acquired Business which are not anticipated to exceed €50 million. Such borrowings are not regarded as being material in value.

Save as disclosed above, at the date of this Circular, Sappi and its Subsidiaries have no material loans receivable and have not made any loans or furnished any security to or for the benefit of any director or manager or any associates of any director or manager of Sappi.

There have been no debentures created in terms of a trust deed and no debentures to be issued or agreed to be issued other than the Vendor Loan Note.

There have been no debentures or debenture stocks issued by way of conversion or replacement of debentures previously issued.

For an analysis of material loans made to the Sappi Group, please refer to Annexure 5.

8. MATERIAL CONTRACTS ENTERED INTO BY THE ACQUIRED BUSINESS

To the best knowledge of the Board, the Acquired Business has not, in the last three years preceding the Last Practicable Date, entered into material contracts, either verbally or in writing, which contain material outstanding obligations or settlements other than contracts entered into in the ordinary course of business.

9. MATERIAL CHANGES RELATING TO THE ACQUIRED BUSINESS

To the best knowledge of the Board, since 30 June 2008 there have been no material changes in the financial or trading position of the Acquired Business and there have not been any material acquisitions/disposals in the Acquired Business.

10. LITIGATION STATEMENT RELATING TO THE ACQUIRED BUSINESS

To the best knowledge of the Board, the Acquired Business is currently not involved in any material legal or arbitration proceedings, including any proceedings that are pending or threatened of which M-real is aware, that may have or have had a material effect on the Acquired Business in the previous 12 months.

11. VENDORS OF THE ACQUIRED BUSINESS

The Acquired Business is to be acquired from M-real and certain of its subsidiaries. M-real is a company 38.6% owned by Metsäliitto Group, the tenth largest forest industry group in the world. The Metsäliitto Group is a wholly owned subsidiary of Metsäliitto Osuuskunta, a private company. Its five business areas include wood supply, wood products, pulp, board and paper, and tissue and cooking paper.

The registered address of Metsäliitto Group is 43 FI-02020 METSÄ, Finland. Metsäliitto Group is not a related party to Sappi in any way.

There are no guaranteed book debts in the Acquired Business.

There is no accrued taxation, which will be settled in terms of Transaction Agreements.

Other than as Shareholders of Sappi, no promoter or director has any beneficial interest in terms of the Transaction.

The Acquired Business will be transferred to Sappi and its subsidiaries and has not been ceded or pledged by M-real.

12. PRO FORMA FINANCIAL EFFECTS OF THE TRANSACTION

The unaudited pro forma financial effects set out below have been prepared to assist Shareholders to assess the impact of the Transaction and financing thereof on the EPS, HEPS, NAV and TNAV per share of Sappi. These pro forma financial effects illustrate how the Transaction might affect the reported financial information of Sappi if the Completion Date had occurred on 30 September 2007 and 30 June 2008 for balance sheet purposes and 1 October 2006 for income statement purposes.

A simple consolidation of the historical financial information in the form set out in the pro forma below does not purport to represent what the results of operations or financial position of Sappi would have been if the Transaction had occurred on the dates indicated, nor does it purport to project the results of operations or financial position of Sappi for any future period or as of any future date. The unaudited pro forma financial effects do not reflect:

anticipated synergies and efficiencies associated with combining the companies due to the adoption of best practices;

efficiencies in the permanent funding structure; and

movements in the US Dollar / Euro exchange rate.

In addition, the pro forma financial effects do not give pro forma effect to the long term supply agreements with M-real for energy, wood and pulp and the transitional marketing agreements for the outputs of the Husum PM8 machine and the Äänekoski PM2 machine.

The pro forma financial effects have been prepared in accordance with the Listings Requirements of the JSE and the Guide on Pro Forma Financial Information issued by The South African Institute of Chartered Accountants. These unaudited pro forma financial effects are the responsibility of the Board and are provided for illustrative purposes only. The material assumptions on which the pro forma financial effects are based are set out in the notes following the table. The unaudited pro forma financial effects set out below should be read in conjunction with the report of the Independent Reporting Accountants, which is included as Annexure 4 to this Circular.

## Pro forma financial effects for the 9 months ended 30 June 2008

	Reviewed before the Transaction	Pro forma adjustments	Pro forma after the Transaction	Percentage change
Earnings per share (US cents)	59	3	62	5.1
Headline earnings per share (US cents)*	58	(40)	18	(69.0)
Net asset value per share (US\$)*	7.29	0.75	8.04	10.3
Tangible net asset value per share (US\$)*	7.25	0.34	7.59	4.7
Ordinary shares in issue (millions)	229.1	73	302.1	31.9
Weighted average number of ordinary shares in issue (millions)	228.7	73	301.7	31.9

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\* The JSE Listings Requirements requires this disclosure for this type of circular to shareholders

## Pro forma financial effects for the 12 months ended 30 September 2007

	Audited before the Transaction	Pro forma adjustments	Pro forma after the Transaction	Percentage change
Earnings per share (US cents)	89	9	98	10.1
Headline earnings per share (US cents)*	82	(31)	51	(37.8)
Net asset value per share (US\$)*	7.95	-	-	-
Tangible net asset value per share (US\$)*	7.92	-	-	-
Ordinary shares in issue (millions)	228.5	73	301.5	31.9
Weighted average number of ordinary shares in issue (millions)	227.8	73	300.8	32.0

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\* The JSE Listings Requirements requires this disclosure for this type of circular to shareholders

Notes and assumptions

- A. The unaudited pro forma financial effect on the Sappi Group for the nine months ended June 2008 has been prepared on the assumption that the Transaction occurred on 30 June 2008 for balance sheet purposes and 1 October 2007 for income statement purposes.
- B. The unaudited pro forma financial effect on the Sappi Group for the twelve months ended September 2007 has been prepared on the assumption that the Transaction occurred on 1 October 2006 for income statement purposes.
- C. The pro forma financial effects reflect the Transaction and related financing as described elsewhere in this Circular.
- D. The number of shares in issue and the weighted average number of shares have been adjusted by 73 million shares representing the number of shares to be issued as consideration for the Acquired Business and the proposed Rights Offering of Euro 450 million. The number of Settlement Shares will be determined by reference to the volume weighted average share price of Sappi on the JSE during the 30 trading days prior to the date of the announcement of this acquisition. The number of rights offering shares was calculated using the Sappi closing share price on 26 September 2008 of ZAR81.50. The actual number of shares issued will be based on the relevant variable components of the financing and of the relevant agreements and, accordingly, the number of shares will change.
- E. The pro forma financial effects exclude:  
anticipated synergies and efficiencies associated with combining the Sappi Group and the Acquired Business due to the adoption of best practices;  
efficiencies in the permanent funding structure; and  
movements in the US Dollar / Euro exchange rate.
- F. Financial information for the Acquired Business has been extracted from the financial statements for the Acquired Business provided to Sappi by M-real. These financial statements have been prepared on a full carve-out basis in accordance with IFRS as issued by the IASB and are presented in Euros. Such financial information has been converted from Euros to US Dollars for the income statement, using the average exchange rate for the year ended 31 December 2007 of EUR1 to US\$1.3755, the three months ended 31 December 2007 of EUR1 to US\$1.4556, for the six months ended June 2008 of EUR1 to US\$1.5315 and for the balance sheet as at 30 June 2008 using the period end rate of EUR1 to US\$1.5795.

- G. Financial information for Sappi was extracted from the published consolidated results of Sappi for the year ended September 2007 prepared in accordance with IFRS as issued by the IASB and from the published condensed reviewed results for the nine months ended June 2008 prepared in accordance with International Accounting Standard 34, Interim Financial Reporting .
- H. The allocation of the Transaction Consideration reflected in the pro forma financial effects is preliminary based on estimated fair values and the estimated Transaction Consideration. It will eventually be adjusted based on a complete assessment of the fair value of the net Assets Acquired and the final Transaction Consideration. The final Transaction Consideration allocation is dependent on, among other things, the finalisation of asset and liability valuations. Any final adjustment will change the allocation of the Transaction Consideration, which will affect the fair value assigned to the assets and liabilities and could result in a material change to the pro forma financial effects, including a change to goodwill.
- I. Pro forma adjustments include an adjustment to depreciation relating to the preliminary fair value assigned to property, plant and equipment to eliminate estimated historical expense and interest expense to take into account the financing of the Transaction. These adjustments have been tax effected at an estimated statutory tax rate for the combined group of 28.3%.
- J. The pro forma financial effects are presented for information purposes only, and do not purport to represent what Sappi's actual results of operations or financial condition would have been had the Transaction and the financing thereof occurred on the dates indicated, nor are they necessarily indicative of future results of operations or financial condition.
- K. The pro forma headline earnings per share for the nine months ended June 2008 and the twelve months ended September 2007 exclude a net asset impairment reversal of EUR 111 million recorded by the Acquired Business. The impact thereof for the nine months ended June 2008 and the twelve months ended September 2007 is 51 US cents and 54 US cents respectively.

12.1. Goodwill

The difference between the preliminary cost of the Transaction and the preliminary estimated fair value of assets and liabilities acquired of €80 million (US\$126 million) has provisionally been attributed to goodwill and not amortised. Post completion of the Transaction, Sappi will complete its analysis of the measurement of the cost of the Transaction and the allocation of the purchase price to the Acquired Business's identifiable assets, liabilities and contingent liabilities as required by IFRS 3: Business Combinations. As a consequence the goodwill amount may change. The goodwill on the Transaction relates to future cash flows that will be realised due to the acquisition and synergies of the combined Sappi and the Acquired Business.

## 13. SHARE CAPITAL OF SAPPI

## 13.1. Authorised and issued share capital prior to the Transaction

	R	US \$(1)
Authorised		
Ordinary shares of R1.00 each	325,000,000	38,201,587
Issued		
Ordinary shares of R1.00 each	239,071,892	28,101,310
Share premium	6,426,855,567	755,434,095
Total issued share capital	6,665,927,459	783,535,405
Treasury Shares	929,420,671	109,247,214

(1) Converted at closing exchange rate on 2 October 2008 of ZAR/US\$ 8.5075

## 13.2. Authorised and issued share capital after the Transaction but before any share issuance other than the share issuance to M-real

	R	US \$(1)
Authorised		
Ordinary shares of R1.00 each	1,325,000,000	155,744,931
Issued		
Ordinary shares of R1.00 each	246,053,997	28,922,010
Share premium	6,994,475,526	822,154,044
Total issued share capital	7,240,529,523	851,076,054
Treasury shares	929,420,671	109,247,214

(1) Converted at closing exchange rate on 2 October 2008 of ZAR/US\$ 8.5075



## 13.3. Major Shareholders prior to the Transaction

Other than the shareholders listed below, the Board is not aware of any other shareholder that, directly or indirectly, manages more than 5% or has a beneficial interest of 5% or more of Sappi's issued share capital based on the latest available share register as of 31 August 2008 and additional information available to Sappi as at the Last Practicable Date:

Shareholder	Percentage holding (%)
Fund Manager	
Allan Gray	26.0
Old Mutual Asset Management	11.0
RMB Asset Management	8.1
Beneficial	
Public Investment Corporation	7.3
Industrial Development Corporation	6.7
Total	59.1

## Transaction and the Rights Offering

The Settlement Shares will not comprise more than 3.2% of the total issued share capital of Sappi. The Rights Offering will not significantly change the proportionate shareholding of Sappi if all eligible Shareholders take up their rights. The major shareholders of Sappi post the Transaction and the Rights Offering (if all the eligible Shareholders were to take up their rights) will be as follows:

Shareholder	Percentage holding (%)
Fund Manager	
Allan Gray	26.0
Old Mutual Asset Management	11.0
RMB Asset Management	8.1
Beneficial	
Public Investment Corporation	7.3
Industrial Development Corporation	6.7
Total	59.1

## 13.4. Controlling Shareholder

Sappi has no controlling shareholder and has not had any in the last five years. Unless, pursuant to the Rights Offering, any underwriters are required under their underwriting obligation to take up Sappi Shares conferring control on them, there will be no controlling shareholder of Sappi after completion of the Transaction.



## 14. DIRECTORS' REMUNERATION AND SERVICE CONTRACTS

## 14.1. Directors Remuneration

## 14.1.1. Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. The remuneration is translated into US Dollars (the Sappi Group's reporting currency) at the average exchange rates prevailing during the reporting year. Directors' fees are established in local currencies to reflect market conditions in those countries. Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve, and the quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years caused severe distortion of the relative fees paid to individual directors.

Non-executive directors' fees are proposed by the executive committee, agreed by the compensation committee, recommended by the board and approved at the annual general meeting by the shareholders. Proposed emoluments to be paid by Sappi Limited to directors are available on inspection.

The table below outlines the non-Executive directors' fees and allowances for the last financial period, i.e. Annual Report for the year ended 30 September 2007.

Director	2007			Total(7) (8)
	Board fees	Committee fees	Travel allowance	
In USD				
D C Brink	41,817	40,423	5,000	87,240
M Feldberg	50,000	48,000	12,500	110,500
J E Healey	50,000	68,000	15,000	133,000
K de Kluis(1)	16,265	16,265	2,500	35,030
D Konar	27,878	52,736	5,000	85,614
H C Mamsch	65,060	93,568	10,000	168,628
B Radebe	27,878	18,121	5,000	50,999
A N R Rudd	65,060	27,601	2,500	95,161
(5)				
F A Sonn	27,878	9,060	5,000	41,938
E van As(2)	48,787	–	5,000	53,787
(6)				
K R Osar (3)	20,835	–	7,500	28,335
J D	2,324	–	–	2,324
McKenzie (4)				
	443,782	373,774	75,000	892,556

(1) Retired in December 2006.