TAIWAN GREATER CHINA FUND
Form POS 8C
November 12, 2009

As filed with the U.S. Securities and Exchange Commission on November 12, 2009

Securities Act File No. 333-152334
Investment Company Act File No. 811-05617

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Check appropriate box or boxes)

Form N-2

x **REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
o **Pre-Effective Amendment No.**
x **Post-Effective Amendment No. 1**

and/or

x **REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**
x **Amendment No. 14**

TAIWAN GREATER CHINA FUND

(Exact Name of Registrant as Specified in Charter)
111 Gillett Street
Hartford, Connecticut 06105
(Address of Principal Executive Offices)
(800) 343-9567
(Registrant s Telephone Number, including Area Code)

Brown Brothers Harriman
40 Water Street
Boston, Massachusetts 02109-9047
(Name and Address of Agent for Service)

Copy to:
Leonard B. Mackey, Jr., Esq.
Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019
(212) 878-8000

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check this box. x

It is proposed that this filing will become effective (check appropriate box):

x when declared effective pursuant to Section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	**Amount Being Registered**	**Proposed Maximum Offering Price Per Unit(1)**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee(1)**
Shares of Beneficial Interest, par value $0.01 per share	____shares	$	$	$

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, based on the average of the high and low sale prices reported on the New York Stock Exchange on ___.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Explanatory Note

This filing consists of (a) a form of preliminary prospectus supplement to be used if the Fund decides to conduct a rights offering; (b) a preliminary base prospectus; and (c) Part C.

The information in this Prospectus is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED __ , 2009

Form of Preliminary Prospectus Supplement
(To Prospectus dated , 2009)

Shares

TAIWAN GREATER CHINA FUND

Common Shares

Issuable Upon Exercise of Rights to Subscribe for Such Shares

Taiwan Greater China Fund (the Fund) is issuing to its shareholders of record as of __, 2009 (the Record Date) [non-] transferable rights (the Rights). These Rights will allow such shareholders to subscribe for up to an aggregate of __ shares (the Shares) at the rate of one Share of the Fund s common shares of beneficial interest par value $0.01 per share for each __ Rights held and, subject to certain limitations and subject to allotment, for any Shares not acquired by exercise of primary subscription Rights. You will receive one Right for each whole common share that you hold of record as of __, 2009. You need __ Rights to purchase one Share at the subscription price. Record Date Shareholders (as defined herein) who fully exercise their Rights will be entitled to subscribe for additional common shares of the Fund that may become available with respect to any unexercised Rights, subject to certain limitations and subject to allotment. The Fund will not issue fractional Shares upon the exercise of less than __ Rights. The [Rights and the Shares] will be listed for trading on the New York Stock Exchange (the NYSE), subject to notice of issuance. The Fund s common shares, including the Shares once issued, are traded on the NYSE under the symbol TFC. [The Rights will be traded under the symbol TFC.RT.] The subscription price per Share will be __.

THE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK TIME, ON __, 2009, UNLESS EXTENDED (Expiration Date). The Fund announced the offer after the close of business on the NYSE on __, 2009. The Fund s net asset value per share at the close of business on __, 2009 and __, 2009 was $__ and $__, respectively. Because the expiration date and the date upon which the price of the Rights will be determined will be the same date, shareholders who exercise their rights will not know the purchase price of the Shares when they make their investment decision. Once you subscribe for Shares and the Fund receives payment or a guarantee of payment, you will not be able to change your decision.

The Fund is a diversified, closed-end management investment company incorporated under the laws of the Commonwealth of Massachusetts. The Fund, together with its predecessor, is the oldest investment fund organized for investment in securities of Republic of China (the R.O.C. or Taiwan) issuers by investors outside the R.O.C. The Fund s investment objective is long term capital appreciation through investment primarily in publicly traded equity securities of R.O.C. issuers. The Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a significant portion of their revenues by exporting to or operating in mainland China. Under normal circumstances, at least 80% of the Fund s net assets will be invested in investments that are economically tied to the R.O.C. See The Fund s Investments Investment Objective and Policies beginning on page 15 of the accompanying prospectus. There can be no assurance that the Fund s investment objective will be achieved. Nanking Road Capital Management, LLC acts as the Fund s investment manager. The address of the Fund is c/o Nanking Road Capital Management, LLC, 111 Gillett Street, Hartford, Connecticut 06105, and the Fund s telephone number is (800) 343-9567.

Investment in the Fund s common shares involves certain risks that are not typically associated with investments in the securities of U.S. issuers, arising in part from the Fund s investments in securities of R.O.C. issuers. See Risk Factors and Special Considerations beginning on page 17 of this Prospectus Supplement and on page 9 of the accompanying prospectus.

As a result of the offer, shareholders of record on the record date who do not fully exercise their rights should expect that they will, upon completion of the offer, own a smaller proportional interest in the Fund than would otherwise be the case. In addition, because the Subscription Price per Share (Subscription Price) may be less than the then current net asset value per Share, the completion of the Offer will likely result in an immediate dilution of the net asset value per Share for all existing shareholders. Such dilution is not currently determinable because it is not known how many Shares will be subscribed for, what the net asset value or market price of the

Shares will be on the Expiration Date or what the Subscription Price will be. Such dilution could be substantial. If such dilution occurs, shareholders will experience a decrease in the net asset value per common share held by them, irrespective of whether they exercise all or any portion of their Rights. [In addition, the distribution to shareholders of transferable rights, which may themselves have intrinsic value, will afford such shareholders the potential of receiving cash payment upon the sale of the Rights, receipt of which may be viewed as partial compensation for the economic dilution of their interests. No assurance can be given that a market for the Rights will develop, or as to the value, if any, that the Rights will have.] See Risk Factors and Special Considerations beginning on page 17 of this Prospectus Supplement.

Shareholders of record (Record Date Shareholders) who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. [Investors who are not Record Date Shareholders, but who otherwise acquire Rights to purchase Shares pursuant to the Offer, are not entitled to subscribe for any Shares pursuant to the over-subscription privilege.] To the extent sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of common shares of the Fund they owned on the Record Date (as defined herein). See The Offer Over-Subscription Privilege on page 12 of this Prospectus Supplement.

Please read this Prospectus Supplement and the accompanying prospectus carefully before investing and keep it for future reference. They set forth concisely important information that a prospective investor should know before investing in the Fund. All questions and inquiries relating to the offer should be directed to the Information Agent, The Altman Group, [address] or toll-free at __. The Fund has filed additional information about the Fund and the offer with the U.S. Securities and Exchange Commission (www.sec.gov). Copies of the Fund s annual and semiannual reports may be obtained upon request, without charge, by writing to The Taiwan Greater China Fund, c/o Secretary of the Trust, 111 Gillett Street, Hartford, Connecticut 06105 or by calling (800) 343-9567 and also will be made available on the Fund s website at www.taiwangreaterchinafund.com. You may also call this toll-free telephone number to request additional information about the Fund or to make shareholder inquiries.

These securities have not been approved by the U.S. Securities and Exchange Commission or any state securities commission nor has the U.S. Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Estimated Subscription Price (1)	**Estimated Sales Load (4)**	**Estimated Proceeds to the Fund (2)**
Per Share	$	$	$
Total (3)	$	$	$

(1) [The estimated subscription price is based upon __.

(2) __ will act as dealer manager for the offer (the Dealer Manager). The Fund has agreed to pay the Dealer Manager a fee for its financial advisory, marketing and soliciting services equal to __% of the Subscription Price per share for each share issued pursuant to the exercise of Rights. The Dealer Manager will reallow to broker-dealers in the selling group to be formed and managed by the Dealer Manager selling fees equal to __% of the Subscription Price per share for each Share issued pursuant to the exercise of Rights as a result of their selling efforts. In addition, the Dealer Manager will reallow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to __ of the Subscription Price per share for each Share issued pursuant to the exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of Shares held by each broker-dealer through The Depository Trust Company (DTC) on the Record Date (as defined herein). The fees and expenses of the offer will be borne by the Fund and indirectly by all of its shareholders, including those who do not exercise their Rights. The Fund and the Fund s Investment Manager have each agreed to indemnify the Dealer Manager for or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended.]

(3) After deduction of expenses payable by the Fund, estimated at US$__.

(4) Assumes that all Rights are exercised at the estimated Subscription Price (as defined herein).

[DEALER MANAGER]

Prospectus Supplement dated __, 2009

(*continued from previous page*)

The information set forth in this Prospectus Supplement and in the accompanying prospectus regarding Taiwan, its economy, and stock exchanges has been extracted from various government and private publications. The Fund and its Board of Trustees have not attempted to verify the statistical information presented in this Prospectus. In this Prospectus, unless otherwise specified, all references to U.S. dollars, US$ or $ are to United States dollars and all references to NT$ or NT dollars are to New Taiwan dollars. On __, 2009, the exchange rates published in The Wall Street Journal were NT$__= US$1.00, unless otherwise specified, all NT dollar amounts have been converted to U.S. dollars at such exchange rates. No representation is made that the NT$ or U.S.$ amounts in this Prospectus Supplement could have been or could be converted into US$ or NT$, as the case may be, at any particular rate or at all.

Certain numbers and percentages have been rounded for ease of presentation, which may result in amounts not totaling precisely.

Shares of the Fund do not represent a deposit or obligation of, and are not guaranteed by or endorsed by, any bank or other insured depositary institution, and are not federally insured by the U.S. Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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The information contained in this Prospectus Supplement speaks only as of the date of this Prospectus Supplement unless the information specifically indicates that another date applies. No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus Supplement in connection with the offer contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund.

FORWARD-LOOKING STATEMENTS

The Fund may not claim the safe harbor for forward-looking statements contained in the federal securities laws of the United States because that safe harbor does not apply to investment companies. Nevertheless, you should note that certain statements in this Prospectus Supplement are prospective in nature, which involve known and unknown risks, uncertainties and other factors that may cause the Fund s actual results or level of performance to be materially different from any future results or level of performance expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and Special Considerations in this Prospectus Supplement and the accompanying prospectus. As a result of these and other factors, the Fund cannot give you any assurances as to its future results or level of performance. To the extent required by law, the Fund undertakes to amend or reflect any material changes to it after the date of this Prospectus Supplement.

PROSPECTUS SUMMARY

This summary highlights some information from this Prospectus Supplement and the accompanying prospectus, and it may not contain all of the information that is important to you. To understand the terms of the common shares offered hereby, you should read this Prospectus Supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the Shares we are offering. You should carefully read the sections titled Risk Factors and Special Considerations in this Prospectus Supplement and in the accompanying prospectus and the documents identified in the section Available Information.

The following is qualified in its entirety by the more detailed information included elsewhere in this Prospectus Supplement and the accompanying prospectus. You should read the entire Prospectus Supplement and the accompanying prospectus before you decide whether to exercise your rights. In particular, you should carefully read the risks of investing in the Shares, as discussed under Risk Factors and Special Consideration beginning on page 17 of this Prospectus Supplement and on page 9 of the accompanying prospectus.

The Offer at a Glance

Terms of the Offer

The Taiwan Greater China Fund (the Fund) is issuing to its shareholders of record (Record Date Shareholders) as of the close of business on __, 2009 (the Record Date) [non-] transferable rights (the Rights). These Rights will allow such shareholders to subscribe for up to an aggregate of __ shares (the Shares) at a rate of one Share of the Fund s common shares of beneficial interest, par value $0.01 per share (the Common Shares) for each __ Rights held and, subject to certain limitations and subject to allotment, for any Shares not acquired by exercise of primary subscription rights (the Offer). Each Record Date Shareholder will receive one Right for each whole Common Share owned on the Record Date. Each Record Date Shareholder needs __ Rights to purchase one Share at the Subscription Price (as defined herein). The Fund will not issue fractional Shares upon the exercise of less than __ Rights. The [Rights and the Shares] will be listed for trading on the New York Stock Exchange (the NYSE), subject to notice of issuance. The Fund s Common Shares, including the Shares once issued, are traded on the NYSE. Rights may be exercised at any time from __, 2009 through 5:00 p.m., New York time, on __, 2009, unless extended by the Fund (the Subscription Period). The right of a Record Date Shareholder to acquire Shares during the Subscription Period is hereinafter referred to as the Primary Subscription. Since the Subscription Price will be determined after the expiration of the Subscription Period, Record Date Shareholders who exercise their Rights will not know the Subscription Price at the time they exercise their Rights and shareholders should consider the possibility that the Subscription Price could be greater than the market price of the Fund s Common Shares at the close of trading on the last day of the Subscription Period. Once a Record Date Shareholder subscribes for Shares and the Fund receives payment or a guarantee of payment, the Record Date Shareholder will not be able to change his or her decision. See The Offer in this Prospectus Supplement.

Subscription Price

The Subscription Price per Share (Subscription Price) will be US$__. The Subscription Price is discussed further under The Offer Subscription Price in this Prospectus Supplement. In addition, information with respect to the quarterly high and low sale prices of the Fund s Common Shares on the NYSE and the quarterly high and low net asset values per Common Share is provided under Common Shares in this Prospectus Supplement.

Over-Subscription Privilege

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. Investors who are not Record Date Shareholders, but who otherwise acquire Rights to purchase Shares pursuant to the Offer, are not entitled to subscribe for any Shares pursuant to the over-subscription privilege. To the extent sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of common shares of the Fund they owned on the Record Date. See The Offer Over-Subscription Privilege on page 12 of this Prospectus Supplement.

Exercising Rights

Rights will be evidenced by Subscription Certificates and may be exercised by delivering to [American Stock Transfer & Trust Company] (the Subscription Agent) a completed Subscription Certificate, together with payment, or by delivering a Notice of Guaranteed Delivery. The Notice of Guaranteed Delivery or Subscription Certificates together with payment should be addressed, if sent by first class mail or overnight courier, to __, [address] or, if delivered by hand, to __, [address]. Those Record Date Shareholders who subscribe in the Primary Subscription, or Exercising Rights Holders, will have no right to rescind a purchase after the Subscription Agent has received a completed Subscription Certificate or Notice of Guaranteed Delivery. See The Offer Exercise of Rights and The Offer Payment for Shares in this Prospectus Supplement. There is no minimum number of Rights which must be exercised for the Offer to close.

[Sale and Transferability of Rights

The Rights will be admitted for trading on the NYSE under the symbol TFC.RT during the course of the Offer. Trading in Rights on the NYSE may be conducted until the close of trading on the NYSE on the last business day prior to the Expiration Date. The Fund and __, the dealer manager of the Offer (__ or the Dealer Manager), will use their best efforts to ensure that an adequate trading market for the Rights will exist, although there is no assurance that a market for the Rights will develop and that the value of the Rights, if any, will be reflected by the market price. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels or sold through the Subscription Agent. Any commissions in connection with the sale of Rights by the Subscription Agent will be paid by the applicable selling Rights Holders. Neither the Fund nor the Subscription Agent will be responsible if Rights cannot be sold, and neither of them has guaranteed any minimum sale price for the Rights. Rights Holders are urged to obtain a recent trading price for the Rights on the NYSE from their broker, bank, financial adviser or the financial press.

Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager. Subscription Certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., New York time, __, 2009 (or, if the subscription period is extended, by 5:00 p.m., New York time, two business days prior to the extended Expiration Date).

Alternatively, the Rights evidenced by a Subscription Certificate may be transferred until the Expiration Date in whole or in part by endorsing the Subscription Certificate for transfer in accordance with the accompanying instructions. See The Offer Sale and Transferability of Rights in this Prospectus Supplement.]

Foreign Restrictions

Subscription Certificates will not be mailed to Record Date Shareholders whose record addresses are outside the United States (Foreign Record Date Shareholders) (the term United States includes its territories and possessions and the District of Columbia). The Rights to which such Subscription Certificates relate will be held by the Subscription Agent for such Foreign Record Date Shareholders accounts until instructions are received to exercise the Rights. If no instructions are received prior to the Expiration Date, the Rights will expire. See The Offer Foreign Shareholders in this Prospectus Supplement.

[If no instructions have been received by 5:00 p.m., New York time, on __, 2009, which is four Business Days prior to the Expiration Date, unless extended, the Rights of those Foreign Record Date Shareholders will be transferred by the Subscription Agent to the Dealer Manager, which will use its best efforts to sell the Rights on the NYSE. The net proceeds, if any, from the sale of those Rights by the Dealer Manager will be remitted to the Foreign Record Date Shareholders.]

Purpose of the Offer

The Board of the Fund has determined that it is in the best interests of the Fund and its shareholders to increase the assets of the Fund available for investment so that the Fund will be in a better position to take advantage of investment opportunities. Taiwan and the People s Republic of China (the P.R.C. or China) are currently negotiating agreements which have the potential to open up new investment and market opportunities for Taiwan companies. China continues to focus on policies to increase domestic demand, and Taiwan companies are well positioned to take advantage of these changes. The Offer will benefit both the Fund and its shareholders by providing the Fund with the ability to make additional investments without selling current investments if otherwise not desirable. The Board also believes that increasing the size of the Fund will increase the liquidity of the Fund s Common Shares and reduce the Fund s expenses as a proportion of average net assets. In addition, the Offer seeks to reward the Fund s shareholders by giving them the right to purchase additional Common Shares at a price that may be below market without incurring any direct transaction costs. [Furthermore, the distribution to shareholders of transferable Rights which themselves may have intrinsic value will also afford non-participating shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the possible dilution of their interest in the Fund.] See The Offer Purpose of the Offer in this Prospectus Supplement.

[Distribution Arrangements

[__ will act as Dealer Manager for this Offer. Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Dealer Manager, the Fund and Nanking Road Capital Management, LLC (NRC or the Investment Manager), the Dealer Manager will provide financial structuring services and marketing assistance in connection with the Offer and will solicit the exercise of Rights and participation in the oversubscription privilege. The Fund has agreed to pay the Dealer Manager a fee for its financial structuring, marketing and soliciting services equal to __% of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights. The fees paid to the Dealer Manager and other expenses of the Offer will be borne by the Fund and indirectly by all of its shareholders, including those who do not exercise the Rights. The Dealer Manager will reallow a part of its fees to other broker-dealers who have assisted in soliciting the exercise of Rights. The Fund and the Investment Manager have each agreed to indemnify the Dealer Manager for or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act).

Prior to the expiration of the Offer, the Dealer Manager may independently offer for sale Shares it has acquired through purchasing and exercising the Rights, at prices it sets. Although the Dealer Manager may realize gains and losses in connection with purchases and sales of Shares, such offering of Shares is intended by the Dealer Manager to facilitate the Offer and any such gains or losses are not expected to be material to the Dealer Manager. The Dealer Manager s fee for its financial structuring, marketing and soliciting services is independent of any gains or losses that may be realized by the Dealer Manager through the purchase and exercise of the Rights and the sale of Shares. See The Offer Distribution Arrangements in this Prospectus Supplement.]

Tax Consequences

For federal income tax purposes, neither the receipt nor the exercise of the Rights should result in taxable income to you. You will not realize a taxable loss if your Rights expire without being exercised. See The Offer U.S. Federal Income Tax Consequences of the Offer in this Prospectus Supplement.

Use of Proceeds

The net proceeds of the Offer, assuming all Shares offered hereby are sold, are estimated to be approximately US$__, after deducting offering expenses payable by the Fund estimated to be approximately US$__ . The Fund anticipates that investment of the net proceeds of the Offer in accordance with the Fund s investment objective and policies may take up to one week from their receipt by the Fund, depending on market conditions and the availability of appropriate securities. The Fund may require up to one week due to the Fund s need to invest substantially all of its assets in the securities of issuers organized under the laws of a foreign jurisdiction. Pending such investment, such proceeds will be held in bank deposits or invested in U.S. government securities or other U.S.

Dollar-denominated short-term high grade securities. See Use of Proceeds in this Prospectus Supplement.

Information Agent and Subscription Agent

The Information Agent for the Offer is:

The Subscription Agent for the Offer is:

[American Stock Transfer & Trust Company]

Toll-Free: __
or
For banks and brokers: __

Important Dates to Remember

Event	**Date**
Record Date	__, 2009
Subscription Period	__, 2009 to __, 2009*
Expiration Date and pricing date	__, 2009*
Subscription Certificates and payment for Shares due**	__, 2009*
Notice of Guaranteed Delivery due	__, 2009*
Subscription Certificate and payment for guarantees of delivery due**	__, 2009*
Confirmation mailed to participants	__, 2009*
Final payment for Shares***	__, 2009*

* Unless the Offer is extended.

** A Record Date Shareholder exercising Rights must deliver by the Expiration Date either (i) a Subscription Certificate and payment for Shares or (ii) a Notice of Guaranteed Delivery. A Notice of Guaranteed Delivery is a form sent by your broker-dealer, bank or trust company that guarantees on your behalf delivery of the Subscription Certificate and payment by the close of business on the third business day after the Expiration Date.

*** Additional amount due (in the event the Subscription Price exceeds the Estimated Subscription Price).

The Fund at a Glance

Information Regarding the Fund

The Fund is a diversified, closed-end management investment company, organized for investment in securities of R.O.C. issuers by investors outside the R.O.C. The Fund was formed in connection with the reorganization (the Reorganization) of The Taiwan (R.O.C.) Fund (the R.O.C. Fund), a securities investment trust fund organized in 1983 under the laws of the R.O.C. Pursuant to the Reorganization, which was completed in May 1989, the Fund acquired the entire beneficial interest in the assets constituting the R.O.C. Fund.

The Fund is designed for investors desiring to invest a portion of their assets in equity securities of R.O.C. issuers. The Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a significant portion of their revenues by exporting to or operating in mainland China. Under normal circumstances, at least 80% of the Fund s net assets will be invested in Taiwan-listed companies that (i) derive or are expected to derive a substantial portion (*i.e.,* at least 50%) of their revenues or profits by exporting to or operating in mainland China or (ii) have at least 50% of their assets in Greater China. Greater China includes mainland China, Hong Kong and Taiwan. This investment policy is non-fundamental and requires 60 days prior written notice to shareholders before it can be changed. The Fund has and intends to continue to spread risk by investing in various industries and issuers. The Fund has also invested, and if conditions warrant, may in the future invest, in debt securities of R.O.C. issuers (including the R.O.C. government). For defensive purposes during periods in which changes in economic, financial or political conditions make it advisable, the Fund may reduce its holdings in equity securities and increase its holdings in (i) long-term or short-term debt securities issued by the R.O.C. government, its agencies or instrumentalities or private issuers in the R.O.C., (ii) certificates of deposit issued by banks or other

financial institutions in the R.O.C. or (iii) cash, or any combination of the foregoing, in each case to the extent deemed prudent. See Investment Objective and Policies in the accompanying prospectus.

It is an investment policy of the Fund that normally at least 80% of its net assets will be invested in investments that are economically tied to the R.O.C. This policy and the Fund s investment objective are fundamental policies that may not be changed without the approval of a majority of the Fund s outstanding voting securities. As used herein, a majority of the Fund s outstanding voting securities means the lesser of (i) 67% of the Shares represented at a meeting at which more than 50% of the outstanding Shares are represented or (ii) more than 50% of the outstanding Shares. An additional investment policy of the Fund is that normally at least 70% of its total assets will be invested in securities of R.O.C. issuers (including the R.O.C. government). The Fund may not invest more than 20% of its net assets in stocks traded over the counter. Subject to these limitations, the Fund may invest a portion of its assets in securities of non-R.O.C. issuers that are consistent with its China strategy. The Fund is permitted to invest in securities of companies that are economically tied to the R.O.C. even if those securities trade on securities exchanges outside of the R.O.C., such as the Hong Kong Stock Exchange. There can be no assurance that the Fund s investment objective will be achieved. See Risk Factors and Special Considerations beginning on page 9 of the accompanying prospectus.

Taking into account the Fund s predecessor, the Fund is the oldest investment fund organized for investment in securities of R.O.C. issuers by investors outside the R.O.C.

As of __, 2009, the Fund had __ shares outstanding, which are listed and traded on the NYSE under the symbol TFC. See Description of Shares beginning on page 38 of the accompanying prospectus. As of __, 2009, the net assets of the Fund were US$__.

Information Regarding the Fund s Investment Manager, Administrator and Custodian

The investment manager to the Fund is Nanking Road Capital Management, LLC (NRC or the Investment Manager), a limited liability company organized under the laws of the State of Connecticut, whose address is 111 Gillett Street, Hartford, Connecticut 06105. The Investment Manager provides certain day-to-day investment management services to the Fund pursuant to an investment and management agreement. As of __, 2009, the Investment Manager had approximately US$__ million in assets under management. See Trustees and Officer Investment Manager and Investment Advisory Agreement in the accompanying prospectus.

Brown Brothers Harriman & Co. (BBH) provides administrative and accounting services for the Fund, including maintaining certain books and records of the Fund, and preparing certain reports and other documents required by U.S. federal and/or state laws and regulations. BBH serves as custodian of the assets of the Fund. See Administration and Custodians in the accompanying prospectus.

Risk Factors and Special Considerations

You should carefully consider the following factors, as well as the other information in this Prospectus Supplement and the accompanying prospectus, before making an investment in the Fund under this Offer.

Dilution Risk. An immediate dilution of the aggregate net asset value of the Shares owned by Record Date Shareholders who do not fully exercise their Rights may be experienced as a result of the Offer because the Subscription Price may be less than the Fund s net asset value per share, and therefore the number of shares outstanding after the Offer may increase in a greater percentage than the increase in size of the Fund s assets. In addition, as a result of the terms of the Offer, Record Date Shareholders who do not fully exercise their Rights should expect that they will, at the completion of the Offer, own a smaller proportional interest in the Fund than would otherwise be the case if they had fully exercised their Rights. It is not possible to state precisely the amount of such a decrease in value because it is not known at this time what the subscription price will be or what the net asset value per share will be on the Expiration Date, however such dilution may be substantial. For example, assuming that all Rights are exercised and that the Subscription Price of $__ is __% below the Fund s net asset value of $__ per share, the Fund s net asset value per share would be reduced by approximately $__ per share as a result of the Offer. [The distribution to shareholders of transferable Rights which themselves may have intrinsic value will also afford non-participating shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the dilution of their interest in the Fund. No assurance can be given that a market for the Rights will develop or as to the value, if any, that such Rights will have.]

Investment Risk. You may lose money by investing in the Fund, including the possibility that you may lose all of your investment. An investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency.

Among the principal risks of investing in the Fund is market risk, which is the risk that the value of your investment may fluctuate as stock markets fluctuate.

As an investment company that primarily holds common stocks, the Fund s portfolio is subject to the possibility that common stock prices will decline over short or even extended periods. The Fund may remain substantially fully invested during periods when stock prices generally rise and also during periods when they generally decline. Risks are inherent in investments in equities, and Fund shareholders should be able to tolerate significant fluctuations in the value of their investment in the Fund.

The Fund is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term stock market movements. Investors should not consider the Fund a complete investment program.

Risks of Investing in Equity Securities of R.O.C Issuers. Investing in securities of R.O.C issuers involves certain risks and considerations not typically associated with investing in securities of U.S. issuers, including, among others, (a) the heavy concentration of market capitalization and trading volume in a small number of R.O.C issuers representing a limited number of industries, combined with diversification requirements applicable to the Fund under the U.S. Internal Revenue Code of 1986, as amended (the Code), and R.O.C. law, potentially resulting in fewer investment opportunities for the Fund, (b) the small size of the market for R.O.C. securities and the low volume of trading, resulting in lack of liquidity and in price volatility, (c) currency devaluations and other currency exchange rate fluctuations, (d) lack of a market to engage in hedging transactions to minimize NT$ foreign exchange risk, (e) the nature and extent of intervention by the R.O.C government in the R.O.C securities markets, whether such intervention will continue and the impact of such intervention or its discontinuation, (f) higher rates of inflation, (g) greater political, economic and social uncertainty, (h) certain R.O.C government requirements which may restrict the Fund s investment opportunities, and (i) investment and repatriation restrictions. In addition, accounting, auditing and financial reporting standards in the R.O.C are different from U.S. standards and, therefore, disclosure of certain material information may not be made and less information may be available to the Fund and other investors than would be the case if the Fund s investments were restricted to securities of U.S. issuers. There is also generally less governmental regulation of the securities industry in the R.O.C., and less enforcement of regulatory provisions relating thereto, than in the United States. Moreover, it may be more difficult to obtain a judgment in a court outside the United States. The Fund will be subject to withholding taxes, including withholding taxes imposed on dividends and interest, by the government of the R.O.C. See Risk Factors and Special Considerations and Taxation in this Prospectus Supplement and the accompanying prospectus.

Recent Developments in Financial Markets and Impact on the Fund. Recent developments in the U.S. and foreign financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty. Conditions in the debt and equity capital markets in the United States and abroad have caused firms in the financial services sector to take significant losses relating to, among other things, subprime mortgages and the re-pricing of credit risk in the broadly syndicated loan market. The recent instability in the financial markets has led the U.S. Government and certain foreign governments to take unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities in which the Fund invests, in unforeseeable ways that could have a material adverse effect on the Fund s business and operations. Such legislation or regulation could limit or preclude the Fund s ability to achieve its investment objective. Furthermore, volatile financial markets can expose the Fund to greater market and liquidity risk and potential difficulty in valuing portfolio instruments held by the Fund.

Net Asset Value Discount. Shares of closed-end investment companies frequently trade at a discount from net asset value (NAV) but may trade at a premium. This characteristic is a risk separate and distinct from the risk that a fund s NAV will decrease. The Fund cannot predict whether its Shares will trade at, below or above NAV. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors that wish to sell their shares in a relatively short period of time because, for those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount from NAV than upon portfolio performance.

Certain Provisions of the Fund s Declaration of Trust. The Fund s Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees and, consequently, these provisions could deprive shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See Description of the Shares Anti-Takeover Provisions in the accompanying prospectus.

FEE TABLE

The following Fee Table is intended to assist prospective investors in understanding the costs and expenses that an investor in the Offer will bear directly or indirectly.

Shareholder Transaction Expenses:	
Sales Load	%
Expenses of the Offer (as a percentage of offering price)	%
Dividend Reinvestment Plan Fees	None
Annual Expenses (as a percentage of net assets):	
Management Fees	1.25%
Other Expenses(1)	%
Total Annual Expenses	%

	Cumulative Expenses Paid for the Period of:			
Example	**1 Year**	**3 Years**	**5 Years**	**10 Years**
An investor would pay the following expenses on a US$1,000 investment, assuming a 5% annual return throughout the periods (2)	US$______	US$______	US$______	US$______

The Example set forth above assumes reinvestment of all dividends and distributions at NAV and an expense ratio of _______%. The tables above and the assumption in the Example of a 5% annual return are required by U.S. Securities and Exchange Commission (the Commission) regulations applicable to all investment companies. **The Example should not be considered a representation of past or future expenses or annual rates of return and actual expenses or annual rates of return may be more or less than those assumed for purposes of the Example.**

The figures provided under Other Expenses are calculated on the basis of the Fund s asset size after taking into account the estimated net proceeds of the offering assuming it is fully subscribed. See Management of the Fund for additional information.

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(1) Does not include expenses of the Fund incurred in connection with the Offer, estimated at US$_______. However, these expenses will be borne by the holders of the Common Shares of the Fund and result in a reduction of the NAV of the Common Shares.

(2) The Example reflects the sales load and other expenses of the Fund incurred in connection with the Offer and assumes that all of the Rights are exercised.

THE OFFER

Terms of the Offer

The Fund is offering to its Record Date Shareholders [non-transferable] Rights to subscribe for Shares of the Fund s Common Shares. Each Record Date Shareholder will receive one Right for each whole share of Common Shares owned on the Record Date. Each Record Date Shareholder needs __ Rights to purchase one Share at the Subscription Price. The Fund will not issue fractional Shares upon the exercise of less than __ Rights. The Rights entitle the holders thereof to acquire at the Subscription Price one Share for each __ Rights held. The Rights are evidenced by Subscription Certificates which will be mailed to Record Date Shareholders, other than Foreign Record Date Shareholders. See Foreign Shareholders. The Fund does not have the right to withdraw the Offer after the Rights have been issued.

Completed Subscription Certificates may be delivered to the Subscription Agent at any time during the Subscription Period, which commences on __, 2009 and ends at 5:00 p.m., New York time, on __, 2009, unless extended by the Fund. See Expiration of the Offer.

Rights will be evidenced by Subscription Certificates and may be exercised by delivering to the Subscription Agent a completed Subscription Certificate, together with payment, or by delivery of a Notice of Guaranteed Delivery. The method by which Rights may be exercised and Shares paid for is set forth below in Exercise of Rights and Payment for Shares. An Exercising Rights Holder will have no right to rescind a purchase after the Subscription Agent has received a completed Subscription Certificate or Notice of Guaranteed Delivery. See Payment for Shares below.

The Rights are transferable and will be admitted for trading on the NYSE under the symbol [TFC.RT] during the course of the Offer. Trading in the Rights on the NYSE is expected to be conducted until the close of trading on the NYSE on __, 2009 (or if the Offer is extended, until the last business day prior to the extended Expiration Date). See Sale and Transferability of Rights. The Shares, once issued, will be listed on the NYSE under the symbol TFC.

There is no minimum number of Rights which must be exercised in order for the Offer to close.

Purpose of the Offer

The Board of the Fund has determined that it is in the best interests of the Fund and its shareholders to increase the assets of the Fund available for investment so that the Fund will be in a better position to take advantage of available investment opportunities. Taiwan and China are currently negotiating agreements which have the potential to open up new investment and market opportunities for Taiwan companies. China continues to focus on policies to increase domestic demand, and Taiwan companies are well positioned to take advantage of these changes. Without an infusion of additional capital, the Fund is limited in its ability to take advantage of new investment opportunities. The Offer affords the Fund a means of increasing its assets available for investment without requiring the sale of portfolio securities. The Board also believes that increasing the size of the Fund would increase the liquidity of the Fund s Common Shares and reduce the Fund s expenses as a proportion of average net assets. In addition, the Offer seeks to reward the Fund s shareholders by giving existing shareholders the right to purchase additional Common Shares at a price that may be below market without incurring any direct transaction costs. [Furthermore, the distribution to shareholders of transferable Rights which themselves may have intrinsic value will also afford non-participating shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the possible dilution of their interest in the Fund.]

[Prior to reaching this conclusion, the Fund s Board, in consultation with the Investment Manager and others, reviewed the structure, timing and terms of the Offer, as well as its dilutive effect on both shareholders who exercise their Rights and those who do not and other potentially adverse consequences resulting from the Offer. After careful consideration, the Board voted unanimously to approve the terms of the Offer. However, there can be no assurance that the Offer will provide any of the benefits listed above.]

The Investment Manager of the Fund will benefit from the Offer because its fee as investment manager is based on the average net assets of the Fund. It is not possible to state precisely the amount of additional compensation it will receive as a result of the Offer because it is not known how many Shares will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, in the event that all the Rights are exercised in full and on the basis of an Estimated Subscription Price, the Investment Manager would receive additional annual fees of approximately US$__ as a result of the increase in assets under management. See Management of the Fund in this Prospectus Supplement and Officers and Trustees in the accompanying prospectus.

Although the Fund has no present intention to do so, the Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Common Shares and on terms which may or may not be similar to the Offer.

Subscription Price

The Subscription Price for the Shares to be issued upon exercise of the Rights will be US$__.

The Fund announced the Offer on __, 2009. The net asset value per share at the close of business on __, 2009 and on __, 2009 was US$__ and US$__, respectively, and the last reported sale price of the Fund s Common Shares on the NYSE on those dates was US$__ and US$__, respectively.

Expiration of the Offer

The Offer will expire at 5:00 p.m., New York time, on __, 2009, unless extended by the Fund. Rights will expire on the Expiration Date and may not be exercised thereafter.

Subscription Agent

The Subscription Agent is __, which will receive for its administrative, processing, invoicing and other services as subscription agent, a fee estimated to be US$__, as well as reimbursement for all out-of-pocket expenses related to the Offer. Questions regarding the Subscription Certificates should be directed to the Information Agent (telephone __); shareholders may also consult their brokers or nominees. Signed Subscription Certificates should be sent by first class mail or overnight courier to __ [address] or delivered by hand to __ [address].

Information Agent

Any questions or requests for assistance may be directed to the Information Agent at its telephone number and address listed below:

__

Toll-Free: __
or
For banks and brokers: __

The Information Agent will receive a fee estimated to be US$__, as well as reimbursement for all out-of-pocket expenses related to the Offer.

Exercise of Rights

Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate which accompanies this Prospectus Supplement and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under Payment for Shares. Alternatively, Rights may be exercised by having your bank, trust company or broker (if a member of the New York Stock Exchange) complete and deliver to the Subscription Agent a Notice of Guaranteed Delivery (see below under Payment for Shares). Completed Subscription Certificates with payment for the Shares, or a completed Notice of Guaranteed Delivery, must be received by the Subscription Agent prior to 5:00 p.m., New York time, on the Expiration Date at the offices of the Subscription Agent at the address set forth above. Rights may also be exercised through an Exercising Rights Holder s broker, who may charge such Exercising Rights Holder a servicing fee. An Exercising Rights Holder will have no right to rescind a purchase after the Subscription Agent has received a completed Subscription Certificate or Notice of Guaranteed Delivery.

Nominees who hold Common Shares for the account of others, such as brokers, trustees or depositories for securities, should notify the respective beneficial owners of such Common Shares as soon as possible to ascertain such beneficial owners intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Subscription Agent with the proper payment. In addition, beneficial owners of Common Shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with the beneficial owner s instructions.

[Sale and Transferability of Rights

The Rights will be admitted for trading on the NYSE under the symbol [TFC.RT] during the course of the Offer. Trading in the Rights on the NYSE may be conducted until the close of trading on the NYSE on the last business day prior to the Expiration Date. The Fund and the Dealer Manager will use their best efforts to ensure that an adequate trading market for the Rights will exist, although there is no assurance that a market for the Rights will develop. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels or sold through the Subscription Agent.

Sales through the Subscription Agent and the Dealer Manager

Record Date Shareholders who do not wish to exercise any of the Rights issued to them pursuant to the Offer may instruct the Subscription Agent to sell any unexercised Rights through or to the Dealer Manager. Subscription certificates representing the Rights to be sold through or to the Dealer Manager must be received by the Subscription Agent by 5:00 p.m., New York time, on __, 2009 (or, if the subscription period is extended, by 5:00 p.m., New York time, two business days prior to the extended Expiration Date). Upon the timely receipt by the Subscription Agent of appropriate instructions to sell Rights, the Subscription Agent will ask the Dealer Manager either to purchase them or to use its best efforts to complete their sale, and the Subscription Agent will remit the proceeds of the sale to the selling shareholder. If the Rights are sold, sales of those Rights will be deemed to have been effected at the weighted average price received by the Dealer Manager on the day those Rights are sold. The sale price of any Rights sold to the Dealer Manager will be based upon the then-current market price for the Rights. The Dealer Manager will also attempt to sell all Rights which remain unclaimed as a result of subscription certificates being returned by the postal authorities to the Subscription Agent as undeliverable as of the fourth business day prior to the Expiration Date. The Subscription Agent will hold the proceeds from those sales for the benefit of those nonclaiming shareholders until the proceeds are claimed. There can be no assurance that the Dealer Manager will purchase or be able to complete the sale of any of those Rights, and neither the Fund nor the Dealer Manager have guaranteed any minimum sale price for the Rights. If a Record Date Shareholder does not utilize the services of the Subscription Agent and chooses to use another broker-dealer or other financial institution to sell Rights issued to that shareholder pursuant to the Offer, then the other broker-dealer or financial institution may charge a fee to sell the Rights.

Other Transfers

The Rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the instructions accompanying the subscription certificate. A portion of the Rights evidenced by a single subscription certificate (but not fractional Rights) may be transferred by delivering to the Subscription Agent a subscription certificate properly endorsed for transfer, with instructions to register such portion of the Rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing the transferred Rights. If this occurs, a new subscription certificate evidencing the balance of the Rights, if any, will be issued to the Record Date Shareholder or, if the Record Date Shareholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond with the name as written upon the face of the subscription certificate in every particular, without alteration or enlargement, or any change. A signature guarantee must be provided by an eligible financial institution as defined in Rule 17Ad-15 under the Securities Exchange Act of 1934 (the Exchange Act), subject to the standards and procedures adopted by the Fund.

Record Date Shareholders wishing to transfer all or a portion of their Rights should allow at least five business days prior to the Expiration Date for: (i) the transfer instructions to be received and processed by the Subscription Agent; (ii) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred Rights and to the transferor with respect to retained Rights, if any; and (iii) the Rights evidenced by the new subscription certificate to be exercised or sold by the recipients of the subscription certificate. Neither the Fund nor the Subscription Agent or the Dealer Manager shall have any liability to a transferee or transferor of Rights if subscription certificates are not received in time for exercise or sale prior to the Expiration Date.

Except for the fees charged by the Information Agent, Subscription Agent and Dealer Manager (which are expected to be paid from the proceeds of the Offer by the Fund), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or transfer of rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be paid by the Fund, the Information Agent, the Subscription Agent or the Dealer Manager. Shareholders who wish to purchase, sell, exercise or transfer Rights through a broker, bank or other party should first inquire about any fees and expenses that the shareholder will incur in connection with the transactions.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Primary Subscription may be effected through, the facilities of DTC or the Subscription Agent until 5:00 p.m., New York time, on the Expiration Date.]

Over-Subscription Privilege

Record Date Shareholders who exercise all the Rights issued to them (other than those Rights that cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for additional Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. Investors who are not Record Date Shareholders, but who otherwise acquire Rights to purchase Shares pursuant to the Offer, are not entitled to subscribe for any Shares pursuant to the over-subscription privilege. To the extent sufficient Shares are not available to honor all over-subscription requests, unsubscribed Shares will be allocated pro rata among those Record Date Shareholders who over-subscribe based on the number of Common Shares of the Fund they owned on the Record Date. The allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis.

Record Date Shareholders who are fully exercising their Rights during the subscription period should indicate, on the subscription certificate which they submit with respect to the exercise of the Rights issued to them, how many Shares they desire to acquire pursuant to the over-subscription privilege.

Banks, broker-dealers, trustees and other nominee holders of Rights will be required to certify to the Subscription Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of Rights exercised during the subscription period and the number of Shares subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner s primary subscription was exercised in full. Nominee holder over-subscription forms will be distributed to banks, brokers, trustees and other nominee holders of Rights with the subscription certificates.

The Fund will not offer or sell any Shares that are not oversubscribed for during the subscription period or pursuant to the over-subscription privilege.

[The Fund has been advised that the Investment Manager and one or more of the Fund s trustees or officers may exercise all of the Rights initially issued to them and may request additional Shares pursuant to the over-subscription privilege. An exercise of the over-subscription privilege by such persons will increase their proportionate voting power and share of the Fund s assets.]

Payment for Shares

Exercising Rights Holders who acquire Shares pursuant to the Offer may choose between the following methods of payment:

(1) An Exercising Rights Holder can send the Subscription Certificate, together with payment for the Shares acquired in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege, based on the Estimated Subscription Price of US$__ per Share, to the Subscription Agent. A subscription will be accepted when payment, together with the properly completed and executed Subscription Certificate, is received by the Subscription Agent at any of the addresses set forth above; such payment and Subscription Certificates must be received by the Subscription Agent no later than 5:00 p.m., New York time, on the Expiration Date. The Subscription Agent will deposit all checks received by it for the purchase of Shares into a segregated interest-bearing account of the Fund (the interest from which will belong to the Fund) pending proration and distribution of Shares. Payment pursuant to this method must be made in U.S. dollars by money order or check drawn on a bank located in the United States, payable to **The Taiwan Greater China Fund**, and must accompany a properly completed and executed Subscription Certificate for such Subscription Certificate to be accepted and be received by 5:00 p.m. on the Expiration Date.

(2) Alternatively, a subscription will be accepted by the Subscription Agent if, prior to 5:00 p.m., New York time, on the Expiration Date, the Subscription Agent has received a Notice of Guaranteed Delivery by facsimile (telecopy) or otherwise from a bank, a trust company or a New York Stock Exchange member guaranteeing delivery of (i) payment of the full Estimated Subscription Price for the Shares subscribed for in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege and (ii) a properly completed and executed Subscription Certificate. The Subscription Agent will not honor a Notice of Guaranteed Delivery unless a properly completed and executed Subscription Certificate and full payment for the Shares is received by the Subscription Agent by the close of business on the third Business Day after the Expiration Date (the Protect Period).

Within five business days following the Subscription Period (the Confirmation Date), the Subscription Agent will send a confirmation to each Exercising Rights Holder (or, if the Common Shares are held by Cede & Co. or any other depository or nominee (a Nominee) to such Nominee). The confirmation will indicate (i) the number of Shares acquired in the Primary Subscription, (ii) the number of Shares, if any, acquired pursuant to the Over-Subscription Privilege, (iii) the Subscription Price per share and total purchase price of the Shares and (iv) any additional amount payable by such Exercising Rights Holder to the Fund or any amount to be refunded by the Fund to such shareholder, in each case based on the Subscription Price. Where an Exercising Rights Holder that is owed a refund in connection with the Primary Subscription exercises his Right to acquire Shares pursuant to the Over-Subscription Privilege, such excess payment that would otherwise be refunded to the Record Date Shareholder will, if necessary, be applied by the Fund toward payment for Shares acquired pursuant to the exercise of the Over-Subscription Privilege. Any additional payment required from an Exercising Rights Holder must be received by the Subscription Agent by __, 2009 (the Final Payment Date), unless the Offer is extended. Any excess payment to be refunded by the Fund to a Record Date Shareholder will be mailed by the Subscription Agent to such Record Date Shareholder as promptly as possible. All payments by a Record Date Shareholder must be in U.S. dollars by money order or check drawn on a bank or branch located in the United States and payable to **The Taiwan Greater China Fund.**

The Subscription Agent will deposit all checks received by it prior to the Final Payment Date into a segregated interest-bearing account (which interest will inure to the benefit of the Fund) pending proration and distribution of the Shares. An Exercising Rights Holder will have no right to rescind a purchase after the Subscription Agent has received a completed Subscription Certificate or a Notice of Guaranteed Delivery.

Whichever of the two methods described above is used, issuance of the Shares purchased is subject to collection of checks and actual payment. If a holder of Rights who subscribes for Shares pursuant to the Primary Subscription does not make payment of any amounts due, the Fund and the Subscription Agent reserve the right to take any or all of the following actions: (i) find other shareholders or Rights Holders for such subscribed and unpaid for Shares; (ii) apply any payment actually received by it toward the purchase of

the greatest whole number of Shares which could be acquired by such holder upon exercise of the Primary Subscription; and/or (iii) exercise any and all other rights or remedies to which the Fund may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares.

The method of delivery of Subscription Certificates and payment of the Estimated Subscription Price to the Fund will be at the election and risk of the Exercising Rights Holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York time, on the Expiration Date. **Because uncertified personal checks may take five business days to clear, if you plan to pay by personal check you are strongly urged to return your Subscription Certificate and payment at least five business days prior to the Expiration Date.**

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. The Fund will not be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Foreign Shareholders

Subscription Certificates will not be mailed to Foreign Record Date Shareholders. The Rights to which such Subscription Certificates relate will be held by the Fund for such Foreign Record Date Shareholders accounts until instructions are received to exercise the Rights. If no instructions have been received by the Expiration Date, the Rights will expire.

[If no instructions have been received by 5:00 p.m., New York time, on ___, 2009, which is four Business Days prior to the Expiration Date, unless extended, the Rights of those Foreign Record Date Shareholders will be transferred by the Subscription Agent to the Dealer Manager, which will use its best efforts to sell the Rights on the NYSE. The net proceeds, if any, from the sale of those Rights by the Dealer Manager will be remitted to the Foreign Record Date Shareholders.]

[Distribution Arrangements

__ will act as Dealer Manager for this Offer. Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Dealer Manager, the Fund and the Investment Manager, the Dealer Manager will provide financial advisory services and marketing assistance in connection with the Offer and will solicit the exercise of Rights and participation in the over-subscription privilege. The Fund has agreed to pay the Dealer Manager a fee for its financial advisory, marketing and soliciting services equal to __% of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights. The fees paid to the Dealer Manager and other expenses of the Offer will be borne by the Fund and indirectly by all of its shareholders, including those who do not exercise the Rights.

The Dealer Manager will re-allow a part of its fees to other broker-dealers who have assisted in soliciting the exercise of Rights. The Dealer Manager will re-allow to broker-dealers included in the selling group to be formed and managed by the Dealer Manager selling fees equal to __% of the Subscription Price per share for each Share issued pursuant to the exercise of Rights as a result of their selling efforts. In addition, the Dealer Manager will re-allow to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to __% of the Subscription Price per share for each Share issued pursuant to exercise of Rights as a result of their soliciting efforts, subject to a maximum fee based on the number of Shares held by each broker-dealer through DTC on the Record Date. Fees will be paid to the broker-dealer designated on the applicable portion of the subscription certificates or, in the absence of such designation, to the Dealer Manager.]

The Fund and the Investment Manager have each agreed to indemnify the Dealer Manager for, or contribute to losses arising out of, certain liabilities, including liabilities under the Securities Act. The Dealer Manager Agreement also provides that the Dealer Manager will not be subject to any liability to the Fund in rendering the services contemplated by the Dealer Manager Agreement except for any act of bad faith, willful misconduct or gross negligence of the Dealer Manager or reckless disregard by the Dealer Manager of its obligations and duties under the Dealer Manager Agreement.

Prior to the expiration of the Offer, the Dealer Manager may independently offer for sale Shares acquired through purchasing and exercising Rights, at prices it sets. Although the Dealer Manager may realize gains and losses in connection with such purchases and sales, such offering of Shares is intended by the Dealer Manager to facilitate the Offer and any such gains or losses are not expected to be material to the Dealer Manager. The Dealer Manager s fee for its financial advisory, marketing and soliciting services is independent of any gains or losses that may be realized by the Dealer Manager through the purchase and exercise of Rights and the sale of Shares.

In the ordinary course of their businesses, the Dealer Manager and/or its affiliates may engage in investment banking or financial transactions with the Fund, the Investment Manager and their affiliates.

The principal business address of __ is __.

U.S. Federal Income Tax Consequences of the Offer

The U.S. federal income tax consequences to holders of Common Shares with respect to the Offer will be as follows:

1. The distribution of Rights to Record Date Shareholders will not result in taxable income to such holders nor will such holders realize taxable income as a result of the exercise of the Rights.

2. The basis of a Right will be (a) to a holder of Common Shares to whom it is issued and who exercises the Right (i) if the fair market value of the Right immediately after issuance is less than 15% of the fair market value of the Common Shares with regard to which it is issued, zero (unless the holder elects, by filing a statement with his timely filed federal income tax return for the year in which the Rights are received, to allocate the basis of the Common Shares between the Right and the Common Shares based on their respective fair market values immediately after the Right is issued), and (ii) if the fair market value of the Right immediately after issuance is 15% or more of the fair market value of the Common Shares with regard to which it is issued, a portion of the basis in the Common Shares based upon their respective fair market values immediately after the Right is issued; and (b) to a holder of Common Shares to whom it is issued and who allows the Right to expire, zero.

3. If the Right is exercised by the Record Date Shareholder, the basis of the Common Shares received will include the basis allocated to the Right, if any, and the amount paid upon exercise of the Right.

4. If the Right is exercised, the holding period of the Common Shares acquired begins on the date the Right is exercised.

The Fund is required to withhold and remit to the U.S. Treasury 28% of reportable payments paid on an amount if the holder of the account provides the Fund with either an incorrect taxpayer identification number or no number at all or fails to certify that he or she is not subject to such withholding. The 28% withholding tax is not an additional tax. Any amount withheld may be credited against the holder s U.S. federal income tax liability.

The foregoing is only a summary of the applicable U.S. federal income tax laws and does not include any state or local tax consequences of the Offer. Exercising Rights Holders should consult their own tax advisers concerning the tax consequences of this transaction. See Taxation beginning on page 33 of the accompanying prospectus.

Employee Plan Considerations

Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA) (including corporate savings and 401(k) plans), Keogh plans of self-employed individuals, Individual Retirement Accounts and other plans eligible for special tax treatment under the Code (collectively, Plans), should be aware that additional contributions of cash to the Plan (other than rollover contributions or trustee-to-trustee transfers from other Plans) in order to exercise Rights would be treated as Plan contributions and, when taken together with contributions previously made, may subject a Plan to excise taxes for excess or nondeductible contributions. In the case of Plans qualified under Section 401(a) of the Code and certain other plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Furthermore, it may be a reportable distribution and there may be other adverse tax consequences if Rights are sold or transferred by a Plan to another account. Plans contemplating making additional cash contributions to exercise Rights should consult with their counsel prior to receiving or using such contributions.

Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules, that may impact the exercise or transfer of Rights. Due to the complexity of these rules and the penalties for non-compliance, Plans should consult with their counsel regarding the consequences of their exercise or transfer of Rights under ERISA and the Code.

Notice of Net Asset Value Decline

The Fund has, as required by the SEC s registration form, undertaken to suspend the Offer until it amends this Prospectus if, subsequent to __, 2009 (the effective date of the Fund s Registration Statement), the Fund s NAV declines more than 10% from its NAV as of that date.

THE FUND

The Fund is a Massachusetts business trust formed in 1988 and registered with the Commission as a diversified, closed-end management investment company under the 1940 Act. Taking into account the Fund s predecessor, the Fund is the oldest investment fund organized for investment in securities of R.O.C. issuers by investors outside the R.O.C. The Fund s principal office is located at c/o Nanking Road Capital Management, LLC, 111 Gillett Street, Hartford, Connecticut 06105, and its telephone number is (800) 343-9567.

USE OF PROCEEDS

The net proceeds of the Offer, assuming that all Shares offered are subscribed for, are estimated to be approximately US$__ after deducting expenses payable by the Fund estimated to be approximately US$__. The Fund intends to invest the net proceeds in accordance with its investment objective and policies. The Fund anticipates that investment of the net proceeds of the Offer in accordance with the Fund s investment objective and policies may take up to one week from their receipt by the Fund, depending on market conditions and the availability of appropriate securities. The Fund may require up to one week due to the Fund s need to invest substantially all of its assets in the securities of issuers organized under the laws of a foreign jurisdiction. Pending such investment, such proceeds will be held in bank deposits or invested in U.S. government securities or other U.S. Dollar denominated short-tem high grade securities.

THE FUND S INVESTMENTS

For information about the Fund s investments, please see the section entitled Investment Objective and Policies beginning on page 15 of the accompanying prospectus.

RISK FACTORS AND SPECIAL CONSIDERATIONS

You should carefully consider the risks and other information contained in this Prospectus Supplement and the accompanying prospectus before you decide to participate in the Offer. The risks described below are not the only risks facing the Fund; other risks are described in the accompanying prospectus. Moreover, additional risks and uncertainties may also adversely affect and impair the Fund. Investors should also recognize that investing in securities of R.O.C. issuers involves certain special considerations and risk factors, including those set forth below and in the accompanying prospectus, which are not typically associated with investing in securities of U.S. issuers. See generally Risk Factors and Special Considerations and Appendix A The Republic of China in the accompanying prospectus for further information on investing in securities of R.O.C issuers.

Dilution Risk

An immediate dilution of the aggregate net asset value of the Shares owned by Record Date Shareholders who do not fully exercise their Rights may be experienced as a result of the Offer because the Subscription Price may be less than the Fund s NAV per share, and therefore the number of Common Shares outstanding after the Offer may increase in a greater percentage than the increase in size of the Fund s assets. In addition, as a result of the terms of the Offer, Record Date Shareholders who do not fully exercise their Rights should expect that they will, at the completion of the Offer, own a smaller proportional interest in the Fund than would otherwise be the case if they had fully exercised their Rights. It is not possible to state precisely the amount of such a decrease in value because it is not known at this time what the subscription price will be or what the NAV per share will be on the Expiration Date, however such dilution may be substantial. For example, assuming that all Rights are exercised and that the Subscription Price of $__ is __% below the Fund s NAV of $__ per share, the Fund s NAV per share would be reduced by approximately $__ per share as a result of the Offer. [The distribution to shareholders of transferable Rights which themselves may have intrinsic value will also afford non-participating shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the dilution of their interest in the Fund. No assurance can be given that a market for the Rights will develop or as to the value, if any, that such Rights will have.]

Investment Risk

You may lose money by investing in the Fund, including the possibility that you may lose all of your investment. An investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency.

Among the principal risks of investing in the Fund is market risk, which is the risk that the value of your investment may fluctuate as stock markets fluctuate.

As an investment company that primarily holds common stocks, the Fund s portfolio is subject to the possibility that common stock prices will decline over short or even extended periods. The Fund may remain substantially fully invested during periods when stock prices generally rise and also during periods when they generally decline. Risks are inherent in investments in equities, and Fund shareholders should be able to tolerate significant fluctuations in the value of their investment in the Fund.

The Fund is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term stock market movements. Investors should not consider the Fund a complete investment program.

Risks Associated with Investments in R.O.C. Issuers

Investments in R.O.C. issuers involve certain risks and special considerations not typically associated with the United States, such as greater government control over the economy, political and legal uncertainty, currency fluctuations or blockage, the risk that the R.O.C. government may decide not to continue to support economic reform programs and the risk of nationalization or expropriation of assets. Additionally, the R.O.C. securities markets are emerging markets characterized by relatively low trading volume, resulting in substantially less liquidity and greater price volatility. Moreover, information available about R.O.C. issuers may not be as complete, accurate or timely as information about listed U.S. issuers. See Risk Factors and Special Considerations Investments in R.O.C. Equities in the accompanying prospectus.

See Appendix A The Republic of China in the accompanying prospectus for more information on the R.O.C., including its economy and stock and foreign exchange markets.

Recent Developments in Financial Markets and Impact on the Fund

Recent developments in the U.S. and foreign financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty. Conditions in the debt and equity capital markets in the United States and abroad have caused firms in the financial services sector to take significant losses relating to, among other things, subprime mortgages and the re-pricing of credit risk in the broadly syndicated loan market. The recent instability in the financial markets has led the U.S. Government and certain foreign governments to take unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities in which the Fund invests, in unforeseeable ways that could have a material adverse effect on the Fund s business and operations. Such legislation or regulation could limit or preclude the Fund s ability to achieve its investment objective. Furthermore, volatile financial markets can expose the Fund to greater market and liquidity risk and potential difficulty in valuing portfolio instruments held by the Fund.

Net Asset Value Discount

Shares of closed-end investment companies frequently trade at a discount from NAV but may trade at a premium. This characteristic is a risk separate and distinct from the risk that a fund s NAV will decrease. The Fund cannot predict whether its Shares will trade at, below or above NAV. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors that wish to sell their shares in a relatively short period of time because, for those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount from NAV than upon portfolio performance.

Certain Provisions of the Fund s Declaration of Trust

The Fund s Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees and, consequently, these provisions could deprive shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See Description of the Shares Anti-Takeover Provisions in the accompanying prospectus.

The information in this Prospectus is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED ___, 2009
$200,000,000
TAIWAN GREATER CHINA FUND
Shares of Beneficial Interest

We may offer, from time to time, in one or more offerings, up to $200,000,000 of our shares of beneficial interest (Shares). Shares may be offered at prices and on terms to be disclosed in one or more supplements to this Prospectus. You should read this Prospectus and the applicable prospectus supplement carefully before you invest in our Shares.

Our Shares may be offered directly to one or more purchasers, including existing shareholders in a rights offering, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Shares, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Shares through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Shares. Our Shares are traded on The New York Stock Exchange (NYSE) under the symbol TFC. As of __, 2009, the last reported sales price for our Shares was $__.

Taiwan Greater China Fund (the Fund) is a diversified, closed-end management investment company. The Fund, together with its predecessor, is the oldest investment fund organized for investment in securities of Republic of China (the R.O.C. or Taiwan) issuers by investors outside the R.O.C. The Fund s investment objective is long-term capital appreciation through investment primarily in publicly traded equity securities of R.O.C. issuers. The Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a significant portion of their revenues by exporting to or operating in mainland China. **Investment in the Fund involves certain special considerations and risks arising in part from the Fund s investment in securities of Taiwan-listed companies that may be considered speculative, which risks are not normally associated with investments in securities of U.S. issuers or certain other non-U.S. issuers.** See Risk Factors and Special Considerations.

Please read this Prospectus carefully before investing and keep it for future reference. It sets forth concisely, the important information about the Fund that a prospective investor ought to know before investing in the Fund. This Prospectus should be retained for future reference. Information required to be in the Fund s Statement of Additional Information is found in this Prospectus. The Fund has filed additional information about it with the U.S. Securities and Exchange Commission (the Commission) (http://www.sec.gov) and is available upon written or oral request without charge. To obtain a copy of the Fund s annual report for the fiscal year ended December 31, 2008 and the semi-annual report for the period ended June 30, 2009 and other information about the Fund, or to make shareholder inquiries, you may write to Taiwan Greater China Fund, c/o Nanking Road Capital Management, LLC, 111 Gillett Street, Hartford, Connecticut 06105 or call toll-free at (800) 343-9567. The Fund s annual and semi-annual reports are available on the Fund s website at http://www.taiwangreaterchinafund.com. The address of the Fund is Taiwan Greater China Fund c/o Nanking Road Capital Management, LLC, 111 Gillett Street, Hartford, Connecticut 06105 and the telephone number is (800) 343-9567. The Commission maintains an Internet Web site (http://www.sec.gov) that contains the SAI, material incorporated by reference, and other information regarding registrants.

These securities have not been approved or disapproved by the U.S. Securities and Exchange Commission or any state securities commission nor has the U.S. Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is __, 2009.

(continued from previous page)

The information set forth in this Prospectus regarding Taiwan, its economy, and stock exchanges has been extracted from various government and private publications. The Fund and its Board of Trustees have not attempted to verify the statistical information presented in this Prospectus. In this Prospectus, unless otherwise specified, all references to U.S. Dollars, U.S.$ or $ are to United States dollars and all references to NT$ or NT Dollars are to New Taiwan dollars. On __, 2009, the noon buying rate quoted by dealers in New York City for cable transfers in NT Dollars, as certified for customs purposes by the Federal Reserve Bank of New York, was NT$__ per U.S.$ __. No representation is made that the NT$ or U.S.$ amounts in this Prospectus could have been or could be converted into U.S.$ or NT$, as the case may be, at any particular rate or at all. See Appendix A The Republic of China Balance of Payments Exchange Rates for information regarding historical rates of exchange between the NT Dollar and the U.S. Dollar.

Unless otherwise indicated, U.S. Dollar equivalent information for information in NT Dollars that is undated is translated at the noon buying rate given above, for a specified date is based on the closing price for U.S. Dollars in Taiwan on that date and for a specified period is based on the average of the daily exchange rates, so computed, for the days in such period.

Certain numbers in the tables in this Prospectus have been rounded for ease of presentation and, as a result, may not total precisely.

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FORWARD-LOOKING STATEMENTS

The Fund may not claim the safe harbor for forward-looking statements contained in the federal securities laws of the United States because that safe harbor does not apply to investment companies. Nevertheless, you should note that certain statements in this Prospectus are forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause the Fund s actual results or level of performance to be materially different from any future results or level of performance expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors and Special Considerations and elsewhere in this Prospectus. As a result of these and other factors, the Fund cannot give you any assurance as to its future results or level of performance. To the extent required by law, the Fund undertakes to amend or reflect any material changes to it after the date of this Prospectus.

FEE TABLE

Shareholder Transaction Expenses:	
Sales load (as a percentage of offering price)(1)	0%
Offering expenses borne by us (as a percentage of offering price)(2)	0.004%
Dividend Reinvestment Plan Fees(3)	None
Total shareholder transaction expenses (as a percentage of offering price)(4)	0.004%
Annual Expenses (as a percentage of net assets attributable to Shares)*	
Management Fee	1.25%(5)
Interest Payments on Borrowed Funds	None
Other Expenses	1.05%(6)
Total Annual Expenses (estimated)	2.30%

Example:

	Cumulative Expenses Paid for the Period of:			
	1 year	**3 years**	**5 years**	**10 years**
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return:	$ 23	$ 72	$ 123	$ 264

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* Net assets attributable to our Shares equal net assets (*i.e.*, total assets less liabilities) at December 31, 2008.

(1) In the event that the Shares to which this Prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The Fund and American Stock Transfer & Trust Company (the Plan Agent), impose no fee for participation in the Fund s Share Distribution Plan. However, each participant in the Fund s Share Purchase Plan will be charged $1.00 for each transaction under the Share Purchase Plan plus a *pro rata* share of brokerage commissions incurred in connection with open-market purchases of Fund shares under the Share Purchase Plan.

(4) The related prospectus supplement will disclose the offering price and the total shareholder transaction expenses as a percentage of the offering price.

(5) Prior to October 1, 2007, the Fund was internally managed and, therefore, did not incur management fees. For the year ended December 31, 2007, the Fund estimates that it incurred expenses for investment management personnel that represented 1.24% of the Fund s net assets attributable to Shares. On October 1, 2007, Nanking Road Capital Management, LLC (NRC), a company organized by the employees of the Fund who previously managed the Fund s investments, assumed responsibility as investment manager. For services provided under the investment and management agreement, the Fund pays NRC a fee at an annual rate of 1.25% of the NAV of the Fund s assets up to $150 million and 1% of the NAV in excess of $190 million.

(6) The figures provided under Other Expenses are based upon expenses for the fiscal year ended December 31, 2008 and do not include expenses the Fund may incur in connection with any offering. See Trustees and Officers for additional information.

The foregoing Fee Table is intended to assist investors in understanding the various costs and expenses that an investor in the Fund will bear directly or indirectly.

The Example set forth above assumes reinvestment of all dividends and distributions at net asset value (NAV) and an expense ratio of [2.30]%. The table above and the assumption in the Example of a 5% annual return are required by the Commission regulations applicable to all investment companies. *The Example should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the Example.* The figures provided under "Other Expenses" are based upon estimated amounts for the current fiscal year.

PROSPECTUS SUMMARY

This Prospectus is part of a registration statement that we have filed with the SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to $200,000,000 of our common shares of beneficial interest representing rights to purchase common shares of beneficial interest on the terms to be determined at the time of the offering. The Shares may be offered at prices and on terms described in one or more supplements to this Prospectus. This Prospectus provides you with a general description of the Shares that we may offer. Each time we use this Prospectus to offer Shares, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus.

The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus.

The Fund

The Fund is a diversified, closed-end management investment company, organized for investment in securities of R.O.C. issuers by investors outside the R.O.C. The Fund was formed in connection with the reorganization (the Reorganization) of The Taiwan (R.O.C.) Fund (the R.O.C. Fund), a securities investment trust fund organized in 1983 under the laws of the R.O.C. Pursuant to the Reorganization, which was completed in May 1989, the Fund acquired the entire beneficial interest in the assets constituting the R.O.C. Fund. Foreign investment in the R.O.C. securities market is currently subject to certain restrictions under R.O.C. law. See The Fund and Foreign Investment Regulations in the R.O.C.

Investment Objective and Policies

The Fund s investment objective is long-term capital appreciation through investment primarily in publicly traded equity securities of R.O.C. issuers. The Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a significant portion of their revenues by exporting to or operating in mainland China. Under normal circumstances, at least 80% of the Fund s net assets will be invested in investments that are economically tied to the R.O.C. The Fund has also invested, and if conditions warrant may in the future invest, in debt securities of R.O.C. issuers (including the R.O.C. government). An additional investment policy of the Fund is that normally at least 70% of its total assets will be invested in securities of R.O.C. issuers (including the R.O.C. government). The Fund may not invest more than 20% of its net assets in stocks traded over-the-counter. Subject to these limitations, the Fund may invest a portion of its assets in securities of non-R.O.C. issuers that are consistent with its China strategy. For temporary defensive purposes during periods in which changes in economic, financial or political conditions make it advisable, the Fund may reduce its holdings in equity securities and increase its holdings in (i) long-term or short-term debt securities issued by the R.O.C. government, its agencies or instrumentalities or private issuers in the R.O.C., (ii) certificates of deposit issued by banks or other financial institutions in the R.O.C. or (iii) cash, or any combination of the foregoing, in each case to the extent deemed prudent. There can be no assurance that the Fund s investment objective will be realized. The Fund is subject to certain other investment policies and restrictions described under Investment Objective and Policies, Investment Restrictions and R.O.C. Government Regulation and Supervision.

The Offering	The Fund may offer, from time to time, in one or more offerings or series, together or separately, up to $200,000,000 of its Shares. The Fund s Shares may be offered at prices and on terms to be disclosed in one or more prospectus supplements. The Fund s Shares may be offered directly to one or more purchasers, including existing shareholders in a rights offering, to new shareholders via an optional cash purchase or designated offeree program, or through agents designated from time to time by the Fund, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Shares by the Fund, the purchase price, and any fee, commission or discount arrangement between the Fund and its agents or underwriters or among the Fund s underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. The Fund may not sell any of its Shares through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of its Shares.
Use of Proceeds	Unless otherwise specified in a prospectus supplement, the Fund intends to use the net proceeds from the sale of its Shares for investments in securities in accordance with its investment objective and policies. Pending these uses, the Fund will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment. See Use of Proceeds.
Listing	The Fund s Shares of beneficial interest are listed on the NYSE under the symbol TFC. See Net Asset Value.
Interval Fund	The Fund has elected to operate as an interval fund pursuant to Rule 23c-3 of the Investment Company Act of 1940, as amended (the 1940 Act). Under this rule, the Fund has adopted a policy that cannot be changed without shareholder approval requiring the Fund to offer to repurchase 5% to 25% of its outstanding Shares every six months at a price equal to the Fund s NAV, less a repurchase fee of up to 2%.
Dividends and Distributions	The Fund intends to distribute at least annually in cash substantially all of its net investment income from dividends and interest payments (income distributions) and to distribute in cash (or newly issued Shares pursuant to the Fund s Share Distribution Plan) substantially all of the Fund s net realized capital gains (both short-term and long-term), as calculated for U.S. federal income tax purposes, after deducting any operating expenses not offset by dividend and interest income.
Investment Manager	The Fund was internally managed by employees of the Fund; however, the shareholders of the Fund approved an investment advisory and management agreement with NRC, an investment advisory company formed by those employees. Pursuant to an investment and management agreement, NRC is responsible, among other things, for investing and managing the assets of the Fund and administering the Fund s affairs. The Fund pays NRC a fee at an annual rate of 1.25% of the NAV of the Fund s assets up to $150 million and 1% of the NAV in excess of $150 million. NRC commenced managing the Fund s assets on October 1, 2007.

Risk Factors and Special Considerations

You should carefully consider the following factors, as well as the other information in this Prospectus, before making an investment in the Fund.

Investing in securities of R.O.C. companies involves certain risks and considerations not typically associated with investing in securities of U.S. companies or other non-U.S. companies. The R.O.C. securities market is an emerging market characterized by a relatively small number of listed companies, price volatility and a relatively illiquid secondary market. In addition, because trading in listed R.O.C. securities is concentrated in a small number of R.O.C. companies, the supply of securities available for investment by the Fund may be limited.

Investing in the Fund also involves certain other special considerations, including (1) currency fluctuations and costs of currency exchange, (2) restrictions on the Fund s investments and on repatriation of monies from the R.O.C., (3) political and economic risks such as the risks of expropriation, confiscation, nationalization and greater social, political and economic instability and (4) the increased costs associated with pursuing legal remedies and obtaining and enforcing judgments against non-U.S. residents, including certain of the Fund s trustees.

R.O.C. accounting, auditing, financial and other reporting standards are not equivalent to U.S. standards and, therefore, certain material disclosures may not be made and less information may be available to investors investing in the R.O.C. than in the United States. There is also generally less governmental regulation of the securities industry in the R.O.C. than in the United States. See Risk Factors and Special Considerations.

The value of the R.O.C. assets held by the Fund will be adversely affected if there is a decline in the value of the NT Dollar relative to the U.S. Dollar. See Risk Factors and Special Considerations and Investment Objective and Policies.

Because the Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a substantial portion of their revenues by exporting to or operating in mainland China, there is a risk that an issuer that is treated as an eligible portfolio company because it is expected to derive a substantial portion of its revenues from exports to or operations in mainland China may not actually derive a substantial portion of its revenues from Chinese exports or operations. As a result, the Fund s portfolio may not be as closely linked to the Chinese economy. See Risk Factors and Special Considerations.

Borrowing

The Fund may not borrow money within the R.O.C., however, subject to the provisions of the 1940 Act, the Fund may borrow from financial institutions outside the R.O.C. for temporary purposes (that, is, the borrowing must be repaid within 60 days) in amounts not exceeding 5% (taken at the lower of cost or current value) of its total assets (excluding amount borrowed) and may also pledge assets to secure such borrowings).

Premium/Discount to Net Asset Value

Shares of closed-end investment companies frequently trade at a discount from NAV. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the fund s NAV will decrease. It should be noted, however, that in some cases, Shares of closed-end funds, including from time to time certain single-country closed-end funds, may trade at a premium to their NAV. The Fund cannot predict whether its Shares will trade at, below or above NAV. However, in recognition of the possibility that the Fund s Shares may trade at a discount, the Fund may from time to time take action to attempt to reduce or eliminate any such discount either by repurchasing Shares in the open market or by making a tender offer for its Shares in addition to its semi-annual repurchase offers. In addition, if the Fund s Shares are trading at a discount to NAV of more than 10% in any 12-week period, the Board of Trustees must submit a proposal to the Fund s shareholders to convert the Fund to an open-end investment company. Any such proposal would require the approval of the Board of Trustees and the Fund s shareholders. See Description of the Shares Possible Change to Open-End Investment Company. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors that wish to sell their shares in a relatively short period of time because, for those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount to NAV than upon portfolio performance. See Risk Factors and Special Considerations.

Market Disruption

The aftermath of the war in Iraq and the continuing occupation of Iraq and Afghanistan, the instability in the Middle East and terrorist attacks in the United States and around the world have resulted in market volatility, may have long-term effects on the United States and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide.

In addition, trading activity in securities in which the Fund invests may be dramatically reduced or cease at any time, whether due to general market turmoil, problems experienced by a single issuer or market sector or other factors. In particular, since late 2007, the trading markets for certain classes of securities (such as collateralized debt obligations backed by mortgages (particularly subprime mortgages), has been dramatically impaired, resulting in turmoil in the credit markets generally and a dramatically reduced market for mortgage backed securities in particular.

The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects that these or similar events in the future will have on the United States and worldwide economies and securities markets.

Possible Change to Open-End Investment Company

If the Shares trade on the NYSE at an average discount to NAV of more than 10% in any 12- week period, the Trustees are required by the Fund s Amended and Restated Declaration of Trust, as amended (the Declaration of Trust), to submit to the Fund s shareholders at their next annual meeting a binding resolution that the Fund be converted from a closed-end to an open-end investment company. The affirmative vote of the holders of a majority of the Fund s outstanding Shares is required to approve such a conversion in these circumstances. See Description of the Shares Possible Change to Open-End Investment Company.

Anti-Takeover Provisions

The Declaration of Trust includes certain provisions that are intended to limit the ability of others to acquire control of the Fund, to modify its structure or to cause it to engage in certain transactions. These provisions could also have the effect of depriving shareholders of an opportunity to sell their Shares at a premium over prevailing market prices by discouraging third parties from

	seeking to obtain control of the Fund. See Description of the Shares Anti-Takeover Provisions.
Trustees and Officers	Several of the officers and Trustees of the Fund are neither citizens nor residents of the United States. There can be no assurance that the Fund s officers or Trustees will have any assets in the United States that could be attached in connection with any action, suit or proceeding to enforce the provisions of U.S. securities laws, and none of the Fund s officers or Trustees has appointed an agent for service of process in the United States in connection with any such action under U.S. securities laws. In addition, the Fund has been advised by Chen & Lin Attorneys-at-Law, its R.O.C. counsel, that R.O.C. courts will not enforce certain final judgment against the Fund s Trustees or officers in respect of any legal suit or proceeding to enforce the provisions of U.S. securities laws in any court other than the R.O.C. courts. See Trustees and Officers Trustee and Officer Compensation.
Custodians and Administrator	Brown Brothers Harriman & Co. (BBH) acts as custodian (the Custodian) for the assets of the Fund. BBH also acts as the administrator of the Fund.

FINANCIAL HIGHLIGHTS

This table below sets forth certain specified information for a Share outstanding throughout each year and period presented. The information for each of the fiscal years ended December 31, 1999 through December 31, 2008 have been derived from the Fund s financial statements, which have been audited by KPMG LLP (KPMG), the Fund s independent registered public accounting firm, whose report thereon was unqualified. The information for the period ended June 30, 2009 is derived from unaudited financial data. The information should be read in conjunction with the financial statements and notes thereto incorporated by reference in this Prospectus. See Financial Statements and Notes.

		Years Ended December 31,									
	Six Months Ended June 30, 2009 (Unaudited)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Per Share Operating Performance:											
Net asset value, beginning of period/year	3.81	8.02	7.07	5.87	5.37	5.13	4.37	5.40	5.78	10.23	7.53
Net investment income (loss)(a)	(0.06)	0.15	0.02	0.01	0.05	(0.01)	(0.02)	(0.06)	(0.05)	(0.11)	(0.11)
Net realized and unrealized gain (loss) on investments(b)	1.47	(4.21)	0.92	1.21	0.65	(0.24)	0.73	(1.02)	0.06	(3.56)	2.58
Net realized and unrealized appreciation or depreciation on translation of foreign currencies(b)	0.00(c)	(0.16)	(0.01)	(0.03)	(0.25)	0.26	0.11	0.05	(0.39)	(0.41)	0.23
Total from investment operations	1.41	(4.22)	0.93	1.19	0.45	0.01	0.82	(1.03)	(0.38)	(4.08)	2.70
Distributions to Shareholders from:											
Capital											
Net investment income*						(0.01)	(0.06)				
Net realized gain on investments										(0.37)	
Total Distributions						(0.01)	(0.06)			(0.37)	
Capital Stock Transactions:											
Share Tender Offer/ Repurchase	0.01(d)	0.01(d)	0.02(d)	0.01	0.05	0.24					
Net asset value, end of period/year	5.23	3.81	8.02	7.07	5.87	5.37	5.13	4.37	5.40	5.78	10.23
Per share market value, end of period/year	4.85	3.53	7.23	6.61	5.30	4.90	4.75	4.05	4.75	4.56	8.44
Total investment return (%):											
Based on Trust s market price	37.40	(51.18)	9.38	24.72	8.16	3.42	18.79	(14.74)	4.17	(41.71)	36.35
Based on Trust s net asset value	37.27	(52.49)	13.44	20.44	9.31	4.94	18.75	(19.07)	(6.57)	(39.94)	35.86
U.S.$return of Taiwan Stock Exchange Index**	40.14	(46.66)	9.23	20.35	3.03	11.69	35.32	(19.03)	10.16	(46.62)	35.15
Ratios and supplemental data:											
Net assets, end of period/year (in thousands)	64,950	49,720	116,031	113,391	104,364	116,467	167,801	142,936	176,526	188,939	334,521

Ratio of expenses to average net assets (%)	1.54	2.37	2.30	2.55	2.12	2.79	2.57	2.19	2.01	1.67	1.81

	Six Months Ended June 30, 2009 (Unaudited)	Years Ended December 31, 2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Ratio of net investment income (loss) to average net assets (%)	(1.41)	2.29	0.28	0.22	0.99	(0.27)	(0.44)	(1.23)	(1.01)	(1.09)	(1.35)
Portfolio turnover rate (%)	8	22	26	24	16	137	78	107	173	165	191

(a) Based on average shares outstanding.

(b) Cumulative effect of change in accounting principle resulted in a $0.06 reduction in realized gain/loss on investments and foreign currency transactions and a $0.06 increase in unrealized appreciation/depreciation on investments and foreign currency translation during 2004.

(c) Amounts represent less than $0.01 per share.

(d) Based on average monthly shares outstanding.

* It is the Fund s policy to distribute all ordinary income and net realized capital gains calculated in accordance with U.S. federal income tax regulations. Such calculations may differ from those based on GAAP. Permanent book to tax differences primarily relate to the treatment of the Fund s gains from the disposition of passive foreign investment company shares as well as the nondeductibility of net operating losses for U.S. federal income tax purposes. Temporary book to tax differences are primarily due to differing treatments for certain foreign currency losses.

** Returns for the Taiwan Stock Exchange Index are not total returns and reflect only changes in share price, and do not assume that cash dividends were reinvested. The Taiwan Stock Exchange Index is calculated by the Taiwan Stock Exchange Corp.

Not annualized.

USE OF PROCEEDS

The proceeds of any offering made hereby will be invested in accordance with the Fund s investment objective and policies over a period of time not expected to exceed one week. Pending such investment, such proceeds will be held in bank deposits or invested in U.S. government securities or other U.S. Dollar-denominated short-term high grade securities.

THE FUND

General Information

The Fund is a Massachusetts business trust formed in 1988 and registered with the Commission as a diversified, closed-end management investment company under the 1940 Act. Taking into account the Fund s predecessor, the Fund is the oldest investment fund organized for investment in securities of R.O.C. issuers by investors outside the R.O.C.

The Fund s investment objective is long-term capital appreciation through investment primarily in publicly traded equity securities of R.O.C. issuers. As a fundamental policy, the Fund may not hold 25% or more of its gross assets in any single industry. Until September of 2007, the Fund was internally managed by employees of the Fund; however, the shareholders of the Fund approved an investment advisory and management agreement with NRC, an investment advisory company formed by those employees. Pursuant to this agreement, NRC is responsible, among other things, for investing and managing the assets of the Fund and administering the Fund s affairs. The Fund pays NRC a fee at an annual rate of 1.25% of the NAV of the Fund s assets up to $150 million and 1% of NAV in excess of $150 million. NRC commenced managing the Fund s assets on October 1, 2007.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Investing in the Fund s Shares involves certain risks and considerations not typically associated with investing in U.S. securities. Therefore, before investing, you should consider carefully the following risks that you assume when you invest in the Fund s Shares and special considerations with respect to an investment in the Fund.

Investing in the Fund

An investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation or any other governmental agency. Among the principal risks of investing in the Fund is market risk, which is the risk that the value of your investment may fluctuate as the stock market in the R.O.C. fluctuates.

As a portfolio of an investment company that primarily holds common stock, the Fund s portfolio is subject to the possibility that common stock prices will decline over short or even extended periods. The Fund may remain substantially invested during periods when stock prices generally rise and also during periods when they generally decline. Moreover, as the Fund is a holder of common stock, the Fund s rights to the assets of the companies in which it invests will be subordinated to such companies holders of preferred stock and debt in the event of a bankruptcy, liquidation or similar proceeding. Accordingly, if such an event were to occur to a company in which the Fund invests, the Fund would be entitled to such a company s assets only after such company s preferred shareholders and debt holders have been paid. Risks are inherent in investments in equities, and Fund shareholders should be aware that there may be significant fluctuations in the value of their investment in the Fund.

Because the Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a substantial portion of their revenues by exporting to or operating in mainland China, there is a risk that an issuer that is treated as an eligible portfolio company because it is expected to derive a substantial portion of its revenues from exports to or operations in mainland China may not actually derive a substantial portion of its revenues from Chinese exports or operations. As a result, the Fund s portfolio may not be as closely linked to the

Chinese economy as a fund that invests solely in portfolio companies that actually derive a substantial portion of its revenues from Chinese exports or operations.

Investments in R.O.C. Equities

Securities of R.O.C. companies are principally traded on the Taiwan Stock Exchange (the TSE). The TSE, as compared to stock exchanges in the United States, is relatively small, and both trading and market capitalization are concentrated in shares of a smaller number of companies and industries.

A larger proportion of the shares of many R.O.C. issuers are held by a smaller number of persons, representing a disproportionately large percentage of market capitalization and trading value, which may limit the number of shares available for investment by the Fund. By way of comparison, the market capitalization of the NYSE was more than 33 times the size of the TSE as of May 31, 2009. In addition, further issuances, or the perception that such issuances may occur, of securities by R.O.C. issuers in which the Fund has invested could dilute the earnings per share of the Fund s investment and could adversely affect the market price of such securities. Sales of securities by such issuer s major shareholders, or the perception that such sales may occur, may also significantly and adversely affect the market price of such securities and, in turn, the Fund s investment. The limited liquidity of the R.O.C. securities markets may also affect the Fund s ability to acquire or dispose of securities at the price and time that it desires. Therefore, anticipation of the investment of the proceeds of any offer made hereby in the R.O.C. securities markets may adversely affect the prices paid by the Fund in purchasing certain securities for its portfolio and may affect the speed with which the Fund can initially invest such proceeds in R.O.C. securities. In addition, the TSE experiences a smaller trading volume than the NYSE that is concentrated in a smaller number of the largest companies, and combined with certain investment diversification requirements and other restrictions applicable to the Fund, including certain requirements of the 1940 Act and the qualification of the Fund as a regulated investment company under the U.S. Internal Revenue Code of 1986, as amended (the Code), this may affect the rate at which the Fund can invest the proceeds from the offer. Therefore, the Fund intends to take up to one week after the date of completion of any offering to invest the proceeds of such offering in accordance with its investment objective. See Investment Restrictions.

Markets in other countries have an increasing influence on the R.O.C. securities market. Any changes in foreign market situations, including foreign investors sentiments towards the TSE, are capable of producing strong effects on the TSE.

In addition to their smaller size, lesser liquidity and greater volatility, the R.O.C. securities markets are less developed than U.S. securities markets and securities markets of more developed countries. Disclosure and regulatory standards in emerging market countries, such as the R.O.C., are, in many respects, less stringent than U.S. standards. Issuers in the R.O.C. are subject to accounting, auditing and financial standards and requirements that differ, in some cases significantly, from those applicable to U.S. issuers. In particular, the assets and profits appearing on the financial statements of a R.O.C. issuer may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. generally accepted accounting principles. In addition, there is substantially less publicly available information about R.O.C. issuers than there is about U.S. issuers. There is less regulation and monitoring of the R.O.C. securities market and the activities of investors, brokers and other participants than in the United States. Accordingly, issuers of securities in the R.O.C. are not subject to the same degree of regulation as U.S. issuers with respect to such matters as insider trading rules, tender offer regulation, shareholder proxy requirements and the requirements affecting timely disclosure of information.

Fluctuations in the price of securities traded on the TSE are restricted to 7% above or below the previous day s closing price for such shares. As a result, during periods of rapid movements in the market, when the limits on share price movement may prevent the quoted price from reflecting what would have been the market price in the absence of such limits, the quoted closing price of a security may not necessarily reflect the price at which investors would be willing to buy or sell the security. Under such circumstances liquidity may be severely impaired, making it difficult to protect and retain previous capital gains.

The R.O.C. securities market has been influenced by speculative trading of significant blocks of securities. In addition, there have been reports of market manipulation. Although the impact of market manipulation is expected to decrease in the future due to the implementation of stricter laws and more severe penalties, the Fund believes that market manipulation has been, and expects it to continue to be, a factor in the high volatility of the securities market. See The Republic of China Regulation and Supervision.

Legal principles relating to corporate affairs and the validity of corporate procedures, directors fiduciary duties and liabilities and shareholders rights in the R.O.C. may differ from those that may apply in other jurisdictions. Shareholders rights under R.O.C. law may not be as extensive as those that exist under the laws of the United States. The Fund may therefore have more difficulty asserting its rights as a shareholder of a R.O.C. company in which it invests than it would as a shareholder of a comparable U.S. company.

Political and Economic Factors

The value of the Fund s assets may be adversely affected by political, economic, social and other factors, changes in R.O.C. law or regulations and the status of the R.O.C. s relations with other countries, particularly the People s Republic of China (the P.R.C. or China). In addition, the R.O.C. economy may differ favorably or unfavorably from the U.S. economy in such respects as the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. The R.O.C. economy relies primarily on exports, which constitute over 63%, 64%, 70%, 73% and 74% of the R.O.C. s gross domestic product in years 2004, 2005, 2006, 2007 and 2008, respectively. Thus, the R.O.C. s economy relies largely on demand from the U.S. and other foreign markets. The R.O.C. s biggest export markets are the United States, China, Japan, Europe, and other Asian countries. In fact, a significant amount of exports to mainland China are to Taiwan companies manufacturing in mainland China for re-export.

There is the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, social instability or diplomatic developments (including war or terrorist attacks) which could adversely affect the R.O.C. economy or the value of the Fund s investments. In particular, from time to time, tensions have increased between the R.O.C. and the P.R.C. over various issues; and at those times, share prices on the R.O.C. securities markets have tended to decline. See Political Considerations below.

In addition, it may be difficult to obtain and enforce a judgment in a court in the R.O.C., including in a case where there is a default with respect to the security of a R.O.C. issuer or with respect to any other claim that the Fund may have against an issuer or its directors and officers. As a result, even if the Fund initiates a suit against an issuer in a U.S. court, it may not be possible for the Fund to effect service of process in the R.O.C. Furthermore, if the Fund obtains a judgment in a U.S. court, it may be difficult to enforce such judgment in the R.O.C.

Exchange Rate Fluctuations and Foreign Currency Considerations

Under normal circumstances, the Fund s total assets will be predominantly invested in equity securities of R.O.C. companies and substantially all income earned by the Fund will be in NT Dollars, whereas distributions by the Fund will be made in U.S. Dollars. Therefore, the Fund s reported NAV and distributions will be affected adversely if there are reductions in the value of the NT Dollar relative to the U.S. Dollar. The Fund will incur costs for conversion between currencies. In addition, the computation of income will be made on the date of its accrual or receipt by the Fund at the foreign exchange rate in effect on that date, and thus, if the value of the NT Dollar falls relative to the U.S. Dollar between recognition of the income and the making of Fund distributions, the Fund may be required to liquidate investments in order to make distributions if the Fund has insufficient cash in U.S. Dollars to meet its regulated investment company distribution requirements under the Code. See Taxation. Such liquidation of investments, if required, may have adverse effects on the Fund s performance. Moreover, if the Fund fails to distribute to its shareholders at least 90% of its investment company taxable income (as measured in U.S. Dollars) for the taxable year, it will be subject to U.S. federal income taxes. See Taxation U.S. Federal Income Taxes.

Political Considerations

Relations with the P.R.C. and Domestic Political Stability. Relations between the P.R.C and the R.O.C. over the past several years have been characterized by a gradual relaxation of barriers to business, trade and investment. The announced policy of the P.R.C. towards Taiwan is one of peaceful reunification of China, but only under the auspices of the P.R.C. P.R.C. officials have consistently expressed grave concerns about the possibility of Taiwan s declaration of independence from mainland China as a whole and its development of nuclear weapons, and have indicated that neither action would be tolerated. The P.R.C. has refused to renounce the use of military force to gain control over Taiwan and, in March 2005, the P.R.C. passed an Anti-Secession Law that authorized non-peaceful means and other necessary measures should Taiwan move to gain independence from the P.R.C. Past developments between the R.O.C. and the P.R.C. have on occasion depressed the market prices of the securities of companies listed in the R.O.C. Though Taiwan and the P.R.C. have taken steps to facilitate economic linkages, there can be no assurance that relations between the R.O.C. and the P.R.C. will not deteriorate in ways that could adversely affect Taiwan s economy.

In addition, the securities market in Taiwan has become increasingly sensitive to political and economic developments in the P.R.C. Such developments, including, among other things, any change in political leadership, could have an adverse effect on the R.O.C. securities markets. Since the Democratic Progressive Party (DPP) won the presidency of the R.O.C. in March 2000, the relationship between the R.O.C. and the P.R.C. has become increasingly intense. Even though, in March 2008, the Kuomintang Party (KMT) won the presidency of the R.O.C. there can be no assurance that tension between the leading parties, the KMT and the DPP, as well as other parties will not produce instability that may adversely affect economic development in the R.O.C. or exacerbate relations with the P.R.C.

Other External Relations. Although the R.O.C. is not a member of the United Nations or its affiliated international organizations and only 234 sovereign states currently maintain formal diplomatic relations with the R.O.C., it has developed informal ties with most countries to offset its diplomatic isolation and to expand its economic relations. Many nations have set up unofficial organizations to carry out commercial and other relations with Taiwan and with official overseas missions and unofficial representative and/or trade relations, Taiwan is represented in 122 countries. Taiwan is a member of the Asian Development Bank, the World Trade Organization and the Asia-Pacific Economic Cooperation forum. However, because the P.R.C. opposes Taiwan s membership in such organizations, most of which require statehood for membership, there can be no assurance that the R.O.C. s unique international position will not in the future have an adverse effect on its conduct of international trade, which is crucial to its export-driven economic growth.

While the United States severed diplomatic relations with the R.O.C. in 1979, the Taiwan Relations Act, enacted by the U.S. Congress in April 1979, affirmed as U.S. policies the preservation and promotion of close commercial and cultural ties with the R.O.C. and the continuing supply to the R.O.C. of arms of a defensive character.

Additional Risk of Investing in China and the R.O.C.

Investments in China are subject to special risks, such as less developed or less efficient trading markets, restrictions on monetary repatriation, possible seizure, nationalization or expropriation of assets and unstable political and economic conditions.

A small number of companies and industries represent a large portion of the markets in China as a whole. Consequently, the Fund may experience greater price volatility and significantly lower liquidity than a portfolio invested solely in equity securities of U.S. issuers. In addition, currency issues and economic competition also can significantly affect economic growth in Hong Kong, Taiwan and China.

Investments in Hong Kong or Taiwan could be adversely affected by their political and economic relationship with China. In addition, the willingness of the Chinese government to support the Chinese and Hong Kong economies and markets is uncertain, and changes in government policy could significantly affect the markets in both Hong Kong and China. The Taiwanese political system and economy can be significantly affected by the security threats from China, including the risk of a Chinese takeover of the R.O.C.

There can be no assurance that certain of the issuers in which the Fund may invest will not have dealings with countries identified by the U.S. State Department as state sponsors of terrorism or countries subject to sanctions administered by the U.S. Treasury Department s Office of Financial Assets Control. Any such company may suffer damage to its business or reputation that may negatively affect its share price.

Certain Provisions of the Declaration of Trust

The Fund s Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees and, consequently, these provisions could deprive shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See Description of the Shares Anti-Takeover Provisions.

Operating Expenses

The operating expense ratio of the Fund is higher than that of funds investing predominantly in the securities of U.S. issuers since the expenses of the Fund (such as investment management, custodial and communication costs) are higher. See Fee Table.

Net Asset Value Discount

Shares of closed-end investment companies frequently trade at a discount from NAV but may trade at a premium. This characteristic is a risk separate and distinct from the risk that a fund s NAV will decrease. The Fund cannot predict whether its Shares will trade at, below or above NAV. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors that wish to sell their shares in a relatively short period of time because, for those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount from NAV than upon portfolio performance.

Interval Fund Structure; Size of Fund

As an interval fund, the Fund is required to repurchase at least 5% of its outstanding shares semi-annually, subject to certain exceptions. See Semi-Annual Share Repurchases. Over a period of time, these repurchases could reduce the Fund to a size where it would no longer be permitted to list its shares on the NYSE or where the Fund would no longer be considered viable because of the relative level of expenses or for other reasons. This may particularly be the case during periods when the Fund s assets have declined significantly due to a significant decline in the Taiwan stock markets or for other reasons.

Market Disruption

The aftermath of the war in Iraq and the continuing occupation of Iraq, the instability in the Middle East and terrorist attacks in the United States and around the world have resulted in market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide.

In addition, trading activity in securities in which the Fund invests may be dramatically reduced or cease at any time, whether due to general market turmoil, problems experienced by a single issuer or market sector or other factors. In particular, since late 2007, the trading markets for certain classes of securities (such as collateralized debt obligations backed by mortgages (particularly subprime mortgages), has been dramatically impaired, resulting in turmoil in the credit markets generally and a dramatically reduced market for mortgage backed securities in particular.

The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects that these or similar events in the future will have on the United States and worldwide economies and securities markets.

TRADING AND NET ASSET VALUE INFORMATION

The following table for each of the periods indicated shows the highest and lowest selling prices of the Fund s Shares of beneficial interest on the NYSE, and the NAV per Share and the discount or premium to NAV expressed as a percentage.

	Market Price (1)		Net Asset Value(1)		
Quarter Ended	**High**	**Low**	**High**	**Low**	**Discount/Premium to NAV**
June 30, 2006	$ 5.59	$ 5.52	$ 6.90	$ 5.49	-5.75%
September 30, 2006	$ 5.77	$ 5.67	$ 6.37	$ 5.41	-8.76%
December 31, 2006	$ 6.61	$ 6.56	$ 7.06	$ 6.26	-8.13%
March 31, 2007	$ 6.30	$ 6.27	$ 7.22	$ 6.48	-7.11%
June 30, 2007	$ 7.00	$ 6.27	$ 8.00	$ 6.85	-9.60%
September 30, 2007	$ 7.80	$ 6.32	$ 8.91	$ 7.27	-11.46%
December 31, 2007	$ 8.48	$ 6.77	$ 9.46	$ 7.19	-10.61%
March 31, 2008	$ 7.43	$ 6.12	$ 8.11	$ 6.54	-9.56%
June 30, 2008	$ 7.60	$ 6.11	$ 8.28	$ 6.80	-9.10%
September 30, 2008	$ 6.23	$ 4.58	$ 6.82	$ 5.18	-9.41%
December 31, 2008	$ 4.71	$ 2.96	$ 5.28	$ 3.40	-11.06%
March 31, 2009	$ 3.96	$ 3.02	$ 4.34	$ 3.47	-9.06%
June 30, 2009	$ 5.40	$ 3.95	$ 5.70	$ 4.22	-6.90%
September 30, 2009	$ 5.91	$ 4.86	$ 6.55	$ 5.35	-10.56%

(1) As reported by Bloomberg.

The closing market price and NAV per Share on September 30, 2009 were $5.91 and $6.55, respectively.

There can be no assurance that the Fund s Shares will trade in the future above, at or below NAV.

Capitalization at September 30, 2009

Title of Class	**Amount Authorized**	**Amount Held by the Fund or for its Account**	**Amount Outstanding Exclusive of Amount Held by the Fund or for its Account**
Shares of Beneficial Interest, $0.01 par value	unlimited number of Shares	None	12,409,440 Shares

INVESTMENT OBJECTIVE AND POLICIES

The Fund s investment objective is long-term capital appreciation through investment primarily in publicly traded equity securities of R.O.C. issuers. The Fund s strategy is to invest primarily in Taiwan-listed companies that derive or are expected to derive a significant portion of their revenues by exporting to or operating in mainland China. Under normal circumstances, at least 80% of the Fund s net assets will be invested in Taiwan-listed companies that (i) derive or are expected to derive a substantial portion (*i.e.*, at least 50%) of their revenues or profits by exporting to or operating in mainland China or (ii) have at least 50% of their assets in Greater China. Greater China includes mainland China, Hong Kong and Taiwan. This investment policy is non-fundamental and requires 60 days prior written notice to shareholders before it can be changed. The Fund has and intends to continue to spread risk by investing in various industries and issuers. The Fund has also invested, and if conditions warrant, may in the future invest, in debt securities of R.O.C. issuers (including the R.O.C. government). For defensive purposes during periods in which changes in economic, financial or political conditions make it advisable, the Fund may reduce its holdings in equity securities and increase its holdings in (i) long-term or short-term debt securities issued by the R.O.C. government, its agencies or instrumentalities or private issuers in the R.O.C., (ii) certificates of deposit issued by banks or other financial institutions in the R.O.C. or (iii) cash, or any combination of the foregoing, in each case to the extent deemed prudent. There can be no assurance that the Fund s investment objective will be realized. The Fund is subject to certain investment restrictions described under Investment Restrictions.

It is an investment policy of the Fund that normally at least 80% of its net assets will be invested in investments that are economically tied to the R.O.C. This policy and the Fund s investment objective are fundamental policies that may not be changed without the approval of a majority of the Fund s outstanding voting securities. As used herein, a majority of the Fund s outstanding voting securities means the lesser of (i) 67% of the Shares represented at a meeting at which more than 50% of the outstanding Shares are represented or (ii) more than 50% of the outstanding Shares. An additional investment policy of the Fund is that normally at least 70% of its total assets will be invested in securities of R.O.C. issuers (including the R.O.C. government). The Fund may not invest more than 20% of its net assets in stocks traded over the counter. Subject to these limitations, the Fund may invest a portion of its assets in securities of non-R.O.C. issuers that are consistent with its China strategy. The Fund is permitted to invest in securities of companies that are economically tied to the R.O.C. even if those securities trade on securities exchanges outside of the R.O.C., such as the Hong Kong Stock Exchange.

The Fund s equity investments consist primarily of common stocks, but investments may also be made in other equity securities, such as preferred stocks, convertible debentures and equity warrants should they become listed securities on the TSE or otherwise become permitted investments of the Fund. Investments in debt securities, including short-term money market instruments, are limited to obligations of the R.O.C. government or government-owned enterprises, obligations issued or guaranteed by R.O.C. financial institutions with shareholders equity of at least U.S.$50 million, and obligations of the companies listed on the TSE. Investments in money market instruments may include government treasury bills, commercial paper, bankers acceptances and negotiable certificates of deposit. Companies that issue debt securities must retain a credit rating institution approved or recognized by the Republic of China Securities and Futures Bureau, Financial Supervisory Commission (the R.O.C. FSC) to evaluate the securities to be issued and the company must produce a credit rating report. Although the investment objective of the Fund is long-term capital appreciation, the Fund expects to receive current income from dividends and interest paid on the equity and debt securities in which it invests.

Up to 30% of the Fund s total assets may be (i) invested in repurchase agreements (as described below), (ii) held in the United States for expense purposes, pending distribution to the shareholders or pending the repurchase of Shares pursuant to the Fund s Share repurchase program or interval repurchase program or (iii) held in liquid assets in the R.O.C.

Up to 15% of the total assets of the Fund may be invested in repurchase agreements in the R.O.C. Such agreements are contracts under which the seller of a security agrees at the time of sale to repurchase the security at an agreed-upon price and date. Such resale price reflects an agreed-upon interest rate effective for the period the security is held by the purchaser and is unrelated to the interest rate on the instrument. Under the 1940 Act, repurchase agreements are treated as loans collateralized by the underlying security, and interpretive positions by the

Staff of the Commission generally require investment companies and their investment advisers to institute practices to assure that repurchase agreement transactions are always fully collateralized.

Assets of the Fund held in the United States are invested in bank deposits, obligations issued or guaranteed by the U.S. government or issued by an agency thereof or short-term securities or money market instruments that, at the time of acquisition, have been rated Prime 1 by Moody s Investors Service, Inc. (Moody s) or A or better by Standard & Poor s, a division of The McGraw Hill Companies, Inc. (S&P).

The Investment Manager has a policy which provides that under normal circumstances, the Fund should experience less than 60% annual portfolio turnover rate, but this policy is subject to change.

Other Investment Practices

Foreign Currency Transactions

The ability of the Fund to enter into hedging transactions with respect to the value of the NT Dollar is limited by investment restrictions applicable to the Fund. See Investment Restrictions. The Fund is permitted to enter into currency exchange contracts on a spot basis.

Notwithstanding any currency transactions in which the Fund may engage to limit currency risks, changes in currency prices may result in poorer overall performance for the Fund than if it had not engaged in any such transaction. Moreover, there may be an imperfect correlation between the Fund s portfolio holdings of NT Dollars and currency transactions entered into by the Fund. Any imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to additional risks of foreign exchange loss. If the Fund engages in transactions in such instruments, it will comply with the applicable provisions of the 1940 Act and the rules and regulations thereunder that require the Fund to segregate assets or cover its exposure thereunder.

Stock Options and Stock Index Futures Contracts

There are currently stock options, stock index options or futures contracts for R.O.C. securities. The Fund may seek to increase its return or may hedge all or a portion of its portfolio investments by investment therein in the future. The nature of the strategies adopted by the Fund and the extent to which those strategies are used will depend on the development of stock options and stock index futures contracts or options thereon. These transactions may also affect the character and timing of income, and the amount of gain or loss recognized by the Fund and its shareholders for U.S. federal income tax purposes. See Taxation U.S. Federal Income Taxes.

Securities Lending

From time to time, the Fund may lend securities (but not in excess of 33 1/3% of its total assets) from its portfolio of investments to brokers, dealers and financial institutions and, in turn, receive collateral in cash or securities believed by the Fund to be equivalent to securities rated investment grade by S&P or Moody s. While the loan is outstanding, the Fund is required to maintain collateral at all times in an amount equal to at least 105% of the current market value of the securities loaned by the Fund, including any accrued interest or dividends receivable from these securities. Any cash collateral received by the Fund is to be invested in short-term, high quality debt securities, the income from which would increase the return to the Fund. The Fund retains all rights of beneficial ownership as to the loaned portfolio securities, including voting rights and rights to interest or other distributions, and has the right to regain record ownership of loaned securities to exercise such beneficial rights. Such loans are terminable at any time by either the Fund or the borrower. The Fund may be required to pay finders , administrative and custodial fees to persons unaffiliated with the Fund in connection with the arranging of such loans and, if permitted under the 1940 Act or pursuant to an exemptive order thereunder, such fees may be paid to persons affiliated with the Fund. In the event of a default by the borrower, the Fund may suffer time delays and incur costs or possible losses in connection with the Fund s disposition of the collateral.

INVESTMENT RESTRICTIONS

The following restrictions on investments of the assets of the Fund may not be changed without the approval of a majority of the Fund s outstanding voting securities as defined above under Investment Objective and Policies. If a percentage restriction on investment or use of assets set forth below is adhered to at the time a transaction is effected, later changes in the percentage resulting from changing values will not be considered a violation of the restriction. With respect to the limitations on the issuance of senior securities and in the case of borrowings, the percentage limitations apply at the time of issuance and on an ongoing basis.

Without such approval, the Fund may not:

(a) hold 25% or more of its gross assets in any single industry;

(b) purchase any security (other than obligations of the U.S. government or its agencies or instrumentalities) if as a result of such purchase (i) as to 75% of the total assets (taken at their then current value), more than 5% of the total assets (taken at their then current value) would then be invested in the securities of a single issuer, (ii) as to the remaining 25% of the total assets (taken at their then current value), more than 10% of the total assets (taken at their then current value) would then be invested in the securities of a single issuer (except that the Fund may invest up to 25% of its total assets in obligations of the R.O.C. government or its agencies or instrumentalities), (iii) more than 10% of the outstanding equity securities of any issuer (at the time of purchase) would be beneficially held by the Fund or (iv) 25% or more of the Fund s assets (taken at their then current value) would be invested in a single industry;

(c) purchase any security on margin, except such short-term credits as are necessary for the clearance of purchases or sales of securities;

(d) effect a short sale of any security, except in connection with an underwriting in which the Fund is a participant;

(e) engage in short sales of securities, write put and call options or engage in purchases of securities on margin;

(f) invest in securities issued by securities investment trust funds in the R.O.C.;

(g) buy or sell commodities or commodity contracts, including futures contracts on a contract market or other futures market, except that the Fund may invest in currency forward contracts to hedge against currency fluctuations if R.O.C. law is changed to so permit;

(h) issue senior securities, except as permitted by paragraph (g) above;

(i) borrow money within the R.O.C., however, subject to the provisions of the 1940 Act, the Fund may borrow from financial institutions outside the R.O.C. for temporary purposes (that, is, the borrowing must be repaid within 60 days) in amounts not exceeding 5% (taken at the lower of cost or current value) of its total assets (excluding amount borrowed) and may also pledge assets to secure such borrowings);

(j) make loans to other persons (other than bank deposits or by investment in debt securities or entry into repurchase agreements), except that the Fund may lend its securities to the extent permitted by the 1940 Act, the rules or regulations thereunder or any exemption therefrom, as such statutes, rules or regulations may be amended or interpreted from time to time;

(k) invest (i) in securities of R.O.C. issuers the issuance of which has not been approved by or registered with the R.O.C. SEC for offering to the public or (ii) in unregistered securities of U.S.

issuers that must be registered before being publicly offered under the U.S. Securities Act of 1933, as amended (the Securities Act).

(l) invest in equity securities which, at the time the investment is made, are not listed and traded on the TSE, except that the Fund may invest in such securities if R.O.C. law is changed to so permit (which, as is noted below, has now occurred);

(m) buy or sell real estate or real estate mortgage loans;

(n) invest in partnership interests;

(o) effect any securities transaction with another trust fund under the Fund s former manager s management;

(p) apply the assets of the Fund to purchase beneficial certificates issued by the former manager in other trust funds managed by the former manager;

(q) underwrite the issue or sale of any securities; or

(r) invest in securities issued by any person (except the R.O.C. government) who beneficially owns more than 5% of, or takes any significant active role in the management of, the Fund s investment adviser.

For purposes of paragraph (b)(i) above, the Fund limits its investments in a single issuer to no more than 10% of the voting securities of such issuer. For purposes of paragraph (b)(ii), the Fund is limited to investing no more than 5% in any other issuer.

For purposes of paragraph (j) above, the Fund may not lend securities in excess of 331/3% of its total assets. See Investment Objective and Policies Other Investment Practices Securities Lending.

For purposes of paragraph (l) above, R.O.C law has been changed to permit and shareholder approval is not required to permit, investment in equity securities traded in any stock exchange in the world excluding (i) securities listed on any of the P.R.C. stock exchanges; (ii) securities issued by the government of the P.R.C. or by any P.R.C. company with listings in Hong Kong and Macau; (iii) stocks in Hang Seng China-Affiliated Corporations (Red Chip) Index; and (iv) all Hong Kong-and Macau-listed securities of companies with at least 35% direct or indirect investment by the P.R.C. government or P.R.C. companies.

The Trustees may from time to time adopt further investment limitations with respect to non-fundamental policies of the Fund to comply with applicable laws and regulations.

In addition to the foregoing investment limitations, investments by the Fund are subject to limitations imposed by the 1940 Act, including certain limitations on transactions between the Fund and its affiliates. For example, the 1940 Act generally prohibits any investment manager for the Fund and its affiliated persons from selling securities to, or buying securities from, the Fund.

Investments by the Fund are also subject to applicable R.O.C. laws and regulations. Recent changes in R.O.C. law and regulations have permitted the Fund to purchase securities traded in the OTC market in Taiwan, as well as securities issued in public offerings and securities of Taiwan-based or Taiwan related companies listed on exchanges other than the TSE. In addition, on October 31, 2006, the Board of Trustees terminated the Fund s policy requiring the R.O.C. FSC s consent to change certain policies of the Fund.

Certain additional portfolio restrictions may be necessary from time to time for the Fund to qualify as a regulated investment company for U.S. federal income tax purposes.

TRUSTEES AND OFFICERS

The names, addresses and ages of the Trustees and principal officers of the Fund are set forth below, together with their positions held with the Fund, term of office, length of time served and their principal occupations during the past five years and, in the case of the Trustees, their directorships with certain other international organizations and publicly held companies.

Name, Address and Age	Position(s) held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Trustee
Non-Interested Trustees				
Tsung-Ming Chung 4F, No. 1, Lane 21 Hsing-Hua Road Kwei-Shan Industrial Zone Taoyuan, Taiwan, R.O.C. (61)	Trustee and Audit Committee Member	Trustee since 2006 and until the 2012 Annual Meeting of Shareholders or the special meeting in lieu thereof	Chairman and Chief Executive Officer, Dynapak International Technology Corp. since 2002; Chairman, Systems and Chips, Inc.; Director, Arima Group (technology)	Director, Far Eastern International Bank; Director and Chairman of Audit Committee, Taiwan Mobile Co.; Director and Audit Committee Chairman SMIC
Edward B. Collins 765 Market Street, Suite 31A San Francisco, California 94103 (66)	Trustee and Audit Committee Member	Trustee since 2000 and until the 2012 Annual Meeting of Shareholders or the special meeting in lieu thereof	Managing Director, China Vest Group (venture capital investment), since prior to 2004	Director, Bookham, Inc. since May 2008; Director, Medio Stream, Inc. since 2001; Chairman, California Bank of Commerce, since 2006; Partner McCutchen Doyle, Brown & Enovsen (law firm), 1987-95.
Frederick C. Copeland, Jr. 11 Deer Ridge Road Avon, Connecticut 06001 (67)	Trustee, Vice Chairman and Audit Committee Member	Trustee since May 2004 and until the 2011 Annual Meeting of Shareholders or the special meeting in lieu thereof; Vice Chairman of the Board since February 2006	Vice Chairman, Director, Chairman of the Executive Committee, Far East National Bank, since 2004; Principal, Deer Ridge Associates, LLC (financial consulting), since 2001-2006	Director, Mercantile Commercial Bank Holding, since 2007; Director, Mercantile Commercial Bank, since 2007; President, Chief Executive Officer and Chief Operating Officer, Aetna International (insurance), from 1995 to 2001; Executive Vice

Name, Address and Age	Position(s) held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Trustee
				President, Aetna, Inc. (insurance), from 1997 to 2001; Chairman, President and Chief Executive Officer, Fleet Bank, N.A., 1993-1995; President and Chief Executive Officer, Citibank Canada Ltd., 1987-1993; Taiwan Country Head, Citibank, 1983-1987
Pedro-Pablo Kuczynski Chequehuanla 967 San Isidro, Lima, Peru (70)	Trustee and Chairman of the Board	Trustee since 2007 and until the 2010 Annual Meeting of Shareholders or the special meeting in lieu thereof; and Chairman since August 2007	Senior Adviser and Partner, The Rohatyn Group (emerging markets manager), since 2007; Prime Minister of Peru from 2005-2006; Minister of Economy and Finance of Peru 2001-2002, 2004-2005; Partner and CEO, Latin America Enterprise Fund (private equity), 1995-2001.	Chairman and Director, Advanced Metallurgical Group (AMG, N.V.) since 2007; Director Ternium Inc., since 2007.
David N. Laux The Hampshire, Apt. 701 1101 N. Elm Street Greensboro, North Carolina 27401 (81)	Trustee	Trustee since 1992 and until the 2010 Annual Meeting of Shareholders or the special meeting in lieu thereof; Chairman from July 2004 until August 2007	Director, International Foundation, 2001-2007; Chairman, Great Dads (non-profit), 2004-2006; President, US-Taiwan Business Forum, from 2000 to 2005; Director, U.S.-Taiwan Business Council, 2000-present.	President, US-R.O.C (Taiwan) Business Council from 1990 to 2000; Chairman and Managing Director, American Institute in Taiwan, from 1987 to 1990; Director of Asian Affairs, National Security Council, The White House, 1982-1986.

Name, Address and Age	Position(s) held with the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Other Directorships Held by Trustee
Robert P. Parker 101 California Street Suite 2830 San Francisco, California 94111 (66)	Trustee and Audit Committee Member	Trustee since 1998 and until the 2008 Annual Meeting of Shareholders or the special meeting in lieu thereof; Chairman from February to July 2004	Chairman, Parker Price Venture Capital, Inc. (formerly known as Allegro Capital, Inc.), since prior to 2000	Director, NexFlash Technologies, Inc., 2001-2005 Partner, McCutchen, Doyle, Brown & Enersen (law firm), 1988-97.
Non-Trustee Officers				
Steven R. Champion 111 Gillett Street Hartford, Connecticut 06105 (63)	President, Chief Executive Officer and Portfolio Manager	Since February 2004	President, Nanking Road Capital Management LLC, since July 2007; President, Chief Executive Officer and Portfolio Manager of the Fund from February 2004 to October 2007; Executive Vice President, Bank of Hawaii, 2001-2003; Chief Investment Officer, Aetna International, from prior to 2000 to 2001	
Regina Foley 111 Gillett Street Hartford, Connecticut 06105 (45)	Secretary, Treasurer, Chief Financial Officer and Chief Compliance Officer	Secretary, Treasurer, Chief Financial Officer and Chief Compliance Officer since June 2009	Secretary, Treasurer, Chief Financial Officer and Chief Compliance Officer, Nanking Road Capital Management, since June 2009; Financial Manager, Pfizer, 2007-2009; Finance Manager, ING, January 2006 to November 2006; and Assistant Director, The Hartford Financial Services Group, 2002-2006	None

There are no other portfolios in the fund complex.

The following table provides information, as of September 30, 2009, except as noted, regarding the beneficial ownership of Shares by (i) each of the Fund s Trustees, (ii) each executive officer of the Fund and (iii) Trustees and executive officers of the Fund as a group.

Name	Amount of Beneficial Ownership	Percent of Fund	Dollar Range of Beneficial Ownership**
Steven R. Champion	20,500	*	Over $100,000
Frederick C. Copeland, Jr.	8,000	*	$50,001-$100,000
David N. Laux	6,000	*	$10,001-$50,000
Robert P. Parker	2,000	*	$10,001-$50,000
Edward B. Collins	3,000	*	$10,001-$50,000
Pedro-Pablo Kuczynski	2,300	*	$10,001-$50,000
Tsung-Ming Chung	0	N/A	None
Regina Foley	0	N/A	None
All Trustees and executive officers as a group	**41,800**	*	

* Less than 1%

** Based on the NAV of the Shares on September 30, 2009 of $6.55.

Board Structure

The Trustees of the Fund are divided into three classes, each having a term of three years, with the term of one class expiring each year.

Board and Committee Meetings

The Board of Trustees of the Fund held three meetings during the fiscal year ended December 31, 2008. During the fiscal year ended December 31, 2008, each Trustee attended at least 75% of the total of (i) all meetings of the Board of Trustees and (ii) all meetings of each committee of the Board on which he served.

Nominating Committee

The Board of Trustees has a Nominating Committee, the current members of which are Messrs. Robert P. Parker (Chair) and David N. Laux. The members of the Nominating Committee are not interested persons of the Trust, as defined in Section 2(a)(19) of the 1940 Act and also are independent Trustees of the Trust, as defined under the rules of the NYSE. The Nominating Committee has a charter, which is available on the Trust s website at www.taiwangreaterchinafund.com. The charter provides that the Nominating Committee will consider recommendations of Trustee nominees submitted by Shareholders. Any such recommendations should be sent to the Trust s Nominating Committee, c/o the Secretary of the Trust, Nanking Road Capital Management, LLC, 111 Gillett Street, Hartford, CT 06105. The charter also provides that the Nominating Committee will consider potential candidates who are personally known to members of the Nominating Committee, persons who are recommended to the Nominating Committee by other members of the Board and other persons known by Board members or persons identified by any search firm retained by the Nominating Committee. In considering whether to recommend that an individual be nominated as a Trustee, the Nominating Committee will take the following criteria, among others, into account: (i) the Board s size and composition; (ii) applicable listing standards and laws; (iii) an individual s expertise (especially with regard to matters relating to Taiwan, mainland China and public and private investment funds), experience and willingness to serve actively; (iv) whether an individual will enhance the functioning of the Board and the compatibility of his or her views concerning the manner in which the Trust should be governed with the Board s assessment of the interests of the Trust s shareholders; and (v) the number of other company boards of directors on which such individual serves. During the fiscal year ended December 31, 2008, the Nominating Committee did not retain any search firm or pay a fee to any third party to identify Trustee candidates. The Nominating Committee held one meeting during the fiscal year ended December 31, 2008. On January 13, 2009, the Nominating Committee met and recommended that Messrs. Edward B. Collins and Tsung-Ming Chung be nominated to stand for election at the Meeting.

Audit Committee

The Board of Trustees has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 32a-4 of the 1940 Act. The current members of the Audit Committee are Messrs. Edward B. Collins (Chair), Frederick C. Copeland, Jr., Robert P. Parker and Tsung-Ming Chung. The members of the Audit Committee are not interested persons of the Fund, as defined in Section 2(a)(19) of the 1940 Act, and also are independent Trustees of the Fund, as defined under the rules of the NYSE. The responsibilities of the Audit Committee include, among other things, review and selection of the independent registered public accounting firm of the Fund, review of the Fund s financial statements prior to their submission to the Board of Trustees and of other accounting matters of the Fund, and review of the administration of the Fund s Codes of Ethics and Whistleblower Policy. The Audit Committee held two meetings during the fiscal year ended December 31, 2008. The Audit Committee also met on February 17, 2009.

Trustee and Officer Compensation

The compensation received by each Trustee and officer of the Fund for the fiscal year ended December 31, 2008 is set forth below.

Name	Position	Total Compensation from the Fund Paid to Trustees and Officers(1)(2)
Non-Interested Trustees		
Edward B. Collins	Trustee	$ 21,000(2)
Frederick C. Copeland, Jr.	Trustee	$ 26,000(2)
David N. Laux	Trustee	$ 18,000(2)
Robert P. Parker	Trustee	$ 21,000(2)
Tsung-Ming Chung	Trustee	$ 18,000(2)
Pedro-Pablo Kuczynski	Trustee	$ 26,000(2)

(1) The Trustees and officers of the Fund do not receive any pension or retirement benefits from the Fund.

(2) Compensation consists of a $2,000 meeting fee for each Board of Trustees meeting or committee meeting attended in person, $1,000 meeting fee for each Board of Trustees meeting or committee meeting attended by telephone and an annual retainer of $12,000 ($20,000 for the Chairman and $17,000 for the Vice Chairman).

Several of the officers and Trustees of the Fund are neither citizens nor residents of the United States. There can be no assurance that the Fund s officers or Trustees will have any assets in the United States that could be attached in connection with any action, suit or proceeding to enforce the provisions of U.S. securities laws, and none of the Fund s officers or Trustees has appointed an agent for service of process in the United States in connection with any such action under U.S. securities laws. The Fund has been advised by Chen & Lin Attorneys-at-Law, its R.O.C. counsel, that R.O.C. courts will not enforce any final judgment against the Fund s Trustees or officers in respect of any legal suit or proceeding to enforce the provisions of U.S. securities laws in any court other than the R.O.C. courts, if any of the following situations shall apply to such final judgment (i) the court rendering judgment does not have jurisdiction over the subject matter pursuant to the R.O.C. laws, (ii) the judgment was rendered by default by the court, except where the summons or order necessary for the commencement of the action was timely and duly served on the said Trustee or officer within a reasonable period of time and within the jurisdiction of the court rendering the judgment according to the laws thereof, or the process was served on the said Trustee or officer with the judicial assistance of the R.O.C., (iii) the judgment is contrary to public order or good morals of the R.O.C. and (iv) the judgments of R.O.C. courts are not reciprocally recognized or enforceable in the court rendering the judgment.

Liability of Trustees

Subject to the provisions of the Fund s Declaration of Trust, the business of the Fund is managed by its Trustees, who have all the powers necessary or convenient to carry out such responsibilities.

The Trustees are subject to the duties and liabilities imposed by the 1940 Act, the Fund s Declaration of Trust, the By-Laws of the Fund and Massachusetts law. Although the Trustees act as principals rather than as agents for the Fund, the Trustees are not personally liable to third parties dealing with the Fund so long as their capacity as Trustees is properly disclosed.

The Declaration of Trust also contains provisions pursuant to which (i) each Trustee and officer of the Fund is indemnified against certain liabilities that might arise out of the operations of the Fund and (ii) certain liabilities of Trustees and officers to the Fund, or to any shareholder, Trustee, officer, employee or agent thereof, for any action or failure to act, are eliminated; *provided* that no Trustee or officer shall be protected against liabilities that result from such person s willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Shareholder Communications

Shareholders may send communications to the Fund s Board of Trustees. Shareholders should send communications intended for the Fund s Board of Trustees by addressing the communication directly to the Board of Trustees (or individual Board members) and/or otherwise clearly indicating in the salutation that the communication is for the Board of Trustees (or individual Board members) and by sending the communication to either the Fund s office or directly to such Board member (s) at the address specified for each Trustee above. Other shareholder communications received by the Fund not directly addressed and sent to the Board will be reviewed and generally responded to by management, and will be forwarded to the Board of Trustees only at Fund management s discretion based on the matters contained therein.

Investment Manager

The investment manager to the Fund is Nanking Road Capital Management, LLC (NRC or the Investment Manager), a limited liability company organized under the laws of the State of Connecticut, whose address is 111 Gillett Street, Hartford, Connecticut 06105.

The Fund was internally managed by employees of the Fund; however, at the Annual Meeting of Shareholders held on August 21, 2007, the shareholders of the Fund approved an investment advisory and management agreement with NRC, an investment advisory company formed by those employees. NRC commenced managing the Fund s assets on October 1, 2007.

Investment Advisory Agreement

Pursuant to an investment and management agreement (the Advisory Agreement), the Investment Manager is responsible, among other things, for investing and managing the assets of the Fund in accordance with the investment objective and policies of the Fund, as such investment objective and policies are amended from time to time by the Board (or with the concurrence of the Fund s shareholders, in each case in accordance with the requirements of the 1940 Act), and subject always to the restrictions of the Fund s Declaration of Trust and By-Laws, as amended or restated from time to time.

The Investment Manager, at the instruction of the Board of Trustees, will assist and make recommendations to the Fair Value Pricing Committee of the Trust with respect to the Board of Trustees duty to determine in good faith the fair values of the Fund s securities in the absence of readily available market quotations and in circumstances where certain events or circumstances would indicate the market quotation of a security is not reliable pursuant to the procedures and criteria set forth in the Fund s Valuation Procedures.

Under the Advisory Agreement, the Investment Manager will vote the Fund s proxies in accordance with the proxy voting policies, which may be amended from time to time by the Board and communicated to the Investment Manager. In addition, under the terms of the Advisory Agreement, the Investment Manager will provide the Fund with a Chief Executive Officer, Chief Financial Officer, and Chief Compliance Officer; subject to the request and approval of the Board.

Pursuant to the terms of the Advisory Agreement, the Investment Manager will make such reports to the Board as the Board may deem necessary or advisable and as may be required by rules and regulations under the 1940 Act and shall provide such other services and advice as the Board may reasonably request.

For services under the Advisory Agreement, the Fund pays the Investment Manager a fee at an annual rate of 1.25% of the NAV of the Fund s assets up to $150 million and 1% of the NAV in excess of $150 million.

A discussion regarding the Board of Trustees approval of the Advisory Agreement is available in the Fund s annual report to shareholders for the period ended December 31, 2008.

Portfolio Manager

Prior to October 1, 2007, Steven R. Champion, President and Chief Executive Officer of the Fund was employed as the portfolio manager of the Fund and therefore, was primarily responsible for the day-to-day management of the Fund s portfolio. He has been the Fund s portfolio manager from February 2004. Mr. Champion was Executive Vice President of the Bank of Hawaii from 2001 to 2003 and Chief Investment Officer of Aetna International from 1997 to 2001. Mr. Champion also previously served as the portfolio manager of The Taiwan (R.O.C) Fund, predecessor to the Fund, from 1987 to 1989, and President and portfolio manager of the Fund from 1989 to 1992. Other positions he has held include Vice Chairman of the Bank of San Francisco, Chief International Investment Officer at the Bank of America and Vice President and Country Manager in Taiwan for Continental Illinois National Bank.

Other Accounts Managed by the Portfolio Manager

As of December 31, 2008, Mr. Champion managed the Fund with approximately $49.7 million in assets under management. As of December 31, 2008, Mr. Champion did not manage any mutual funds or pooled investment vehicles.

Portfolio Manager Compensation

As of October 1, 2007, the Fund entered into an investment advisory agreement with NRC, whereby the Fund s management structure changed from an internally managed entity to an externally managed entity. Mr. Champion is the principal owner of NRC and controls its affairs. In that connection he determines the compensation to be paid to himself and other NRC employees out of NRC s investment advisory revenues, net of other expenses. If profits are available for distribution to NRC s owners after the payment of salary, bonus and other operating expenses, Mr. Champion is therefore the principal beneficiary of those profits. In determining compensation and bonuses to be paid to him and other NRC officers and employees, Mr. Champion expects to structure NRC s compensation program to attract and retain key personnel as well as to provide incentives for top quality performance. The factors that he expects to take into account in making such decisions include competence, diligence, creativity and dedication and his assessment of the level of importance of a person s performance as an employee or consultant to NRC s success as an enterprise. In assessing his own performance as portfolio manager, Mr. Champion expects to base his assessment on a variety of factors, the most important of which is the Fund s (and other clients , if any) investment performance in relation to various benchmarks. Mr. Champion anticipates that the relationship between salary and bonus payments to himself and other officers and employees of NRC, on the one hand, and the proportion of NRC s profits to which he will be entitled as a result of his ownership and profit interest in NRC, on the other hand, may vary from year to year, particularly if NRC acquires other investment management or advisory clients and if the proportion of NRC owned by Mr. Champion changes. In addition to a base salary, bonus and his profit interest, Mr. Champion is eligible for health insurance and deferred compensation benefits.

Prior to October 1, 2007, Mr. Champion received a salary pursuant to an employment agreement he entered into with the Fund. The salary was fixed each year and may have been adjusted from year to year based on the performance of the registrant and various other quantitative and qualitative factors, as determined by the Compensation Committee of the Board of Trustees. In addition, Mr. Champion was awarded a prorated bonus for the year ended as of December 31, 2007, which was paid to Mr. Champion in 2008.

Principal Shareholders

To the knowledge of the management of the Fund, the following persons beneficially owned more than 5% of the Fund s outstanding Shares as of October 29, 2009.

Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percentage of Fund
City of London Investment Group plc (CLIG) and City of London Investment Management Company Limited (CLIM) 10 Eastcheap London EC3M 1LX U.K.	3,255,290 Shares with sole voting power and sole dispositive power(1)	26.2%
Lazard Asset Management LLC (Lazard) 30 Rockefeller Plaza New York, NY 10112	1,697,769 Shares with sole voting power and sole dispositive power(2)	13.7%
Sarasin Investment Fund Ltd. 155 Bishopsgate London EC2M 3XY	1,049,000 Shares(3)	8.5%

(1) Based upon information provided by CLIG and CLIM in a Statement on Schedule 13F jointly filed on August 3, 2009 with respect to ownership as of June 30, 2009. Under the 1940 Act, CLIG and CLIM are presumed to control the Fund as a result of beneficially owning more than 25% of the Fund s outstanding shares.

(2) Based upon information provided by Lazard Asset Management LLC in a Statement on Schedule 13F filed on August 10, 2009 with respect to its ownership as of June 30, 2009, declaring that it held sole voting and sole dispositive power over its Shares.

(3) Based upon information disclosed on Bloomberg. This information reflects that Sarasin Emerging Sar Fund holds 495,299 Shares, and SaraPro Emerging Markets Fund holds 306,010 Shares. The Trust believes that Sarasin holds voting and shared dispositive power over all such Shares.

FOREIGN INVESTMENT REGULATIONS IN THE R.O.C.

General

Prior to 1988, non-R.O.C. citizens could not make portfolio investments in R.O.C. securities other than through an authorized securities investment trust enterprise. In July 1988, the R.O.C. FSC began to permit foreign individuals who held an R.O.C. alien resident certificate to invest in the units of domestic closed-end investment trust funds. At such time, the R.O.C. government also announced a new general policy of liberalizing restrictions on investment by foreigners in R.O.C. securities and began to develop guidelines for such liberalization. As part of this process, as noted above, the Remittance Regulations were amended in March 1989 to permit limited direct investment in listed equity securities of R.O.C. companies by foreign insurance companies with branches in Taiwan. The Remittance Regulations were further amended in December 1990, and at such time the Executive Yuan approved implementing guidelines pursuant to which, as of January 1, 1991, direct investment in R.O.C. securities was also permitted by certain qualified foreign institutional investors as designated by the Investment Commission. Under the system, there were a number of restrictive guidelines designed to protect the TSE and the local economy from foreign investment. This had the effect of limiting the ability of foreign investors to freely engage in the trading of securities in this market.

In September of 2003, in an effort to attract additional foreign investment to Taiwan s securities market, the Executive Yuan amended the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals (the Investment Regulations). The Investment Regulations abolished the designation of a Qualified Foreign Institutional Investor and the restrictions on foreign portfolio investors were revised.

Under the Investment Regulations, foreign investors are divided into two categories: foreign institutional investors (FINIs) and foreign individual investors (FIDIs). A FINI is an entity incorporated under the laws of a country other than the R.O.C. or a branch of a foreign entity established within the territory of the R.O.C. A FIDI is an overseas Chinese or foreign natural person. Individuals or entities classified as FINIs and FIDIs are subject to unique rules that depend on their specific classifications. While FIDIs are subject to a U.S.$5 million investment quota, FINIs are free of an upper limit on investment.

Each FINI who wishes to invest directly in the R.O.C. securities market is required to register with the TSE and obtain an investment identification number if the FINI is a non-resident and does not have sub-investment accounts in the R.O.C. Except for some restrictions imposed by specific laws and regulations, the individual and aggregate foreign ownership of the issued share capital in a TSE-listed company or a Gre-Tai Securities Market (GTSM) -listed company is not restricted. An R.O.C. custodian for a non-resident FINI is required to submit to the Central Bank of China (CBC) and the TSE a report of trading activity, inward and outward remittance of capital and status of assets under custody and other matters every month.

Each FIDI who wishes to invest directly in the R.O.C. securities market is also required to register with the TSE and obtain an investment identification number. Any non-resident FIDI who invests in the R.O.C. securities market is subject to the limitations on investment amount as jointly determined by the R.O.C. FSC and the CBC.

The Fund s investments in Taiwan will be made in its capacity as a FINI for the purposes of the R.O.C. Securities and Exchange Act and the Investment Regulations.

Foreign Ownership Limitations

Prior to December 2000, foreign ownership of the issued share capital in a TSE-listed company or a GTSM-listed company was limited to 50%. Since December 2000, the 50% limit has been lifted. Foreign investors can now hold such investments without any foreign ownership percentage limitations, unless a law has imposed restrictions otherwise.

Capital remitted into Taiwan under the foreign investment guidelines may be repatriated at any time without the approval of the R.O.C. FSC. Capital gains and income on investments may also be repatriated at any time.

Investment Scope for Foreign Investors

Foreign investors may invest in the following securities:

(i) public placements or private placements of shares, certificates of entitlement to new shares from convertible bonds and Taiwan Depository Receipts (TDRs) issued by TSE-listed, GTSM-listed or emerging-stock companies;

(ii) beneficiary certificates of securities investment trust funds;

(iii) government bonds, financial debentures, corporate bonds, convertible bonds and corporate bonds with warrants;

(iv) public placements or private placements of beneficiary certificates issued by trustee companies and public placements or private placements of asset-backed securities;

(v) warrants; and

(vi) other securities approved by the competent authorities of securities.

Foreign investors may allocate their funds duly and timely remitted into Taiwan into government bonds, time deposits, money market instruments, money market funds, equity derivatives that are traded on an organized exchange, OTC NT dollar interest rate derivatives and OTC structure products for the purpose of hedging. However, total investment in these assets should not exceed 30% of the inward remittances of principal.

Foreign Investment Approval

FINIs are required to submit a foreign investment approval application to the Investment Commission under the Ministry of Economic Affairs (MOEA) in order to obtain approval to invest in more than 10% of the shares of each R.O.C company in a single transaction. In addition to the general restrictions against direct investment by foreign investors in R.O.C. companies, foreign investors are currently prohibited from investing in certain prohibited industries in Taiwan under the Negative List. The industries on the Negative List include, among others, forestry and logging, chemical material and products manufacturing, machinery and equipment manufacturing and repairing, basic metal industries, land transportation, postal courier devices, financing and auxiliary financing, rental and leasing, radio and television broadcasting and recreational services. The Negative List also contains restricted industries which include, among others, agriculture and animal husbandry, fishing, manufacturing of food and beverage, tobacco, chemical materials and products, fabricated metal products, transportation equipment, electric, gas and water supply and telecommunications, etc. The prohibited industries on the Negative List are absolute in the absence of a specific exemption. For further information on prohibited and restricted industries, the Negative List can be viewed on the Investment Commission s website, http://www.moeaic.gov.tw/.

NET ASSET VALUE

In valuing the Fund s assets, securities for which market quotations are readily available are valued at the last sales price prior to the time of determination, or, if there was no sales price on such date, and if bid and asked quotations are available, securities are valued at the mean between the last current bid and asked prices. Shares that are traded over-the-counter, if bid and asked quotations are available, are valued at the mean between the current bid and asked prices or, if such quotations are not available, are valued as determined in good faith by the Trustees. In instances where the price determined above is deemed not to represent fair market value, the price will be determined in such manner as the Trustees may prescribe. Short-term investments having a maturity of 60 days or less are valued at cost, with accrued interest or discount earned included in interest receivable. Debt securities originally purchased with maturities in excess of 60 days, but which at the time of valuation have maturities of 60 days or less, are, if materially different from market value, valued by the use of amortized cost valuation for the 60 days prior to maturity, such amortization being based upon market or fair value of the securities on the 61^{st} day prior to maturity. All other securities and assets are valued as determined in good faith by the Trustees although the actual calculation may be done by others. Any assets or liabilities initially expressed in terms of NT Dollars are translated into U.S. Dollars.

DIVIDENDS, DISTRIBUTIONS, SHARE DISTRIBUTION PLAN AND SHARE PURCHASE PLAN

Dividends and Distributions

It is the Fund s policy to distribute, at least annually, all ordinary income and net capital gains calculated in accordance with U.S. federal income tax regulations to shareholders. All income distributions will be paid in cash or by check in U.S. Dollars mailed directly to the shareholders by the Plan Agent.

The Trustees also intend to distribute in cash (or newly issued Shares pursuant to the Fund s Share Distribution Plan), substantially all of the Fund s net realized capital gains (both short-term and long-term), as calculated for U.S. federal income tax purposes, after deducting any operating expenses not offset by dividend and interest income. Further, the Trustees intend to distribute, or to be deemed for the purposes of U.S. federal income taxation to distribute, at least annually such additional amounts, if any, as may be necessary to permit the Fund to continue to qualify for special tax treatment as a regulated investment company in the United States. In order to so qualify, the Fund must distribute annually at least 90% of its investment company taxable income, which includes not only interest and dividend income but also net short-term capital gains in excess of net long-term capital losses, each as calculated for U.S. federal income tax purposes, and certain foreign currency gains and losses. See Taxation U.S Federal Income Taxes.

Share Distribution Plan

Other than with respect to income distributions, shareholders who elect to participate in the Fund s Share Distribution Plan will receive either Shares newly issued by the Fund in lieu of a cash distribution (if the closing market price of the Shares on the distribution date is at or above the Fund s NAV per Share on such date) or Shares purchased on their behalf by the Fund (if the closing market price on the distribution date is below the Trust s NAV per Share). In the latter case, the Plan Agent, acting as agent for the participants, will buy Shares for the participants accounts in the open market, on the NYSE or elsewhere, on or shortly after the distribution date. The Fund will pay any brokerage commissions incurred in connection with such purchases. If the market price of a Share on the distribution date is at or above the Fund s NAV per Share on such date, the number of Shares to be issued by the Fund to each participating shareholder will be determined by dividing the amount of the cash distribution to which the electing shareholder would be entitled (net of any applicable withholding taxes) by the greater of the NAV per Share on such date and 95% of the market price of a Share on such date. Whole and fractional shares will be issued and held for the account of plan participants by the Plan Agent in either of the instances described above.

Any election to participate in the Share Distribution Plan must be made on a form of election that will be available from the Plan Agent at P.O. Box 922 Wall Street Station, New York, New York 10269-0560. Any election will apply to the electing shareholder s entire holding of Shares of the Fund. The election will apply to all distributions (other than dividends derived from the Trust s ordinary income) declared by the Trustees after the date on which the election is received unless the election is revoked by written notice to the Plan Agent.

In the case of shareholders such as banks, brokers or other nominees, that hold Shares for others who are the beneficial owners, the Plan Agent will administer the Share Distribution Plan on the basis of the number of Shares certified from time to time by the shareholder as representing the total amount registered in the shareholder s name and held for the account of beneficial owners who are participating in the Share Distribution Plan. There will be no charge to participants for receiving Shares under the Share Distribution Plan. The Fund will pay the fees of the Plan Agent.

The receipt of Shares in lieu of cash distributions of capital gains will not relieve participants of any U.S. federal income tax that may be payable on such distributions, including, in the case of foreign shareholders (as defined in Taxation U.S. Federal Income Taxes Foreign Shareholders), withholding taxes. The amount of the distributions for U.S. federal income tax purposes will equal the market value of the Shares on the date of distribution.

The Trustees may on any occasion determine that the right to receive distributions in Shares will not be made available to any shareholders with registered addresses in any country or territory outside the United States where in the absence of a registration statement or other special formalities the circulation of an offer of rights of election would or might be unlawful. The provisions of the Share Distribution Plan will be subject to any such determination by the Trustees.

Share Purchase Plan

Shareholders in the Fund have the option of making cash payments to the Plan Agent, semi-annually, in any amount from $500 to $5,000, for investment in the Trust s Shares. The Plan Agent will use all funds received from participants in the Share Purchase Plan to purchase Shares of the Fund in the open market on or about February 15 and August 15 of each year. Any voluntary cash payments received more than 30 business days prior to these dates or less than 10 business days prior to such dates will be returned by the Plan Agent, and interest will not be paid on any uninvested cash payments. To avoid unnecessary cash accumulations and to allow ample time for receipt and processing by the Plan Agent, participants will be required to send in voluntary cash payments to be received by the Plan Agent approximately ten days before February 15 or August 15, as the case may be. A participant may withdraw a voluntary cash payment by written notice if the notice is received by the Plan Agent not less than 48 hours before such payment is to be invested.

The Plan Agent will charge $1.00 for each purchase for a participant under the Share Purchase Plan plus a *pro rata* share of the brokerage commissions. Brokerage charges for purchasing small amounts of Shares for individual accounts through the Share Purchase Plan are expected to be less than the usual brokerage charges for such transactions because the Plan Agent will be purchasing Shares for all participants in blocks and prorating the lower commissions thus attainable.

Plan Accounts; Amendment and Termination

The Plan Agent will maintain all shareholder accounts in the Share Distribution and Share Purchase Plans and furnish written confirmations of all transactions in the accounts, including information needed by shareholders for personal and U.S. tax records. Shares in the account of each participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder s proxy will include those Shares purchased pursuant to the Share Distribution and Share Purchase Plans.

The Trustees reserve the right to amend or terminate the Share Distribution Plan or the Share Purchase Plan as applied to any distributions or voluntary cash payments made subsequent to notice of the change having been sent to all shareholders at least 90 days before the record date for such distribution or payment. The Plan Agent will also have the right, subject to the Trustees agreement, to amend or terminate the Share Distribution and Share Purchase Plans upon at least 90 days written notice to shareholders. All correspondence concerning the Share Distribution and Share Purchase Plans should be directed to the Plan Agent at P.O. Box 922 Wall Street Station, New York, New York 10269-0560.

ADMINISTRATION AND CUSTODIANS

Administration

Brown Brothers Harriman & Co. (BBH) provides administrative and accounting services for the Fund, including maintaining certain books and records of the Fund, and preparing certain reports and other documents required by U.S. federal and/or state laws and regulations. The Fund pays BBH a monthly fee for these services at an annual rate of 0.06% of the NAV of the Fund s assets up to $200 million, 0.05% of such NAV equal to or in excess of $200 million up to $400 million and 0.04% of such NAV equal to or in excess of $400 million. The total payment to BBH for administrative and custodial services is subject to a minimum annual fee of $200,000. Out-of-pocket expenses will be billed at the actual amount incurred at the time the good or service is purchased.

Custodian

BBH serves as custodian of the assets of the Fund. The Fund pays BBH a monthly fee for securities in the Taiwan market at an annual rate of 0.15% of the Fund s market value of Taiwan holdings up to $200 million, 0.13% of such Taiwan holdings equal to or in excess of $200 million up to $400 million and 0.11% of such Taiwan holdings equal to or in excess of $400 million. The Fund pays BBH a monthly fee for securities in the Hong Kong market at an annual rate of 0.10% of the Fund s market value of Hong Kong holdings. The total payment to BBH for administrative and custodial services is subject to a minimum annual fee of $200,000.

Transfer Agent

American Stock Transfer & Trust Company serves as the Fund s transfer agent and registrar.

Code of Ethics

Pursuant to Rule 17j-1 of the 1940 Act, the Board of Trustees adopted a Code of Ethics for the Fund and approved a Code of Ethics adopted by NRC (collectively, the Codes). The Codes establish policies and procedures for personal investing by employees and restrict certain transactions. Employees subject to the Codes may invest in securities for their personal investment accounts, including securities that may be purchased or held by the Fund.

The Codes may be viewed and copied at the Commission s Public Reference Room in Washington, D.C. Information about the Commission s Public Reference Room may be obtained by calling the Commission at (202) 551-8090. The Code also may be available on the EDGAR Database on the Commission s Website, http://www.sec.gov, or can be obtained, after paying a duplicating fee, by electronic request to publicinfo@sec.gov, or by writing to: Commission s Public Reference Section, 100 F Street, NE, Washington, D.C. 20549-0102. This reference to the website does not incorporate the contents of the Commission s website into this Prospectus.

Proxy Voting Procedures

The Fund s policy with regard to voting stocks held in its portfolio is to vote in accordance with the recommendations of Institutional Shareholder Services, Inc. (ISS) unless the Fund s portfolio manager recommends to the contrary, in which event the decision as to how to vote will be made by the Fund s Board of Trustees. ISS is a third-party provider of information on corporate proxy votes. ISS also makes recommendations as to whether it is in a shareholder s best interest to vote for or against particular matters that are put to a vote of shareholders, and they advise businesses on how to handle corporate governance issues. A summary of the voting policies followed by ISS is attached hereto as Appendix B. In addition, information regarding how the Fund voted proxies relating to its portfolio securities during the 12-month period ended June 30, 2007 is available on or through the Fund s website and on the Commission s website.

TAXATION

The following is a general summary under present law of the principal R.O.C tax consequences to a FINI, such as the Fund, and non-resident individual or a non-resident entity (which we refer to collectively as a non-R.O.C holder) of the ownership and disposition of the Shares. The investor should consult its own tax adviser for the tax consequence according to applicable R.O.C taxes for the Shares and the Fund.

Rights

The receipt and the exercise of the Rights should not be taxable for U.S. federal income tax purposes. In general, the tax basis of the Rights received should be determined by allocating the recipient s tax basis of the shares with respect to which the Rider was distributed between the Rights and the shares based on their respective fair market values immediately after the Rights are issued. However, if the Rights have a fair market value, at the time of the distribution, of less than 15% of the fair market value of the shares with respect to which the distribution is made, the Rights will have a basis of zero unless the recipient elects otherwise. Any such election must be made in respect of all Rights distributed to such recipient, in a timely filed U.S. federal income tax return for the year in which the recipient received Rights and once made, is irrevocable. If a holder of Common Shares receives Rights and allows such Rights to expire, any tax basis that was allocated to the Rights will be reallocated back to the shares.

Generally, a shareholder will have a tax basis in any shares acquired upon exercise of the Rights equal to the Subscription Price plus the tax basis in the Rights, if any. The holding period of the acquired shares will commence on the date the Right is exercised.

Upon the sale, exchange or other disposition of a Right, a shareholder generally will recognize capital gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other disposition and such shareholder s tax basis. Such gain or loss generally will be long-term capital gain or loss if the shareholder s holding period in the Rights exceeds one year. The deductibility of capital losses is subject to limitations.

R.O.C. Taxation of the Fund

Income Tax

Pursuant to legislation enacted in 1989, transactions in securities are not currently subject to any capital gains tax.

Drawing on powers provided by the Statute for Encouragement of Investment, which expired at the end of 1990, in 1983 the Ministry of Finance of the R.O.C. determined that the underlying assets of the Fund (now the assets of the Fund) would in all events be exempt from a then-applicable gains tax until December 31, 1990 but there can be no assurance that a similar exemption would be available to the Fund with respect to such assets if a capital gains tax were reimposed.

Under the Statute for Upgrading Industries, certain dividend income received by a non-resident profit-seeking enterprise, having been approved to make investment in the R.O.C. under applicable laws, such as the Fund, and distributed by a company located in the R.O.C. is subject to a 20% withholding tax and such enterprise is exempt from filing income tax return. Stock dividends representing a distribution of capital surplus or an assets revaluation surplus are not subject to this tax. However, stock dividends representing a distribution of earnings are subject to this tax, which is payable on receipt or, in certain cases, on disposal of the stock received as dividends. In the case of stock dividends which are so taxable, the Fund is obliged to pay an amount equal to 20% of the par value of the securities received. The Statute for Upgrading Industries was amended on January 27, 1995 to provide that companies in certain important technology industries may, at their discretion, apply for a five-year corporate tax holiday or an investment tax credit for their shareholders and the above tax benefit will expire on December 31, 2009. There can be no assurance that a similar tax benefit would be available to the Fund after 2009.

In addition to the dividend or distribution aforementioned, the following interest or income received by the Fund is also subject to 20 % withholding tax pursuant to the Standards of Withholding Rates for Various Incomes and the provisions provided in the Income Tax Law for filing income tax return shall not apply:

(1) Interests resulted from the Fund s New Taiwan Dollars account opened in Taiwan;

(2) Reasonable returns or other interest, if any, resulted from lending securities in R.O.C, and

(3) Any other R.O.C. source income.

Securities Transaction Tax

In general, on any sale of bonds, stocks, debentures and certain other securities, a securities transaction tax is payable by the seller at the rate of 0.3% of the transaction price for stocks and 0.1% of the transaction price for corporate bonds, debentures and other securities offered to the public with government approval.

Taxation of the Shares of the Fund

Income Tax

Dividends on Shares distributed to, and gains realized on sales of Shares effected by, non-resident foreigners wholly outside the R.O.C. are not subject to R.O.C. income tax.

Securities Transaction Tax

Sales of the Shares effected outside the R.O.C. are not subject to the R.O.C. securities transaction tax.

U.S. Federal Income Taxes

The Fund intends to qualify as a regulated investment company under the Code. To so qualify, the Fund must, among other things: (a) derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock or securities and gains from the sale or other disposition of foreign currencies, or other income (including gains from options, futures contracts and forward contracts) derived with respect to the Fund s business of investing in stocks, securities or currencies; and (b) diversify its holdings so that, at the end of each quarter, (i) at least 50% of the value of the Fund s total assets is represented by cash and cash items, U.S. Government securities, securities of other regulated investment companies, and other securities, with such other securities limited in respect of any one issuer to an amount not greater in value than 5% of the Fund s total assets and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the Fund s total assets is invested in the securities (other than U.S. Government securities or securities of other regulated investment companies) of any one issuer or of any two or more issuers that the Fund controls and that are determined to be engaged in the same business or similar or related businesses, or the securities of one or more qualified publicly traded partnerships. The Fund expects that all of its foreign currency gains will be directly related to its principal business of investing in stock and securities.

As a regulated investment company, the Fund will not be subject to U.S. federal income tax on its investment company taxable income that it distributes to its shareholders, *provided* that at least 90% of its investment company taxable income for the taxable year is distributed to its shareholders; however the Fund will be subject to tax on its income and gains, to the extent that it does not distribute to its shareholders an amount equal to such income and gains. In general, the Fund intends to borrow money or liquidate assets to make such distributions. Investment company taxable income includes dividends, interest and net short-term capital gains in excess of net long-term capital losses, but does not include net long-term capital gains in excess of net short-term capital losses. The Fund intends to distribute annually to its shareholders substantially all of its investment company taxable income. Dividend distributions of investment company taxable income are taxable to a U.S. shareholder as ordinary income to the extent of the Fund s current and accumulated earnings and profits, whether paid in cash or in shares. Since the Fund will not invest in the stock of domestic corporations, the corporate shareholders of the Fund will not be entitled to the 70% deduction for dividends received by corporations. If the Fund fails to satisfy the 90% distribution requirement or fails to qualify as a regulated investment company in any taxable year, it will be subject to tax in such year on all of its taxable income, whether or not the Fund makes any distributions to its shareholders.

As a regulated investment company, the Fund also will not be subject to U.S. federal income tax on its net long-term capital gains in excess of net short-term capital losses and capital loss carryovers from the prior eight years, if any, that it distributes to its shareholders. If the Fund retains for reinvestment or otherwise an amount of such net long-term capital gains, it will be subject to a tax of 35% of the amount retained. The Board of Trustees of the Fund will determine at least once a year whether to distribute any net long-term capital gains in excess of net short-term capital losses and capital loss carryovers from prior years. The Fund expects to designate amounts retained as undistributed capital gains in a notice to its shareholders who, if subject to U.S. federal income taxation on long-term capital gains, (a) will be required to include in income for U.S. federal income tax purposes, as long-term capital gains, their proportionate shares of the undistributed amount, and (b) will be entitled to credit against their U.S. federal income tax liabilities their proportionate shares of the tax paid by the Fund on the undistributed amount and to claim refunds to the extent that their credits exceed their liabilities. For U.S. federal income tax purposes, the basis of shares owned by a shareholder of the Fund will be increased by an amount equal to 65% of the amount of undistributed capital gains included in the shareholder s income. Distributions of net long-term capital gains, if any, by the Fund are taxable to its shareholders as long-term capital gains whether paid in cash or in shares and regardless of how long the shareholder has held the Fund s shares. Such distributions of net long-term capital gains are not eligible for the dividends received deduction. Under current U.S. law, the maximum tax rate on long-term capital gains available to non-corporate shareholders generally is 15%. Without future congressional action, the maximum tax rate on long-term capital gains will return to 20% in 2011. Long-term capital gains are taxable to corporations at 35%. Shareholders will be notified annually as to the U.S. federal income tax status of their dividends and distributions.

Shareholders receiving dividends or distributions in the form of additional shares pursuant to the Share Distribution Plan should be treated for U.S. federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the shareholders receiving cash dividends or distributions will receive, and should have a cost basis in the shares equal to such amount.

If the NAV of shares is reduced below a shareholder s cost as a result of a distribution by the Fund, the distribution will be taxable even though it, in effect, represents a return of invested capital. Investors considering buying shares just prior to a dividend or capital gain distribution payment date should be aware that, although the price of shares purchased at that time may reflect the amount of the forthcoming distribution, those who purchase just prior to the record date for a distribution will receive a distribution which will be taxable to them. The amount of capital gains realized and distributed (which from an investment standpoint may represent a partial return of capital rather than income) in any given year will be the result of action taken for the best investment of the principal of the Fund, and may therefore vary from year to year.

If the Fund is the holder of record of any stock on the record date for any dividends payable with respect to such stock, such dividends are included in the Fund s gross income not as of the date received but as of the later of (a) the date such stock became ex-dividend with respect to such dividends *(i.e.,* the date on which a buyer of the stock would not be entitled to receive the declared, but unpaid, dividends) or (b) the date the Fund acquired such stock. Accordingly, in order to satisfy its income distribution requirements, the Fund may be required to pay dividends based on anticipated earnings, and shareholders may receive dividends in an earlier year than would otherwise be the case.

Under the Code, the Fund may be subject to a 4% excise tax on a portion of its undistributed income. To avoid the tax, the Fund must distribute annually at least 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year and at least 98% of its capital gain net income for the 12-month period ending, as a general rule, on October 31 of the calendar year. For this purpose, any income or gain retained by the Fund that is subject to corporate income tax will be treated as having been distributed at year-end. In addition, the minimum amounts that must be distributed in any year to avoid the excise tax will be increased or decreased to reflect any under distribution or over distribution, as the case may be, in the previous year. For a distribution to qualify under the foregoing test, the distribution generally must be declared and paid during the year. Any dividend declared by the Fund in October, November or December of any year and payable to shareholders of record on a specified date in such a month shall be deemed to have been received by each shareholder on December 31 of such year and to have been paid by the Fund not later than December 31 of such year, *provided* that such dividend is actually paid by the Fund during January of the following year.

The Fund will maintain accounts and calculate income by reference to the U.S. Dollar. Furthermore, R.O.C. exchange control regulations may restrict the ability of the Fund to repatriate investment income or the proceeds of sales of securities. These restrictions and limitations may limit the Fund s ability to make sufficient distributions to satisfy the 90% distribution requirement and avoid the 4% excise tax.

The Fund s transactions in foreign currencies, forward contracts, options and futures contracts (including options and futures contracts on foreign currencies) and other certain transactions will be subject to special provisions of the Code that, among other things, may affect the character of gains and losses realized by the Fund *(i.e.,* may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund and defer Fund losses. These rules could therefore affect the character, amount and timing of distributions to shareholders. These provisions also (a) will require the Fund to mark-to-market certain types of the positions in its portfolio *(i.e.,* treat them as if they were closed out) and (b) may cause the Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the 90% and 98% distribution requirements for avoiding income and excise taxes. The Fund will monitor its transactions, will make the appropriate tax elections, and will make the appropriate entries in its books and records when it acquires any foreign currency, option, futures contract, forward contract, or hedged investment in order to mitigate the effect of these rules and prevent disqualification of the Fund as a regulated investment company.

For backup withholding purposes, the Fund may be required to withhold 28% of reportable payments (which may include dividends, capital gain distributions, and redemptions) to certain shareholders. A shareholder, however, may avoid becoming subject to this requirement by filing an appropriate form certifying under penalty of perjury that such shareholder s taxpayer identification number is correct and that it is not subject to backup withholding, or is exempt from backup withholding.

Upon the sale or exchange of its shares, a shareholder will realize a taxable gain or loss depending upon the amount realized and its basis in the shares. Such gain or loss will be treated as capital gain or loss if the shares are capital assets in the shareholder s hands, and will be long-term if the shareholder s holding period for the shares is more than 12 months and otherwise will be short-term. Any loss realized on a sale or exchange will be disallowed to the extent that the shares disposed of are replaced (including replacement through the reinvesting of dividends and capital gains distributions in the Fund) within a period of 61 days beginning 30 days before and ending 30 days after the disposition of the shares. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on the sale of Fund shares held by the shareholder for six months or less will be treated for federal income tax purposes as a long-term capital loss to the extent of any distributions of long-term capital gains received by the shareholder with respect to such shares.

An amount received by a shareholder from the Fund in exchange for shares of the Fund (pursuant to a repurchase of shares or a tender offer or otherwise) generally will be treated as a payment in exchange for the shares tendered, which may result in taxable gain or loss as described above. However, if the amount received by a shareholder exceeds the fair market value of the shares tendered, or if a shareholder does not tender all of the shares of the Fund owned or deemed to be owned by the shareholder, all or a portion of the amount received may be treated as a dividend taxable as ordinary income or as a return of capital. In addition, if a tender offer is made, any shareholders who do not tender their shares could be deemed, under certain circumstances, to have received a taxable distribution of shares of the Fund as a result of their increased proportionate interest in the Fund.

Foreign Taxes

As set forth above under R.O.C. Taxation, it is expected that distributions made to the Fund by R.O.C. issuers will be subject to a 20% R.O.C. withholding tax. So long as certain distribution requirements are satisfied and more than 50% of the value of the Fund s assets at the close of any taxable year consists of stocks or securities of foreign corporations, which is expected to be the case, the Fund may elect, for U.S. federal income tax purposes, to treat the 20% R.O.C. withholding tax as paid by its shareholders. The Fund expects to make this election. As a consequence, each shareholder will be required to include in its income an amount equal to its allocable share of the 20% R.O.C. withholding tax paid by the Fund to the R.O.C. government and the shareholders will be entitled, subject to certain limitations, to credit their portions of these amounts against their U.S. federal income tax due, if any, or to deduct their portions from their U.S. taxable income, if any. The amount of foreign taxes that may be credited against a shareholder s U.S. federal income tax liability will generally be limited, however, to the amount of

U.S. federal income tax imposed on the income subject to the foreign taxes. In addition, this limitation must be applied separately to certain categories of foreign source income one of which is foreign source passive income. For this purpose, foreign source passive income includes dividends, interest, capital gains and certain foreign currency gains. As a consequence, certain shareholders may not be able to claim a foreign tax credit for the full amount of their proportionate share of foreign taxes paid by the Fund. Each shareholder will be notified within 60 days after the close of the Fund s taxable year whether, pursuant to the election described above, the foreign taxes paid by the Fund will be treated as paid by its shareholders for that year and, if so, such notification will designate (i) such shareholder s portion of the foreign taxes paid to such country and (ii) the portion of the Fund s dividends and distributions that represents income derived from sources within such country.

Foreign Shareholders

Taxation of a shareholder who, as to the United States, is a nonresident alien individual, foreign trust or estate, foreign corporation or foreign partnership (a foreign shareholder) depends on whether the foreign shareholder s income from the Fund is effectively connected with a U.S. trade or business carried on by the foreign shareholder.

If the income from the Fund is not effectively connected with a U.S. trade or business carried on by the foreign shareholder, dividends of investment company taxable income will be subject to U.S. withholding tax of 30%, unless reduced pursuant to an applicable income tax treaty. The Fund is not required to withhold any amounts with respect to distributions to foreign shareholders with respect to taxable years of the Fund beginning before January 1, 2010 that are properly designated by the Fund as interest-related dividends or short-term capital gain dividends, provided that the income would not be subject to federal income tax if earned directly by the foreign shareholder. Distributions of net long-term capital gains and gains realized upon the sale of shares of the Fund by a foreign shareholder who is a nonresident alien individual ordinarily will be subject to U.S. federal income tax at a rate of 30% if such individual is physically present in the United States for more than 182 days during the taxable year and, in the case of gain realized upon the sale of Fund shares, if such gain is attributable to an office or fixed place of business in the United States maintained by such nonresident alien individual or such nonresident alien individual has a tax home in the United States and such gain is not attributable to an office or fixed place of business outside the United States. Furthermore, foreign shareholders, in effect, may, be subject to the 30% U.S. withholding tax (or lower treaty rate) on their income resulting from the Fund s election (described above) to pass through amounts of foreign taxes paid by the Fund, but may not be able to claim a credit or deduction with respect to the additional U.S. withholding tax attributable to such election.

If dividends or distributions from the Fund are effectively connected with a U.S. trade or business carried on by a foreign shareholder, dividends of investment company taxable income, distribution of net long-term capital gains and any gains realized upon the sale of shares of the Fund will be subject to U.S. federal income tax in the same manner and at the graduated income tax rates applicable to U.S. citizens or domestic corporations. If the income from the Fund is effectively connected with a U.S. trade or business carried on by a foreign shareholder that is a corporation, then such shareholder may also be subject to the 30% branch profits tax. Whether a foreign shareholder is engaged in trade or business in the United States is a factual question. With respect to securities trading activities, a foreign shareholder who is not a dealer in securities is not considered to be engaged in trade or business in the United States by virtue of his securities trading activities if certain conditions are met. Foreign shareholders should consult their tax advisers to determine whether they are engaged in trade or business in the United States and, if they are, whether the income or gain derived from the Shares is effectively connected therewith.

The tax consequences to a foreign shareholder entitled to claim the benefits of an applicable tax treaty may be different from those described above. Foreign shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Fund.

The U.S. Federal Income Tax discussion set forth above is a summary included for general information purposes only. In view of the individual nature of tax consequences, each shareholder is advised to consult his own tax adviser with respect to the specific tax consequences to him of participation in the fund, including the effect and applicability of state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

DESCRIPTION OF THE SHARES

General Description

The Fund was created in 1988 by the Declaration of Trust. The assets of a Massachusetts business trust are held and managed by trustees for the benefit of holders of shares of beneficial interest in the trust s assets. As a Massachusetts business trust, the Fund s operations are governed by its Declaration of Trust and By-Laws, as each may be amended from time to time, and by Massachusetts law.

Under the terms of the Declaration of Trust, the Trustees have full power and authority to issue an unlimited number of Shares or additional classes of other securities. The outstanding Shares are, and, when issued, the Shares to be sold pursuant to any offering will be, fully paid, non-assessable and subject to possible shareholder liabilities discussed under Shareholder Liability below. The Shares have no preference, preemptive, appraisal, conversion or exchange rights. Offerings of additional Shares or other securities, if made, will not require the approval of the existing shareholders. Any such additional offerings would also be subject to the requirements of the 1940 Act, including the requirement that new Shares may not be sold at a price below the then current NAV of the Shares (exclusive of any underwriting commission or discount) except in connection with an offering to existing shareholders or with the consent of the holders of a majority of the Shares.

In the event of liquidation of the Fund, each Share will be entitled to its proportion of the Fund s assets after the payment of debts and expenses.

Shareholder Dividend Rights

The shareholders have the right to receive dividends as and when declared. See also Share Distribution Plan and Share Purchase Plan.

Shareholder Voting Rights

The shareholders of the Fund have power to vote only pursuant to and to the extent provided for in the Declaration of Trust (1) for the election or removal of Trustees, (2) with respect to any investment advisory or management contract when and to the extent required by the 1940 Act, including any changes to the investment objective, investment restrictions and other fundamental investment policies of the Fund, (3) with respect to termination of the Fund, (4) with respect to amendments to the Declaration of Trust, (5) with respect to any merger, consolidation, conversion or sale of all or substantially all of the Fund s assets, (6) to the same extent as the shareholders of a Massachusetts business corporation as to whether a court action, proceeding or claim should be brought or maintained derivatively or as a class action on behalf of the Fund or its shareholders and (7) with respect to such additional matters, if any, relating to the Fund as may be required by applicable provisions of the Declaration of Trust or By-Laws of the Fund or applicable law or as the Trustees may consider necessary or desirable.

Pursuant to NYSE requirements, the Fund holds, and the shareholders are able to attend in person or by proxy, annual shareholders meetings.

The Trustees are divided into three classes, each having a term of three years. The term of one class expires each year. See Trustees and Officers.

Each Share of the Fund is entitled to one vote on any matter on which the shareholders are entitled to vote. There is no cumulative voting in the election of Trustees. Copies of the Declaration of Trust and By-Laws of the Fund are filed or incorporated by reference as exhibits to the registration statement of which this Prospectus forms a part.

Shareholder Liability

Under Massachusetts law, shareholders in certain circumstances, could be held personally liable for the obligations of the Fund. However, the Declaration contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the trustees. The Declaration further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund solely by reason of his or her being a shareholder. In addition, the Fund will assume the defense of any claim against a shareholder for personal liability at the request of the shareholder. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

Anti-Takeover Provisions

The Declaration of Trust includes provisions that are intended to limit the ability of others to acquire control of the Fund, to modify the structure of the Fund or to cause it to engage in certain transactions. These provisions, described below, also could have the effect of depriving shareholders of an opportunity to sell their Shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of the Fund in a tender offer or similar transaction. In the opinion of the Trustees, however, these provisions offer several possible advantages. They potentially require persons seeking control of the Fund to negotiate with its management regarding the price to be paid for the Shares required to obtain such control; they promote continuity and stability; and they enhance the Trust s ability to pursue long-term strategies that are consistent with its investment objective.

The Trustees are divided into three classes, each having a term of three years. The term of one class expires each year. See Trustees and Officers. This provision could delay the replacement of a majority of the Trustees. The affirmative vote of the holders of 66 2/3% or more of the outstanding Shares is required to authorize the removal of Trustees from office for cause at any meeting of shareholders.

The conversion of the Fund from a closed-end to an open-end fund also requires the affirmative vote of 66 2/3% of the outstanding Shares if the Trustees determine to submit such a matter to a shareholder vote (except where, as described in Possible Change to Open-End Investment Company below, the Trustees are required to submit the conversion proposal to the shareholders). In addition, the affirmative vote of the holders of 66 2/3% or more of the outstanding Shares is required to authorize transactions with any Principal Shareholder of the Fund, as defined below, unless such transaction is approved before such a person or entity becomes a Principal Shareholder or at the time of the transaction by two-thirds of the Continuing Trustees (as defined below) then in office, in which case only the shareholder vote (if any) otherwise required by the Declaration of Trust, the By-Laws or Massachusetts law would be required.

Principal Shareholder is defined as any person or entity that owns directly or indirectly more than 5% of the outstanding shares of the Fund. A Continuing Trustee, as defined in greater detail in the Declaration of Trust, in summary, is a Trustee who is not an affiliate or associate of a Principal Shareholder (as those terms are defined in the rules promulgated under the Exchange Act) and (1) who was a Trustee on May 19, 1989, (2) who was a Trustee immediately prior to the Principal Shareholder s becoming a Principal Shareholder or (3) who was elected or proposed for election for his initial term of office by two-thirds of the Continuing Trustees.

The following transactions with a Principal Shareholder require Shareholder approval: (A) the merger or consolidation of the Fund with or into a Principal Shareholder; (B) the issuance of any securities of the Fund for cash to a Principal Shareholder; (C) the sale, lease or exchange of all or any substantial part of the assets of the Fund, except assets having an aggregate fair market value of less than $ 1,000,000, aggregating, for the purposes of such computation, all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period, to a Principal Shareholder, or (D) the sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of a Principal Shareholder except assets having an aggregate fair market value of less than $1,000,000, aggregating for the purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period. In addition, any merger or consolidation of the Fund or sale, lease or exchange of all or substantially all of its assets requires the vote or consent of the Trustees and the consent of the holders of not less than a majority of the Shares outstanding and entitled to vote.

The affirmative vote or consent of holders of 66 2/3% or more of the outstanding Shares of the Fund is also required to amend the Declaration of Trust with regard to each of the foregoing provisions if the Trustees determine to submit such a matter to a shareholder vote. The 66 2/3% minimum voting provisions with respect to the transactions described above are more stringent than are required by the 1940 Act or Massachusetts law.

The anti-takeover provisions in the Declaration of Trust were not included in response to any efforts of which the Trustees were aware to obtain control of the Fund. The Trustees do not currently contemplate recommending the adoption of any further anti-takeover provisions or any other action designed to affect the ability of third parties to obtain control of the Fund. The Trustees have considered all of these provisions of the Declaration of Trust and have determined that such provisions are in the best interests of the shareholders.

Possible Change to Open-End Investment Company

If the Shares trade on the NYSE at an average discount to NAV of more than 10%, determined on the basis of the discount as of the end of the last trading day in each week, in any twelve-week period commencing after June 1, 1992, the Trustees are required to submit to the shareholders at the next succeeding annual meeting of shareholders a binding resolution, to the extent consistent with the 1940 Act, to convert the Fund into an open-end investment company, and the affirmative vote of the holders of a majority of the Fund s outstanding Shares will be required to adopt such resolution. This requirement became effective June 1, 1992 and has been triggered eleven times, first in 1995, in each of the years from 1997-2005, and again in 2007 and 2008. In addition, the Trustees may submit such a resolution to the shareholders at any time, but in such circumstances the affirmative vote of two-thirds of the Fund s outstanding Shares would be required for approval. The two-thirds affirmative vote requirement with respect to such a transaction is greater than that required by the 1940 Act. See Anti-Takeover Provisions above.

If the Fund were converted into an open-end investment company each Share could be presented to the Fund at a shareholder s option for redemption at its NAV per Share. In such event, the Fund could be required to liquidate portfolio securities to meet requests for redemption. The Shares could no longer be listed on the NYSE after the Trust s conversion into an open-end investment company.

Share Repurchases

In addition to the semi-annual repurchase offers made by the Fund as described herein under Semi-Annual Share Repurchases, the Fund has the power to repurchase Shares by tender offers or by open market purchases on a voluntary basis. The Board of Trustees has authorized the Fund to repurchase Fund Shares in one or more block transactions *provided* that no block exceeds 500,000 Shares on any day, no more than 1,000,000 Shares in total are repurchased in block transactions, and that such share repurchases are made on the NYSE and in compliance with the safe harbor provided by Rule 10b-18 under the Exchange Act. Such purchases have been and will be made only when Shares are trading on the NYSE at a price below their NAV. It is not clear what effect, if any, this repurchase program has had upon the market price of the Shares, and the Fund cannot predict the effect, if any, on the market price of the Shares of any repurchase of Shares made in the future while the Fund is a closed-end investment company, whether pursuant to the currently authorized repurchase program or otherwise. To the extent that any such repurchase results in an average discount from NAV of less than 10% during any 12-week period, the Trustees will not be required to submit to the shareholders a resolution to convert the Fund into an open-end investment company as described above. All purchases pursuant to the currently authorized repurchase program have been, and any repurchases in the future will be, made in accordance with applicable law. The Fund currently has one share repurchase program which commenced in November 2004 and permits the repurchase by the Fund of up to 10% of the outstanding Shares. The Fund has not repurchased any Shares under this program since November 2005.

SEMI-ANNUAL SHARE REPURCHASES

General

The Fund has adopted an interval fund structure pursuant to which it conducts semi-annual repurchase offers of its Shares. The percentage of outstanding Shares that the Fund can offer to repurchase in each repurchase offer will be established by the Fund s Board of Trustees shortly before the commencement of each offer, and will be between 5% and 25% of the Fund s outstanding Shares. If the repurchase offer is oversubscribed, the Fund may, but is not required to, repurchase up to an additional 2% of Shares outstanding. The Fund intends to fund repurchase offers by using cash on hand, and, to the extent necessary, liquidating portfolio securities, or by borrowing to finance the repurchases. The Fund intends to make repurchase offers in the second and fourth quarter of each year.

Repurchases of Shares by the Fund would decrease its total assets and accordingly may increase its expenses as a percentage of average net assets. Further, interest on any borrowings to finance any such share repurchase transactions would reduce the Fund s returns. See Taxation U.S. Federal Income Taxes for certain tax consequences of a repurchase of Shares by the Fund.

Fundamental Policy Regarding Annual Repurchase Offers

The Fund Trustees will make offers to repurchase its shares at semi-annual intervals pursuant to Rule 23c-3 under the 1940 Act, and the Fund s Board of Trustees may place such conditions and limitations on the repurchase offers as may be permitted under that rule. The deadline by which the Fund must receive repurchase requests submitted by shareholders in response to each repurchase offer (repurchase request deadline) will be approximately six months after the prior repurchase request deadline pursuant to a policy approved by the Board. The date on which the repurchase price for Shares is to be determined (the repurchase pricing date) shall occur no later than fourteen days after the repurchase request deadline (or the next business day, if the fourteenth day is not a business day). Repurchase offers may be suspended or postponed only under certain circumstances as provided for in Rule 23c-3 under the 1940 Act.

Semi-Annual Repurchase Offer Procedures

The Board of Trustees will, in the exercise of its duties and subject to applicable law, determine the number of Shares subject to a repurchase offer based upon such considerations as market demand and the Fund s NAV per share. If a repurchase offer is over-subscribed, the Fund may, but is not obligated to, either: (1) repurchase all additional shares tendered if the additional shares do not exceed 2% of the Fund s outstanding shares, or (2) purchase all shares tendered up to 2% of the Fund s outstanding shares on *a pro rata* basis. All shares tendered may be withdrawn at any time prior to the repurchase request deadline in accordance with certain procedures.

Repurchase prices will be set at a price equal to the NAV per share of the Fund as of a specified date that occurs after the repurchase request deadline. This price may be greater or less than the current market price of the Fund s shares. The Fund may charge a repurchase fee of up to 2% of the value of the shares that are repurchased. Payment for tendered shares will be distributed within one week after the repurchase pricing date. All repurchase offer materials will be mailed to shareholders of record before commencement of the repurchase offer. Shareholders whose shares will be held in the name of a broker, dealer, commercial bank, trust company or other nominee should contact such firm if they desire to tender their shares in a repurchase offer.

While the Fund intends to conduct repurchase offers for its common stock, there is no assurance that conducting repurchase offers will cause the shares to trade at or above NAV because the market price of the Fund s shares will be based on, among other things, the Fund s investment performance and investor perception of the Fund s overall attractiveness as an investment, as compared with alternative investments.

During repurchase offers, NAV per share is normally calculated as of the close of each business day on which either the TSE or NYSE is open for trading (generally, the NYSE closes at 4:00 p.m. Eastern time), on each business day during which the NYSE is open for trading. See Net Asset Value. Shareholders who wish to obtain the NAV per share during this period should contact the Fund or their financial adviser.

PORTFOLIO TRANSACTIONS AND BROKERAGE

In portfolio transactions involving equity securities the Fund places orders directly with brokers, except that the purchase of shares in rights offerings is made directly from the issuer. In portfolio transactions involving debt securities, the Fund may place orders directly with brokers, bills finance companies or other institutions or may make purchases directly from the issuer.

Since the inception of the Fund, it has been the policy of the Fund not to conduct more than 40% of the Fund s total annual brokerage business with any one broker. Subject to the foregoing policy, the factors considered by the Fund in placing orders with brokers include efficiency in completing securities transactions, financial condition, market reputation and research and information gathering ability.

R.O.C. regulations require, with limited exceptions, that all transactions in securities listed on TSE or traded on OTC market be effected through securities brokers on the TSE.

The aggregate brokerage commissions paid by the Fund for the years ended December 31, 2006, 2007 and 2008 were as follows:

Brokerage Commissions Paid For the Fiscal Year Ended		
December 31, 2006	**December 31, 2007**	**December 31, 2008**
$ 77,609	$ 84,898	$ 54,632.47

PLAN OF DISTRIBUTION

The Fund may sell Shares in any of three ways (or in any combination): (a) through underwriters or dealers; (b) directly to a limited number of purchasers or to a single purchaser or to existing shareholders in a rights offering; or (c) through agents. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the Shares will also be named in the applicable prospectus supplement. The Shares may be sold at-the-market to or through a market maker or into an existing trading market for the securities, on an exchange or otherwise. The prospectus supplement will set forth the terms of the offering of such securities, including:

- the name or names of any underwriters, dealers or agents and the amounts of Shares underwritten or purchased by each of them;
- the offering price of the Shares and the proceeds to us and any discounts, commissions or concessions allowed or re-allowed or paid to dealers; and
- any securities exchanges on which the Shares may be listed.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase the Shares from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the securities not, at the time of delivery, be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

Any offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any Shares, the Shares will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Shares may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters obligations to purchase the Shares will be subject to certain conditions precedent.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority (FINRA) or independent broker-dealer will not exceed 5%. In connection with any rights offering to our shareholders, we may also enter into a standby underwriting arrangement with one or more underwriters pursuant to which the underwriter(s) will purchase our common stock remaining unsubscribed for after the rights offering.

The Fund may sell the Shares through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the Shares and any commissions the Fund will pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

The Fund may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the Shares from the Fund at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions the Fund will pay for soliciting these contracts.

Agents, dealers and underwriters may be entitled to indemnification by us, to the extent permitted by the 1940 Act and the rules and regulations thereunder, against certain civil liabilities, including liabilities under the Securities Act or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents, dealers and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

Any of the Fund s Shares sold pursuant to a prospectus supplement will be listed on the NYSE, or another exchange on which the Fund s Shares are traded.

In order to comply with the securities laws of certain states, if applicable, the Shares offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the Shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirements is available and is complied with.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this Prospectus will be passed upon for us by Clifford Chance US LLP, 31 West 52nd Street, New York, NY, 10019 and Bingham McCutchen LLP, 150 Federal Street, Boston, MA 02110, as special Massachusetts counsel.

EXPERTS

The financial statements of the Fund as of December 31, 2008 and for the fiscal year then ended have been incorporated by reference herein in reliance upon the report of KPMG LLP, the independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

FINANCIAL STATEMENTS

The Fund s annual report for the fiscal year ended December 31, 2008, which includes the Fund s financial statements for that fiscal year, and the Fund s semi-annual report for the period ended June 30, 2009, are incorporated herein by reference with respect to all information other than the information set forth in the President s letter included therein. The Fund will furnish, without charge, a copy of its annual and semi-annual reports, upon request by writing to The Taiwan Greater China Fund, c/o Brown Brothers Harriman & Co., P.O. Box 962047, Boston, MA 02196-2047, ATTN: Investor Services Counsel, Fund Administration, or by calling (800) 343-9567.

ADDITIONAL INFORMATION

The Fund has filed with the Securities and Exchange Commission, 100 F. Street, N.E., Washington, D.C. 20549, a Registration Statement on Form N-2, with respect to the Shares offered hereby. Further information concerning the Shares and the Fund may be found in the Registration Statement, of which this Prospectus constitutes a part. A copy of the Registration Statement may be inspected without charge at the Commission s office in Washington, D.C. and copies of all or any part thereof may be obtained from such office after payment of the fees prescribed by the Commission.

The Fund is subject to the requirements of the Securities Exchange Act of 1934 and the 1940 Act and, in accordance therewith, is required to file reports and other information with the Commission. Any such reports and other information, including the Fund s Code of Ethics, can be inspected and copied at the public reference facilities of the Commission at 100 F Street, N.E., Washington, D.C. 20549 and at the following regional offices of the Commission: Los Angeles Regional Office, at 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036; and Chicago Regional Office, at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. The Commission maintains a website at http://www.sec.gov containing reports and information statements and other information regarding registrants, including the Fund, that file electronically with the Commission. Reports, proxy statements and other information concerning the Fund can also be inspected at the offices of the NYSE Euronext, 11 Wall Street, New York, New York 10005. The books and records of the Fund will be maintained at the Fund s principal address in the United States and will be subject to inspection by the Commission.

This Prospectus does not contain all of the information set forth in the Registration Statement, including any amendments, exhibits and schedules thereto. Additional information regarding the Fund is contained in the Registration Statement on Form N-2, including amendments, exhibits and schedules thereto, filed by the Fund with the Commission in Washington, D.C. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

APPENDIX A

THE REPUBLIC OF CHINA

The information set forth in this Appendix A has been extracted from various government, multinational monetary and stock exchanges publications. The Fund and its Board of Trustees make no representation as to the accuracy of the information nor has the Fund or its Board of Trustees attempted to verify the statistical information presented in this Appendix A. Furthermore, no representation is made that any correlation exists between the Republic of China or its economy in general and the performance of the Fund.

General Information

The principal territory under the effective control of the R.O.C. is the island of Taiwan, which is located in the East China Sea approximately 100 miles (160 kilometers) east of Fukien Province on the Chinese mainland at its closest point. In addition to Taiwan, there are 86 offshore islands currently under R.O.C. control, including the Penghu Archipelago (or the Pescadores), Kinmen (or Quemoy) and Matsu. Combining Taiwan and the outlying islands, the total land area under the effective control of the R.O.C. is approximately 13,892 square miles (35,980 square kilometers).

Taiwan s total population as of June 2009 is estimated to be 23,063,027 million. The population density in the R.O.C. is among the highest in the world. The largest city is Taipei, in the north of Taiwan, with an estimated population of 2,619,920 million as of March 2009. Mandarin Chinese is the official language of the R.O.C. while the Taiwanese (Min-nan) and Hakka dialects of Chinese are also widely spoken.

In Taiwan, nine years of public education is compulsory for children and adult literacy is estimated at over 96%.

Political History

The Chinese Revolution of 1911 resulted in the overthrow of the Ching Dynasty and the establishment of the R.O.C. In October 1945, upon the defeat of Japan in World War II, the R.O.C. reasserted control over Taiwan, which had been ceded to Japan at the end of the Sino-Japanese War of 1894-95. In December 1949, following a period of protracted civil war with Communist forces, the R.O.C. government seat was removed from mainland China to Taiwan. In October 1949, the People s Republic of China was founded on the mainland by the communists. In December 1949, a provisional R.O.C. capital in Taipei, Taiwan was established.

Until 1986, Taiwan s political system was effectively controlled by one party, the Kuomintang (KMT). After 1986, the KMT s hold on power was challenged by the emergence of competing political parties. Despite the official ban on forming political parties, Taiwan s first new political party, the Democratic Progressive Party (DPP) was formed without intervention by Taiwan authorities. In 1987 the prohibition on organizing new political parties was lifted and in 1989 the Civic Organization Law was passed allowing for the formation of new political parties, thereby legalizing the DPP. President Lee Teng-hui was the first native-born Taiwanese to hold either the office of President or Chairman of the KMT and, in 1996, he became the first president to be elected by Taiwanese voters.

In March 2000, DPP candidate Chen Shui-bian became the first opposition party candidate to win the presidency. His election resulted in the first-ever transition of the presidential office from one political party to another, validating Taiwan s democratic political system. President Chen was re-elected to a second term in the 2004 election by 50.1% of the popular vote. Following this DPP national victory, the KMT started showing strength in the local elections, and won a majority of the city mayor and county magistrate races, including the mayoral election in Taipei City. In the January 2008 legislative elections, the KMT, who favored closer relations with China, won 81 of the 113 seats against the DPP s 27 seats. This was followed by a victory in the R.O.C. presidential election on March 22, 2008 by the KMT candidate Ma Ying-jeou, who won with 58% of the vote.

The Government of the R.O.C.

The R.O.C. s government exercises control over Taiwan. The R.O.C. government is divided into five administrative branches (Yuan): Legislative, Executive, Control, Judicial and Examination. Additionally, the R.O.C. government is characterized by the division into central, provincial, municipal and county levels, each with defined powers.

The President is both leader of Taiwan and Commander-in-Chief of its armed forces. The President appoints the President of the Executive Yuan. The President of the Executive Yuan and the cabinet members are responsible for government policy and administration.

The Legislative Yuan is the R.O.C s sitting legislative body. In 2005, a restructuring of the Legislative Yuan reduced the number of seats from 225 to 113 and changed the election system from multi-seat districts to a mixed system of 73 single-seat election districts, 6 seats reserved for aborigines and 34 at-large seats that are elected proportionally.

The Control Yuan is responsible for auditing government accounts and investigating and impeaching corrupt government officials. The Examination Yuan is responsible for examination-related matters of the government and legal matters relating to pay scales and other employment matters for civil servants.

The Judicial Yuan is the highest judicial organ of the R.O.C. Its chief powers are to adjudicate civil, criminal, and administrative cases, cases concerning disciplinary sanctions on public functionaries and cases concerning the dissolution of political parties violating the constitution. The subordinate units of the Judicial Yuan are the Supreme Court, high courts, district courts, Supreme Administrative Court, high administrative courts, Commission on the Disciplinary Sanctions of Functionaries and Judicial Personnel Study Center. Additionally, the Judicial Yuan includes a 15-member Council of Grand Justices which has the exclusive power to interpret the constitution and resolve conflicting interpretations of the laws by the courts.

Political Parties and Political Activity

In addition to the KMT, there are three other major political parties. The DPP s platform includes outspoken positions on political issues including the view that Taiwan is an entity separate from mainland China. The KMT s position is that Taiwan and the mainland, although divided, are both part of one China.

The People First Party (PFP) was formed in March 2000. The PFP and KMT subsequently formed the Pan-Blue coalition to oppose the DPP government. In 2001, former KMT President Lee Teng-hui was expelled from the KMT and created his own party, Taiwan Solidarity Union (TSU). The TSU allied with the DPP to form the Pan-Green coalition, which favors Taiwan independence over Chinese unification.

External Relations

The R.O.C. was a signatory of the United Nations Charter in 1945, but lost its right to representation in that body in 1971 when the P.R.C. was recognized as the sole representative of China. Taiwan s diplomatic position has continued to erode and many countries have changed their official recognition from Taipei to Beijing. As of spring 2007, the number of countries that maintain formal diplomatic relations with the R.O.C. currently stands at 23. Taiwan has developed informal ties with most countries to offset its diplomatic isolation and to expand economic relations. Many nations have set up unofficial organizations to carry out commercial and other relations with Taiwan. In addition, with official overseas missions and unofficial representative and/or trade offices, Taiwan is represented in 122 countries.

Taiwan continues to lobby for admission into the United Nations and other international organizations, such as the World Health Organization (W.H.O.). The P.R.C has regularly opposed membership because the P.R.C considers Taiwan to be a province of China and not a separate sovereign state. But with the improvement of cross-strait relations after the election of Ma Ying-jeou, China recently agreed to allow Taiwan observer status at the W.H.O under the title of Chinese Taipei.

The United States (U.S.) formally recognized the P.R.C. as the sole government of China on January 1, 1979 and simultaneously severed formal diplomatic relations with the R.O.C. In April 1979, however, the U.S. Congress enacted the Taiwan Relations Act to establish a new framework for bilateral relations between the United States and Taiwan. The Taiwan Relations Act authorized the establishment of the American Institute in Taiwan, which assumed most of the functions previously performed by the U.S. Embassy and Consulate. The Institute has an office in Taipei and a branch office in Kaohsiung. In February 1979 the R.O.C. established the Taipei Economic and Cultural Office (formerly the Coordination Council for North American Affairs), which is charged with performing similar functions in its offices in the United States.

The Taiwan Relations Act approved the continuation of all non-military treaties and international agreements between the United States and the R.O.C. that were in effect on December 31, 1978. Despite the absence of diplomatic relations, the Taiwan Relations Act provides, among other things, that U.S. laws with respect to Taiwan should continue to be applied in the same manner as such laws were applied prior to January 1, 1979; that Taiwan should continue to be treated as a foreign state or government for the purposes of U.S. law; and that contractual and property rights acquired by, or with respect to, Taiwan should not be affected by the withdrawal of formal diplomatic recognition of the R.O.C.

Trade and other economic relations between the United States and the R.O.C. have not been adversely affected by the change in diplomatic relations, as the United States has remained one of the R.O.C. s largest trading partners and the source of considerable direct foreign investment in the country.

Relations with the P.R.C.

The eight years of President Chen Shui-bian s DPP administration heightened tensions between the P.R.C. and Taiwan. Despite growing economic relations with the mainland, President Chen had run on a platform of Taiwan independence. The Taiwan government during this period made numerous moves to assert its sovereignty, from renaming government companies to eliminate China in their names, to changing the name of the Chiang Kai-shek Memorial to the National Taiwan Democracy Memorial, to applying 12 times to join the United Nations as a separate state. The announced policy of the P.R.C. toward Taiwan is that of One China with a peaceful reunification with Taiwan but only under the aegis of the P.R.C. The DPP s stance ran directly counter to that and President Chen s actions and rhetoric made China extremely nervous. The P.R.C. government increased their military presence along the Taiwan Strait and in March 2005, passed an Anti-Secession Law which authorized non-peaceful means and other necessary measures should Taiwan move to gain formal independence from the P.R.C.

But the Taiwan electorate grew disillusioned with the DPP, primarily due to the country s lackluster economy and a view that Taiwan would benefit with closer economic relations with China, as the economic powerhouse of the region. By 2008, Taiwan had over a million citizens living and working in China but the poor political environment between Taiwan and the P.R.C. was still an impediment to Taiwan in fully taking advantage of the Chinese economy. The KMT and Ma Ying-jeou promised to develop stronger economic relations with the P.R.C. while easing cross-strait tensions. Within two months of taking office in May 2008, Ma Ying-jeou began to deliver on his promises. On July 4, 2008, Taiwan and the P.R.C. inaugurated 36 direct round trip weekly chartered flights with six China-based and five Taiwan-based airlines. At the same time, Taiwan opened up to initially allow 3,000 Chinese tourists per day to enter Taiwan. Within a year from the first direct flights, service expanded to daily scheduled flights and over 373,000 P.R.C. tourists visited Taiwan. Taiwan and the P.R.C. have also established direct cargo shipping routes and flights, particularly benefiting the Taiwan businesses operating in China.

A major advance in cross-strait relations occurred at the end of April 2009 when it was announced that Taiwan would be opening up for investment by Chinese companies in certain industries, with the new regulations officially implemented at the end of June. Taiwan had already loosened restrictions for Taiwan companies investing in the P.R.C., another of Ma Ying-jeou s campaign promises. Currently, negotiations are underway to establish a regulatory framework for the financial industry which would open up cross-strait banking, insurance and security company investment. Additionally, Taiwan is hoping to be able to enter into an economic cooperation framework agreement during 2010 which would reduce tariffs on Taiwan exports into China and put Taiwan on similar ground to ASEAN and Japan which are in the process of finalizing a tri-lateral economic agreement.

While the cross-strait economic relationship between Taiwan and the P.R.C. has improved greatly in the last 18 months, politically the relationship is still fragile. It will not be simple to find a political accommodation which will meet the goals of both sides and progress toward that will be slow. Therefore from a geopolitical point of view, the Taiwan Strait still remains a potential flash point until some form of political reconciliation is found.

The R.O.C. Economy

Economic Policy

With the establishment of the R.O.C. government seat on Taiwan in 1949, an extensive program of economic reconstruction was launched. Post-war reconstruction was substantially aided by the United States. Beginning in 1953 the R.O.C. government instituted a series of economic plans which have provided a framework for government policies and have helped to adapt Taiwan s economy to changes in the domestic and international economic environment. With an average annual growth of 8% from 1951 to 2007, Taiwan has transformed itself from a recipient of U.S. aid in the 1950 s and early 1960 s to an aid donor and a major foreign investor.

Taiwan is now a creditor economy, holding the world s third largest stock of foreign exchange reserves estimated at $332 billion as of September 2009. Taiwan achieved its growth by initially encouraging foreign investment to create an export economy that focused on labor-intensive products such as toys, shoes and electronic components. By the 1980 s Taiwan shifted its focus toward increasingly sophisticated, capital-intensive and technology-intensive products, still with an emphasis on exports. The two major global semiconductor foundries are Taiwanese and Taiwan companies which are the world s largest producers of computers. Exports constitute over 70% of the R.O.C s gross domestic product. The island runs a trade surplus with Taiwan s foreign reserves being the 4th largest in the world after China, Japan and Russia. The composition of its export partners, however, has shifted over time. Up until 2003, the U.S. was the main export destination for Taiwan products but now mainland China has overtaken the U.S. and in 2008 represented 26% of exports versus the U.S s 12%. However, much of Taiwan s exports to China are to its own factories in China, which then are global exporters to the U.S., Europe and increasingly to developing Asia. In 2008, China replaced the U.S. as Taiwan s major import partner and China is the main destination for Taiwan s foreign direct investment, with investments of over US$150 billion.

After many years of sustained economic growth, full employment and low inflation, in 2001, the country suffered its first recession since 1952 due to the collapse of the high tech bubble in the United States. The economy began to recover in 2002, but the outbreak of severe acute respiratory syndrome (SARS) slowed growth to 3.5% in 2003. The world economic upturn drove growth in 2004 to 6.21%. However, slower world growth in 2005, higher energy prices and interest rates, and excess inventory dragged 2005 growth to 4.2%. Continued expansion of exports sustained Taiwan s economic growth at 4.8 in 2006 and pushed up Taiwan s economic growth to 5.7% in 2007.

Recent Economic Developments

Like the rest of the world, the financial market collapse and the following global recession had a major impact on Taiwan. Exports fell over 40% year on year in late 2008 and early 2009. Companies reacted by laying off workers and slashing inventories. Real GNP growth in the first half of 2008 was 4.9% over the same period in 2007, but in the second half of the year, real GNP fell by 4.7%. In the first quarter of 2009, GNP appeared to hit bottom, declining 10.3% as the second quarter improved to a negative 7.4%. The government is estimating that 2009 real GNP growth will be negative 4.0%.

Like many other countries, Taiwan reacted to the global crisis by enacting a number of measures targeted at boosting the economy and strengthening the financial system. The Central Bank began cutting interest rates in September 2008 and lowered them six times from 3.625% to 1.5%, the latest move in January 2009. A US$28 billion stimulus package was implemented which will spend US$15 billion on infrastructure over four years as well as US$2.5 billion on shopping vouchers which were distributed prior to the Chinese New Year in early 2009. The stimulus packages also focuses on attracting investment through tax and land purchase subsidies, boosting exports through export financing, credit guarantees for small and medium businesses and targeted assistance for key industries. President Ma s election proposal for 12 major domestic infrastructure projects implemented through public-private partnerships remains on the drawing board as well. Opening up Taiwan to investment from China is also expected to boost the domestic economy.

Taiwan is benefiting as well from China s massive stimulus policies. China enacted a US$586 billion program over two years directed at major projects, including housing, rural infrastructure, environmental protection and technological innovation. But as importantly, the P.R.C. government also earmarked funds to offer a 13% subsidy for the purchase of appliances, LCD televisions and cell phones. The subsidy was initially targeted to boost consumption in rural areas but then was extended to urban areas as well. Because of Taiwan s position in the electronics industry, the subsidy program led to most electronics manufacturers bringing back their laid-off workforce in order to re-stock depleted inventories. Exports to China in the month of September 2009 were actually up 2.1% year on year, even though total exports were still down 12.7% year on year.

Gross National Product.

The following table sets forth the R.O.C. s GNP since 1998 with annual percentage changes of GNP stated in current and constant price terms:

Gross National Product, 1998 2008
(Current Prices: NT$ Billion)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	9,307	9,731	10,172	10,054	10,536	10,848	11,438	11,746	12,229	12,969	12,673
Private Consumptions	5,437	5,757	6,087	6,129	6,285	6,353	6,719	7,023	7,183	7,433	7,597
Government Consumption	1,401	1,363	1,392	1,404	1,431	1,459	1,465	1,498	1,505	1,529	1,559
Fixed Capital Formation	2,185	2,229	2,394	1,910	1,911	1,958	2,420	2,438	2,531	2,668	2,545
Increase (Decrease) in inventory	120	49	(60)	(99)	(62)	(22)	87	11	31	50	73
Exports of Goods and Services	4,359	4,562	5,392	4,963	5,443	5,999	6,978	7,358	8,304	9,284	9,179
Less: Imports of Goods and Services	(4,264)	(4,320)	(5,173)	(4,445)	(4,715)	(5,228)	(6,603)	(6,873)	(7,633)	(8,338)	(8,612)
Expenditures on Gross Domestic Product	9,238	9,640	10,032	9,862	10,293	10,519	11,066	11,455	11,916	12,636	12,341
Net Factor Income (Loss) from Rest of World	69	91	140	192	243	329	372	291	313	333	332
Annual Growth of GNP at Current Price, %	7.0	4.6	4.5	(1.2)	4.8	3.0	5.4	2.7	4.1	6.0	(2.3)
Real GNP Growth, %	4.2	5.9	5.9	(1.6)	5.1	4.2	6.3	3.3	4.8	5.7	0.0

Source: Quarterly National Economic Trends, Aug 2009

Composition of gross national product. As the following table indicates, Taiwan s GNP at current prices is made up principally of exports and private consumption.

Composition of Gross National Product, 1998 2008
(Percentage Shares at Current Prices)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Private Consumptions	58.42	59.16	59.84	60.96	59.65	58.56	58.74	59.79	58.70	57.39	59.95
Government Consumption	15.05	14.01	13.68	13.96	13.58	13.45	12.81	12.75	12.31	11.79	12.30
Fixed Capital Formation	23.48	22.91	23.54	19.00	18.14	18.05	21.16	20.76	20.70	20.57	20.08
Increase (Decrease) in inventory	1.29	0.50	(0.59)	(0.98)	(0.59)	(0.20)	0.76	0.09	0.25	0.39	0.58
Exports	46.84	46.88	53.01	49.36	51.66	55.30	61.01	62.64	67.90	71.59	72.43
Imports	(45.81)	(44.39)	(50.86)	(44.21)	(44.75)	(48.19)	(57.73)	(58.51)	(62.42)	(64.29)	(67.96)
Net Factor Income (Loss) from Rest of World	0.74	0.94	1.38	1.91	2.31	3.03	3.25	2.48	2.56	2.57	2.62
Exports Less Imports	1.02	2.49	2.15	5.15	6.91	7.11	3.28	4.13	5.49	7.29	4.47

Source: Quarterly National Economic Trends, Aug 2009

Gross Domestic Product

Gross Domestic Product by Economic Activity
(At Current Prices; NT$ billions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture	218	235	199	183	179	175	181	190	193	191	208
Construction	352	325	299	252	235	216	212	228	263	284	287
Electricity/Gas/Water	193	197	195	195	199	200	178	177	174	140	69

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Finance/Insurance/ Leasing	1,712	1,793	1,865	1,871	1,925	1,987	2,066	2,120	2,169	2,298	2,299
Manufacturing	2,293	2,316	2,384	2,241	2,437	2,492	2,624	2,658	2,746	3,034	2,683
Mining	47	46	39	36	40	33	37	35	38	52	52
Retailer/Hotel/ Food & Beverage	1,557	1,696	1,840	1,803	1,873	1,919	2,112	2,275	2,438	2,606	2,646
Transport/Storage/ Communication	579	619	635	636	658	654	697	705	710	736	721
Other	875	965	1,054	1,121	1,172	1,205	1,266	1,328	1,421	1,516	1,582
Subtotal	7,826	8,192	8,510	8,338	8,718	8,881	9,373	9,716	10,152	10,857	10,547
Producers of Government Services	986	1,039	1,090	1,123	1,145	1,203	1,230	1,256	1,277	1,276	1,293
Other Producers	102	97	108	115	122	118	124	131	138	141	148
Import Duties	153	139	146	119	126	129	126	135	136	138	133
Value Added Tax	171	173	178	167	182	188	213	217	215	223	221
Total GDP	9,238	9,640	10,032	9,862	10,293	10,519	11,066	11,455	11,916	12,636	12,341

Source: Quarterly National Economic Trends, Aug 2009

Change in Prices

Change in Prices, 1998-2008
(%)

Period	GDP Deflator	Export Deflator	Import Deflator	Wholesale Price Index	Consumer Price Index
1998	2.63	3.82	2.19	0.60	1.69
1999	-1.32	-6.33	-3.09	-4.55	0.17
2000	-1.62	-0.56	4.08	1.82	1.26
2001	0.49	-0.23	-1.20	-1.34	-0.01
2002	-0.25	-0.84	-1.00	0.05	-0.20
2003	-1.26	-0.17	2.60	2.48	-0.28
2004	-0.90	1.69	6.26	7.03	1.62
2005	-0.61	-2.03	0.31	0.61	2.30
2006	-0.73	2.36	5.14	5.63	0.60
2007	0.31	2.73	5.25	6.47	1.80
2008	-2.39	-1.10	7.56	5.15	3.53

Source: Quarterly National Economic Trends, Aug 2009

Taxation

The R.O.C. tax system includes, among other things, corporate and personal income taxes and their income basic tax, commodity and value-added taxes, customs duties, harbor taxes, deed, and land taxes and stamp and securities transaction taxes and estate and gift taxes. In recent years the government has been attempting to control tax evasion.

Generally R.O.C. resident corporations are taxed on their worldwide net income at rates ranging to a maximum of 25%. Branches of foreign corporations and nonresident companies doing business in the R.O.C. are taxed on all R.O.C. source income either at the applicable rates for resident corporations or at prescribed withholding rates. A 20% withholding tax is imposed upon the receipt by non-residents of any interest, royalties or certain fees for services performed in the R.O.C., except in certain specified circumstances.

Individuals are taxed on all income derived from sources within Taiwan. R.O.C. residents are taxed at progressive rates ranging from 6% to 40%. With regard to dividends paid to the individual taxpayer, R.O.C. residents generally receive either cash or stock as well as a deductible income tax. When a R.O.C. resident files an income tax return, the aggregate amount of the deductible income tax received would be deducted or offset with the payable income tax for the full taxing year. For R.O.C. residents, corporate profits are not taxed again when paid as dividends at the individual taxpayer level. Except for certain specified circumstances, non-residents are taxed at a flat rate of 20% of R.O.C. source income

In April 1986 the government instituted a 5% value-added tax that replaced a three-tiered tax system that involved separate commodity, invoice and business taxes.

Securities transactions are taxed at the rate of 0.3% for equity transactions and 0.1% for corporate bond and LBC transactions. There is no tax on government bond transactions. Capital gains derived from the sale of securities of listed companies and from the sale of bonds of unlisted companies have not been taxed since January 1, 1990. The R.O.C. government has announced a proposal to reduce the securities transaction tax applicable to sales of shares from 0.3% to 0.15% and to re-impose a capital gains tax on the sale of securities. Gains from the transfer of land within the R.O.C. are subject to a land value increment tax. Deed taxes are levied on the transfer of buildings within the R.O.C.

In January 2009, in an effect to attract capital back to Taiwan, the government reduced the rate of estate and gift taxes to a flat 10%.

Regulation and Supervision

In September 1960, the government of Taiwan created the R.O.C. Securities and Exchange Commission (SEC) to supervise and control all aspects of the securities markets. In 1997, the R.O.C. SEC was renamed the R.O.C Securities and Futures Commission and, more recently, to the R.O.C. Securities and Futures Bureau (SFB). On July 1, 2004, the Executive Yuan consolidated the supervision of the banking, securities and insurance sectors in Taiwan by creating the R.O.C. Financial Supervisory Commission (FSC), which was set up for the purpose of the unification of financial supervision. The R.O.C. FSC consists of four distinct bureaus, including the R.O.C. SFB, which has the responsibility for implementing the Securities and Exchange Law and for overall administration of governmental policies in the R.O.C. securities market. The R.O.C. SFB has extensive regulatory authority over the offering, issuing and trading of securities. Its duties include, among others, the approval of the new issues of securities, the overseeing of secondary trading on the TSE and the GTSM, the licensing of securities professionals, the regulation of market intermediaries and foreign investors, investors education and protection, regulation of the futures markets and setting standards for the accountancy profession. In addition, the Securities and Exchange Law specifically empowers the R.O.C. SFB to promulgate necessary rules.

The R.O.C. SFB has extensive regulatory authority over public companies. Under current R.O.C. law, any company, after approval by a resolution of its board of directors, may register with the R.O.C. SFB as a public company. A public company is required to offer a certain percentage of its shares to the public and is generally required to obtain approval from, or registration with, the R.O.C. SFB for all securities offerings. The R.O.C. SFB requires periodic reporting of financial and operating information by all public companies. In addition, the R.O.C. SFB establishes standards for financial reporting and carried out licensing and supervision of securities firms and other participants in the R.O.C. securities market.

The R.O.C. SFB has instituted a system of monitoring stock prices in order to detect market manipulation. The R.O.C. SFB does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal sanctions may be pursued only by the government prosecutors. Civil actions may be brought by plaintiffs who assert that they have suffered damages. The R.O.C. SFB is empowered to monitor abuses and violations of the applicable laws and regulations of the securities markets through administrative measures such as issuing warnings, imposing fines and revoking licenses.

In order to enhance international cooperation, as of April 2008, the R.O.C. FSC has signed memorandums of understanding with 27 foreign authorities.

The Taiwan Stock Exchange

Equity Issues

The following table sets forth data for new issues of equities on the TSE from 1998 to 2008:

	Equities (in NT$ Million)			
Year	**Initial Offerings**	**Rights Offerings by Listed Companies**	**Total Raised from New Investment**	**Free Share Distribution**
1998	163,260	102,236	265,496	354,319
1999	82,578	56,590	139,168	269,502
2000	214,220	48,949	263,169	339,821
2001	361,434	38,781	400,215	348,615
2002	214,220	31,157	245,377	228,016
2003	174,655	70,842	245,497	161,633
2004	150,381	44,683	195,064	230,592
2005	68,899	62,960	131,859	284,313
2006	65,453	30,451	95,904	198,970
2007	56,183	23,742	79,925	198,379
2008	NA	NA	NA	NA

Source: TSE Statistical Data

Debt Issues

The following table sets forth information with respect to bond issues listed on the TSE from 1999 to 2008:

	All Bonds		Government Bonds		Corporate Bonds	
Year	**Total Number of Issues**	**Issues Amount**	**Number of Issues**	**Issues Amount (in NT$ Million)**	**Number of Issues**	**Issues Amount (in NT$ Million)**
1999	61	54,237	NA		61	54,237
2000	63	51,277	4	26,995	59	24,282
2001	52	24,037	4	10,164	48	13,873
2002	37	19,162	2	3,495	35	15,667
2003	21	9,926	0	0	21	9,926
2004	10	3,980	0	0	10	3,980
2005	4	478	0	0	4	478
2006	4	98	0	0	4	98
2007	0	0	0	0	0	0
2008	0	0	0	0	0	0

Source: TSE Statistical Data

Trading Value and Trading Volume

The following tables set forth yearly trading values and average daily trading values for stocks and bonds traded on the TSE from 1998 to 2008;

TSE Yearly Trading Values

Stock	Bonds	Total

Year	(NT$ Million)	(US$ Million)	(NT$ Million)	(US$ Million)	(NT$ Million)	(US$ Million)
1998	29,618,970	919,387	40,921	1,270	29,659,891	920,657
1999	29,291,529	933,000	54,237	1,728	29,345,766	934,727
2000	30,526,566	925,272	51,277	1,554	30,577,843	926,826
2001	18,354,936	524,442	24,037	687	18,378,973	525,129
2002	21,873,951	629,412	19,162	551	21,893,113	629,963
2003	20,333,237	598,424	9,926	292	20,343,163	598,716
2004	23,875,366	748,045	3,980	125	23,879,346	748,170
2005	18,818,902	572,874	478	15	18,819,380	572,888
2006	23,900,362	733,230	98	3	23,900,460	733,233

Year	Stock (NT$ Million)	Stock (US$ Million)	Bonds (NT$ Million)	Bonds (US$ Million)	Total (NT$ Million)	Total (US$ Million)
2007	33,043,848	1,018,614	0	0	33,043,848	1,018,614
2008	26,115,407	794,748	0	0	26,115,407	794,748

Source: TSE Statistical Data; Conversion to US$ at yearend exchange rate

TSE Average Daily Trading Values

Year	No. of Year Trading Days	Stocks (NT$ Million)	Stocks (US$ Million)	Bonds (NT$ Million)	Bonds (US$ Million)	Total (NT$ Million)	Total (US$ Million)
1998	271	109,295	3,393	151	5	109,446	3,397
1999	266	110,119	3,508	204	6	110,323	3,514
2000	271	112,644	3,414	189	6	112,833	3,420
2001	244	75,225	2,149	99	3	75,324	2,152
2002	248	88,201	2,538	77	2	88,278	2,540
2003	249	81,660	2,403	40	1	81,700	2,404
2004	250	95,501	2,992	16	0	95,517	2,993
2005	247	76,190	2,319	2	0	76,192	2,319
2006	248	96,372	2,957	0	0	96,372	2,957
2007	247	133,781	4,124	0	0	133,781	4,124
2008	249	104,881	3,192	0	0	104,881	3,192

Source: TSE Statistical Data; Conversion to US$ at yearend exchange rate

The Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is the most widely consulted index in Taiwan. It is comparable to the Standard and Poor s Index in the United States and the Tokyo Stock Exchange Stock Price Index in Japan insofar as it is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding.

The weighting of stocks in the TSE Index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is automatically adjusted. Stock splits and stock dividends are also adjusted for automatically. Cash dividends are not included in the calculations.

TSE Index, 1998 2008
(1966 Average = 100)

Year	Number of Companies in Index (period-end)	Total Number of Listed Companies (period-end)	Trading Value (NT$ Billion)	Trading Value (US$ Billion)	Index High	Index Low	Year-End
1998	446	437	29,619	919	9,277.09	6,251.38	6,418.43
1999	468	462	29,292	933	8,608.91	5,474.79	8,448.84
2000	539	531	30,527	925	10,202.20	4,614.63	4,739.09

2001	592	584	18,355	524	6,104.24	3,446.26	5,551.24
2002	594	638	21,874	629	6,462.30	3,850.04	4,452.45
2003	638	669	20,333	598	6,142.32	4,139.50	5,890.69
2004	657	697	23,875	748	7,034.10	5,316.87	6,139.69
2005	659	691	18,819	573	6,575.53	5,632.97	6,548.34
2006	653	688	23,900	733	7,823.72	6,257.80	7,823.72
2007	655	698	33,044	1,018	9,809.88	7,344.56	8,506.28
2008	683	718	26,115	795	9,295.20	4,089.93	4,591.22

Source: TSE Statistical Data; Bloomberg

Balance of Payments

Due principally to the increase in world prices following the second oil shock of 1978-1979, in 1980 the R.O.C. incurred a current account deficit of U.S.$913 million and an overall balance of payments deficit of U.S.$319 million. Since that time the R.O.C. has recorded substantial surpluses in the current account and overall balance of payments in each year from 1998 to 2008.

Balance of Payments, 1998-2008
(U.S.$ Million)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Current Account Balance	3,436	7,993	8,899	18,936	26,357	30,504	19,728	17,578	36,300	32,975	24,894
Trade Balance	10,315	14,706	13,672	20,561	24,920	26,137	17,363	19,456	24,197	30,445	18,250
Exports, f.o.b.	112,751	123,763	151,899	126,247	135,268	150,597	182,362	198,456	223,789	246,500	254,907
Imports, f.o.b.	(102,436)	(109,057)	(138,227)	(105,686)	(110,348)	(124,460)	(164,999)	(179,000)	(199,592)	(216,055)	(236,657)
Services*	(4,396)	(7,201)	(6,637)	(4,570)	(3,084)	(2,469)	(4,942)	((6,653)	(3,543)	(3,795)	(355)
Income	NA	2,805	4,468	5,679	7,013	9,555	11,132	9,039	9,581	10,132	9,978
Transfers	(1,527)	(2,317)	(2,604)	(2,734)	(2,492)	(2,719)	(3,825)	(4,264)	(3,935)	(3,807)	(2,979)
Capital Account	(181)	(173)	(287	20	(41)						

Net finance costs	307	255	145
Operating profit (loss)	**86**	**341**	**(73)**
Special items losses (gains)	318	(2)	106
Operating profit excluding special items	**404**	**339**	**33**
Special Items:			
Plantation price fair value adjustment loss (gain)	16	(31)	67
Restructuring charges	135	46	34
Profit on disposal of property, plant & equipment	(1)	(5)	(1)
Asset impairments (impairment reversals)	167	(10)	79
Alternative fuel mixture tax credits		(51)	(87)
Integration costs			3
BEE transaction charge	5	23	
	(4)	26	11

Fire, flood, storm and related events			
Total Special items	**318**	**(2)**	**106**

Movements in operating profit and operating profit excluding special items are explained below.

Segment contributions to operating profit were as follows:

Segment Operating Profit (Loss)	**2011**	**2011 vs. 2010**	**2010**	**2010 vs. 2009**	**2009**
			(US$ million)		
Sappi Fine Paper North America	136	(44)	180	127	53
Sappi Fine Paper Europe	(71)	(143)	72	139	(67)
Sappi Southern Africa	63	(49)	112	167	(55)
Unallocated and eliminations	(42)	(19)	(23)	(19)	(4)
Total	**86**	**(255)**	**341**	**414**	**(73)**

Segment Special Items (Gains)/Losses	**2011**	**2010**	**2009**
		(US$ million)	
Sappi Fine Paper North America	(7)	(56)	(55)
Sappi Fine Paper Europe	139	4	79
Sappi Southern Africa	136	22	72
Unallocated and eliminations	50	28	10
Total	**318**	**(2)**	**106**

Segment Operating Profit/(Loss) excluding Special Items	2011	2011 vs. 2010	2010	2010 vs. 2009	2009
			(US$ million)		
Sappi Fine Paper North America	129	5	124	126	(2)
Sappi Fine Paper Europe	68	(8)	76	64	12
Sappi Southern Africa	199	65	134	117	17
Unallocated and eliminations	8	3	5	(1)	6
Total	**404**	**65**	**339**	**306**	**33**

Special items for the Group in fiscal 2011, fiscal 2010 and fiscal 2009 are generally summarized below:

Plantation price fair value: This relates to an accounting fair value adjustment of the timber assets of Sappi Forests and Usutu Forests. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, and discount rates applied. The parameters applied are all market related. The impact was a negative US$16 million in fiscal 2011, a positive US$31 million in fiscal 2010 and a negative US$67 million in fiscal 2009. For further information see " Critical Accounting Policies and Estimates".

Impairment and restructuring charges: In fiscal 2011 operating profit was negatively impacted by asset and investment impairments of US$167 million. The asset and investment impairments included US$56 million related to the closure of our Biberist Mill in Europe, US$10 million related to the closure of our Adamas Mill in South Africa, US$58 million related to asset impairments in our Southern African Paper and Paper Packaging business, where production will be curtailed, and US$45 million impairment of part of our investment in equity accounted associates and joint ventures. In fiscal 2010 operating profit was positively impacted by asset impairment reversals of US$10 million, which comprised the reversal of a portion of the fiscal 2009 impairment of the coated mechanical paper business in Europe that had negatively impacted operating profit in that year (US$74 million). Fiscal 2009 operating profit was further negatively impacted by the impairment of the Usutu Mill in southern Africa (US$5 million).

In fiscal 2011 operating profit was negatively affected by restructuring charges of US$135 million. These restructuring charges related to mill closures and other restructuring actions mainly in our European business (US$89 million) and our Southern African business (US$45 million). In fiscal 2010 operating profit was negatively impacted by restructuring charges of US$46 million, which related to the closure of the Usutu Mill in southern Africa and the Kangas Mill in Europe. In fiscal 2009 operating profit was negatively impacted by restructuring charges of US$34 million which related mostly to the closure of the Muskegon Mill in the United States.

Alternative fuel mixture tax credits: The U.S. Internal Revenue Code allowed an excise tax credit to taxpayers for the use of alternative fuel mixtures. In 2009 we began to use an alternative fuel mixture containing diesel fuel and "black liquor", a by-product of pulp production, at our Somerset and Cloquet mills. During the second calendar quarter of 2009, we were approved by the IRS as an alternative fuel producer. The tax credit expired on December 31, 2009.

During fiscal 2010, the Company filed claims for alternative fuel mixture credits covering eligible periods subsequent to February 2009 totaling US$51 million and US$87 million, net of fees and expenses and has reflected such amounts in the accompanying Group income statement in "Other operating expenses (income)". Cash received, net of fees and expenses paid by the Company during fiscal 2010 and 2009 totalled US$73 million and US$65 million, respectively. No receivables related to alternative fuel mixture credits were outstanding at the end of fiscal 2010. The Company considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and treated them as such in the calculation of its tax provision in the consolidated financial statements.

On October 15, 2010, the IRS issued additional guidance on this topic, indicating that a taxpayer who received cash refunds under the alternative fuel tax program, can also receive the tax credit under the Cellulosic Biofuels Producer Credit ("CBPC") on those black liquor volumes for which it had not previously collected the cash refund. The company can make this election to file for the CBPC tax credits through fiscal 2013.

BEE charges: Charges related to a BEE transaction completed during fiscal 2010 amounted to US$5 million in fiscal 2011 and US$23 million in fiscal 2010. This transaction is explained in more detail in the section titled "South African Economic and Political Environment" above and in Item 7 " Major Shareholders and Related Party Transactions".

Fire, Flood and Storm Damage: During fiscal 2011 operating profit was positively impacted by insurance recoveries of US$10 million related to the fire in the Stockstadt mill in Europe which occurred during fiscal 2010. The insurance recoveries were offset by costs incurred in fiscal 2011 related to the same fire.

During fiscal 2010 operating profit was negatively impacted by a fire in our Stockstadt mill in Europe (US$21 million) and storm damage to various southern African business units (US$5 million).

During fiscal 2009 the southern African business experienced devastating fires across a wide area of afforested land and some flooding at the Saiccor mill. The cost of these damages was US$11 million in fiscal 2009.

Group

Comparing fiscal 2011 with fiscal 2010

Our Operating profit declined to US$86 million in fiscal 2011 from US$341 million in fiscal 2010.

Operating profit in fiscal 2011 was negatively affected by net special items of US$318 million compared to a positive impact of net special items in fiscal 2010 of US$2 million. Special items in fiscal 2011 included an unfavorable plantation fair value price adjustment (US$16 million), restructuring charges (US$135 million) and asset impairments (US$167 million).

Operating profit excluding special items increased in fiscal 2011 to US$404 million from US$339 million in fiscal 2010. This significant improvement was mainly due to increased demand in sales volumes and increased average selling prices for some of our major products.

Comparing fiscal 2010 with fiscal 2009

The Operating loss of US$73 million recorded in fiscal 2009 improved to an Operating profit of US$341 million in fiscal 2010.

Operating profit in fiscal 2010 was positively affected by net special items of US$2 million compared to a negative impact of net special items in fiscal 2009 of US$106 million. Special items in fiscal 2010 included a favorable plantation fair value price adjustment (US$31 million), asset impairment reversals (US$10 million) and alternative fuel mixture tax credits earned in North America (US$51 million). These positive special items were offset by restructuring charges (US$ 46 million), BEE charges (US$23 million) and fire and flood damage (US$26 million).

Operating profit excluding special items increased in fiscal 2010 to US$339 million from US$33 million in fiscal 2009. This significant improvement was mainly due to increased demand and sales volumes in the Group's major markets and increased average selling prices for some of our major products.

Sappi Fine Paper North America

Key figures:

	2011	2010	2009
	(US$ million)		
Segment operating profit	136	180	53
Profit on disposal of property, plant & equipment	(2)	(3)	
Asset impairment reversals	(3)	(2)	
Alternative fuel mixture tax credits		(51)	(87)
Restructuring provisions (released) raised	(2)		31
Fire, flood, storm and related events			1
Segment operating profit excluding special items	**129**	**124**	**(2)**

Comparing fiscal 2011 with fiscal 2010

Operating profit decreased from US$180 million in fiscal 2010 to US$136 million in fiscal 2011.

The operating profit for fiscal 2011 included favorable net special items of US$7 million as shown in the table above.

Operating profit excluding special items improved to US$129 million in fiscal 2011 from US$124 million in fiscal 2010. This improvement was mainly due to increased sales volumes and increased average selling prices partially offset by increased manufacturing costs.

Comparing fiscal 2010 with fiscal 2009

Operating profit increased from US$53 million in fiscal 2009 to US$180 million in fiscal 2010.

The operating profit for fiscal 2010 included favorable net special items of US$56 million and consisted mainly of alternative fuel mixture tax credits earned (US$51 million).

Operating profit excluding special items improved to US$124 million in fiscal 2010 from an operating loss excluding special items in fiscal 2009 of US$2 million. This significant improvement was mainly due to increased sales volumes, a reduction in variable cost per ton and a reduction in fixed costs.

Sappi Fine Paper Europe

Key figures:

	2011	2010	2009
	(US$ million)		
Segment operating (loss) profit	(71)	72	(67)
(Profit) loss on disposal of property, plant & equipment		(2)	1
Asset impairments (impairment reversals)	57	(10)	74
Insurance recoveries	(11)	(22)	
Restructuring provisions raised	89	17	1
Fire, flood, storm and related events	4	21	
Integration costs			3
Segment operating profit excluding special items	**68**	**76**	**12**

Comparing fiscal 2011 with fiscal 2010

Operating profit declined from a profit of US$72 million in fiscal 2010 to an operating loss of US$71 million in fiscal 2011.

The operating loss for fiscal 2011 included unfavorable net special items of US$139 million which included asset impairments related to the closure of the Biberist Mill and restructuring charges (US$89 million) partially offset by insurance recoveries (US$11 million).

Operating profit excluding special items decreased to US$68 million in fiscal 2011 from an operating profit excluding special items in fiscal 2010 of US$76 million. This decline was due to increased input cost pressure and competition in all our major markets.

Comparing fiscal 2010 with fiscal 2009

Operating profit improved from a loss of US$67 million in fiscal 2009 to an operating profit of US$72 million in fiscal 2010.

The operating profit for fiscal 2010 included unfavorable net special items of US$4 million which included restructuring charges for the closure of the Kangas mill (US$17 million), costs related to fire damage at our Stockstadt mill (US$21 million) partially offset by insurance recoveries (US$22 million) and the reversal of asset impairment charges (US$10 million).

Operating profit excluding special items improved to US$76 million in fiscal 2010 from an operating profit excluding special items in fiscal 2009 of US$12 million. This significant improvement was mainly due to improved market demand for our products which lead to increased sales volumes, partially offset by increases in variable costs and fixed costs.

Sappi Southern Africa

Key figures:

	2011	2010	2009
	(US$ million)		
Segment operating profit (loss)	63	112	(55)
Plantation price fair value adjustment	16	(31)	67
Loss (profit) on disposal of property, plant & equipment	1		(2)
Asset impairments	68	2	5
Insurance recoveries			(10)
Restructuring provisions raised	45	23	2
Fire, flood, storm and related events	1	5	10
BEE transaction charge	5	23	
Segment operating profit excluding special items	**199**	**134**	**17**

Comparing fiscal 2011 with fiscal 2010

Operating profit decreased from a profit of US$112 million in fiscal 2010 to an operating profit of US$63 million in fiscal 2011.

The operating profit for fiscal 2011 included unfavorable net special items of US$136 million which consisted mainly of an unfavorable plantation price fair value adjustment (US$16 million), asset impairments (US$68 million) and restructuring charges (US$45 million). The asset impairments included US$10 million related to the closure of our Adamas Mill and US$49 million related to impairments of assets in our paper and paper packaging business where we have decided to cease production of certain products. The restructuring charges relate to our revised strategy for our South African paper and paper packaging business.

Operating profit excluding special items improved to US$199 million in fiscal 2011 from an operating profit excluding special items in fiscal 2010 of US$134 million. This significant improvement was mainly due to increased sales volumes and average selling prices in our chemical cellulose business partially offset by increased variable input cost per ton and increased fixed costs for the Southern African business as a whole. In fiscal 2011, all of the operating profits excluding special items of Sappi Southern Africa were generated by our Saiccor Mill, with the paper and paper packaging business making a loss.

Comparing fiscal 2010 with fiscal 2009

Operating profit improved from a loss of US$55 million in fiscal 2009 to an operating profit of US$112 million in fiscal 2010.

The operating profit for fiscal 2010 included unfavorable net special items of US$22 million which consisted mainly of a favorable plantation price fair value adjustment (US$31 million), offset by BEE charges (US$23 million) and restructuring charges for the closure of the Usutu Mill (US$23 million).

Operating profit excluding special items improved to US$134 million in fiscal 2010 from an operating profit excluding special items in fiscal 2009 of US$17 million. This significant improvement was mainly due to increased sales volumes in our chemical cellulose business, increased average selling prices for our pulp and paper operations, a decrease in variable input cost per ton, partially offset by an increase in fixed costs.

Movements in the sales, variable cost and fixed cost components of operating profit are explained below.

Sales

Group

An analysis of sales movements in fiscal 2011 and 2010 is presented below:

Sales Volume	**2011**	**Change 2011 vs. 2010**	**2010**	**Change 2010 vs. 2009**	**2009**
			Tons ('000)		
Sappi Fine Paper North America	1,436	82	1,354	80	1,274
Sappi Fine Paper Europe*	3,845	49	3,796	840	2,956
Sappi Southern Africa					
Pulp & Paper	1,700	(51)	1,751	91	1,660
Forestry	917	(76)	993	176	817
Total Sappi Southern Africa	**2,617**	**(127)**	**2,744**	**267**	**2,477**
Total	**7,898**	**4**	**7,894**	**1,187**	**6,707**

Sales Value	2011	Change 2011 vs. 2010	2010	Change 2010 vs. 2009	2009
			(US$ million)		
Sappi Fine Paper North America	1,520	147	1,373	78	1,295
Sappi Fine Paper Europe*	3,965	327	3,638	743	2,895
Sappi Southern Africa					
Pulp & Paper	1,721	233	1,488	364	1,124
Forestry	80	7	73	18	55
Total Sappi Southern Africa	**1,801**	**240**	**1,561**	**382**	**1,179**
Total	**7,286**	**714**	**6,572**	**1,203**	**5,369**

*

Fiscal 2009 includes 9 months contribution of the Acquired Business.

The main factors impacting sales are volume, price, product sales mix and currency exchange rate movements. The South African and European businesses transact in ZAR and euro respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rate from local currency to US dollars during the periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales positively by US$210 million in fiscal 2011 and positively by US$263 million in fiscal 2010. An analysis of the drivers of sales movements is presented below:

Sales Value Variance Analysis	2011 vs. 2010	2010 vs. 2009
	(US$ million)	
Exchange rate effects	210	263
Volume change effects	3	951
Price and product mix effects	501	(11)
Total	**714**	**1,203**

Comparing fiscal 2011 with fiscal 2010

Sales for fiscal 2011 were US$7,286 million, an increase of 11% compared to fiscal 2010. This increase was primarily driven by increased average selling prices and improved product sales mix in the paper and pulp businesses. Sales in fiscal 2011 also included a positive currency translation impact of US$210 million.

Average selling prices realized by the Group in fiscal 2011 were 11% higher in US dollar terms than the average selling prices realized in fiscal 2010, as a result of an increase in pulp selling prices and increased average coated paper prices in our European and North American businesses. The average world benchmark NBSK pulp price increased by 11% in fiscal 2011 compared to fiscal 2010.

In fiscal 2011, sales volume for the Group was almost equal to the sales volume in fiscal 2010.

Comparing fiscal 2010 with fiscal 2009

Sales for fiscal 2010 were US$6,572 million, an increase of 22% compared to fiscal 2009. This increase was driven primarily by improved demand in all our major markets leading to increased sales volumes. Another reason for the increase in sales was that the Acquired Business was included for twelve months in fiscal 2010 compared to 9 months in fiscal 2009. Sales also included a positive currency translation impact of US$263 million.

Average selling prices realized by the Group in fiscal 2010 were 4% higher in US dollar terms than the average selling prices realized in fiscal 2009, mainly as a result of an increase in pulp selling prices. The average world benchmark NBSK pulp price increased by 36% in fiscal 2010 compared to fiscal 2009.

In fiscal 2010, sales volume for the Group was approximately 18% higher than in fiscal 2009. Excluding the sales volume of the Acquired Business, our sales volume increased by 13% compared to fiscal 2009.

Sappi Fine Paper North America

Comparing fiscal 2011 with fiscal 2010

Sales increased by 11% from US$1,373 million in fiscal 2010 to US$1,520 million in fiscal 2011. Sappi Fine Paper North America's sales volumes increased by 6% when compared to fiscal 2010 as a result of improved demand for market pulp and increased coated paper sales, despite a weaker demand in that market. Average selling prices realized in fiscal 2011 of US$1,058/ton were 4% higher than the US$1,014/ton achieved in fiscal 2010.

Comparing fiscal 2010 with fiscal 2009

Sales increased by approximately 6% from US$1,295 million in fiscal 2009 to US$1,373 million in fiscal 2010. Sappi Fine Paper North America's sales volumes increased by 6% when compared to fiscal 2010 primarily as a result of increased coated paper sales, despite a weaker demand in that market. Average selling prices realized in fiscal 2010 of US$1,014/ton were slightly lower than the US$1,016/ton achieved in fiscal 2009.

Sappi Fine Paper Europe

Comparing fiscal 2011 with fiscal 2010

Sappi Fine Paper Europe experienced strengthening market conditions during the first half of fiscal 2011. The second half of fiscal 2011 was however affected by a deteriorating economic environment which had a negative impact on volumes and sales prices. Overall sales volumes ended the year in-line with fiscal 2010.

Although our average selling prices realized in euro and US dollar terms increased from €702 (US$958) per ton in fiscal 2010 to €739 (US$1,031) per ton in fiscal 2011, average selling prices realized during the last fiscal quarter of 2011 were below the average for the year.

Comparing fiscal 2010 with fiscal 2009

Market conditions improved for all Sappi Fine Paper Europe products during fiscal 2010 compared to the fiscal 2009 year. In fiscal 2010, sales volumes, including the Acquired Business for twelve months, were 28% higher than the sales volume in fiscal 2009, which included nine months of the Acquired Business. Excluding the sales volume of the Acquired Business, sales volume for fiscal 2010 increased by 20% compared to fiscal 2009.

Despite the improvement in market conditions, selling prices only started rising in the last six months of fiscal 2010. The average selling price in euro terms for the last quarter of fiscal 2010 was €753/ton compared to an average selling price of €677/ton in the last quarter of fiscal 2009.

Overall, average selling prices during fiscal 2010, in both euro and US dollar terms were lower than those achieved in fiscal 2009. Average realized prices in euro terms decreased from €717/ton in fiscal 2009 to €702/ton in fiscal 2010. Average selling prices realized in US dollar terms in fiscal 2009 were US$979/ton compared to US$958/ton for fiscal 2010.

Sappi Southern Africa

Comparing fiscal 2011 with fiscal 2010

Sales from the southern African pulp and paper operations increased by 16% in US dollar terms or 7% in Rand terms in fiscal 2011 (US$1,721 million; ZAR11,974 million) compared to fiscal 2010 (US$1,488 million; ZAR11,148 million). The higher increase in sales in US dollar terms was largely due to the difference in average exchange rates used to translate Rand sales to US dollar in fiscal 2010 (ZAR/USD 7.49) and 2011 (ZAR/USD 6.96).

Sales volumes for the southern African pulp and paper operations decreased by 3% in fiscal 2011 compared to fiscal 2010. Demand for chemical cellulose products was extremely strong in fiscal 2011 and sales volume for the Sappi Chemical Cellulose business increased by 9% compared to fiscal 2010. The sales volumes for the Sappi Paper and Paper Packaging business declined by 10% compared to fiscal 2010, due to weak market conditions and strong competition from imported products due to the strengthening of the Rand against the US dollar during fiscal 2011.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. During fiscal 2011, the average NBSK pulp price increased by 11% from an average of US$885/ton in fiscal 2010 to an average of US$978/ton in fiscal 2011. During fiscal 2011, our average chemical cellulose selling prices in US dollar terms increased by 21% compared to fiscal 2010, but increased by only 12% in Rand terms due to the strengthening of the Rand against the US dollar during fiscal 2011.

Average selling prices realized in the Sappi Paper and Paper Packaging business increased by 14% in US dollar terms and by 6% in Rand terms compared to fiscal 2010.

Sales of our Sappi Forests business increased by 10% in US dollar terms or 2% in Rand terms in fiscal 2011 (US$80 million; ZAR557 million) compared to fiscal 2010 (US$73 million; ZAR547 million). The sales volumes of the Sappi Forests business decreased by 8% in fiscal 2011 compared to fiscal 2010. Average selling prices of timber, in Rand terms, increased by 9% in fiscal 2011 compared to fiscal 2010 due to decreased timber availability.

Comparing fiscal 2010 with fiscal 2009

Sales from the southern African pulp and paper operations (excluding Sappi Forests) increased by 32% in US dollar terms or 10% in Rand terms in fiscal 2010 (US$1,488 million; ZAR11,148 million) compared to fiscal 2009 (US$1,124 million; ZAR10,131 million). The increase in sales in US dollar terms was largely due to the difference in average exchange rates used to translate Rand sales to US dollar in fiscal 2009 (ZAR/USD 9.01) and 2010 (ZAR/USD 7.49).

Sales volumes for the southern African pulp and paper operations increased by 5% in fiscal 2010 compared to fiscal 2009. Demand for chemical cellulose products was significantly better in fiscal 2010 than during fiscal 2009 and sales volume for the Sappi Chemical Cellulose business increased by 18% compared to fiscal 2009. The sales volumes for the Sappi Paper and Paper Packaging business declined by 3% compared to fiscal 2009, despite market conditions and demand being better than in fiscal 2009. This comparison includes the closure of the Usutu Mill in January 2010 and the resulting loss of sales volume. Excluding the fiscal 2009 sales volumes of the Usutu Mill, sales volumes of the Sappi Paper and Paper Packaging business increased by 6% in fiscal 2010 compared to fiscal 2009.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. During fiscal 2010, the average NBSK pulp price increased by 36% from an average of US$650/ton in fiscal 2009 to an average of US$885/ton in fiscal 2010. During fiscal 2010, our average chemical cellulose selling prices in US dollar terms increased by 26% compared to fiscal 2009, but increased by only 11% in Rand terms due to the strengthening of the Rand to the US dollar during fiscal 2010.

Average selling prices realized in the Sappi Paper and Paper Packaging business increased by 20% in US dollar terms and by 4% in Rand terms compared to fiscal 2009.

Sales of our Sappi Forests business increased by 33% in US dollar terms or 10% in Rand terms in fiscal 2010 (US$73 million; ZAR547 million) compared to fiscal 2009 (US$55 million; ZAR496 million). The sales volumes of the Sappi Forests business increased by 22% in fiscal 2010 compared to fiscal 2009. Average selling prices of timber, in Rand terms, decreased by 9% in fiscal 2010 compared to fiscal 2009 due to increased timber availability.

Operating expenses

In the analyses which follow, cost per ton has been based on sales tons. An analysis of the Group operating expenses is as follows:

Operating Costs	2011	Change 2011 vs. 2010	2010	Change 2010 vs. 2009	2009
			(US$ million)		
Variable Costs					
Delivery	597	50	547	93	454
Manufacturing	3,962	501	3,461	619	2,842
Total Variable Costs	**4,559**	**551**	**4,008**	**712**	**3,296**
Fixed Costs	2,296	138	2,158	184	1,974
Price Fair value plantation	16	47	(31)	(98)	67
Impairment (impairment reversals)	167	177	(10)	(89)	79
Restructuring	135	89	46	12	34
Alternative fuel mixture tax credits		51	(51)	36	(87)
Fire, flood, storm and related events	6	(20)	26	15	11
BEE charge	5	(18)	23	23	
Insurance recoveries	(10)	(10)			
Other operating costs	26	(36)	62	(6)	68
Total	**7,200**	**969**	**6,231**	**789**	**5,442**

See "Operating Results" for the line items plantation fair value pricing adjustment, impairment, alternative fuel mixture tax credits, restructuring and fire and flood damage.

Variable and fixed costs are analyzed in more detail below.

Variable manufacturing costs

Group

The table below sets out the major components of the Group's variable manufacturing costs.

Variable Manufacturing Costs	2011 Costs	2011 US$ / Ton	Change 2011 vs. 2010	2010 Costs	2010 US$ / Ton	Change 2010 vs. 2009	2009 Costs	2009 US$ / Ton
				(US$ million)				
Wood	773	98	149	624	79	54	570	85
Energy	670	85	59	611	77	47	564	84
Pulp[1]	987	125	80	907	115	382	525	78
Chemicals	1,117	141	92	1,025	130	186	839	125
Other costs	415	53	121	294	37	(50)	344	51
Total	**3,962**	**502**	**501**	**3,461**	**438**	**619**	**2,842**	**423**

(1) Pulp includes only bought-in fully bleached hardwood and softwood.

Variable manufacturing costs relate to costs of inputs which vary directly with output. The line "Other costs" in the table above relates to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables. The Group's variable costs are impacted by sales volume, exchange rate impacts on translation of our European and South African businesses into US dollars, and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been the impact of the exchange rates on translation of the European and the South African operations into the US dollar presentation currency and actual input cost escalations. See "Principal Factors Impacting our Group Results" and "Currency Fluctuations" for a discussion of exchange rate movements. Cost increases are largely driven by international commodity price increases.

An analysis of variable cost developments by region is as follows:

Regional Variable Manufacturing Costs	2011 Costs	2011 US$ / Ton	Change 2011 vs. 2010	2010 Costs	2010 US$ / Ton	Change 2010 vs. 2009	2009 Costs	2009 US$ / Ton
				(US$ million)				
Sappi Fine Paper North America	757	527	104	653	482	(7)	660	518
Sappi Fine Paper Europe	2,407	626	282	2,125	560	547	1,578	534
Sappi Southern Africa	798	305	115	683	249	79	604	244

Cost management is a major focus area for the Sappi group. The company has engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies, improvement of production processes and product re-engineering initiatives to reduce raw material input costs through substitution of high cost raw materials with low cost raw materials. Product design and raw material inputs are constantly reviewed to ensure that product attributes and quality meet market specifications.

Sappi Fine Paper North America

Comparing fiscal 2011 with fiscal 2010

During fiscal 2011, variable manufacturing costs increased by 9% from US$482 per ton to US$527 per ton in fiscal 2011. Wood, energy, pulp and chemical input prices were higher in fiscal 2011 compared

to fiscal 2010, however many procurement and manufacturing initiatives have helped mitigate the input cost increases. Cost management remains a high priority for fiscal 2012.

Comparing fiscal 2010 with fiscal 2009

During fiscal 2010, variable manufacturing costs per ton decreased by 7% compared to fiscal 2009 due to decreases in purchase prices of wood, energy and chemicals, partially offset by an increase in pulp input costs.

Sappi Fine Paper Europe

Comparing fiscal 2011 with fiscal 2010

Sappi Fine Paper Europe experienced significant variable manufacturing cost pressure during fiscal 2011. Variable manufacturing costs per ton in euro terms in fiscal 2011 increased from €410 to €449 or by 10% from fiscal 2010, mainly due to the increases in wood costs and the cost of fillers and consumables, including machine clothing. In US Dollar terms the increase in variable manufacturing costs per ton from fiscal 2010 to fiscal 2011 was 12%.

Comparing fiscal 2010 with fiscal 2009

Sappi Fine Paper Europe experienced significant variable manufacturing cost pressure during fiscal 2010. Variable manufacturing cost per ton in euro terms increased by 5% compared to fiscal 2009, mainly due to increased pulp input costs per ton. This increase was offset to some extent by a decrease in purchased energy prices. The increase in variable manufacturing costs from fiscal 2009 to fiscal 2010 in US Dollar terms was also 5% as the average US$/euro exchange rate for the two years did not change significantly.

Sappi Southern Africa

Comparing fiscal 2011 with fiscal 2010

During fiscal 2011, variable manufacturing costs per ton in Rand terms increased by 14% compared to fiscal 2010 due to increases in the prices for all raw materials and energy, driven by increases in international commodity prices. In addition to increased input material prices, production costs were also negatively impacted by a three week industry-wide strike during the year. The 22% increase in US Dollar terms in input costs per ton reflects the different average exchange rates used for translation in fiscal 2011 (US$/ZAR: 6.96) and in fiscal 2010 (US$/ZAR: 7.49).

Comparing fiscal 2010 with fiscal 2009

During fiscal 2010, input costs per ton in Rand terms decreased by 15% compared to fiscal 2009 mainly due to decreases in the input prices for chemicals and other input costs, driven by decreases in international commodity prices. The 2% increase in US Dollar terms in input costs per ton reflects the different average exchange rates used for translation in fiscal 2010 (US$/ZAR: 7.49) and in fiscal 2009 (US$/ZAR: 9.01).

Fixed costs

Group

A summary of the Group's major fixed cost components is as follows:

Fixed Costs	2011	Change 2011 vs. 2010	2010	Change 2010 vs. 2009	2009
			(US$ million)		
Personnel	1,238	62	1,176	130	1,046
Maintenance	300	25	275	25	250
Depreciation	414	3	411	15	396
Other	344	48	296	14	282
Total	**2,296**	**138**	**2,158**	**184**	**1,974**

The regional analysis which follows includes corporate fixed costs and consolidation adjustments which are reallocated to the regions and are not material.

Regional Fixed Costs	2011	Change 2011 vs. 2010	2010	Change 2010 vs. 2009	2009
			(US$ million)		
Sappi Fine Paper North America	482	32	450	(29)	479
Sappi Fine Paper Europe	1,169	36	1,133	94	1,039
Sappi Southern Africa	645	70	575	119	456

Sappi Fine Paper North America

Comparing fiscal 2011 with fiscal 2010

Fixed costs in fiscal 2011 increased by US$32 million or 7% from fiscal 2010 with increased personnel costs being the largest contributor. The reduction in our inventories from fiscal 2010 had a negative impact on fixed costs of US$11 million compared to fiscal 2010, as the fixed cost component of the inventory reduction was charged to fixed costs in fiscal 2011.

Comparing fiscal 2010 with fiscal 2009

The decrease in fixed costs of US$29 million in fiscal 2010 compared to fiscal 2009 included a decrease in depreciation of US$11 million at our Somerset mill, and the benefits of ongoing cost reduction efforts in services and administration, partially offset by small increases in personnel and maintenance costs. The decrease in depreciation at the Somerset mill was due to certain assets being fully depreciated early in fiscal 2010. The increase in our inventories from fiscal 2009 had a positive impact on our fixed costs of US$13 million compared to fiscal 2009 as the fixed cost component of the inventory increase was credited to fixed costs in fiscal 2010.

Sappi Fine Paper Europe

Comparing fiscal 2011 with fiscal 2010

In fiscal 2011, fixed costs remained well controlled and increased by €9 million or 1% compared to fiscal 2010. The fixed costs increase in US dollar terms of US$36 million largely reflects the different average exchange rates used for translation in fiscal 2011 (EURO/US$: 1.40) and in fiscal 2010 (EURO/US$: 1.37). We have implemented fixed cost reduction programs in our European business, including the closure of our Biberist Mill this year. We expect the Biberist Mill closure and all our other fixed and variable cost reduction efforts to yield benefits of approximately €75 million per annum going forward.

Comparing fiscal 2010 with fiscal 2009

Fixed costs increased by €69 million or 9% in fiscal 2010 compared to fiscal 2009. The major portion of this increase was due to the inclusion of the Acquired Business for 12 months in fiscal 2010 compared to 9 months in fiscal 2009. Excluding the Acquired Business, fixed costs increased by €19 million or 3% in fiscal 2010 compared to fiscal 2009, mainly due to increased personnel and maintenance costs.

Sappi Southern Africa

Comparing fiscal 2011 with fiscal 2010

Personnel cost is the largest component of fixed costs and remains under pressure in South Africa due to a high inflation environment and the impact of a skills shortage on labor rates, particularly in skilled technical functions.

Fixed costs increased, in Rand terms, by 4% from ZAR4,311 million to ZAR4,485 million, in fiscal 2011 compared to fiscal 2010. This increase was mainly due to a 9% increase in maintenance costs and an 8% increase in personnel costs. The additional maintenance related to the restarting of manufacturing equipment in fiscal 2011 that had been mothballed in fiscal 2010.

Comparing fiscal 2010 with fiscal 2009

Fixed costs increased, in Rand terms, by 5% from ZAR4,110 million to ZAR4,311 million, in fiscal 2010 compared to fiscal 2009. This increase was mainly due to a 7% increase in personnel costs. Maintenance and services expenses were well controlled and remained at similar levels in fiscal 2010 than in fiscal 2009.

Net Finance Costs

Annual finance costs may be analyzed as follows:

Finance Costs	**2011**	**2010**	**2009**
	(US$ million)		
Finance costs	348	309	198
Finance revenue	(12)	(16)	(61)
Net interest paid	336	293	137
Net foreign exchange gains	(13)	(17)	(17)
Net fair value (gain)/loss on financial instruments	(16)	(21)	25
Net finance costs	**307**	**255**	**145**

Net interest paid (finance costs less finance revenue) in fiscal 2011 was US$336 million compared to US$293 million in 2010 and to US$137 million in fiscal 2009. The increase in net interest paid in fiscal 2011 compared to fiscal 2010 was a result of breakage costs of US$43 million incurred in connection with the 2011 Refinancing. The increase in net interest paid in fiscal 2010 compared to fiscal 2009 was a result of higher interest rates on higher average debt following the 2009 Refinancing completed towards the end of fiscal 2009.

The US$13 million and US$17 million net foreign exchange gains in fiscal 2011 and fiscal 2010, respectively, were due to the forward points that accrued on US Dollar/ZAR forward cover taken on export sales from our Southern African business. The Group's policy is to identify foreign exchange risks immediately when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third party banks.

The net fair value movement on financial instruments relates to the net impact of currency and interest rate movements, under hedge accounting for certain interest rate and currency swaps the Group entered into, in order to manage the interest and currency exposure on internal and external loans. During fiscal 2009 certain interest rate swaps were closed early in anticipation of the 2009 Refinancing and this resulted in additional swap charges. The closure of these swaps stopped the hedging relationship with the underlying debt and therefore the difference between the carrying amount and the notional amount of the debt is being amortized over the original life of the swaps. This has resulted in a gain to financial instruments of US$16 million and US$21 million for fiscal 2011 and fiscal 2010, respectively.

Taxation

	2011	2010	2009
	(US$ million)		
(Loss)/profit before taxation	**(221)**	**86**	**(218)**
Taxation at the average statutory tax rates	(49)	35	(60)
Net exempt income and non-tax deductible expenditure	(10)	(10)	(32)
Effect of tax rate changes			(3)
Deferred tax asset not recognized	110	65	72
Utilization of previously unrecognized tax assets	(41)	(54)	(22)
Secondary Tax on Companies			4
Prior year adjustments	(5)	(20)	(4)
Other taxes	6	4	4
Taxation charge/(benefit)	**11**	**20**	**(41)**
Effective tax rate	**(5%)**	**23%**	**19%**

Our effective tax rate for fiscal years 2011, 2010, and 2009 was negative 5% and positive 23% and 19%, respectively. Our tax rate is affected by recurring items, such as tax rates and the amount of income in certain jurisdictions, which we expect to be fairly consistent in the near term. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. The main factors accounting for differences between our statutory income tax rate of 22% and our effective tax rate are explained below:

2011

Our tax charge for the year was US$11 million, despite incurring a Net Loss before Taxation for the group of US$221 million (which arose mainly as a result of the Special Items charge).

In Europe, despite a US$318 million loss before tax, we incurred a small tax charge of US$4 million. This situation arose as a result of certain of our companies in Europe not booking tax relief on pre-tax losses and impairments as, in our judgment, there is not sufficient certainty that we will generate sufficient profits in those countries to recover these losses in the near future. In other countries we did incur taxable profits which resulted in the small charge for taxation in the region as a whole. We have substantial unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which will substantially shield any profits earned in those countries in the future.

A US$8 million charge in North America relates mainly to US Federal Alternative Minimum Tax and taxes paid in certain of the States where we operate. At the Federal level we have substantial unrecognized tax losses which shielded most of the pre-tax profits of the business.

Southern Africa benefited from lower taxes on exports in certain countries through our Trading operations.

2010

Our tax charge for fiscal 2010 was US$20 million which was lower than taxation at the average statutory tax rates. In Europe, despite the US$150 million loss before tax, we were only able to receive tax relief of US$6 million, as certain countries in Europe did not generate sufficient pre-tax profits to recover these losses. We have substantial additional unrecognized tax losses in Austria, Finland, Belgium and The Netherlands which will substantially shield future profits earned in those countries.

The US$6 million in North America related mainly to US Federal Alternative Minimum Tax and taxes paid in certain of the States in which we operate. At the Federal level we had substantial unrecognized tax losses which, in 2010, largely shielded the profits of our North American business and are expected to continue to shield them for some years to come.

The effective tax rate in Southern Africa was lower than the statutory rate of 28%. Although there was no tax relief on the Broad-based Black Economic Empowerment transaction and on the Usutu Pulp Mill closure costs, profits on exports benefited from lower taxes in certain countries.

2009

Our tax benefit for fiscal 2009 was US$41 million, resulting in a tax rate of 19%. Our taxation relief was reduced because certain countries in Europe did not generate sufficient pre-tax profits to utilize the carried forward tax losses.

Profit (loss) for the year

The company recorded a loss of US$232 million for fiscal 2011 compared to a profit of US$66 million for fiscal 2010 and a net loss of US$177 million in fiscal 2009. The main reason for the change in fiscal 2011 compared to fiscal 2010 was the adverse impact on profit of the unfavorable special items of US$318 million. For further information see " Overview".

In addition, this loss, together with a large negative currency difference on translating our euro and ZAR based operations into our US Dollar reporting currency and a negative adjustment related to retirement funding, led to a US$418 million reduction in our Equity in fiscal 2011 compared to fiscal 2010.

Basic earnings per share development is illustrated in the table below:

Earnings Per Share (US cents)

In fiscal 2011 earnings per share was negatively impacted by certain significant items, including a plantation fair value price adjustment (US$16 million), restructuring charges (US$135 million) and asset and investment impairments (US$167 million).

In fiscal 2010 earnings per share was positively impacted by certain significant items, including alternative fuel mixture tax credits (US$51 million), a plantation fair value price adjustment

(US$25 million) and asset impairment reversals (US$10 million). These positive items were partly offset by adverse impacts from restructuring provisions (US$46 million), BEE charges (US$23 million) and fire, flood and storm related events (US$21 million).

Liquidity and Capital Resources

Our principal sources of liquidity are cash holdings, cash generated from operations and availability under our revised credit facilities and other debt arrangements. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements, to service our debt and to make dividend payments. Short term debt at the end of fiscal 2011 was US$449 million and included €100 million (US$134 million) which was drawn on the €350 million Revolving Credit Facility in July 2011 and held as cash, a ZAR1 billion (US$124 million) Public Bond in South Africa due in October 2011, which has since been settled from cash resources and a ZAR500 million (US$62 million) Public Bond in South Africa due in June 2012. The remainder of the short term debt consisted of additional short term portions of long term debt (US$38 million) and short term facilities which we expect to be able to roll on a quarterly basis (US$91 million). Based on our current level of operations and assuming the refinancing of the ZAR500 million Public Bond in South Africa due in June 2012, we believe our cash flow from operations, available borrowings under our credit facilities, and cash and cash equivalents will be adequate to meet our liquidity needs for at least the next twelve months. We intend to refinance the South African ZAR500 million Public Bond in the South African markets prior to its maturity.

Our liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower than expected cash flow from operations, including decreases caused by lower demand, weaker prices for our products, or higher input costs. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash, could have a significant effect on our liquidity resources. Our liquidity could also be impacted by any limitations on the availability of our existing debt and our ability to refinance existing debt, raise additional debt and the associated terms of such debt. However, at the end of fiscal 2011 and fiscal 2010 we had substantial cash and cash equivalents of US$639 million and US$792 million, respectively.

One of our liquidity requirements is usually the payment of annual dividends to shareholders. Considering among others the macroeconomic and global financial market conditions and our performance in fiscal 2011, as well as our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2011 not to declare a dividend for fiscal 2011. See "Item 8 Financial Information Dividends".

Cash Flow

In fiscal 2011, we retained our emphasis on cash generation and kept our capital expenditure at low levels, without compromising our current high levels of maintenance activities. Our focus on managing working capital remained strong, particularly in relation to inventory levels and receivables, keeping our level of working capital in line with the level of trading activity.

Cash Flow Summary	2011	2010	2009
	(US$ million)		
Cash generated from operations[(1)]	**798**	**737**	**432**
Movement in working capital	(98)	(5)	152
Net finance costs paid	(256)	(194)	(81)
Taxation paid	(38)	(9)	(5)
Dividends paid			(37)
Cash retained from operating activities	**406**	**529**	**461**
Investing activities[(2)]	(243)	(188)	(762)
Cash generated/(utilized)	**163**	**341**	**(301)**

(1) Cash generated from operations is calculated by adding to the profit (loss) for the period, net finance costs, taxation and various non-cash items as set out in the table below. For further information, see note 23 to our Group Annual Financial Statements included elsewhere in this Annual Report.

(2) Investing activities in fiscal 2009 includes spending of US$590 million on the acquisition of the Acquired Business.

Total non-cash items (as set out in the table below) in fiscal 2011 amounted to US$782 million, compared to US$469 million in fiscal 2010 and compared to US$567 million in fiscal 2009.

Non-cash Items	2011	2010	2009
	(US$ million)		
Depreciation	414	411	396
Fellings	82	71	69
Asset impairments (reversals) & closures	167	(10)	79
Plantation fair value price	16	(31)	67
Plantation fair value volume	(81)	(67)	(73)
Restructuring provisions raised	135	46	34
BEE charge	5	23	
Other non-cash items	44	26	(5)
Total	**782**	**469**	**567**

Cash generated from operations

Cash generated from operations increased to US$798 million in fiscal 2011 compared to US$737 million in fiscal 2010 mainly due to the US$65 million increase in operating profit excluding special items.

Cash generated from operations increased to US$737 million in fiscal 2010 compared to US$432 million in fiscal 2009 mainly due to the US$306 million increase in operating profit excluding special items.

Working capital

The movement in components of net working capital is as shown in the table below.

Working capital movement	2011	2010	2009
	(US$ million)		
Inventories	750	836	792
% sales	*10.3%*	*12.7%*	*14.8%*
Receivables	831	888	858
% sales	*11.4%*	*13.5%*	*16.0%*
Payables	(1,064)	(1,271)	(1,116)
% Cost of goods sold	*16.5%*	*22.0%*	*22.2%*
Net working capital	**517**	**453**	**534**
Ratio of net working capital to sales	*7.1%*	*6.9%*	*9.9%*

Optimizing the levels of our working capital remained a key management focus area during fiscal 2011. We regularly compare our ratio of working capital to annual sales to those of our peers, and we believe that our working capital management compares favorably in that regard, although we have identified opportunities to improve this further. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all our businesses.

Net working capital expressed as a percentage of sales was higher at the end of fiscal 2011 than fiscal 2010. Comparing the average net working capital balance excluding currency impacts, over the fiscal year to the change in sales excluding currency impacts, the Group net average working capital was 2% lower than in fiscal 2010, while sales increased by 8%.

Net working capital expressed as a percentage of sales was lower at the end of fiscal 2010 than fiscal 2009. Comparing the average net working capital balance excluding currency impacts, over the fiscal year to the change in sales excluding currency impacts, the Group net average working capital was 6% lower than in fiscal 2009, while sales increased by 18%.

As part of the Acquisition in fiscal 2009, we acquired €232 million (US$326 million) of additional working capital, which was included in the purchase price. In the three quarters following the acquisition, great efforts were made by our European division to reduce net working capital to be more in line with the lower levels of business following the global economic crisis. The US$152 million of cash released from working capital in fiscal 2009 relates mainly to working capital reduction in the European business following the Acquisition. Nevertheless, net working capital as a percentage of sales at the end of fiscal 2009 was higher, at 9.9%, than the 7.2% achieved in fiscal 2008.

Capital expenditure

Cash utilized in investing activities for the period from fiscal 2009 to fiscal 2010 is as set out in the table below:

Investing Activities	2011	2010	2009
	(US$ million)		
Capital expenditure	262	211	176
Proceeds on disposals of non-current assets	(6)	(21)	(2)
Decrease in other non-current assets	(13)	(2)	(2)
Acquisition of businesses[1]			590
Total	**243**	**188**	**762**

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(1) The Acquisition by the Group of the Acquired Business on December 31, 2008.

Capital expenditure by region is as follows:

Capital Expenditure by Region	2011	2010	2009
	(US$ million)		
Sappi Fine Paper North America	56	42	28
Sappi Fine Paper Europe	111	95	83
Sappi Southern Africa	93	72	67
Other	2	2	(2)
Total	**262**	**211**	**176**

Capital expenditure excludes capitalized interest.

Our capital expenditure program varies from year to year, and expenditure in one year is not necessarily indicative of future capital expenditure.

During fiscal 2011, our capital expenditure was US$262 million, compared to US$211 million during fiscal 2010. As part of our cash management efforts we managed capital expenditure to a strategic target without compromising the maintenance of our asset base.

During fiscal 2010, our capital expenditure, including US$9 million of plantation land purchases, was US$211 million, compared to US$176 million during fiscal 2009, which included US$1 million of plantation land purchases.

During fiscal 2009, as part of our efforts to address the impact of challenging market conditions and since we were not committed to any significant capital expenditures for expansion, we reduced capital expenditures significantly.

The capital expenditure program for these periods was funded primarily through internally generated funds.

We operate in an industry that requires high capital expenditures and, as a result, we need to devote a significant part of our cash flow to capital expenditure programs, including investments relating to maintaining operations. Capital spending for investment relating to maintaining operations during fiscal 2011, fiscal 2010 and fiscal 2009 amounted to approximately US$213 million, US$173 million and US$147 million, respectively. The capital spending relating to maintaining investments included US$11 million, US$14 million and US$6 million in fiscal 2011, fiscal 2010 and fiscal 2009, respectively, spent in connection with reconfiguring the recovery cycle at the Somerset Mill to increase the utilization of black liquor, a renewable fuel generated as a by-product of the pulping process. This increase in black liquor utilization is estimated to be equivalent to the energy contained in approximately 100,000 barrels of oil per year. We achieved the expected results of lower costs, improved energy efficiency and further reduction of our carbon footprint.

Capital spending for expanding or improving our operations during fiscal 2011, fiscal 2010 and fiscal 2009 amounted to approximately US$49 million, US$38 million and US$29 million, respectively.

Capital expenditure to expand or improve operations in fiscal 2011 included production process improvements across all three of our operating regions and also included the chemical cellulose expansion project at our Ngodwana Mill.

On May 17, 2011, we announced a US$340 million expansion at our Ngodwana mill which will change the product portfolio of the mill to include the annual production of 210,000 tons of chemical cellulose. During November 2011, we also announced an additional investment of US$170 million in our Cloquet mill in the United States, which will enable the facility to produce 330,000 tons of chemical cellulose per annum. Together with our Saiccor Mill in South Africa, these investments will increase our total annual chemical cellulose production capacity to approximately 1.3 million tons. Both projects have been initiated, are progressing well and we plan to commission both projects during the 2013 calendar year.

Capital expenditure to expand operations in the fiscal years 2010 and 2009 primarily consisted of investments to improve production processes, increase our plantation land holdings and increase the capacity of and improve our Saiccor Mill in South Africa. In August 2006, we announced the expansion of the existing capacity at our Saiccor Mill, where Chemical Cellulose products are produced. The previous production capacity of the mill was approximately 600,000 metric tons per annum. This expansion increased the capacity to a maximum of 800,000 tons per annum. The increased capacity came on-line in September 2008 and became fully operational in April 2009.

Capital spending is expected to be funded primarily through internally generated funds. For further details about our capital commitments, see note 25 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Cash generated / (utilized)

Cash generated in fiscal 2011 was US$163 million compared to cash generated of US$341 million in fiscal 2010. The cash flow in fiscal 2011 was negatively impacted by higher working capital, capital expenditure and finance costs. See " Financing Cash Flows Summary of Certain Debt Arrangements".

Cash generated in fiscal 2010 was US$341 million compared to cash utilized in fiscal 2009 of US$301 million, which included US$590 million spent on the Acquisition. The cash flow in fiscal 2010 was improved by US$73 million received in connection with alternative fuel mixture tax credits in our North American business.

Financing cash flows

Net financing cash outflows of US$296 million during fiscal 2011 relate mainly to debt repayments. See " Financing" for a more detailed discussion on the 2011 financing transactions, other cash inflows and cash outflows and the application of the funds received from these transactions.

Gross finance inflows and outflows for fiscal 2010 represent the continuous nature of our various revolving securitization programs, revolving credit facilities and other interest bearing borrowings. In fiscal 2010, cash resources were used to repay approximately US$316 million of long term interest bearing liabilities.

Net financing cash inflows during fiscal 2009 of US$707 million were positively impacted by the December 2008 rights offer raising gross proceeds of US$575 million and the completed high yield bond offerings in July 2009 raising US$300 million and €350 million, both of which are due in 2014. In addition, we successfully refinanced the outstanding €400 million OeKB loan and entered into a new Revolving Credit Facility amounting to €209 million. Total cost related to rights offering and the Refinancing amounted to US$31 million and US$78 million respectively. See " Financing" for a more detailed discussion on the financing transactions, other cash inflows and cash outflows and the application of the funds received from these transactions.

Financing

General

Debt is a major source of funding for the Group.

Gross Debt	2011	2010	2009
	(US$ million)		
Long term interest bearing liabilities	2,289	2,317	2,726
Short term interest bearing liabilities	449	691	601
Bank overdraft	1	5	19
Gross interest bearing liabilities	**2,739**	**3,013**	**3,346**

Cash Position	2011	2010	2009
	(US$ million)		
Cash and cash equivalents	639	792	770
Cash position	**639**	**792**	**770**

Approximately 48% of total assets are funded by gross debt as of September 2011, is shown in the table below:

Total Assets Excluding Cash Equivalents	2011	2010	2009
	(US$ million)		
Gross interest bearing liabilities	2,739	3,013	3,346
Shareholder's equity	1,478	1,896	1,794
Other liabilities	2,091	2,275	2,157
Cash equivalents	(639)	(792)	(770)
Total assets excluding cash equivalents	**5,669**	**6,392**	**6,527**

	%	%	%
Gross interest bearing liabilities	48	46	52
Shareholder's equity	26	30	27
Other liabilities	37	36	33
Cash equivalents	(11)	(12)	(12)
Total assets excluding cash equivalents	**100**	**100**	**100**

The movement in gross debt from the beginning of fiscal 2009 to the end of fiscal 2011 is explained below:

Gross Debt Movement Analysis	2011	2010	2009
	(US$ million)		
Gross debt beginning of period	**3,013**	**3,346**	**2,679**
Debt raised	910	69	1,274
Debt repaid	(1,118)	(316)	(634)
Currency & fair value impact	(66)	(86)	27
Gross debt end of period	**2,739**	**3,013**	**3,346**

We continue to focus on managing the level of our debt and have repaid US$1,118 million of gross debt during fiscal 2011. The debt raised in fiscal 2011 consists mainly of the 2018 Notes, the 2021 Notes, notes issued under the Domestic Medium Term Note Program in South Africa and a €100 million drawing under the Revolving Credit Facility. Debt repayments in 2011 relate mainly to the repayment of the

US$500 million 2012 Notes and the early repayment of €320 million outstanding on the OeKB Term Loan facility. These debt repayments were made using both cash resources and the funds received from the offering of the 2018 Notes and the 2021 Notes. Also included in the 2011 debt repayments is the net funding difference of US$79 million due on replacing the previous short-term receivables securitization program with a new long-term facility. Of the US$274 million decrease in gross debt in fiscal 2011, US$66 million was due to the impact of translating our European and South African debt into US dollars and other fair value adjustments.

Debt profile

Our debt is comprised of a variety of debt instruments, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, commercial paper programs, receivables securitization programs and finance leases. See note 20 to our Group Annual Financial Statements contained elsewhere in this Annual Report.

The make-up of our gross debt is set out in the table below:

Debt Profile	**2011**	**2010**	**2009**
	(US$ million)		
Long-term debt	2,289	2,317	2,726
Short-term debt	449	691	601
Bank overdraft	1	5	19
Gross interest bearing liabilities	**2,739**	**3,013**	**3,346**

Short-term debt of US$449 million includes an amount of €100 million (US$134 million) which was drawn on the €350 million Revolving Credit Facility in July 2011 and held as cash, as well as the ZAR1 billion (US$124 million) Public Bond in South Africa due in October 2011 and which has since been settled from cash resources. The remainder of the short term borrowings consists of the short term portion of long term debt and short term facilities which are rolled quarterly. Short-term debt of US$691 million in fiscal 2010 includes an amount of US$447 million (fiscal 2009: US$400 million) of securitized receivables funding under various short term revolving securitization programs. These short-term programs were replaced with a single long-term program in fiscal 2011 and therefore securitization receivables funding of US$368 million is included within Long-term debt in fiscal 2011.

The average maturity of our long term debt as at September 2011 is 5 years with the profile as shown below:

Gross debt maturity profile (US$ million)

As at the fiscal 2011 year end, short-term debt and overdraft funding was US$450 million and cash and cash equivalents were US$639 million.

At September 2011 the Group had unutilized uncommitted borrowing facilities of approximately US$43 million and available cash and cash equivalents of US$639 million. At September 2010 the unutilized uncommitted borrowing facilities were approximately US$106 million and the available cash and cash equivalents were US$792 million. The committed facilities at the end of fiscal 2011 of US$421 million include the €250 million undrawn portion of the €350 million Revolving Credit Facility. This facility was increased and extended during fiscal 2011 from the €209 million facility that was available and undrawn at the end of fiscal 2010.

US$368 million of the long-term debt at the fiscal 2011 year end was in the form of securitized trade receivables funding under the new three year program. For further information on Group borrowing facilities secured by trade receivables, refer to note 20 to our Group Annual Financial Statements contained elsewhere in this Annual Report.

In fiscal 2011, our financing activities concentrated on utilizing our cash resources to repay certain long-term debt, improving our debt maturity profile by arranging longer term debt to refinance a portion of our shorter term debt and replacing our short-term securitization program with a new long-term program and improving our liquidity position by increasing and extending our revolving credit facility. This was achieved by the issuance of the €250 million 2018 Notes and, the US$350 million 2021 Notes, the repayment of both the US$500 million 2012 Notes and the €320 million outstanding on the OeKB Term Loan facility, the increase and extension of the €209 million revolving credit facility maturing in 2012 to a €350 million Revolving Credit Facility maturing in 2016 and entering into a new three year €360 million long-term trade receivables securitization program, the proceeds of which, together with cash on hand, were used to repay our old short-term securitization program. In fiscal 2010, our financing activities concentrated on reducing gross debt by utilizing our cash resources to repay certain long term debt. See "Item 10 Additional Information Material Contracts".

The make-up of our gross debt by currency is shown in the following table:

Debt by currency ratio	**2011**	**2010**	**2009**
USD	23.0%	24.5%	28.9%
EUR	59.7%	57.7%	55.1%
ZAR	17.3%	17.8%	16.0%

Included in the euro denominated debt is the US$300 million 2014 Notes which have been swapped into euro.

Interest on Borrowings

Raising new debt and refinancing existing debt in the third quarter of fiscal 2011, while improving the interest payable on borrowings going forward, resulted in once-off breakage costs of approximately US$43 million recorded as interest paid in fiscal 2011. The refinancing in the last quarter of fiscal 2009 resulted in substantially higher margins than we were previously paying, mainly because of prevailing market conditions and our credit ratings during that period. Our interest payable on borrowings therefore increased in fiscal 2010 compared to fiscal 2009.

Interest Rate Risk

The Group has a policy of maintaining a balance between fixed and variable rate loans which enables it to minimize the impact of borrowing costs on reported earnings. Exceptions are made when fixed rates can be obtained at attractive rates, as this strategy locks in acceptable interest rates for the life of the borrowing instrument. Hedging activities in relation to borrowings are restricted to interest rate swaps and where appropriate, cross-currency swaps.

Upon issuing the US$350 million 2021 Notes, the fixed interest rate was, in April 2011, swapped into a floating interest rate using an interest rate swap. Upon issuing the US$300 million 2014 Notes, such notes were, in August 2009, swapped from fixed USD interest rates into fixed euro interest rates using an interest rate and currency swap. At the end of fiscal 2011, the ratio of gross debt at fixed and floating interest rates, after the impact of the interest rate swaps, was 65:35 compared to 80:20 at the end of fiscal 2010.

Short term borrowings

The Group's short-term borrowings' position improved during fiscal 2011 with the implementation of a long-term trade receivables securitisation program to replace the previous short-term program. In addition, the amended and restated Revolving Credit Facility improved the liquidity headroom available to the Group.

Other than the securitization funding and the Revolving Credit Facility drawing, the short term borrowings have been largely consistent throughout the year. The Group issued no commercial paper during fiscal 2011 or 2010 and relies on the Revolving Credit Facility and cash on hand for short term liquidity requirements.

Summary of Certain Debt Arrangements

Set forth below is a summary of certain key terms of some of our significant debt arrangements. Reference should also be made to those debt arrangements which are filed as, or incorporated by reference as, exhibits to this Annual Report. See Note 20 to our Group Annual Financial Statements contained elsewhere in this Annual Report "Item 10 Additional Information Material Contracts" and " Off-Balance Sheet Arrangements".

Revolving Credit Facility. On April 28, 2011, we amended and restated our existing revolving credit facility dated August 27, 2009. The amended and restated revolving credit facility provides for up to €350 million of borrowing availability in euro, US dollars and certain other currencies (the "Revolving Credit Facility"). The commitments under the Revolving Credit Facility terminate on March 28, 2016 and the annual interest rate on borrowings is calculated based on Libor or Euribor plus a funding margin varying between 1.65% and 4.75% depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, Sappi Papier Holding GmbH ("SPH") and certain other subsidiaries of Sappi Limited, as well as secured, together with certain of our other indebtedness, by first-priority security interests over certain assets of Sappi Limited, SPH and the other subsidiary guarantors. The Revolving Credit Facility contains an interest coverage covenant, a leverage covenant and a net debt to total capitalization covenant, in each case measured at the Sappi Limited consolidated level and set at various levels in line with the long term forecast of Sappi's results. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on dividend distributions, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals. As of September 2011, we were in compliance with these covenants. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

2018 and 2021 Secured Notes. On April 14, 2011, Sappi Papier Holding GmbH ("SPH"), issued €250 million 6.625% Senior Secured Notes due 2018 (the "2018 Notes") and US$350 million 6.625% Senior Secured Notes due 2021 (the "2021 Notes"). The interest on the 2018 Notes and the 2021 Notes is payable semi-annually on April 15 and October 15 of each year, commencing on October 15, 2011. The 2018 Notes and the 2021 Notes mature on April 15, 2018 and April 15, 2021, respectively. The 2018 Notes and the 2021 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited, and are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility. Sappi has agreed to observe certain covenants with respect to the 2018 Notes and the 2021 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

OeKB Term Loan Facility. In April 2011, we used a portion of the net proceeds from the issuance of the 2018 Notes and the 2021 Notes to repay €200 million of our OeKB Term Loan Facility. We repaid the remaining €120 million of our OeKB Term Loan balance from cash on hand in June 2011.

2014 Secured Notes. On July 29, 2009, PE Paper Escrow GmbH (the "Issuer"), a special purpose limited liability company wholly owned by SPH, issued €350 million 11.75% Senior Secured Notes due 2014 and US$300 million 12.00% Senior Secured Notes due 2014 (together, the "2014 Notes"). Interest on the 2014 Notes is payable semi-annually, commencing on February 1, 2010, and the 2014 Bonds mature on August 1, 2014. The 2014 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited, SPH and certain other subsidiaries of Sappi Limited, and are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility. Sappi has agreed to observe certain covenants with respect to the 2014 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. For further information, see "Item 19 Exhibits" and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Domestic Medium Term Note Program. In June 2009, Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing (Pty) Ltd) combined its ZAR3 billion (US$437 million) Domestic Medium Term Note Program established in June 2006 (the "Initial Program") with its commercial paper program established in November 2003 ("Initial CP Program"), into a new ZAR5 billion Domestic Medium Term Note Program (the "DMTN Program") which supersedes and replaces the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. On June 27, 2006, Sappi Southern Africa issued ZAR1 billion (US$146 million) senior unsecured fixed rate notes (the "First Tranche") under its Initial Program at a fixed interest rate of 9.34% payable semi-annually on December 27, and June 27, of each year, commencing on June 27, 2006. The securities issued under the First Tranche mature on June 27, 2013. On September 25, 2007, Sappi Southern Africa issued a second tranche of ZAR1 billion (US$146 million) senior unsecured fixed rate notes (the "Second Tranche") under the Initial Program at a fixed interest rate of 10.64%. The interest on the securities issued under the Second Tranche is payable semi-annually on April 14 and October 14 of each year, commencing on April 14, 2008. The securities issued under the Second Tranche matured on October 14, 2011 and were repaid using the issuance proceeds of the Fourth Tranche and cash on hand. On June 30, 2009, Sappi Southern Africa issued ZAR325 million (US$41 million) and on July 13, 2009, issued ZAR175 million (US$21 million) senior unsecured fixed rate notes (collectively the "Third Tranche") under the DMTN Program at a fixed interest rate of 12.13%, payable semi-annually on June 30 and December 30 of each year, commencing on June 30, 2009. The securities issued under the Third Tranche mature on June 30, 2012. On June 28, 2011, Sappi Southern Africa issued ZAR500 million (US$62 million) senior unsecured fixed rate notes (the "Fourth Tranche") under the DMTN Program at a fixed interest rate of 9.63%, payable semi-annually on June 28 and December 28 of each year. The securities issued under the Fourth Tranche mature on June 28, 2016. The proceeds of the Fourth Tranche were used to partially refinance the securities issued under the Second Tranche that matured on October 14, 2011. Sappi Southern Africa has agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. For further information, see note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

2012 and 2032 Guaranteed Notes. In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US$500 million 6.75% unsecured guaranteed notes due 2012 (the "2012 Notes") and US$250 million 7.50% unsecured guaranteed notes due 2032 (the "2032 Notes"), guaranteed by Sappi Limited and Sappi International S.A. On March 15, 2011, we purchased for cash US$150 million principal amount of our outstanding US$500 million 2012 Notes for an aggregate consideration of approximately US$160.3 million (which included accrued interest thereon of approximately US$2.5 million). Following the repurchase, the remaining outstanding principal amount of our 2012 Notes was US$350 million, which was redeemed in April 2011 with a portion of the proceeds of the issuance of the 2018 Notes and the 2021 Notes. Interest on the 2032 Notes is payable semi-annually. The indenture governing the 2032 Notes provides for an optional redemption of the 2032 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indentures, together with, in each case, accrued interest. The indenture governing the 2032 Notes contains events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and certain bankruptcy events. The indenture also contains certain customary covenants, which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations. For further information, see "Item 19 Exhibits" and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Covenants

Financial Covenants apply to US$23 million of our non-South African bank debt, the €350 million Revolving Credit Facility and our Securitization borrowings. In addition, our 2014 Bonds, 2018 Bonds and 2021 Bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments, including the payment of dividends. As regards dividend payments, the group is restricted from paying cash dividends in certain circumstances. In addition, any cash dividends paid may not exceed 50% of Net Profit excluding any Special Items of a non-cash nature.

Separate covenants apply to certain debt in our Southern African businesses.

Our financial covenants require that:

(i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 2.00:1 for all quarters ending from March 2011 to December 2013, 2.25:1 for all quarters ending from March 2014 to June 2014 and 2.50:1 for quarters ending September 2014 to March 2016;

(ii) The ratio of net debt to EBITDA be not greater than 4.50:1 for all quarters ending March 2011 to December 2013, 4.25:1 for all quarters ending from March 2014 to June 2014, 4.00:1 for all quarters ending September 2014 to December 2014 and 3.75:1 for all quarters ending March 2015 to March 2016;

(iii) The percentage of net debt to total capitalization as at the end of each quarter until March 2016, shall not exceed 65%; and

(iv) With regard to Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing (Pty) Ltd) and its subsidiaries only, at the end of any fiscal quarter, the percentage of net debt to equity must not exceed 65%, and at the end of each fiscal year, the ratio of EBITDA (before special items) to net interest paid must not be less than 3.00:1.

The table below shows that as at September 2011 we were in compliance with these covenants. With regards to our financial covenants, EBITDA is defined under the relevant agreements and net debt is calculated using average exchange rates for fiscal 2011.

	Fiscal 2011	Covenants
	(US$ million)	
Group Covenants		
Net Debt to EBITDA	2.60	<4.5
EBITDA to Net Interest	3.25	>2.0
Net Debt to Total Capitalization	59%	<65%
Sappi Southern Africa Covenants		
Net Debt to Equity	21%	<65%
EBITDA to Net Interest	7.69	>3.0

The Group financial covenants also apply to our securitization program, included in the US$390 million amount mentioned above, with outstanding balances of US$368 million at the end of September 2011. No Sappi Limited guarantee has been provided for these facilities.

Gearing

Gross debt to capitalization for each of the past three years was as set out below:

	2011	2010	2009
	(US$ million)		
Gross debt	2,739	3,013	3,346
Gross debt and equity	4,217	4,909	5,140
Gross debt to capitalization ratio	**65%**	**61%**	**65%**

Management monitors the Group's indebtedness in the context of the complex trade-offs associated with determining an appropriate level of debt finance, namely financial risk, credit rating, the cost of debt and the expected return that can be earned on that debt. In regard to our debt level we also monitor cash flow to net interest cover. We recognize that we operate in a mature industry that normally generates substantial and reasonably reliable cash flows and that management has some flexibility to delay or minimize capital expenditure (which is a major use of cash) in difficult times to reduce financial risk. As previously described in this "Liquidity and Capital Resources", in view of the continuing difficulties in the world financial markets and macro-economic conditions, focusing on cash generation remains a priority. We are also aware that with uncertainty in financial markets, refinancing existing or raising additional debt and the associated terms are likely to be more challenging. The refinancing activities of 2009 and 2011 have contributed greatly to extending the Group's debt maturity profile.

Off-Balance Sheet Arrangements

Letters of credit discounting. To improve the Group working capital, the Group sells certain Letters of Credit to Royal Bank of Scotland (Hong Kong) and DBS Bank (London) every fiscal month end on a non-recourse basis.

'Scheck-Wechsel'. The Scheck-Wechsel is a financial guarantee supplied by Sappi to the bank of a customer who wishes to obtain a loan to finance early payment of specified trade receivables owed to us (thereby benefiting from an early settlement discount). By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognized at fair value. At inception the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short term instrument (maximum 90 days). Therefore, the fair value at inception is zero. Subsequently, the financial guarantee contract is measured at the higher of:

(i) The amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and

(ii) The amount initially recognized less any cumulative amortization.

As no default event has occurred, no provision is set up and the fair value at the end of fiscal 2011 remains zero. However, according to IAS 37 a contingent liability of US$32 million (2010: US$29 million) has been disclosed in this respect.

Sappi Southern Africa securitization facility. Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of such receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

The total amount of trade receivables sold at the end of September 2011 amounted to US$121 million (September 2010: US$215 million). Details of the securitization program at the end of fiscal 2011 and 2010 are disclosed in the tables below.

If this securitization facility was to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% credit risk described above. There are a number of events which may trigger termination of the facility, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally however, future trade receivables would be recorded on balance sheet until a replacement agreement was entered into.

Details of the securitization facility at September 2011 and 2010 are set out below:

Bank	Currency	Value	Facility	Discount charges
September 2011				
Rand Merchant Bank	ZAR	ZAR979 million	Unlimited*	Linked to 3 month JIBAR
September 2010				
Rand Merchant Bank	ZAR	ZAR1,510 million	Unlimited*	Linked to 3 month JIBAR

* The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on-balance sheet securitization facilities that are applicable to our non-South African businesses being Sappi Trading, Sappi Fine Paper North America and Sappi Fine Paper Europe are described in notes 16 and 20 of our Group Annual Financial Statements contained elsewhere in this Annual Report.

For details of operating leases please refer to note 25 of our Group Annual Financial Statements contained elsewhere in this Annual Report.

Contractual Obligations

We have various obligations and commitments to make future cash payments under contracts, such as debt instruments, lease arrangements, supply agreements and other contracts. The following table includes information contained within the Group Annual Financial Statements included elsewhere in this Annual Report, as well as information regarding purchase obligations. The tables reflect those contractual obligations at the end of fiscal 2011 that could be quantified.

	Payments Due by Period (US$ millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
On Balance Sheet					
Long-Term Debt Obligations[1]	3,868	642	1,686	207	1,333
Capital Finance Lease Obligations[1]	45	19	19	7	
Other Long-term Liabilities reflected on the Balance Sheet[4]	553				
Off Balance Sheet					
Operating Lease Obligations[2]	105	29	29	11	36
Purchase Obligations[3]	108	67	39	2	
Capital Commitments[5]	61	57	4		
Group Total	**4,740**	**814**	**1,777**	**227**	**1,369**

(1) Includes interest obligations to maturity to service the debt using interest rates prevailing at September 2011. The principal debt is US$2,738 million.

(2) Operating leases are future minimum obligations under operating leases. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.

(3) Unconditional Purchase Obligations are obligations to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts, relating to among others, timber and power).

(4) The Other Long-Term Liabilities of US$553 million (fiscal 2010: US$546 million) on balance sheet, relate mainly to post-employment benefits, post-retirement benefits other than pension obligations, workmen's compensation, and other items which do not have a payment profile. Refer to note 21 of our Group Annual Financial Statements included elsewhere in this Annual Report.

(5) Capital commitments are commitments for which contracts have been entered into. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.

Research and Development, Patents and Licenses

Strategically Sappi's Research and Development (R&D) focuses in two broadly defined areas. The first targets Sappi's core businesses where the drive is to improve current products and processes, as well as to, bring new product innovation to market, thereby serving our current markets through differentiation on cost and/or quality. The second area concentrates on opening up new markets for Sappi, through the development of distinctly new products and processes with the intent to maximize Sappi's opportunities as a processer and producer from a renewable resource base.

R&D is managed at a number of regional technology centers. These "centers of excellence" liaise globally to leverage a unique set of skills to both improve processes and reduce costs, and to provide customer-focused product development. In fiscal 2011 our R&D expenditure was US$38 million, an increase from the fiscal 2010 expenditure of approximately US$35 million. In fiscal 2009 our R&D expenditure was US$31 million, reflecting a curtailment of research expenditure due to the difficult global economic situation which heavily impacted the pulp and paper industry. Since 2009, Sappi's R&D expenditure has increased approximately 10% year on year. During the same time, in response to the gradual decline in demand that is evident in Sappi's graphic and fine paper markets, the proportion of this expenditure directed at developing products for new business and markets has increased from 6% to 12% of this total expenditure.

North America

Sappi Fine Paper North America's R&D activities are centered at Westbrook. This center has a proud history of product and process innovation; for example, it developed the first machine coated and calendared one-sided and two-sided coated paper as well as the first high bulk coated paper.

In addition, Sappi Fine Paper North America has a number of proprietary technologies, including the on-line finishing technology and its Ultracast electron-beam technology. Sappi Fine Paper North America's on-line finishing technology is used in production of coated paper at Somerset and drove a new quality standard for lightweight coated publishing papers. Our Ultracast technology is utilized in speciality papers such as release papers used in the production of high fidelity synthetic leather and other decorative surfaces.

Research and development efforts are focused on next generation product design for margin improvement and customer features and benefits in both the release and graphic papers businesses. We have recently developed a unique textured leather offering with positive customer response. Current technology platform development centers on innovative materials research which has resulted in a more eco-friendly and cost effective binding technology. Lastly, a strong emphasis remains on expanding the use of our unique Ultracast Technology into new growth markets.

Europe

R&D in Sappi Fine Paper Europe has focused predominantly on the development of digital grades, alternative raw materials and on innovative ways to substantially lower manufacturing costs.

After the introduction of the toner-based grade, Digital TOP, in fiscal 2011 the effort has now shifted to the inkjet market where two grades, a coated grade and a pigmented grade are expected to be launched in 2012.

In today's paper manufacturing process, many raw materials used are either mineral-oil based or obtained from mining operations. Sappi Fine Paper Europe's R&D is developing processes that enable use of raw materials that result from primary processes as a waste or byproduct in order to further boost the level of sustainability of coated paper. As has been developed in Sappi Fine Paper North America, new binder technology that is more eco friendly and cost effective has been introduced into the European products. In both North America and Europe Sappi has developed a set of alternative binder techniques that are expected to provide a buffer against the impact of increasing oil prices on latex prices.

Using R&D's adapted coating application technology, Sappi Fine Paper Europe has been able to significantly reduce manufacturing costs. In addition, the further adaptation of paper-architecture of coated paper allows the use of cheaper raw materials, thus lowering manufacturing costs significantly at various mills.

Southern Africa

Building on the proud history of development in South Africa, which includes the development of the Sapoxal oxygen bleaching process, applied research is conducted over the full value chain of papermaking from fibre to pulping, bleaching, stock preparation as well as product development and the environment. Highlights for the year include the successful introduction of enzymes to reduce the energy consumption during refining and improve pulp properties into two further mills, the scaling up of the pilot process for producing dissolving pulp from the commercial wood species in the regions using the pre-hydrolysis kraft process into the Ngodwana Mill expansion, and the identification and implementation of opportunities to reduce refining energy at the Kirkniemi mill in Europe.

At our forest research center in KwaZulu-Natal, we focus on the genetic improvement of trees planted in Sappi's plantation forests to maximize the yield of high quality pulp obtained per hectare. This includes breeding and selecting trees with fibre properties that enhance the characteristics of our end products, as well as, breeding for pest and disease resistance to ensure a sustainable supply of timber. Investigating new molecular genetic breeding tools which can increase the speed and efficiency of the current tree improvement processes, forms part of the research. The recent adoption of DNA fingerprinting tools to ensure the correct identity of individuals in the breeding populations and production seed orchards, marks the first operational adoption of the molecular genetic tools.

At the Saiccor mill, there is a research group dedicated to the production of chemical cellulose. The focus is largely on product development to provide more product options and expand the value added product range from Saiccor, and meet the needs of Sappi's global customers.

Share Buy Backs

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. No shares were acquired during fiscals 2011 and 2010. Some of these treasury shares have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. See notes 17 and 28 to our Group Annual Financial Statements included elsewhere in this Annual Report for additional details relating to treasury shares.

Considering that it is the Group's stated intention to reduce debt, it is unlikely that the Group will seek approval for the purchase of Sappi shares in the foreseeable future.

On December 02, 2011, the closing price for our shares on the JSE was 2,309 SA cents per share and the closing price of the ADSs on the NYSE was US$2.81 per ADS. See "Item 9 The Offer and Listing Offer and Listing Details" for an explanation of share prices.

In terms of the listing requirements of the JSE a company may not repurchase its shares during a closed period, which is defined as the period between the end of a fiscal reporting period and the publication of the results for that period and any period during which the company is trading under a cautionary announcement.

Dividends

Our policy is to consider dividends on an annual basis and to declare cash dividends in US dollars. Taking into account the macro-economic and global financial market conditions, our performance in fiscal 2011 as well as our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided in November 2011 not to declare a dividend for fiscal 2011.

Our ability to pay dividends is restricted by the terms of the Refinancing. See "Item 8 Financial Information Dividends" for a listing of the most restrictive conditions for declaring cash dividends.

Mill Closures, Acquisitions, Dispositions, Impairment, Joint Venture and Broad Based Black Economic Empowerment

Forestry investment: During fiscal 2011, we announced a joint proposal with AsgiSA (Accelerated and Shared Growth Initiative for South Africa) to accelerate the establishment and management of 30,000 hectares of commercial tree plantations by 2020 in the Eastern Cape province of South Africa.

Adamas mill closure: We announced the possible closure of our Adamas mill in South Africa on May 23, 2011 and entered into a consultation process with employee representatives soon thereafter. Unable to find a viable alternative for the mill, we announced the final closure of the mill on August 03, 2011. We ceased operations at the mill later in August 2011 and transferred all products produced at the facility to other Sappi mills in South Africa to ensure an un-interrupted supply of products to our end customers.

Biberist mill closure: On March 31, 2011 we announced, that due to the persistent overcapacity in the European coated and uncoated fine paper market, we would be entering into a consultation process with employee representatives and social partners at our Biberist mill in Switzerland. Despite the combined efforts of mill employees and management, we were unable to identify a viable alternative to ensure the future existence of the mill. On July 20, 2011, we announced the closure of the Biberist mill and ceased operations at the mill during August 2011. As a result of this closure, we reduced our annual production capacity by 500,000 tons of coated and uncoated fine paper in the European market. We expect that most of our affected customers will in the future be serviced from other European mills.

Broad Based Black Economic Empowerment deal: In 2006, we implemented the Lereko Property Consortium (Lereko) BEE deal. However, this transaction did not meet our undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BEE in the forestry industry and includes the BEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BEE targets). Accordingly, we decided to unwind the 2006 deal, which resided at a South African subsidiary level, to implement a new sustainable transaction of equivalent value at the holding company level by making use of our listed securities.

In June 2010, we completed a BEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of Sappi Limited were issued to our strategic empowerment partners, and to various trusts for the benefit of our black managers, our employees and growers/communities in the geographic areas where our South African business has operations. The value of the BEE transaction (approximately ZAR814 million, US$115 million) corresponds to an effective 30% interest in Sappi Southern Africa, which meets the requirements of Forest Sector Charter and BEE legislation in general. For further information on the BEE transaction, see "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions" and " South African Economic and Political Environment", and note 28 of our Group Annual Financial Statements contained elsewhere in this Annual Report.

Usutu mill impairment and closure. The Usutu mill was closed on January 31, 2010 in response to adverse market conditions, as well as the cumulative severe impact of fire damage over the past few years. In particular, fires in August 2008 destroyed 40% of the Usutu timber crop. As a result, Usutu mill was no longer sustainable.

Kangas mill closure. Due to a reduction in the European consumption of coated magazine paper arising from the global recession, our Kangas mill in Finland had experienced a substantial amount of commercial downtime since the beginning of 2009. We announced the closure of the mill in January 2010. All our affected customers are now served from our other European operations. On July 7, 2010, we sold the Kangas mill land and buildings to M-real for €13 million.

Muskegon mill impairment and closure. In light of significantly lower global demand for coated woodfree paper products, operations at Muskegon mill were temporarily suspended on April 01, 2009. We announced the permanent closure of the Muskegon mill on August 26, 2009 and during August 2011 we sold the Muskegon mill site for US$2.2 million to a third party.

Acquisition of coated paper business of M-real Corporation: On December 31, 2008, we acquired four paper mills from M-real Corporation: the Kirkniemi mill and the Kangas mill in Finland, the

Stockstadt mill in Germany and the Biberist mill in Switzerland and other specified assets, as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated woodfree and coated mechanical paper business of M-real Corporation. The four acquired mills became part of Sappi Fine Paper Europe.

Sappi acquired M-real's coated graphic paper business for an enterprise value of €750 million (approximately US$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital) amounting to €102 million (US$189 million) in total. The Acquisition was mainly financed through a combination of the issuance to M-real Corporation of €32 million (US$45 million) Sappi Limited shares, vendor loan notes of €220 million (US$307 million), which has been fully repaid, and a cash consideration of €401 million (US$565 million) obtained mainly from a ZAR5.8 billion (US$575 million) rights offering of Sappi Limited shares.

Blackburn mill closure and cessation of production from PM 5 at Maastricht mill. In August 2008, we announced that we had undertaken a review of our European production activities in response to overcapacity and significant input cost pressure. On September 22, 2008 we reached an agreement with labor representatives at our Blackburn mill, pursuant to which the mill was permanently closed on November 12, 2008. On October 17, 2008, production had ceased at the mill. The sales office for coated woodfree paper in the UK and the specialties sales and marketing organization have remained in operation. As a result of our review, we also ceased production at PM 5 at our Maastricht mill on December 19, 2008, having reached an agreement with the mill's works council regarding such action.

We offer customers comparable products and services from our other sites in Europe and did not have any supply interruption. Blackburn mill had an annual capacity of 120,000 tons of coated woodfree paper. PM 5 at Maastricht mill had an annual capacity of 60,000 tons of speciality paper. Following the closure of our Blackburn mill and cessation of production from PM 5 at our Maastricht mill, our coated woodfree paper capacity was reduced by 190,000 tons after giving effect to a reallocation of our products.

In 2004 we acquired 34% of Jiangxi Chenming Paper Company Limited, a company incorporated in the People's Republic of China. The joint venture commissioned a coated mechanical paper machine with a capacity of 350,000 tons per annum, a mechanical pulp mill with a capacity of 187,000 tons per annum and a de-inked pulp mill with a capacity of 136,000 tons per annum during 2005.

Impairment of assets. The Group has reviewed the carrying value of all its non current assets in fiscal 2011 and has determined that the impairment provision, as provided in the Group Annual Financial Statements, was sufficient to record all necessary impairment of non-current assets.

Pensions and Post-retirement Benefits Other than Pensions

The Group provides various defined benefit post-retirement benefits to its active and retired employees worldwide, including pension, post-retirement health and other employee benefits. The Group also provides various defined contribution schemes to its active employees worldwide.

For defined contribution schemes, the Group is only obligated to pay contributions according to contribution scales applicable in each scheme. Contributions are expensed for the period in which they fall due. No actuarial risk exists for the company with respect to these schemes.

Our funded defined benefit pension schemes generally hold a broad range of assets including a significant portion of bonds, in line with an investment strategy to preserve funded status and balance risk and return.

In the first quarter of fiscal 2011, bond yields and equity markets rose, projecting a reduced consolidated net balance sheet liability to the group. However in the final quarter, this reversed, regionally to varying degrees leading to the group deficit being slightly higher at year-end. Net balance sheet liabilities to schemes in Europe were slightly improved compared to fiscal 2010 but in North America slightly deteriorated. Whilst falling equities and bond yields adversely affected our schemes in the final quarter, our funded schemes in North America and continental Europe are exposed to high quality treasury bonds and benefited from strong investment gains that also arose during the final quarter, helping offset the former adverse effects. Separately, in southern Africa, an increase in the provision was made to cover higher expected annual increases to pensions in payment, contributing to an actuarial loss to schemes in that region.

Following our investment outlook envisaged as we reported at fiscal 2010, we continue to believe markets will remain volatile in the short-term. We believe markets are being driven extensively by political influences rather than investment fundamentals and this will continue whilst the sovereign debt crisis remains unresolved. To this extent investment conditions are expected to remain difficult, with a lack of widespread investment growth opportunities and economic growth and stability return.

However, it is the interaction of these factors that will determine the extent to which the pension schemes balance sheet liabilities will change. Listed below are examples of situations that could affect the balance sheet position of our pension schemes:

Falls in equity markets coupled with corresponding falls in bond markets (rising bond yields) will most likely have a broadly neutral effect on balance sheet liability.

If the prospect of deflationary economic scenarios emerges, then, if coupled with very low discount rates, this would increase liabilities in our schemes, particularly due to the fact that pensions cannot reduce.

Recoveries in equity markets coupled with rising bond yields will most likely result in cuts in balance sheet deficits.

Rising bond markets (falling bond yields) possibly as a result of increased investor demand coupled with underperforming equities will increase balance sheet deficits.

Rising inflation rates will, in isolation, increase benefit costs and liabilities (such as post retirement pension increases or salary growth).

Where rising inflation is coupled with rising nominal bond yields, this will most likely cut liabilities in schemes providing fixed (non-inflationary increasing) benefits.

Statutory minimum funding requirements affect the pace of funding our defined benefit schemes. Most take account of yields on assets such as government bonds or interbank interest rate swap curves. While yields on these asset classes in some markets remain low, we expect the prospect of paying additional contributions to meet onerous minimum funding targets. However recent statutory easements in the pace of funding on these bases have provided contribution relief to the Group.

The balance sheet liability of the group's pension schemes increased by US$7 million from a deficit of US$261 million as of September 2010 to a deficit of US$268 million as of September 2011. However, US$168 million of this liability relates to unfunded schemes (mainly in Europe). With these unfunded liabilities stripped out, the Group has a deficit of US$151 million in our funded schemes. Post-retirement benefit liabilities (other than pensions) reduced by US$3 million from a deficit of US$185 million as of September 2010 to a deficit of US$182 million as at September 2011.

Benefit obligations and fair value of plan assets are as follows:

	September 2011		September 2010		September 2009	
	Benefit Obligation	Fair value of plan Assets	Benefit Obligation	Fair value of plan Assets	Benefit Obligation	Fair value of plan Assets
			(US$ millions)			
Pensions	1,827	1,559	2,069	1,808	1,945	1,695
Post-retirement benefits other than pensions	182		185		179	

Actual investment returns from the assets of the various regional funded pension schemes during 2011 were positive, and higher than actuarial projections in South Africa, but lower elsewhere. Collectively this contributed to increased asset values but also to an actuarial loss as at September 2011. Overall, investment returns were +4.4% or US$80 million over the fiscal year but includes an actuarial loss of US$31 million.

Discount rates increased in continental Europe but reduced in North America, reflecting corresponding changes to average yields on corporate bonds (as prescribed in the accounting standard) of similar duration to the liabilities. For the pension schemes the net effect from different regions contributed to an overall increase in liabilities shown as actuarial losses of US$23 million. Experience adjustments (i.e. changes in membership or benefits) were favorable, contributing to an actuarial gain of US$4 million. Contributions paid to the schemes were a major beneficial factor, leading to a reduction in liabilities of US$58 million.

At a consolidated level, there were no significant factors over and above any others that could be the leading cause of the change in net balance sheet liability as is seen by its relatively small shift over the fiscal year. Actuarial losses from both assets and liabilities were slightly more than offset by company contributions.

Currency effects were minimal leading to a small loss of US$1 million in the net balance sheet liability.

Minor factors contributed to a small net fall in liabilities in the post-retirement benefits (other than pensions) of US$3 million.

Defined benefit schemes remain open to mill employees in North America and continental Europe, with notable exceptions being Austria and the UK and one scheme in North America for regional office employees. The 'main' defined benefit scheme in South Africa is in a closed phase where the active membership is a closed group that will gradually reduce over time.

Whilst the group accounts in its annual reporting the effects from various financial and demographic factors, a change in the prescribed valuation method in the accounting standard presents a rare but otherwise further consideration to the group. Shortly after the publication in June 2011 of revisions in the Accounting Standard, IAS19, the group conducted an investigation into the effects of adopting the revised Standard. The most significant effect came from the potential loss of the ability to pre-book outperformance from growth assets in the pension expense of our funded plans. Simulating a theoretical adoption during fiscal 2011, it was estimated that the 2011 regional pension expenses would collectively increase by US$17 million, 70% of which would emerge from our North American region. The group will be adopting the new Standard during fiscal year beginning October 2013. For further information see note 27 in our Group Annual Financial Statements included elsewhere in this Annual Report.

Insurance

The Group has an active program of risk management in each of its geographical operating regions to address and to reduce exposure to property damage and business interruption. All production and distribution units are subjected to regular risk assessments, the results of which receive the attention of senior management. The risk assessment and mitigation programs are coordinated at Group level in order to achieve a harmonization of methodology and standardization of approach.

Sappi follows a practice of insuring its assets against unavoidable loss arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Our insurance also covers the business interruption costs which may result from such events. Specific environmental risks are also insured. In line with previous years, the Board decided not to take separate cover for losses from acts of terrorism, which is consistent with current practice in the paper manufacturing industry. This insurance cover excludes insurance for our plantations, which is placed separately.

Sappi has a global insurance structure and the bulk of its insurance is placed with its own captive insurance company, Sappisure Försäkrings AB, domiciled in Stockholm, Sweden, which re-insures most of the risks in the insurance market.

Sappi has successfully negotiated the renewal of its 2011 insurance cover at more favorable rates to those of 2010. Self-insured retention for any one property damage occurrence is €20.5 million, with an annual aggregate of €33 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, we believe that the loss limit cover of €700 million should be adequate for what we have determined as the reasonably foreseeable loss for any single claim. From fiscal 2011 our property damage insurance policy is euro denominated as most of our assets are based in euro denominated jurisdictions.

Insurance cover for credit risks currently applies on a regional basis to Sappi's Northern American, European and South African domestic trade receivables subject to a US$5 million Group aggregate first loss.

Sappi has placed the insurance for its plantations on a stand-alone basis through Sappisure Försäkrings AB into international insurance markets. Cover was purchased from May 1, 2011 to April 30, 2012.

Critical Accounting Policies and Estimates

Management of the group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results. The group believes that the following accounting policies are critical due to the degree of management judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

Impairment of assets other than goodwill and financial instruments. The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or the reversal of a previously recognised impairment.

Intangible assets not yet available for use are tested at least annually for impairment. In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

Refer to note 9 to our Group Annual Financial Statements included elsewhere in this Annual Report for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

Goodwill. The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently where there is an indication of impairment based on an allocation to one or more CGUs in which the synergies from the business combinations are expected.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in allocating goodwill to CGUs.

Property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

Depreciation which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

The following methods and rates were used during the year to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line 40 years
Plant	straight-line 5 to 20 years
Vehicles	straight-line 5 to 10 years
Furniture and equipment	straight-line 3 to 6 years

Taxation. Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case, it is also recognised in other comprehensive income.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Secondary Tax on Companies (STC) is a South African income tax, that arises from the distribution of dividends and is recognised in profit or loss at the same time as the liability to pay the related dividend.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Before recognising a deferred tax asset the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the Group considers profit forecasts, including the effect of exchange rate fluctuations on sales and external market conditions.

Derivatives and hedge accounting

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognized in the same line of profit or loss as the change in the hedged item.

Cash flow hedges

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss.

The gains or losses, which are recognized in other comprehensive income, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecasted transaction results in the recognition on a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from other comprehensive income to the underlying asset or liability on the transaction date.

Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in other comprehensive income is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognized immediately in profit or loss.

Refer to note 29 to the Group Annual Financial Statements, included elsewhere in this Annual Report for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

Plantations. Plantations are stated at fair value less estimated cost to sell at the harvesting stage.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 10 to the Group Annual Financial Statements, included elsewhere in this Annual Report.

Estimated prices less cost of delivery

The Group uses a 12 quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. 12 quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

Mature timber that is expected to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

The fair value is derived by using the prices as explained above reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

Discount rate

The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

Volume and growth estimations and cost assumptions

The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between eight and eighteen years. In the southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled it is taken out of plantations and accounted for under inventory and reported as depletion cost (fellings).

Depletion costs include the fair value of timber felled, which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of 8 to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognized as silviculture costs in cost of sales (see note 4.1 to the Group Annual Financial Statements, included elsewhere in this Annual Report).

Pension plans and other post-retirement benefits. Defined-benefit and defined-contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan. Examples of "events" are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group's policy is to recognize actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the vesting period of those benefits.

The net liability recognized in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognized asset is limited to the net total of unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 27 to the Group Annual Financial Statements, included elsewhere in this Annual Report for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2011.

Provisions. Provisions are recognized when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgment by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

Restructuring provisions. Restructuring provisions are recognized when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, and are recorded in other operating expenses within profit or loss.

Environmental restoration and decommissioning obligations. The group initially recognizes a liability for management's best present value estimate for costs expected to be incurred in dismantling and removing non-current assets when the group ceases operating at its production facilities. This liability is accreted over time and actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's production facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected-present-value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

Share-based payments.

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognized in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using modified binomial option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii)

Broad-Based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and AC 503 and the fair value of the services rendered by employees in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions management uses estimates and assumptions to determine share-based payment expenses. Key inputs to this process include: the volatility of the group's share price, employee turnover rate and dividend pay-out rates which are used as necessary in determining the grant date fair value.

Note 28 to the Group Annual Financial Statements, included elsewhere in this Annual Report, provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2011.

Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

Interpretations and amendments to IFRS

The group adopted IFRIC 19, amendments to IFRS 1, IFRS 2, IAS 32 and various improvements to IFRSs in fiscal 2011. The adoption of these interpretations, amendments and improvements to standards did not have a material impact on the group's reported results or financial position.

Accounting standards, interpretations and amendments to existing standards that are not yet effective

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2011 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

IFRS 9 Financial Instruments IFRS 9 introduces new requirements for classifying and measuring financial assets September 2014;

IFRS 10 Consolidated Financial Statements IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee September 2014;

IFRS 11 Joint arrangements classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these September 2014;

IFRS 13 Fair value measurements establishes a single source of guidance for fair value measurements under IFRS September 2014;

IAS 19 (Revised) Employee Benefits IAS 19 (revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields September 2014; and

IAS 28 Investments in Associates and Joint Ventures amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 September 2014.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

- IFRS 7 Financial Instruments: Disclosures. Transfers of financial assets September 2012;
- IFRS 12 Disclosure of interest in subsidiaries, joint arrangements and associates September 2014;
- IAS 1 Presentation of Financial Statements Other Comprehensive Income September 2013;
- IAS 12 Deferred tax Investment property measured at fair value September 2013;
- IAS 24 Related Party Disclosures Revised definition of related parties September 2012;
- Amendments to IFRIC 14 IAS 19 the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction September 2012; and
- Various improvements to IFRSs.

Comparative figures

Comparative figures are re-classified as necessary to afford a proper and more meaningful comparison of results as set out in the affected notes to the financial statements.

The group adjusted note 25 to the financial statements. This adjustment only impacted the notes to the financial statements and therefore the group has disclosed two comparative periods for the affected note. Due to the fact that no changes were made to the fiscal 2010 and 2009 balance sheets, only one comparative period has been disclosed for the balance sheet.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The Articles of Association of Sappi Limited provide that the Board of Directors (the "Board") must consist of not less than four nor more than twenty Directors at any time. The Board currently consists of fifteen Directors.

The business address for all of the Directors is 48 Ameshoff Street, Braamfontein, Johannesburg 2001, Republic of South Africa. The Directors are South African citizens except for Godefridus Beurskens (a Dutch citizen), Prof. Meyer Feldberg, James Healey and Karen Osar (United States citizens), Michael Fallon and Sir Nigel Rudd (British citizens) and Dr Rudolf Thummer (an Austrian citizen).

Following the retirement of David Charles Brink and Dr Franklin Abraham Sonn effective on December 31, 2009, we appointed Nkateko Peter Mageza and Dr Rudolf Thummer as non-executive directors of the Board of Sappi Limited effective January 1, 2010 and February 1, 2010 respectively. Mohammed Valli Moosa was appointed as a non-executive director of the Sappi Limited Board during August 2010, while Helmut Claus-Jürgen Mamsch retired on December 31, 2010. Michael Fallon was appointed to the Board on September 01, 2011 and Godefridus Beurskens appointment became effective on October 01, 2011.

Non-executive directors

Daniël (Danie) Christiaan Cronjé
(Chairman)
Age : 65
Qualifications :
B Com (Hons), MCom, DCom
Nationality : South African
Appointed : January 2008

Sappi board committee memberships
Human Resources and Transformation Committee (Chairman)
Nomination and Governance Committee (Chairman)
(Attends Audit Committee meetings and Compensation Committee meetings Ex Officio)

Other board and organization memberships
Die Dagbreek Trust (Chairman)

Skills, expertise and experience
Dr Cronjé retired in July 2007 as chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African Banking organization in which Barclays plc. obtained a majority share in 2005). Dr Cronjé had been with ABSA Group since 1975 and held various executive positions including group chief executive for 4 years and chairman for 10 years. Prior to that Dr Cronjé was lecturer in Money and Banking at Potchefstroom University.

Godefridus (Frits) Peter Franciscus Beurskens
(Independent)
Age: 64
Qualifications:
BSc Mechanical Engineering, MSc Industrial Engineering and Management Science
Nationality: Dutch
Appointed: October 2011

Other board and organization memberships
Smufit Kappa Group
A number of supervisory boards of companies

Skills, expertise and experience
The Smurfit Kappa group is an almost €7-billion global leader in paper-based packaging. As president and chief executive officer of Kappa Packaging, prior to their merger with the Smurfit group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sale of containerboard, corrugated board, solid board packaging, graphic board and specialty board. He is a past chairman of CEPI (the Confederation of European Print Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer in the Order of Oranje Nassau (Knighthood).

Michael (Mike) Anthony Fallon
(Independent)
Age: 53
Qualifications :
BSc Hons (First Class)
Nationality: British
Appointed : September 2011

Other board and organization memberships
Nippon Sheet Glass Company Limited (NSG Group) (executive director)

Skills, expertise and experience
Mr Fallon is President of NSG's global automotive division. With annual sales of around €6 billion the NSG Group is one of the world's largest manufacturers of glass and glazing products for the Building, Automotive and Specialty Glass sectors. His management and leadership experience extends across a wide range of functions from plant management, sales and marketing and supply chain to general management, including M&A experience. He has been a director and chairman of companies in the United Kingdom, New Zealand and Finland.

Professor Meyer Feldberg
(Lead Independent Director)
Age: 69
Qualifications:
BA, MBA, PhD
Nationality: American
Appointed: March 2002

Sappi board committee memberships
Compensation Committee (Chairman)
Nomination and Governance Committee

Other board and organization memberships
Columbia University Business School
Macy's, Inc.
Morgan Stanley (Senior Adviser)
New York City Ballet
New York City Global Partners (President)
PRIMEDIA, Inc.
Revlon, Inc.
UBS Global Asset Management
University of Cape Town Graduate School of Business (Advisory Board)

Skills, expertise and experience
Professor Feldberg is currently serving as a Senior Advisor to Morgan Stanley. His career has included teaching and leadership positions in the Business Schools of the Universities of Cape Town, Northwestern and Tulane. He served as president of Illinois Institute of Technology for three years and as dean of Columbia Business School for 15 years. He is currently dean emeritus and professor of leadership at Columbia Business School. He has served on the Council of Competitiveness in Washington, DC. In 2001, the International Centre in New York honored Professor Feldberg as a distinguished foreign-born American who has made a significant contribution to American life.

James (Jim) Edward Healey*
(Independent)
Age: 70
Qualifications :
BSc (Public Accounting), Honorary Doctor (Commercial Science), Certified Public Accountant (USA)
Nationality: American
Appointed: July 2004
* Retiring at the end of December 2011

Sappi board committee memberships
Audit Committee
Human Resources and Transformation Committee
Sappi Fine Paper North America Audit Committee (Chairman)

Skills, expertise and experience
He has held various senior financial positions in a career spanning 37 years. In 1995 Mr. Healey became vice president and treasurer of Bestfoods, formerly CPC International Inc. In 1997 he became executive vice president and chief financial officer of Nabisco Holdings Inc., one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

Deenadayalen (Len) Konar
(Independent)
Age: 57
Qualifications:
BCom, MAS, DCom, CA (SA)
Nationality : South African
Appointed : March 2002

Sappi board committee memberships
Audit Committee (Chairman)
Nomination and Governance Committee

Other board and organization memberships
Exxaro Resources Limited (Chairman)
Illovo Sugar Limited
Lonmin plc.
JD Group Limited
Mustek Limited (Chairman)
Steinhoff International Holdings Limited (Chairman)

Skills, expertise and experience
Previously professor and head of the department of Accountancy at the University of Durban-Westville, Dr. Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (Co-Chairman).

Nkateko Peter Mageza
(Independent)
Age: 57
Qualifications :
FCCA (UK)
Nationality : South African
Appointed : January 2010

Sappi board committee memberships
Audit Committee
Human Resources and Transformation Committee

Other board and organization memberships
Baird's Renaissance (Pty) Limited
Eqstra Holdings Limited (Chairman)
Clover Industries Limited
Ethos Private Equity (Pty) Limited
Rainbow Chickens Limited
Remgro Limited
MTN Group Limited

Skills, expertise and experience
Mr. Mageza joined the Sappi Board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and executive director of ABSA Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.

John (Jock) David McKenzie
(Independent)
Age: 64
Qualifications :
BSc Chemical Engineering (cum laude), MA
Nationality : South African
Appointed: September 2007

Sappi board committee memberships
Compensation Committee
Sustainability Committee (Chairman)

Other board and organization memberships
Accelerate Cape Town (Chairman)
Coronation Fund Managers
University of Cape Town Foundation (Chairman)
WESGRO
Save the Children Fund (Cape)

Skills, expertise and experience
Mr. McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000-2003.

Mohammed Valli (Valli) Moosa
Age: 54
Qualifications:
BSc (Mathematics)
Nationality : South African
Appointed : August 2010*
***** Mr. Moosa's appointment was subsequent to the BEE transaction implemented by Sappi in June 2010

Other board and organization memberships
Auditor-General's Advisory Committee (South Africa)
Anglo Platinum Limited (deputy chairperson and lead Independent director)
Imperial Holdings Limited
Lereko Investments (Pty) Ltd and various other associate companies of Lereko Investments (Pty) Ltd
Real Africa Holdings Limited (Chairman)
Sanlam Limited
Sun International Limited (Chairman)

Skills, expertise and experience
Mr. Moosa is currently the Deputy Chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. To name but a few, he was South African Minister of Environmental Affairs and Tourism; the President of the International Union for the Conservation of Nature; Chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress.

Karen Rohn Osar
(Independent)
Age: 62
Qualifications:
MBA, Finance
Nationality: American
Appointed: May 2007

Sappi board committee memberships
Audit Committee

Other board and organization memberships
Innophos Holdings, Inc. (also Chairperson of Audit Committee)
Webster Financial Corporation (also Chairperson of Audit Committee)

Skills, expertise and experience
Ms. Osar was executive vice president and chief financial officer of speciality chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice president and treasurer for Tenneco, Inc. and also served as chief financial officer of Westvaco Corporation and as senior vice president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She has chaired several external board audit committees.

Bridgette Radebe
(Independent)
Age: 51
Qualifications: BA (Pol Sc and Socio)
Nationality: South African
Appointed: May 2004

Sappi board committee memberships
Human Resources and Transformation Committee

Other board and organization memberships
Mmakau Mining (Pty) Ltd (Executive Chairperson)
South African Mining Development Association (President)
New Africa Mining Fund (founder and Board Trustee)

Skills, expertise and experience
Ms. Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines as well as the business of shaft sinking. She participated in the design of the South African Mining Charter and present mining legislation.

Sir Anthony Nigel Russell Rudd
(Independent)
Age: 65
Qualifications:
DL, Chartered Accountant
Nationality: British
Appointed: April 2006

Sappi board committee memberships
Compensation Committee
Nomination and Governance Committee

Other board and organization memberships
BAA Limited (Chairman)
Barclays Wealth (Chairman of the UK & Ireland Private Bank Advisory Board)
Business Growth Fund (Chairman)
Cyden Limited (Chairman)
Invensys plc. (Chairman)

Skills, expertise and experience
Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc. in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby Universities. In 1995 he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

Rudolf Thummer
Age: 64
Qualifications:
Dr Techn, Dipl-Ing
Nationality: Austrian
Appointed: February 2010

Sappi board committee memberships
Sustainability Committee

Skills, expertise and experience
Dr Thummer joined the Sappi Board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld mill. In 1990 he was appointed Technical Director of Alfeld mill. In 1992, Dr Thummer became an Executive Board Member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen mills. In 1998 he moved to Sappi Fine Paper Europe based in Brussels as Technical Director and Executive Board Member. He served as Group Head Technology of Sappi Limited from January 1, 2006 up to his retirement at the end of December 2007.

Executive directors

Roeloff (Ralph) Jacobus Boëttger
Chief Executive Officer
Age: 50
Qualifications:
BAcc Hons, CA (SA)
Nationality: South African
Appointed: July 2007

Sappi board committee memberships
Sustainability Committee
Attends meetings of all other board committees by invitation

Skills, expertise and experience
At the age of 34 he was appointed chief executive officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007 he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an executive director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed businesses operating in southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.

Mark Richard Thompson*
Chief Financial Officer
Age: 59
Qualifications:
BCom, BAcc, LLB, CA (SA)
Nationality: South African
Appointed: August 2006
* Mr. Thompson retires in August 2012.

Sappi board committee memberships
Attends Audit Committee meetings by invitation

Skills, expertise and experience
Mr Thompson joined Sappi in 1999 as group corporate counsel and was appointed to his present position in August 2006. Prior to joining Sappi, he was group treasurer at Anglo American, managing director of Discount House Merchant Bank and prior to that head of the corporate finance division of Central Merchant Bank.

Senior Management

Mark Gardner (56) BSc, President and Chief Executive Officer of Sappi Fine Paper North America

Mr Gardner joined Sappi in 1981. Prior to accepting the position of President and Chief Executive Officer in 2007, Mr Gardner held the roles of Vice President Manufacturing and Vice President, Supply Chain. He has also worked in a variety of production management roles, including Production Manager at the Westbrook Mill, Paper Mill Manager at the Somerset Mill, Managing Director at the Muskegon Mill and Director of Engineering and Manufacturing Technology at the regional head office in Boston. Mr Gardner has received the TAPPI (Technical Association of the Pulp and Paper Industry)/PIMA (Paper Industry Management Association) 2009 Executive of the year award. The award is the highest recognition for leadership and management given by PIMA. He currently also serves on the board of directors of the American Forest & Paper Association and the NPTA Alliance.

Robert Darsie Hope (59), BA (Hons) Economics, MRICS, Group Head Strategic Development

Since joining Sappi in 1976, Mr. Hope has held a number of management roles including General Manager of Sappi Sawmills, Managing Director of Sappi Trading and is currently Group Head Strategic Development. Mr. Hope retires in June 2012.

Andrea Rossi (58) BSc Eng. (Hons), C.Eng, Group Head Technology

Mr Rossi joined Sappi in 1989. Prior to accepting the position of Group Head Technology, Mr Rossi held the roles of Project Director of the Sappi Saiccor Amakhulu Expansion project, Strategic Projects Director of Sappi Forest Products, Sappi Kraft Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra mill, Project Director Enstra mill expansion, Project Manager for the Sappi Saiccor Mkomazi Expansion and Engineering Services Manager for Sappi Management Services.

Lucia Adele Swartz (54) BA, Dip HR., Group Head Human Resources

Ms Swartz joined Sappi in May 2002. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as Human Resources Director, Global Functions based in New York. She holds a BA in Psychology and Geography from the University of the Western Cape and a Diploma in Human Resources from the Peninsula Technikon.

Alexander van Coller Thiel (50) BSc Mech Eng, MBA, Chief Executive Officer of Sappi Southern Africa

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003, he became the Director Logistics, reporting to the Chief Executive Officer of Sappi Fine Paper Europe. He was appointed as Group Head Procurement, Sappi Limited in January 2008 and Integration Executive, in charge of the integration of the Acquired Business into Sappi operations, in September 2008. He led a project to redefine and implement Sappi's 'go-to-market' strategy in Europe from October 2009. Mr Thiel was appointed Chief Executive Officer of Sappi Southern Africa with effect from December 01, 2010.

Berend (Berry) John Wiersum (56) MA, Chief Executive Officer of Sappi Fine Paper Europe

Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Fine Paper Europe. Prior to joining Sappi, Mr Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director of Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Mid East and North Africa. Mr Wiersum is Chairman of CEPI (Confederation of European Paper Industries) until the end of 2011.

Executive Officers

The Executive Directors and the people listed as senior management above are the Executive Officers of Sappi.

Compensation

The non-executive directors' fees are proposed by the Executive Committee and agreed by the Compensation Committee and approved by the Board, subject to final approval by shareholders.

See notes 33 to 35 to our Group Annual Financial Statements contained elsewhere in this Annual Report for details, by director, on Directors' and Senior Management remuneration, Directors' service contracts, Directors' interests and Directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Trust.

See note 30 to our Group Annual Financial Statements included elsewhere in this Annual Report for details of payments to senior management which is reflected under related party interests.

Board Practices

At every annual general meeting, as near as possible to, but not less than, one third of the directors (excluding any Executive director appointed after the conclusion of the preceding annual general meeting, the Chairman, the Chief Executive Officer and the Managing Director) are required to retire from office but are eligible for re-election. The directors to retire are those who have been longest in office since their last election, or as between directors who have been in office for an equal length of time since their last election, in the absence of agreement, determined by lot. In addition, the appointment of any director appointed since the last annual general meeting will be required to be confirmed. Any director so appointed will also retire at the meeting and be eligible for re-election.

The following table sets forth the terms of office of the Directors.

Name	Start of term	Latest date of end of term
Godefridus Peter Franciscus Beurskens(1)	2011	2012
Roeloff Jacobus Boëttger	2008	2013
Daniël Christiaan Cronjé	2011	2014
Michael Anthony Fallon	2011	2012
Meyer Feldberg	2011	2012
James Edward Healey	2009	2011
Deenadayalen Konar	2010	2012
Nkateko Peter Mageza	2010	2012
John David McKenzie	2010	2012
Mohammed Valli Moosa	2011	2014
Karen Rohn Osar	2011	2014
Bridgette Radebe	2011	2014
Sir Nigel Anthony Russell Rudd	2010	2012
Mark Richard Thompson	2010	2013
Rudolf Thummer	2010	2013

(1) Mr. Beurskens joined the board with effect from October 1, 2011.

No retirement or other benefits arise from the retirement of Directors by rotation or on termination for any other reason.

Audit Committee

An Audit Committee of the Board was established in 1984 and assists the Board in discharging its responsibilities to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, Group policies, legal requirements and internal controls within the Group. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the Group's code of ethics.

The Audit Committee consists of at least four independent non-executive directors of the Board (James Edward Healey, Deenadayalen Konar (Chairman), Nkateko Peter Mageza, and Karen Rohn Osar) and is directed by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The Chairman of the Group attends Committee meetings ex-officio. The Audit Committee meets with senior management, which includes the Chief Executive Officer and the Chief Financial Officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the Committee and its Chairman. The Audit Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit Committee Chairman on a regular basis. The Audit Committee Chairman attends the annual general meeting. Deenadayalen Konar has been designated as the Audit Committee's financial expert.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis, and they meet at least four times per year.

Nomination and Governance Committee

The Nomination and Governance Committee of the Board consists of four independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group and of the Committee, Meyer Feldberg, Deenadayalen Konar and Sir Anthony Nigel Russell Rudd). The Committee considers the composition of the Board, retirements and appointments of additional and replacement non-executive directors and makes appropriate recommendations to the Board. The Chief Executive Officer attends meetings by invitation.

Human Resources and Transformation Committee

The Human Resources and Transformation Committee of the Board consists of four independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group and of the Committee, James Edward Healey, Nkateko Peter Mageza and Bridgette Radebe). The responsibilities of the Committee are, among other things, to determine human resource policy and strategy. In addition the Committee oversees Transformation issues in South Africa.

Compensation Committee

The Compensation Committee of the Board consists of three independent non-executive directors (Meyer Feldberg (Chairman), John "Jock" David McKenzie and Sir Nigel Rudd). The responsibilities of the Committee are mainly to determine the remuneration and incentives in respect of the Chief Executive Officer and those executives reporting directly to the Chief Executive Officer. The Chairman of the Group attends meetings of the Committee ex-officio.

Sustainability Committee

The Sustainability Committee of the Board consists of an independent non-executive director, John "Jock" David McKenzie (Chairman), a non-executive director, Dr Rudolf Thummer, and the Chief Executive Officer, Mr Roëloff "Ralph" Jacobus Boëttger. The Committee's mandate is essentially to oversee the group's sustainability strategies.

Corporate Governance

The New York Stock Exchange (NYSE) requires compliance with its corporate governance rules. The application of these NYSE rules is restricted for foreign companies, recognizing that such companies have to comply with domestic requirements. As a foreign private issuer, Sappi must comply with four NYSE corporate governance rules:

- Satisfy the audit committee requirements of the Securities and Exchange Commission (SEC);

- Chief Executive Officer must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of Section 303(A) of the Sarbanes-Oxley Act of 2002;

- Provide a brief description of any significant difference between its corporate governance practices and those followed by United States companies under the NYSE listing standards, and

Maintain a publicly accessible website that includes a printable version of its audit committee charter and the description of significant differences in corporate governance practices mentioned above. In accordance with new NYSE rules, Sappi continues to make available on its website its Annual Reports on Form 20-F.

As Sappi is listed on the JSE Limited in Johannesburg, Sappi is required to comply with the King III Report on Corporate Governance for South Africa (King Report). Although there are differences between the King Report and the NYSE corporate governance rules, Sappi applies the principles of the King Report and has voluntarily adopted corporate governance practices that do not differ in any significant ways from the requirements of the NYSE corporate governance rules.

Employees

The following table sets forth the number of employees as at the close of each fiscal year ended September.

	2011	2010	2009
Sappi Fine Paper North America	2,224	2,247	2,336
Sappi Fine Paper Europe	6,025	6,659	6,710
Sappi Southern Africa	6,378	6,446	7,142
Sappi Trading	149	148	154
Unallocated and eliminations	86	86	85
Total	**14,862**	**15,586**	**16,427**

Sappi Fine Paper North America

Approximately 65% of employees are represented by eleven collective bargaining agreements with seven different unions. The majority of Sappi Fine Paper North America's hourly employees are represented by the United Steelworkers (USW) union. The labor contracts with the USW expire in May 2012, August 2013, and August 2014, respectively for the Cloquet, Somerset and Westbrook mills.

Sappi Fine Paper North America has experienced no work stoppage in the past twenty years and believes that its relationship with its employees is satisfactory. In maintaining this relationship, we hope to reach agreements with our unions as contracts expire. In the event that an agreement cannot be reached with any of the unions and a prolonged work stoppage ensues, curtailment of output could negatively impact our business.

Sappi Fine Paper Europe

A substantial number of Sappi Fine Paper Europe employees are represented by trade unions.

Sappi Fine Paper Europe is subject to industry-wide collective agreements that are in place with trade unions in Germany, Finland, Austria and Belgium and which relate to its employees in each of the relevant mills. At our mills in The Netherlands, Sappi Fine Paper Europe has entered into shop-floor agreements with the respective trade unions. Although we have in the past and may in the future experience work stoppages and other labor conflicts, overall labor relations have been stable in Europe.

In addition to trade unions, Sappi Fine Paper Europe also consults with various local, national and European works councils. These works councils primarily serve in an advisory role. Sappi Fine Paper Europe is required, under certain circumstances, to keep the works councils informed of activities that affect the workforce and to consult with one or more of the works councils before proceeding with a course of action. This is especially relevant for any major reorganization.

During fiscal 2011, we announced and implemented the closure of our Biberist Mill in Switzerland affecting approximately 550 employees. In addition, as a result of the mill closure, we have reduced our central services headcount by approximately 100 positions across Europe.

In the last fiscal quarter of 2011, we announced that over 300 positions will potentially be made redundant across all our manufacturing sites.

There were no work stoppages across our European organization except for the combined seven-day work stoppage of our white-collar population at Kirkniemi Mill in the context of the Finnish country-wide white-collar collective labor agreement negotiations.

Southern Africa

48% of Sappi Southern Africa permanent employees are represented by trade unions. The pulp and paper industry experienced a three week wage strike in July 2011 which impacted our production and shipment capabilities, culminating in a loss of turnover and resulting in overall costs to Sappi of approximately US$20 million. The strike was resolved upon reaching consensus on an 8% wage increase to all unionized employees. The Swaziland Agricultural Plantation Workers Union declared two disputes regarding the Usutu Mill retrenchments which took place during 2005 and 2010. The Swazi High Court found in favor of Usutu with regard to the 2005 dispute, and the Union thereafter filed appeal papers relating to this decision. However, the Union does not currently appear to be proceeding with either the appeal or the dispute relating to the 2010 retrenchments.

Our Health and Wellness Programme includes health risk assessments, counseling services, a comprehensive HIV/AIDS programme, medical aid and strategic business alliances. The HIV/AIDS programme has now advanced to a position where more than 50% of employees check their HIV status every year supported by voluntary counseling and testing ("VCT") ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2011 voluntary study was conducted in southern African operations and the results indicated that the infection rate is approximately 14.7% versus the South African workforce prevalence of 19.2%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 1.12% in 2005 to 0.47% in 2010.

The Employment Equity Act (No. 55 of 1998) requires certain employers to implement affirmative action measures designed to ensure that suitably qualified persons from previously disadvantaged groups have equal opportunities and are equitably represented in the workforce. In complying with the Act, Sappi Southern African has developed the Transformation Charter which is a strategy document aimed at driving transformation and supports the Employment Equity initiatives. The 2011/2014 Employment Equity Plan was submitted to the Department of Labour in July 2011 and the Employment Equity report will be submitted in January 2012 as per the Department of Labour schedule.

The Skills Development Act, Skills Development Levies Act and the South African Qualifications Authorities Act (No. 58 of 1995), including amendments to the latter, have continued to receive significant attention during the fiscal 2011. Equity forums established under the Employment Equity Act are mandated to serve as Learning Forums, and their constitutions, roles and responsibilities continue to be encouraged. A skills levy of 1%, specified in accordance with the Skills Development Levies Act, was paid via Internal Revenue to the Fibre Processing and Manufacturing Sectorial Education Authority ("FPM SETA").

In the context of our new strategy, the South African restructuring process commenced in July 2011 in order to improve Sappi Southern Africa's competitiveness and financial position. In connection with the restructuring it is envisaged that approximately 1,000 employees have been or will be affected and ultimately be retrenched. In addition, a hub functional structure has been adopted with the aim of reducing duplication of activities, inefficiencies and high overheads and the Adamas mill closure was successfully completed in August 2011 in line with the strategy. The restructuring is expected to be completed by March 2012.

Share Ownership

The Sappi Limited Share Incentive Trust ("Scheme")

We have offered a share purchase scheme to eligible officers and employees since 1979. During March 1997, The Sappi Limited Share Incentive Trust, as amended from time to time (the "Share Incentive Scheme"), was adopted at the Annual General Meeting of Sappi Limited. Under the Share Incentive Scheme, Officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered the opportunity to acquire shares ("Scheme Shares"), options to acquire shares ("Share Options") or rights and options to enter into agreements with the Sappi Limited Share Incentive Trust to acquire shares ("Allocation Shares"). Participants may also be given the opportunity to acquire a combination of Scheme Shares, Share Options and Allocation Shares.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result the Sappi Limited Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Scheme is the limitation of Trustees and Sappi Limited Board of Directors' discretionary powers relating to prospective Scheme share issues to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Share Incentive Trust rules. The revised rules are effective in January 2011. See "Item 19 Exhibits Exhibit 4.1" for the Sappi Limited Share Incentive Trust rules as approved by the Company and the JSE.

The Sappi Limited Performance Share Incentive Trust ("Plan")

From the 2005 fiscal year we have also offered a performance share incentive plan to eligible officers and employees. Under the Sappi Limited Performance Share Incentive Trust (the "Performance Share Incentive Plan"), officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered Conditional Contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the Human Resources Committee or Compensation Committee of the Board ("Performance Criteria") applicable to each Conditional Contract are met or exceeded, then Participants are entitled to receive such number of shares as specified in the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria entails a benchmarking of the company's performance against an appropriate peer group of companies.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result the Sappi Limited Performance Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Plan is the limitation of Trustees and Sappi Limited Board of Directors' discretionary powers relating to prospective plan conditional share awards to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Performance Share Incentive Trust rules. The revised rules are effective in January 2011. See "Item 19 Exhibits Exhibit 4.14" for the Sappi Limited Performance Share Incentive Trust rules as approved by the Company and the JSE.

For a detailed description of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust see Note 28 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Black Economic Empowerment Trusts ("BEE Trusts")

In June 2010, Sappi completed a BEE deal to comply with South African legislation to increase the participation of Historically Disadvantaged South Africans in the South African economy. The BEE deal resulted in the BEE Trusts and certain strategic partners holding, collectively, Ordinary and "A" Ordinary Shares equivalent to 4.5% of Sappi Limited, which corresponded to an effective 30% interest in Sappi's South African business post the deal. The 30% is in terms of the Forestry Charter and BEE legislation in general.

Under the deal "A" Ordinary shares were issued to the BEE Trusts. These "A" Ordinary shares were financed by notional loans from Sappi Limited to the BEE Trusts. The loans are repayable on August 30, 2019 when the shares convert to ordinary shares based on a conversion formula. The BEE Trusts consist of three trusts, the ESOP Trust for the benefit of certain employees of Sappi's South African business, the MSOP Trust for the benefit of Black Managers of Sappi's South African business and the Sappi Foundation for the benefit of certain local communities in South Africa.

For a detailed description of the BEE Trusts see Note 28 to our Group Annual Financial Statements included elsewhere in this Annual Report and see "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions".

Directors and Senior Management

At the end of fiscal 2011, certain Directors and Senior Management of Sappi had been granted an aggregate of 226,600 Share Options, 81,400 Allocation Shares and 2,783,400 Performance Shares. None of the Directors and Senior Management of Sappi holds more than 1% of our issued share capital. See notes 33 to 35 to our Group Annual Financial Statements contained elsewhere in this Annual Report for details individually by director and for senior management, of participation in the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust.

The director Mr M V Moosa is the Deputy Chairman of Lereko Investments (Pty) Ltd and holds 31.8% of Lereko Investments. Lereko Investments holds 1,971,693 Sappi Limited shares as part of the BEE transaction.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth certain information with respect to the ownership of the ordinary shares, R1.00 par value, of Sappi Limited by the shareholders of record of Sappi Limited as of September 30, 2011, holding 5% or more of the outstanding ordinary shares. There have been no significant changes in percentage of ownership by any major shareholder during fiscal 2011, 2010 and 2009.

Name of Registered Holder	Number of Shares	Percentage
Nedcor Bank Nominees Limited(1)	145,966,068	28.0
First National Nominees (Proprietary) Limited(1)	133,108,767	25.6
Standard Bank Nominees (Transvaal) (Proprietary) Limited(1)(2)	127,269,282	24.5
ABSA Nominees (Proprietary) Limited(1)	58,665,322	11.3
Public Investment Commissioner (PIC)	54,926,586	10.6
All Directors and Executive Officers as a Group	994,783	0.19

(1) The registered holders have advised us that they hold shares for numerous clients.

(2) Includes all the ADS shares which are held through the Standard Bank Nominees (Transvaal) (Proprietary) Limited.

The authorized share capital of Sappi Limited consisted of 325,000,000 Ordinary Shares as of September 28, 2008, was increased to 1,325,000,000 on November 4, 2008, and was subsequently reduced to 725,000,000 on March 2, 2009. On April 29, 2010, the authorized share capital was increased by 19,961,476 "A" Ordinary Shares with a par value of ZAR1.00 per "A" Ordinary Share. The "A" Ordinary Shares rank *pari passu* with the ordinary shares in all respects except for dividend entitlements where the "A" Ordinary Shares are entitled to 50% of the dividends payable on the ordinary shares.

On June 11, 2010 Sappi issued 4,328,359 Ordinary Shares and 19,961,476 "A" Ordinary Shares, as part of the BEE transaction. See " Related Party Transactions" and Notes 17 and 28 of our Group Annual Financial Statements contained elsewhere in this Annual Report for details relating to the BEE transaction.

As of September 30, 2011, the issued Ordinary Share capital consisted of 541,446,223 Ordinary Shares, of which 20,981,431 Ordinary Shares are held in treasury. The remaining 520,464,792 issued Ordinary Shares have full voting rights. The issued "A" Ordinary Share capital consisted of 19,961,476 "A" Ordinary Shares, issued as part of the BEE transaction. The issued "A" Ordinary Shares are treated as treasury shares as the share trusts owning such shares are considered special purpose entities under IFRS. The "A" Ordinary treasury shares differ from the 20,981,431 Ordinary Shares held in treasury, in that the A" Ordinary treasury shares have full voting rights. The Ordinary Shares are listed shares, whilst the "A" Ordinary shares are unlisted shares. The "A" Ordinary Shares have the potential to convert into Ordinary Shares in 2019. See " Related Party Transactions" for a summary of the conversion into Ordinary Shares.

It is common in South Africa for shares to be held through nominees. As of September 30, 2011, the four largest ordinary share, shareholders of record (all of which are nominees) owned approximately 89.3% of the shares. We believe that, as of September 30, 2011, based on registered addresses and disclosure by nominee companies, 18% of our shares were held beneficially in North America, 71% of our shares were held beneficially in South Africa and 11% of our shares were held beneficially in Europe and elsewhere, excluding the shares owned by our subsidiaries.

On September 30, 2011, there were 38 registered holders of ADSs holding 8,813,363 ADSs, representing 1.7% of our issued share capital.

Pursuant to the Companies Amendment Act Number 37 of 1999, where securities of an issuer are registered in the name of a person and that person is not the holder of the beneficial interest in all of the securities held by the registered shareholder, the registered shareholder is obliged, at the end of every three-month period to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and price of securities issued by that issuer held on behalf of each such person. We have authorized JP Morgan Cazenove to conduct a monthly investigation into the beneficial ownership of Sappi Limited shares including those in nominee holdings. All beneficial holdings are investigated to determine whether there are any shareholders who hold 5% or more of our shares and these investigations have as of September 30, 2011, revealed the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Name of Shareholder	Number of Shares	Percentage
Public Investment Commissioner (South Africa)	54,926,586	10.6

Further, as a result of these investigations, we have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 30, 2011, the following fund managers were responsible for 5% or more of the issued share capital of Sappi Limited.

Name of Fund Manager	Number of Shares Managed	Percentage
Allan Gray Investment Council (South Africa)	115,574,509	22.2
Investec Asset Management (South Africa)	62,469,821	12.0
Capital Group Companies Inc.	36,773,804	7.1
Coronation Fund Managers (South Africa)	33,963,164	6.5
Old Mutual Investment Group (South Africa)	32,621,615	6.3

Under South African law, there is no obligation on the part of our shareholders to disclose to us arrangements or understandings that may exist between or amongst them with respect to the holding or voting of shares unless such arrangement or understanding constitutes an affected transaction under the Securities Regulation Code on Takeovers and Mergers. An "affected transaction" means, among other things, any transaction which has or will have the effect of vesting control of any company in any person or two or more persons acting in concert in whom control did not vest prior to such transaction or scheme. Control is defined with reference to a specified percentage, which is currently 35% of the entire issued share capital of a company. The major shareholders have no different voting rights.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR5,815,184,693 (approximately US$575 million) which was used to partially finance the Acquisition and related costs.

On December 31, 2008, a €32 million equivalent in ZAR portion of the Acquisition consideration was funded through the issue of 11,159,702 ordinary shares of Sappi Limited to M-real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights offering and other anti-dilutive protections.

Related Party Transactions

For information on related party transactions, see note 30 to our Group Annual Financial Statements contained elsewhere in this Annual Report.

In June 2010, Sappi completed a Broad Based Black Economic Empowerment ("BEE") transaction (the "BEE Transaction"). The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans ("HDSAs") in the South African economy and, through BEE legislation, formalized the country's approach in this regard. See "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment".

In April 2006 Sappi announced a BEE transaction (the "Plantation BEE Transaction") with Lereko Property Company (Proprietary) Limited ("LPC"), a BEE company set up to house a consortium consisting of Lereko Investments (Proprietary) Limited, AMB Capital Limited and Malibongwe Women Development Trust (collectively, the "Strategic Partners"), pursuant to which LPC acquired a 25% undivided share in Sappi's South African plantation land, excluding the value of the plantations, owned by Sappi and/or Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing), coupled with the right to develop the land not utilized for forestry operations. Sappi Southern Africa retained the right of use over all the land under the underlying arrangements. As part of the Plantation BEE Transaction, 30% of LPC was set aside for the benefit of certain categories of Sappi's South African employees, who did not participate in any Sappi share incentive scheme. The balance of the shareholding in LPC was held by Lereko Investments (46.19%), Malibongwe (10.14%) and AMB Capital (13.67%).

However, the Plantation BEE Transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BEE in the forestry industry and includes the BEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BEE targets). Accordingly, Sappi decided to unwind the Plantation BEE Transaction, which resided at a South African subsidiary level and to implement the BEE Transaction, a new sustainable transaction of equivalent value at the holding company level using its listed securities.

Sappi views BEE as a key requirement for sustainable growth and social development in South Africa. The BEE Transaction enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The BEE Transaction, comprised two distinct parts. The first part entailed the issue of ordinary shares to the Strategic Partners and the Sappi employees who were to be participants in the Plantation BEE Transaction, as part of the unwinding of the rights from that transaction. The second part consisted of the creation and issuance of a new class of unlisted equity shares referred to as "A" Ordinary shares. The "A" Ordinary shares were issued at their par value of ZAR1.00 to a trust for the benefit of certain Sappi employees including HDSAs (the "ESOP Trust"), a trust for the benefit of certain Sappi managers that are HDSAs (the "MSOP Trust") and a trust for the benefit of tree growers and communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the "Sappi Foundation Trust", and together with the ESOP Trust and the MSOP Trust, the "BEE Trusts"). The issuance of the "A" Ordinary shares was financed through notional non-interest bearing loans extended by Sappi to the BEE Trusts. The BEE Transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and "A" Ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

Post transaction shareholding structure

The total value of the BEE Transaction, based on the 30 day volume weighted average price (VWAP) of Sappi's ordinary shares as at Friday February 5, 2010 of ZAR33.50 amounted to approximately ZAR814 million (US$115 million). As part of the BEE transaction, Sappi issued an aggregate of approximately 24.3 million shares, comprising approximately 4.3 million Ordinary shares and approximately 20 million "A" Ordinary shares. The value of their shareholding in LPC attributable to the Strategic Partners is ZAR102.1 million and the value of the South African employees' 30% entitlement in LPC, which will be held through the ESOP Trust, is ZAR42.9 million.

The "A" Ordinary shares rank *pari passu* with and have the same rights and obligations attached as the ordinary shares in all respects except for dividend entitlements where the "A" Ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The "A" Ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE.

Sappi will have the option to repurchase a number of "A" Ordinary Shares at the end of the Transaction in August 2019. The number of "A" Ordinary Shares Sappi may be entitled to repurchase will be calculated according to a repurchase formula set forth in Article No. 38 of Sappi's Articles of Association. The number of any "A" Ordinary Shares that Sappi may elect to buy back in August 2019 will depend on the price performance of the Ordinary Shares over the period of the Transaction with the remaining "A" Ordinary Shares being distributed to the beneficiaries of the BEE Trusts (or, in the case of the Sappi Foundation Trust, continued to be held by such trust) and converted into Ordinary Shares. See "Item 10 Additional Information Memorandum and Articles of Association Share Capital" for a description of the "A" ordinary shares.

For financial reporting purposes the "A" Ordinary Shares are treated as treasury shares, as the BEE Trusts owning such shares are considered special purpose entities under IFRS.

The BEE deal involved the specific issue for cash of Ordinary Shares at full market value and "A" Ordinary Shares at par value. For further information on the resolution authorizing the change in the Company's Articles of Association relating to the "A" Ordinary Shares and the repurchase formula for the "A" Ordinary Shares, see "Item 19 Exhibits 1.1 and 1.3".

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See the Group Annual Financial Statements contained in this Annual Report for the Report of the Independent Auditors.

Legal Proceedings

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

North America

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage must be completed by May 1, 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US$4 million to US$5 million. Fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed, during the spring of 2015. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi Fine Paper North America's other upstream hydrofacilities as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US$18 million to US$28 million, which includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as estimated costs for upstream fish passages which may be incurred in the future. Because construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

South Africa

The Restitution of Land Rights Act (Act 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Claims under the Act were required to be filed on or before December 31, 1998 and are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. This process is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. There are currently 66 open land claims against us, of which 42 are in Mpumalanga, and 24 are in KwaZulu-Natal. Fourteen of the claims in KwaZulu-Natal are in the process of being settled. The remaining claims have not been finalized and are still under discussion and investigation by the Regional Land Claims Commissioner.

Dividends

We consider dividends on an annual basis. Taking into account the macroeconomic and global financial market conditions, our performance in fiscal 2011 as well as our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided not to declare a dividend for fiscals 2011, 2010 and 2009 respectively.

Our ability to pay dividends is restricted by the terms of the Revolving Credit Facility and the 2014 Bonds, 2018 Bonds and 2021 Bonds. Under the Revolving Credit Facility, we cannot declare or pay any cash dividends in, among others, the following circumstances:

(a) an event of default has occurred and is continuing;

(b) the aggregate amount of such dividends would exceed 100% of the net aggregate profits of the Group (after adjusting for special items and the tax effects thereon);

(c) the ratio of net debt to EBITDA calculated on a pro-forma basis exceeds 4.00:1.

Under the 2014 Bonds, 2018 Bonds and 2021 Bonds, we are restricted from making restricted payments (which term includes cash dividend payments) except if:

(a) no event of default has occurred and is continuing (or would occur as a result of such payment); and

(b) after giving *pro forma* effect to the payment and certain other transactions, the ratio of consolidated EBITDA to fixed charges (net finance costs) is greater than 2.00:1; and

(c) the aggregate amount of restricted payments (including the contemplated restricted payment) since the issue date of the 2014 Bonds is less than the sum of 50% of consolidated net income (or if a deficit, 100% of such deficit) from the issue date of the 2014 Bonds to the end of the most recent quarterly reporting period, 100% of cash equity contributions and certain other amounts since the issue date of the 2014 Bonds.

The restrictions summarized above are subject to various exceptions, certain of which are significant. Terms used above have the meaning ascribed to them in the relevant agreements. For the full terms of the restrictions on dividend distributions and exceptions thereto, see "Item 19 Exhibits Exhibit 4.10, Exhibit 4.12, Exhibit 4.13, Exhibit 4.18, Exhibit 4.19, Exhibit 4.20 and Exhibit 4.21".

Under the South African Companies Act any distribution, including dividends, is subject to the Company meeting the solvency and liquidity requirements of the Act. Holders of American Depositary Receipts (ADRs) on the relevant record date will be entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the Deposit Agreement among us, The Bank of New York Mellon and the ADR holders (the "Deposit Agreement"). There is no restriction under South African exchange control regulations on the free transferability of cash dividends to non-resident shareholders or ADS holders (provided the necessary endorsements are obtained). See "Item 10 Additional Information Exchange Controls".

We are not currently obliged to withhold any form of tax on dividends paid to non-residents of South Africa. South African companies pay Secondary Tax on Companies ("STC") at the flat rate of 10% in respect of the amount of dividends declared by the company less certain dividends which accrue to the company during its relevant "dividend cycle". STC is to be replaced with a dividend withholding tax ("DWT") with effect from April 01, 2012. The DWT will be imposed on the shareholder and not on the company and it will be levied on the shareholder at a rate of 10%, subject to a reduction in terms of an applicable Double Taxation Agreement. In contrast to STC, the new DWT is a tax on the shareholder, although it will be collected as a withholding tax by the company paying a dividend, which implies that Sappi Limited will incur the obligation to withhold the DWT.

Significant Changes

Except as otherwise disclosed in this Annual Report, no significant change has occurred in our financial position since October 02, 2011.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

The table below sets forth, for the periods indicated, the high and low prices of trading activity in the shares on the JSE, as reported by the JSE and adjusted for the dilution effects of the rights issue discussed below; and the high and low prices of trading activity in the ADSs on the New York Stock Exchange ("NYSE"), as reported by the NYSE and adjusted for the dilution effects of the rights issue discussed below.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR5,815,184,693 (approximately US$575 million) which was used to partly finance the Acquisition and related costs.

	Shares		ADSs	
	High(1)	Low(1)	High(1)	Low(1)
	(SA cents per share)		(US$ per ADS)	
Annual highs and lows				
Fiscal 2011	3,962	2,107	5.95	2.92
Fiscal 2010	3,792	2,539	5.14	3.27
Fiscal 2009	5,403	1,290	6.41	1.24
Fiscal 2008	7,661	4,700	9.98	5.72
Fiscal 2007	8,824	6,263	12.24	7.88
Quarterly highs and lows				
2011				
Fourth quarter	3,506	2,107	5.18	2.92
Third quarter	3,725	3,323	5.53	4.84
Second quarter	3,920	3,320	5.49	4.58
First quarter	3,962	3,265	5.95	4.80
2010				
Fourth quarter	3,685	2,877	5.14	3.70
Third quarter	3,275	2,633	4.54	3.27
Second quarter	3,792	2,875	5.08	3.74
First quarter	3,700	2,539	4.91	3.40
Monthly highs and lows				
2011				
October	2,471	2,225	3.20	2.68
September	2,724	2,385	3.78	2.92
August	3,099	2,107	4.54	3.33
July	3,509	2,942	5.19	4.35
June	3,682	3,379	5.45	4.90
May	3,693	3,323	5.45	4.96

(1) Historical share prices shown in the table above have been adjusted where applicable by 1.58 (an adjustment factor) for the effect of the issuance of 286,886,270 new ordinary shares of ZAR1.00 each, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The adjustment factor applied to historical share prices was based on the theoretical ex-rights price ("TERP") calculation explained below.

TERP is the [(Number of new shares multiplied by the Subscription price) plus the (Number of shares held multiplied by the Ex-dividend share price)] all divided by the (Number of new shares plus the number of shares held prior to the rights offer).

The adjustment factor of 1.58 is calculated using the Pre-announcement price divided by the TERP.

On December 02, 2011, the closing price for our shares on the JSE was 2,309 SA cents per share and the closing price of the ADSs on the NYSE was US$2.81 per ADS.

Markets

The principal market for the ordinary shares of Sappi Limited is the JSE. The ordinary shares of Sappi Limited were also listed on the London Stock Exchange until November 2, 2009, at which time the shares were delisted from the London Stock Exchange. On November 5, 1998, ADRs evidencing ADSs of Sappi Limited commenced trading on the NYSE under the symbol "SPP". The Bank of New York serves as depositary ("the Depositary") with respect to the ADSs. Prior to the commencement of trading of the ADSs on the NYSE, our ordinary shares were traded in the United States in the over-the-counter market pursuant to a sponsored unrestricted American Depositary Receipt facility established in 1994. Price data relating to that trading is not considered meaningful and has not been included in this Annual Report.

On October 26, 1999, Sappi and The Bank of New York amended the Deposit Agreement to change, with effect from October 27, 1999, the number of ordinary shares represented by each ADS from 10 ordinary shares per ADS to one ordinary share per ADS.

The JSE Limited

The JSE Limited (JSE) was formed in 1887 and provides facilities for the buying and selling of a wide range of securities, including equity, corporate debt securities, warrants in respect of securities, as well as Krugerrands. The JSE is a self-regulatory organization operating under the supervision of the South African Ministry of Finance, through the Financial Services Board and its representative, the Registrar of Stock Exchanges.

The market capitalization of South African equity securities was R6,384.6 billion as at September 30, 2011. The actual float available for public trading is significantly smaller than the aggregate market capitalization because of the large number of long-term holdings by listed holding companies in listed subsidiaries and associates, the existence of listed pyramid companies and cross holdings between listed companies. Liquidity on the JSE (measured by reference to the total market value of securities traded as a percentage of the total market capitalization at the end of the period) was 50.6% for the 12 months ended September 30, 2011. As of the end of September 2011, there were 411 listed companies on the JSE.

Following the introduction of the FTSE/JSE free float indices, the FTSE/JSE All Share Index includes those companies that make up the top 77% of the total market capitalization of all companies listed on the JSE. The three main sectors in the market are Resources, Financials and Industrials. As of September 30, 2011, the All Share Index included 166 companies. The Resources Index, Industrials Index and Financials Index included 21, 97 and 48 companies respectively, and accounted for approximately 27%, 35% and 16% respectively, of the total market capitalization of the JSE.

The JSE settles securities trades electronically through STRATE (Share Transactions Totally Electronic). All trades are downloaded from the JSE SETS automated trading system to the JSE's Broker Deal Accounting (BDA) system, which manages the settlement status of every trade. The BDA system interfaces with STRATE's system which in turn interfaces with those of the custodian banks. The JSE's Settlement Authority monitors all trades from time of execution to settlement to ensure performance.

Shares may not be traded on the JSE unless they have been dematerialized through STRATE. Contractual, rolling settlement has been introduced by the JSE in order to increase the speed, certainty and efficiency of the settlement mechanism and to fall into line with international practices. While settlement on the JSE is currently made five days after each trade (T+5), the JSE in conjunction with STRATE is exploring with the industry how best to reduce the settlement period further (to T+3) without introducing undue risk.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

The following description is a summary of various provisions of the Memorandum ("Memorandum") and Articles of Association ("Articles") of Sappi Limited, the South African Companies Act No. 71 of 2008, as amended, (the "Companies Act") and the listings requirements of the JSE, which does not purport to be complete and is qualified in its entirety by reference to all of the provisions of those sources. The Companies Act came into effect on May 01, 2011. From May 01, 2011 Sappi's Memorandum and Articles will be referred to as the Memorandum of Incorporation.

Sappi Limited is a public company incorporated in South Africa with registration number 1936/008963/06.

Purpose of the Company

Paragraph 3 of the Memorandum states that Sappi Limited is established, among other things, to manufacture, produce, buy, sell and deal in pulp, timber, paper, cardboard and other stated products.

Directors

In terms of the Articles:

At every annual general meeting of Sappi Limited, as near as possible to, but not less than one third of the Directors (excluding any Director appointed after the conclusion of the preceding annual general meeting, the Executive Chairman, the Chief Executive Officer and the Managing Director) are required to retire from office but are eligible for re-election. The Directors to retire are those who have been longest in office since their last election or, as between Directors who have been in office for an equal length of time since their last election and, in the absence of agreement, those determined by lot. Any Director who has held office for three years since his last election is also required to retire at such annual general meeting. In addition, the appointment of any Director appointed after the conclusion of the preceding annual general meeting will require to be confirmed at the next annual general meeting, failing which the appointment will cease.

Except as set out in the following paragraph, a Director may not vote in respect of any contract or arrangement or any other proposal in which he has any material interest other than by virtue of his interest in ordinary shares or debentures or other securities of or otherwise in or through Sappi Limited. A Director will not be counted in the quorum at a meeting in relation to any resolution on which he is barred from voting.

A Director shall be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of Sappi Limited or any of its subsidiaries;

- the giving of any security or indemnity to a third party in respect of a debt or obligation of Sappi Limited or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

- any proposal concerning an offer of shares or debentures or other securities of or by Sappi Limited or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting of these securities;

- any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer, shareholder or otherwise; provided that he is not the holder of or beneficially interested in 1% or more of any class of the equity share capital of that company or of the voting rights available to shareholders of that company; and

any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval of the Commissioner of Inland Revenue for taxation purposes.

The remuneration of the Directors for their services as such shall be determined from time to time by a general meeting, save that in the discretion of the Board, there may in each year be paid out of the funds of Sappi Limited to, and divided among, the Directors who have held office during the year in respect of which the remuneration is to be paid, a sum, by way of remuneration for their services as Directors, not exceeding US$500,000, which remuneration shall be paid in such proportions as shall be determined by the Directors or a majority of them. If any Director is required to perform extra services or reside abroad or is otherwise specially occupied about Sappi Limited's business, he is entitled to receive remuneration to be fixed by the Directors (either in addition to, or in substitution for, the aforementioned remuneration). The Directors shall be paid all their traveling and other expenses properly and necessarily expended by them in and about the business of Sappi Limited. In terms of the Companies Act a company may pay remuneration to its directors for their service as directors only in accordance with a special resolution approved by the shareholders within the previous two years.

The Directors may exercise all the powers of Sappi Limited to borrow money and to mortgage or charge its undertaking and property or any part thereof and to issue debentures, which may be issued at par, at a discount or at a premium, and other securities. The borrowings will be restricted so that, except with the previous sanction of an ordinary resolution of Sappi Limited in general meeting, the aggregate principal amount outstanding of all moneys borrowed by Sappi Limited and/or any of its subsidiaries will not at any time exceed an amount equal to 2.5 times the aggregate of the nominal amount of the issued share capital of Sappi Limited and the total of the amounts standing to the credit of the combined capital and revenue reserve accounts of Sappi Limited and its subsidiaries (including any share premium account, capital redemption reserve fund and retained surplus after deducting the amounts of any debit balance in the income statement but excluding sums set aside for taxation and amounts attributable to outside shareholders in subsidiaries), as shown in the latest consolidated balance sheet, adjusted as may be necessary in respect of any variation in the share premium account of Sappi Limited since the date of the latest audited balance sheet. The Companies Act provides that the board may authorize the company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation in securing a new debt or obligation) to a related or inter-related company or corporation, provided that such authorization shall be made pursuant to a special resolution of the shareholders adopted within the previous two years.

The Articles do not stipulate a retirement age for the directors but the Board has set a rule that Non-Executive Directors should retire at the end of the calendar year in which they turn 70. The retirement age of Executive Directors would depend on the terms of their particular conditions of employment.

The Articles do not require that Directors need to hold any shares in Sappi Limited to qualify as Directors of Sappi Limited.

Secretary

The Companies Act requires the directors of each public company to appoint a secretary who is permanently resident in South Africa, and who, in the opinion of the directors, has the requisite knowledge and experience to carry out the duties of a secretary of a public company. In terms of the Companies Act a juristic person (legal entity) or partnership may be appointed to hold office of the company secretary, provided that no employee of that juristic person who provides company secretary services must be disqualified in terms of the Companies Act to be a director and at least one employee of that juristic person satisfies the requirements of the Companies Act in regard to having the requisite knowledge and experience in relevant law and permanent residency of South Africa.

The company secretary of Sappi is Sappi Southern Africa (Pty) Limited. (In accordance with rule 3.59 of the Listings Requirements of the JSE Limited, on November 8, 2010 Sappi Southern Africa (Pty) Limited, a wholly owned subsidiary of Sappi Limited, has been appointed Company Secretary of Sappi Limited replacing Sappi Management Services (Pty) Limited which has become a dormant company).

Disclosure of Interest in Shares

The Companies Act requires the disclosure of beneficial interests in the outstanding shares of a company. The Companies Act obliges the registered shareholder to disclose the identity of the person on whose behalf that security is held and the identity of each person with a beneficial interest in the security so held, the number and class of securities held for each such person with beneficial interest and the extent of each such beneficial interest, within 5 (five) business days of the end of every month during which any change to such information has occurred. Moreover, an issuer of securities may, by notice in writing, require a person who is a registered shareholder of, or whom the issuer knows or has reasonable cause to believe to have a beneficial interest in, a security issued by the issuer, to confirm or deny whether or not such person holds that beneficial interest and, if the security is held for another person, the person to whom the request is made is obliged to disclose to the issuer the identity of the person on whose behalf a security is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of securities are obliged to establish and maintain a register of the disclosures described above and to publish in their annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of securities of that class issued by the issuer together with the extent of those beneficial interests.

Register of Shareholders

Sappi Limited keeps a register of Shareholders in South Africa. Sappi Limited may keep a branch share register in any foreign country, subject to the approval of the South African Reserve Bank.

Share Capital

As at September 2011 the authorized and issued share capital of Sappi was as follows:

Authorized:

725,000,000 ordinary shares of ZAR1.00 each and 19,961,476 "A" Ordinary shares of ZAR1.00 each for an authorized share capital of ZAR744,961,476

Issued:

541,446,223 ordinary shares of ZAR1.00 each and 19,961,476 "A" Ordinary shares for an issued share capital of US$69 million

Share premium US$1,361 million

The authorized ordinary share capital was increased during fiscal 2010 by 19,961,476 "A" ordinary shares with a par value of ZAR1.00 per share as part of Sappi's 2010 BEE Transaction. The issued ordinary share capital increased during fiscal 2010 to its current numbers with the issue of 4,328,359 ordinary shares and 19,961,476 "A" ordinary shares as part of Sappi's 2010 BEE Transaction.

All our ordinary shares in issue rank *pari passu* with each other and are fully paid and not subject to calls for additional payments of any kind. Trading in our ordinary shares has been dematerialized under the terms of the STRATE initiative of the JSE, and the provisions of sections 52 and 53 of the Companies Act relating to uncertificated securities apply in respect of those shares which have been dematerialized.

The "A" Ordinary Shares rank *pari passu* with the Ordinary Shares in all respects except for dividend entitlements where the "A" Ordinary Shares are entitled to and will receive 50% of the dividends payable on the Ordinary Shares. The "A" Ordinary Shares have the same voting rights as Ordinary Shares but are not and will not be listed on the JSE. The "A" Ordinary Shares were issued to the BEE Trusts in connection with the BEE Transaction and may not be disposed of by the BEE Trusts until the August 2019 when Sappi will have the option to repurchase a number of "A" Ordinary Shares. The number of "A" Ordinary Shares Sappi may be entitled to repurchase will be calculated according to a repurchase formula set forth in Article No. 38 of Sappi's Articles of Association. The number of any "A" Ordinary Shares that Sappi may elect to buy back in August 2019 will depend on the price performance of the Ordinary Shares over the period of the Transaction with the remaining "A" Ordinary Shares being distributed to the beneficiaries of the BEE Trusts (or in the case of the Sappi Foundation Trust, continued to be held by such trust) and converted into Ordinary Shares.

For financial reporting purposes the "A" Ordinary Shares are treated as treasury shares, as to the BEE Trusts owning such shares. These are considered special purpose entities under IFRS and therefore will not be included in the calculation of the Company's salient financial ratios such as basic earnings per share.

For further details of the BEE Transaction see "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions"and for further information on the resolution authorizing the change in the Company's Articles of Association relating to the "A" Ordinary Shares and the repurchase formula for the "A" Ordinary Shares, see "Item 19 Exhibits 1.1 and 1.3".

The ADSs trade on the NYSE. The rights of holders of ADSs are governed by the Deposit Agreement pursuant to which the ADSs are issued and such rights differ in certain respects from the rights of holders of ordinary shares.

Dividends

In terms of the Articles, Sappi Limited in a general meeting or the Board may, from time to time, declare a dividend to be paid to the registered holders of shares (the "Shareholders") in proportion to the number of ordinary shares held by them. No dividend on ordinary shares will bear interest. Dividends are declared payable to Shareholders registered as such on a date subsequent to the date of the declaration of the dividend as determined by the Board. This date may not be less than 14 days after the date of the publication of the announcement of the declaration of the dividend.

"A" ordinary shares are entitled to and will receive 50% of the dividend payable on ordinary shares.

Sappi Limited in a general meeting may not declare a dividend in excess of the amount recommended by the Board. All unclaimed dividends may be retained by Sappi Limited, invested or otherwise utilized by the Board for the benefit of Sappi Limited until claimed; provided that dividends unclaimed after a period of twelve years may be declared forfeited by the Board. Forfeited dividends revert to Sappi Limited and may be dealt with by the Directors as they deem fit.

Any dividend or other amount payable to a Shareholder may be transmitted by electronic bank transfer or ordinary post to the address of the Shareholder recorded in the register or any other address the Shareholder may previously have given to Sappi Limited in writing. Sappi Limited will not be responsible for any loss in transmission.

Any dividend may be paid and satisfied, either wholly or in part, by the distribution of specific assets as the Board may at the time of declaring the dividend determine and direct.

In terms of the Companies Act any distribution to shareholders must be authorized by a resolution of the board of the company. In addition no distribution may be made unless it reasonably appears that the company will satisfy the "solvency and liquidity test" immediately after completing the proposed distribution and the board of the company, by resolution, has acknowledged that it has applied the solvency and liquidity test as set out in section 4 of the Companies Act and reasonably concluded that the company will satisfy the solvency and liquidity test immediately after completing the proposed distribution.

It is our policy to declare dividends in US dollars and the Board may at the time of declaring a dividend make such regulations as it may think fit in regard to the payment in any currency and rate of exchange. For further information on our dividend policy, see "Item 8 Financial Information Dividends".

Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the ordinary shares underlying the ADSs, subject to the terms of the Deposit Agreement. Cash dividends will be paid by the Depositary to holders of ADSs in accordance with the Deposit Agreement.

Our ability to pay dividends is restricted by the terms of the Refinancing. See "Item 8 Financial Information Dividends" for a listing of the most restrictive conditions for declaring cash dividends.

Voting Rights

Subject to any rights or restrictions attached to any class of shares, every Shareholder present in person, by authorized representative or by proxy, will have, on a show of hands, one vote only and, in the case of a poll, every Shareholder present in person, by authorized representative or by proxy, will have that proportion of the total votes in Sappi Limited which the aggregate amount of the nominal value of the shares held by that Shareholder bears to the aggregate of the nominal value of all the shares issued by Sappi Limited and, accordingly, since there is currently only one class of issued shares, one vote for every share held by him.

Issue of Additional Shares and Pre-emption Rights

Subject to the provisions of the Companies Act and the listings requirements of the JSE, the Board may issue unissued shares.

Holders of shares have no pre-emptive rights under the Articles. Under the listings requirements of the JSE, however, any unissued shares of Sappi Limited must first be offered to existing Shareholders pro rata to their holdings of shares unless these shares are issued for the acquisition of assets or a specific or general approval is granted to the Directors at any general meeting authorizing the issue of shares for cash. Whenever Sappi Limited wishes to sell for cash shares held as treasury stock by a subsidiary of Sappi Limited, such use must comply with the listings requirements as if such use was a new issue of shares for cash.

Sappi Limited in a general meeting may upon the recommendation of the Board resolve to capitalize all or any part of the amount of the undivided profits, reserves resulting from a sale or revaluation of assets of Sappi Limited or premium created on the issue of any shares or debentures and may apply such sums in paying up unissued shares of Sappi Limited to be issued as fully paid capitalization shares to Shareholders.

Variation of Rights

Whenever the capital of Sappi Limited is divided into different classes of shares, the rights or restrictions attached to any class of shares in issue may be amended, varied, modified or cancelled by general meeting of Sappi Limited; provided that the consent in writing of the holders of at least three fourths of the issued shares of that class or of a special resolution passed at a separate general meeting of the holders of such shares is required if the amendment, variation, modification or cancellation will directly or indirectly adversely affect those rights or restrictions.

The rights or restrictions attached to any class of shares will not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be directly or indirectly adversely affected by the creation or issue of other shares ranking equally with them.

In terms of the Companies Act, despite anything to the contrary in a company's Memorandum of Incorporation every share issued by a company has associated with it an irrevocable right of the shareholder to vote on any proposal to amend the preferences, rights, limitations and other terms associated with that share. If the Memorandum of Incorporation of a company has been amended to materially and adversely alter the preferences, rights, limitations or other terms of a class of shares, any holder of those shares has an appraisal right and is entitled to the relief in terms of section 164 of the Companies Act if that shareholder notified the company in advance of the intention to oppose the resolution to amend the Memorandum of Incorporation and was present at the meeting and voted against that resolution.

Distribution of Assets on Liquidation

If Sappi Limited is liquidated, the assets remaining after the payment of all the liabilities of Sappi Limited and the costs of winding-up shall be distributed among the Shareholders in proportion to the numbers of shares respectively held by them, subject to the rights of any Shareholders to whom shares have been issued on special conditions and subject to Sappi Limited's right to apply set-off against the liability, if any, of Shareholders for unpaid capital or premium. Furthermore, the liquidator, with the authority of a special resolution, may divide among the Shareholders, in specie or kind, the whole or any part of the assets, whether or not those assets consist of property of one kind or different kinds.

Share Repurchases and Capital Reductions

Subject to the provisions of the Companies Act and the listings requirements of the JSE, Sappi Limited may with the prior approval of a special resolution of its shareholders in general meeting:

- acquire any shares issued by Sappi Limited on the basis that all or a portion of the price payable on such acquisition may be paid out of any funds of or available to Sappi Limited whether or not such payment results in a reduction of the issued share capital, share premium, reserves (including statutory non-distributable reserves), stated capital or any capital or redemption reserve fund of Sappi Limited;

- authorize any subsidiary of Sappi Limited to acquire shares in Sappi Limited.

Subject to the provisions of the Companies Act and the listings requirements of the JSE, Sappi Limited may reduce its issued share capital, share premium, stated capital, reserves (including statutory non-distributable reserves) and/or capital redemption reserve fund by way of an ordinary resolution of shareholders in general meeting and a resolution of directors. Similarly, subject to the provisions of the Companies Act and the requirements of the JSE, Sappi Limited may by way of an ordinary resolution of shareholders in general meeting and a resolution of directors make payments to its shareholders, whether or not such payments result in a reduction of the issued share capital, share premium, stated capital, reserves (including statutory non-distributable reserves) and/or any capital redemption reserve fund. An ordinary resolution of shareholders is not, however, required for the payment of dividends.

Changes in Capital or Objects and Powers of Sappi Limited

Subject to the provisions of the Companies Act, Sappi Limited may from time to time:

- increase, consolidate, sub-divide or cancel all or any part of its capital;
- convert any of its shares, whether issued or not, into shares of another class;
- convert all or any of its paid-up shares into stock and re-convert such stock into paid-up shares; or
- convert any shares having a par value into shares having no par value and vice versa.

Rights of Non-controlling Interest Shareholders and Fiduciary Duties

Majority shareholders of South African companies have no fiduciary obligations under South African common law to minority shareholders. However, under the Companies Act, a shareholder may, under certain circumstances, seek relief from the court if he has been unfairly prejudiced by the company. The provisions in the Companies Act are designed to provide relief for oppressed shareholders without necessarily overruling the majority's decision. The Companies Act affords a dissenting shareholder, who objects to certain proposed corporate action, the right to demand payment by the company of the "fair value" of the shares held by that shareholder. However, this right must be exercised in compliance with the various procedural requirements set out in the Companies Act. There may also be common law personal actions available to a shareholder of a company. The fiduciary obligations of Directors may differ from those in the United States and certain other countries. In South Africa, the common law imposes on Directors a duty to act with care and skill and a fiduciary duty to conduct the company's affairs in the best interests of the company. The Companies Act has to a large extent codified the common law duties of Directors by setting out standards against which the conduct of Directors must be assessed and in some instances has developed these duties. The Companies Act also introduces the so-called "business judgment rule" which provides a Director with a defense in relation to an alleged breach of his statutory duties. While Directors owe their duties to the company, the Companies Act provides a mechanism by which any person may claim for any loss or damage suffered as a result of a contravention of any provision of the Companies Act by any other person (such as a Director).

General Meetings of Shareholders

Sappi Limited is obliged to hold an annual general meeting once every calendar year and within fifteen months after the date of the last preceding annual general meeting of Sappi Limited. The Board may, whenever it thinks fit, convene a general meeting and must do so on the request of Shareholders holding at the date of request not less than 10% of the voting rights entitled to be exercised in relation to the matter proposed to be considered at the meeting.

Sappi Limited is required by law to deliver a notice of each shareholders meeting in the prescribed manner and form to all of the shareholders of the Company at least 15 business days before the meeting is to begin.

Notice under the Articles must be given or served on any Shareholder or Director, as the case may be, either by delivery, electronic mail, facsimile or by sending it through the post. Any notice to Shareholders must simultaneously be given to the secretary or other suitable official of any recognized stock exchange on which the shares of Sappi Limited are listed in accordance with the requirements of that stock exchange. Every such notice shall be deemed, unless the contrary is proved, to have been received, if it is delivered, on the date on which it is so delivered, if it is sent by post, on the day on which it is posted, if it is sent by electronic mail, on the day it was sent or, if it is sent by facsimile, on the day on which it was successfully transmitted.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. The quorum for the passing of resolutions is Shareholders holding in the aggregate at least 25% of the all voting rights entitled to vote at the meeting, present in person or by proxy. In addition three Shareholders must be present in person for a meeting to begin. If within ten minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Shareholders, will be dissolved and, in all other cases, will stand adjourned to the same day in the next week, or if that be a public holiday, the next business day, at the same time and place. At the adjourned meeting, those Shareholders who are present or represented thereat shall constitute a quorum.

At a general meeting, a resolution put to the vote will be decided by a show of hands unless a poll is demanded by (1) the chairman, (2) not less than five Shareholders having the right to vote at such meeting, (3) a Shareholder or Shareholders representing not less than one tenth of the total voting rights of all Shareholders having the right to vote at the meeting or (4) in accordance with the Companies Act.

Resolutions will be carried by a majority of the votes recorded at the meeting except in the case of a special resolution which must be passed either, on a show of hands, by not less than 75% of the number of Shareholders entitled to vote who are present in person or by proxy or, where a poll has been demanded, by not less than 75% of the total votes to which the Shareholders present in person or by proxy are entitled. In the event of a tie, the chairman has the deciding vote if he is a Shareholder.

Annual Report and Accounts

The Board is required to keep such accounting records and books of account as are prescribed by the Companies Act. Generally, no Shareholder (other than a Director) has any right to inspect any accounting record book, account or document of Sappi Limited.

The Board is required, in respect of every fiscal year of Sappi Limited, to prepare annual consolidated financial statements of Sappi Limited and present them before the annual general meeting required to be held in that year.

The annual consolidated financial statements of Sappi Limited must, in conformity with International Financial Reporting Standards, fairly present the state of affairs and business of Sappi Limited and all its consolidated subsidiaries at the end of the fiscal year concerned and the profit or loss of Sappi Limited and all its consolidated subsidiaries for that fiscal year.

Transfer of Shares

All ordinary shares are free from any restriction under the Articles on the right to transfer. A Shareholder who holds his shares in dematerialized form will have an account with a Central Securities Depository Participant. Transfer of ownership of such shares will be effected by debiting the account from which transfer is effected and crediting the account to which transfer is effected. The transferor will be deemed to remain the holder of the shares until the name of the transferee is entered in the share register or relevant sub register of Sappi Limited in respect of these shares. Only Shareholders that have handed in their paper share certificates have an account with a Central Securities Depository Participant. Under the rules of the JSE, Shareholders cannot sell their shares on the JSE until the shares have been dematerialized.

Rights of Shareholders

There are no limitations in the Memorandum or Articles and general limitations under South African law on the right of Shareholders to hold or exercise voting rights attaching to any ordinary shares in Sappi Limited.

Changes in Control

Any person acquiring shares of Sappi will (in addition to any regulatory and legal requirements outside South Africa) need to comply with the following to the extent applicable. Various transactions including, without limitation, those which result in a person or a group of persons acting in concert holding shares entitling the holder or holders to exercise or cause to be exercised 35% or more of the voting rights at meetings of Sappi Shareholders and those transactions entailing a disposal of the whole or substantially the whole of the undertaking of Sappi Limited or the whole or the greater part of its assets will be subject to the Takeover Regulations which are regulated by the Takeover Regulation Panel. The Takeover Regulations impose various obligations in such circumstances including the requirement of an offer to minority shareholders. A transaction will be subject to the approval of the competition authorities under the Competition Act No. 89 of 1998, as amended (the "Competition Act") if it results in the acquisition of "control", as defined in the Competition Act, and otherwise falls within the scope of the Competition Act. The Competition Act prevents a transaction falling within its scope from being implemented without the required approvals. To the extent applicable, the transaction will be subject to the listings requirements of the JSE.

Amendment of Memorandum or Articles

The Memorandum or Articles may only be amended by way of a special resolution, proposed at a general meeting of Shareholders at which Shareholders holding at least 25% of the total votes of all Shareholders entitled to vote thereat are present in person or by proxy, which is passed, on a show of hands, by not less than 75% of those present in person or by proxy or, on a poll, by not less than 75% of the total votes to which Shareholders present in person or by proxy are entitled.

South African Companies Act, 2008

A new Companies Act, the Companies Act 71 of 2008, as amended, (the "Act"), was promulgated in April 2009 and became effective on May 01, 2011. The Act replaced the previous Companies Act, 1973 (as amended), in its entirety.

The aims and purposes of the Act, are to provide for, *inter alia*, the incorporation, registration, capitalization, organization and management of profit, and not-for-profit, companies; to define the relationships between companies and their respective shareholders or members and directors; to provide for equitable and efficient mergers, amalgamations and takeovers of companies, and for efficient rescue of financially distressed companies; to provide appropriate legal redress for investors and third parties with respect to companies; to establish a commission and a takeover regulation panel to administer the requirements of the Act with respect to companies, and a Companies Tribunal to facilitate alternative dispute resolution and to review decisions of the commission and the takeover regulation panel, and a Financial Reporting Standards Council ("FRSC") to advise on requirements for financial record keeping and reporting by companies and to repeal the existing Companies Act and to provide for incidental matters.

The Act introduced a number of new requirements that public companies, such as Sappi, need to comply with. In addition to the accountability requirements applicable to all companies, as set out in the Act, public companies are required to comply with additional and more onerous accountability requirements. These include *inter alia*:

(a) the appointment of a company secretary, who must have the requisite knowledge of, or experience with, relevant laws and who must be a permanent resident of South Africa;

(b) the appointment, at its annual general meeting, of an auditor who must, in the opinion of the company's audit committee, be 'independent' of the company. The same individual is prohibited, from serving as the auditor (or designated auditor, as the case may be) for more than five consecutive years. An individual who has served as designate auditor and whose appointment endures for two or more consecutive years and then terminates are prohibited from being appointed as the auditors of that company again for a period of at least two further fiscal years;

(c) the appointment, at every annual general meeting of an audit committee, which must comprise of at least three members who are independent directors of the company and who will be required to comply with minimum qualification requirements as prescribed by the Minister of Trade and Industry, from time to time. The main functions of the audit committee are, *inter alia*, to: nominate for appointment the auditor of the company, who in the opinion of the committee, is 'independent' of the company; determine the auditor's fees and terms of engagement and to make submissions to the company's Board concerning the company's accounting policies, financial control, records and reporting;

(d) the appointment of a social and ethics committee, which must comprise at least three directors or prescribed officers, at least one whom must be a non-executive director. The functions of the social and ethics committee include: to monitor the company's activities with regard to social and economic development, good corporate citizenship and the environment.

Financial Statements

The Act provides that all financial statements provided by a company, (including annual financial statements) must, *inter alia*, comply with the standards prescribed by the Minister of Trade and Industry, after consultation with the FRSC, a body established in terms of the Act. The Act stipulates that the financial statements of public companies must comply with IFRS. Financial reporting standards, applicable to public companies, may be issued by the Minister of Trade and Industry by publication in the Government Gazette from time to time on the advice of the FRSC. The FRSC must ensure that financial reporting standards accord with IFRS and promote issued and consistent accounting practices.

Under the Act, a public company and each of its directors or officers who knowingly is a party to the preparation, approval, dissemination or publication of any financial statements (including annual financial statements) which are materially false or misleading or which fail in a material way to comply with the requirements set out in the Act, will be guilty of an offence. It is also an offence for any person to be a party to the preparation, approval, publication, issue or supply of a financial report that is false or misleading in a material respect if such person knows or ought reasonably to suspect that it is false or misleading.

Material Contracts

On April 14, 2011, Sappi Papier Holding GmbH ("SPH"), issued €250 million 6.625% Senior Secured Notes due 2018 (the "2018 Notes") and US$350 million 6.625% Senior Secured Notes due 2021 (the "2021 Notes", and together with the 2018 Notes, the "Notes"). The interest on the Notes is payable semi-annually on April 15 and October 15 of each year, commencing on October 15, 2011. The 2018 Notes and the 2021 Notes mature on April 15, 2018 and April 15, 2021, respectively. SPH may on any one or more occasions redeem all or part of the 2018 Notes and/or 2021 Notes, as the case may be, at a redemption price varying based on the period during which the redemption occurs (prior to April 15, 2015, on or after April 15, 2015, on or after April 15, 2017 with respect to the 2018 Notes and prior to April 15, 2016, on or after April 15, 2016, on or after April 15, 2019 with respect to the 2021 Notes), plus accrued and unpaid interest, if any, to the date of redemption, subject to the rights of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date. Sappi has agreed to pay certain additional amounts in respect of any withholdings or deductions for certain types of taxes in certain jurisdictions on payments to holders of the Notes. The Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited. The Notes are secured, together with certain other indebtedness of the Group, by first-priority security interests, subject to permitted collateral liens, over certain assets of SPH, Sappi Limited and the other subsidiary guarantors. The security interests are subject to limitations under applicable laws and may be released under certain circumstances. SPH has also agreed to observe certain covenants with respect to the Notes including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. In case of a change of control (including, among others, if all or substantially all of the properties or assets of Sappi Limited and certain of its subsidiaries taken as a whole are sold, transferred or otherwise disposed of, or if any person acquires the majority of voting power of Sappi Limited), holders of the Notes have the right to require the Issuer to repurchase all or any part of their Notes in cash for a value equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to the date of purchase, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date. The offering of the Notes, which are listed on the Luxembourg Stock Exchange, was not registered under the Securities Act or any United States state securities laws. The Notes were offered and sold within the United States only to qualified institutional buyers as defined in Rule 144A under the Securities Act and to non-United States persons outside the United States in reliance on Regulation S under the Securities Act. For further information, see note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report; "Item 5 Operating and Financial Review and Prospects"; and "Item 19 Exhibits".

On April 28, 2011, SPH and Sappi International S.A., as borrowers, amended and restated the existing revolving credit facility dated August 27, 2009. The amended and restated revolving credit facility is an amount of €350 million of borrowing availability in euro, US dollars, Swiss francs or any other currency which is readily available and freely convertible into euro and has been approved by the lenders. The commitments under the amended and restated Revolving Credit Facility terminate on March 28, 2016. This facility was arranged by J.P. Morgan Limited, Citibank, N.A. London Branch, Credit Agricole Corporate and Investment Bank, The Royal Bank of Scotland NV (Belgium) Branch, UniCredit Bank Austria AG, and KBC Bank NV with J.P. Morgan Europe Limited acting as agent and security agent for a syndicate of financial institutions. The amended and restated revolving credit facility is guaranteed by Sappi Limited, SPH, Sappi International S.A. and certain other subsidiaries of SPH, and is secured, together with certain other indebtedness of the Group, by first-priority security interests over certain assets of Sappi Limited, SPH and the other subsidiary guarantors. The funding margin is determined by a rating grid (1.65% at BBB/Baa2 or above, 1.95% at BBB-/Baa3, 2.25% at BB+/Ba1, 2.875% at BB/Ba2, 3.75% at BB-/Ba3 and 4.75% at B+/B1 or lower) and, based on the current credit rating, provides for a margin of 2.875% per annum over Euribor or Libor, depending on the currency of the loan and the level of utilization. The borrowers are also obligated to pay a commitment fee equal to 40% of the then applicable margin on the undrawn and uncancelled amount of the amended and restated revolving credit facility and a utilization fee of 0.25% per annum (if the utilization is between 25% and 50%) or 0.50% per annum (if the utilization is greater than 50%) on the amount of the amended and restated revolving credit facility that is used. This facility is to be used for general corporate purposes and was undrawn at the end of September 2011. The amended and restated revolving credit facility contains (i) an interest coverage covenant (2.00 to 1 for all quarters ending from March 2011 to December 2013, 2.25 to 1 for all quarters ending from March 2014 to June 2014 and 2.50 to 1 for quarters ending September 2014 to June 2016) (ii) a leverage covenant (4.50 to 1 for all quarters ending March 2011 to December 2013, 4.25 to 1 for all quarters ending from March 2014 to June 2014, 4.00 to 1 for all quarters ending September 2014 to December 2014 and 3.75 to 1 for all quarters ending March 2015 to June 2016) and (iii) a covenant with respect to the percentage of net debt to total capitalization (65%), in each case measured at the Sappi Limited consolidated level. Subject in each case to certain customary exceptions and materiality thresholds, the amended and restated revolving credit facility contains customary negative covenants and restrictions, including (among others) restrictions on dividend distributions, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals. In addition, in case any person acquires more than 35% of the voting rights of Sappi Limited or in case of a sale of all or substantially all of the assets of the Group, the commitments of the lenders under the amended and restated revolving credit facility will be cancelled and all outstanding borrowings, together with accrued interest and all other amounts accrued, immediately become due and payable. For further information, see note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report; "Item 5 Operating and Financial Review and Prospects"; and "Item 19 Exhibits".

On August 25, 2011, Sappi Trading, Sappi Fine Paper Europe and Sappi Fine Paper North America entered a new, three-year, €360 million trade receivables securitization program arranged by UniCredit Bank and funded through UniCredit Bank's Arabella Finance Limited conduit to replace their prior trade receivables securitization program. Under the new program, eligible receivables are sold on a non-recourse basis by SPH (the "Austrian USD Seller"), Sappi Lanaken NV (the "Belgian Seller"), Sappi Deutschland GmbH (the "German USD Seller"), and Sappi NA Finance LLC (the "U.S. Seller") to Elektra Purchase No. 29 Limited (the "Purchaser") under various purchase agreements. Pursuant to corresponding servicing agreements, Sappi entities act as servicers to administer, collect and enforce the receivables purchased under the various purchase agreements. The Austrian USD Receivables Purchase Agreement among, *inter alia*, the Austrian USD Seller, the Purchaser, and Sappi International SA (the "Master Servicer"); the Belgian Receivables Purchase Agreement among, *inter alia*, the Belgian Seller, the Purchaser, and the Master Servicer; the German USD Receivables Purchase Agreement among, *inter alia*, the German USD Seller, the Purchaser and the Master Servicer; the US Purchase and Contribution Agreement among S.D. Warren Company and the US Seller; and the US Receivables Purchase Agreement among, *inter alia*, the US Seller, S.D. Warren Company, the Purchaser and the Master Servicer, were all entered on August 12, 2011 and set forth the terms pursuant to which receivables are sold on a non-recourse basis to the Purchaser. Under the purchase agreements, the sellers have agreed to observe certain covenants, including a limitation on creating liens on any receivables. The Austrian USD Servicing Agreement among, *inter alia*, Sappi Trading Hong Kong Limited, the Austrian Seller, the Purchaser, and the Master Servicer; the Belgian Servicing Agreement among, *inter alia*, the Belgian Seller, the Purchaser, and the Master Servicer; the German USD Servicing Agreement among, *inter alia*, the German USD Seller, Sappi Trading Hong Kong Limited, the Purchaser and the Master Servicer; and the US Servicing Agreement among, *inter alia*, the US Seller, S.D. Warren Company, the Purchaser and the Master Servicer, were all entered on August 12, 2011 and govern how the receivables are administered, collected and enforced under the facility. The Incorporated Terms Memorandum provides defined terms and other various schedules for the transaction documents under the receivables securitization facility, including the purchase agreements and servicing agreements. SPH has guaranteed the performance by the sellers of their respective obligations under the receivables purchase agreements and the performance by the servicers and the Master Servicer of their respective obligations under the servicing agreements, pursuant to the Performance Guarantee entered on August 12, 2011 with the Purchaser. The trade receivables securitization program matures on August 24, 2014, unless it is terminated earlier. In case of a change of control (which occurs upon the failure of Sappi Limited and its wholly owned subsidiaries to beneficially own at least 65% of the capital stock of or control all sellers, servicers, the Master Servicer and SPH or the failure of S.D. Warren Company to own 100% of or control the US Seller), the facility could be terminated. A termination event could also occur if certain credit rating downgrades occur for Sappi Limited or if Sappi Limited fails to maintain certain financial ratios, including ratios for consolidated Net Debt to EBITDA, EBITDA to Consolidated Net Interest Expense, and Net Debt to Total Capitalization. For further information, see notes 16 and 20 to our Group Annual Financial Statements included elsewhere in this Annual Report; "Item 5 Operating and Financial Review and Prospects"; and "Item 19 Exhibits".

Exchange Controls

Introduction

South African residents are subject to exchange controls in terms of the Exchange Control Regulations, issued under the Currency and Exchanges Act, 1933 (the "Regulations").

The Financial Surveillance Department ("FSD") of the South African Reserve Bank (previously known as the Exchange Control Department) is responsible for the day-to-day administration of exchange controls.

Most South African commercial banks have been appointed to act as authorized dealers in foreign exchange ("Authorized Dealers"). Authorized Dealers may buy and sell foreign exchange, subject to conditions and within limits prescribed by the FSD. From time to time, the FSD issues Exchange Control Rulings to Authorized Dealers, which set out the conditions, permissions and limits applicable to the transactions in foreign exchange which may be undertaken by Authorized Dealers.

The FSD from time to time also issues Circulars to provide further guidelines regarding the implementation of exchange controls. The Regulations, Rulings and Circulars are hereinafter collectively referred to as "Excon Rules".

The South African government remains committed to the gradual relaxation of exchange controls, but the existing exchange controls are strictly enforced, particularly in the current uncertain financial environment. Steps to liberalize exchange controls are announced from time to time in Budget Speeches and Medium-Term Budget Policy Statements issued by the Minister of Finance.

For example, in his February 2011 Budget Speech, the Minister of Finance stated that South Africa must develop a coherent, harmonized policy framework to regulate cross-border direct investment. A discussion document titled "A review framework for cross-border direct investment in South Africa" was released for public comment during February 2011. The period for comments closed on August 31, 2011 and no further announcements in this regard have been released to date.

The Minister subsequently announced further steps in the liberalization of exchange controls, in his Medium Term Budget Policy Statement on October 25, 2011 ("MTBPS 2011").

The purpose of exchange controls is, *inter alia*, to regulate inflows and outflows of capital from South Africa. South African residents are not permitted to export capital from South Africa except as provided for in the Excon Rules. No South African resident is thus entitled to enter into any transaction in terms of which capital (whether in the form of funds or otherwise) or any right to capital is directly or indirectly exported from South Africa without the approval of either the FSD or, in certain cases, by an Authorized Dealer.

Exchange controls do not apply to non-residents, but they may be impacted indirectly as acquisitions of South African assets and transactions with a resident may require Excon approval.

Transactions between residents (including corporations) of the Common Monetary Area ("CMA") (comprising the Republic of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland) on the one hand and non-residents of the CMA on the other hand, are subject to exchange controls.

Some of the more salient exchange control rules regarding South African corporations are as follows:

South African companies with a satisfactory business track record may in terms of the foreign direct investment dispensation expand their business offshore under certain conditions. Authorized Dealers may consider and approve an application for such a foreign investment up to an amount of

ZAR500 million per calendar year. The criteria in this regard were relaxed by the MTBPS 2011, by *inter alia*:

allowing South African companies to make bona fide new outward foreign direct investments outside the current line of business of the applicant company;

withdrawing the prohibition on the transfer of additional working capital funding in respect of investments below ZAR500 million per applicant company per calendar year; and

relaxing the so-called "loop structure" provisions for South African companies, by allowing South African companies to acquire from 10% to 20% equity and/or voting rights in a foreign target entity, which may hold investments and/or make loans into any CMA country.

Applications for larger investments must be referred to the FSD. There is no limit to the amount of funds which may be approved by the FSD.

With regard to larger foreign investments the FSD may require capital outflows to be staggered in order to manage the potential impact on the foreign exchange market. In the past, the FSD required the South African investor to exercise control (namely 50% plus one share) over the foreign investment but this has been relaxed to the effect that the South African investor must hold at least 10% of the voting rights.

South African corporations which have been granted approval to transfer funds abroad for purposes of acquiring an approved foreign investment are entitled to retain abroad foreign dividends which relate to the operation of the approved foreign investment. Any foreign dividend which may have been repatriated to South Africa after October 26, 2004 may thereafter be transferred abroad again, at any time and for any purpose other than for purposes of a non-resident (which is directly or indirectly controlled by a South African resident) using such funds to reinvest into the CMA.

Controls on current account transactions, with the exception of certain discretionary expenses, have been abolished and are dealt with by Authorized Dealers in terms of the Exchange Control Rulings.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents in respect of fixed and ascertained foreign exchange commitments covering the movement of goods. As a further administrative reform in the MTBPS 2011, Authorized Dealers may now allow South African corporates to take up forward cover of up to 75% of budgeted import commitments or export accruals in respect of the forthcoming financial year without referring the application to the FSD.

Although the stated intention of the South African Government is to gradually relax exchange controls, there are currently no indications that exchange controls will be abolished by the South African Government in the near future.

Sales of Shares

While a non-resident is no longer subject to any exchange control restrictions in respect of the acquisition or disposal of South African securities, control is still exercised in respect of the transfer of South African securities to a non-resident by placing the endorsement "non-resident" on all securities acquired by non-residents or in which non-residents acquire an interest. The reason and effect of this endorsement is to serve as evidence of the introduction of the funds by a non-resident to ensure that in the event of a disposal by the non-resident of the interest, the payment may be transferred abroad or credited to a non-resident account. An Authorized Dealer is required to endorse the shares, allow the transfer of the funds and cancel the endorsement once the shares are transferred back to a South African resident. Dematerialized, listed shares are not required to be endorsed by an Authorized Dealer, but a non-resident annotation will be recorded in the share register.

Since non-residents are not subject to the exchange control rules, the Sappi Limited ordinary shares and ADSs are freely transferable outside the CMA between non-residents of the CMA. In addition, the proceeds from the sale of shares on the JSE on behalf of shareholders who are not residents of the CMA are freely remittable to such shareholders (other than former residents of South Africa), provided that there has been compliance with the formalities referred to in the previous paragraph.

Dividends

There are no restrictions under South African exchange control rules on the free transferability of cash dividends to shareholders or ADR holders provided that there has been compliance with the formalities referred to above. Dividends declared to an emigrant from South Africa out of capital gains, or out of income earned from normal trading activities prior to the date of emigration, must be placed to the credit of a blocked account with an Authorized Dealer. Dividends declared out of income earned from normal trading activities subsequent to the date of emigration are, however, remittable. Permission may be requested from the FSD to export such blocked assets subject to an exit charge of 10%. The FSD has the discretion to also stipulate an exiting schedule to stagger the outflow of capital.

It is our policy to declare cash dividends, if any, in US dollars. South African shareholders are paid the ZAR equivalent of the US dollar denominated declaration. ADR holders are paid in US dollars. Holders of ADRs on the relevant record date are entitled to receive any dividends payable in respect of the shares underlying the ADRs, subject to the terms of the Deposit Agreement. Subject to exceptions provided in the Deposit Agreement, cash dividends are paid by the Depositary to holders of ADRs in accordance with the Deposit Agreement. The Depositary charges holders of ADRs, to the extent applicable, taxes and other governmental charges and specified fees and other expenses, for any cash distributions made pursuant to the Deposit Agreement, other than distributions of cash dividends.

Our ability to pay dividends is restricted by the terms of the recent Refinancing. See "Item 8 Financial Information Dividends" for a listing of the most restrictive conditions for declaring cash dividends.

Subject to exceptions relating to former residents of South Africa, shareholders who are not residents of the CMA who are in receipt of script dividends and who elect to dispose of the relevant shares may remit the proceeds arising from the sale of the relevant shares.

Taxation

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Securities under the laws of their country of citizenship, residence or domicile. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date hereof, all of which laws and interpretations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

South Africa

The following discussion represents the views of Bowman Gilfillan Inc., one of our South African counsels.

General

The discussion below summarizes the pertinent South African tax consequences for shareholders of Sappi Limited as well as for holders of American Depository Receipts ADRs listed on the New York Stock Exchange.

Shareholders of a South African company could be subject to the following types of taxes:

income tax imposed in terms of the Income Tax Act No. 58 of 1962 ("the ITA"); or

capital gains tax ("CGT") imposed in terms of the Eighth Schedule to the ITA ("the Eighth Schedule");and

Securities Transfer Tax ("STT") as provided for in the Securities Transfer Tax Act No. 25 of 2007.

A further tax which may be relevant to a shareholder is Secondary Tax on Companies ("STC"), which is imposed in terms of the ITA on a company in respect of dividends declared. STC is to be replaced with a dividend withholding tax ("DWT") with effect from April 01, 2012.

Basis of Taxation

South Africa applies a residence basis of taxation in terms of which residents are subject to income tax on their worldwide income and CGT on their worldwide capital gains. Non-residents are taxed on their South African source (or deemed source) income. Certain categories of income and activities are exempt from taxation.

South African tax residents are thus exposed to South African tax in respect of the profits from the disposal of their worldwide assets. Non-residents are generally only exposed to South African tax in respect of the sale of an asset if the asset in question is situated in South Africa since the sale would otherwise generate foreign source income.

The shares issued by a South African resident company would generally be regarded as South African assets, even if the shares may be listed on a foreign stock exchange. Therefore, the sale of such an asset may generate South African source income. However, the concept of "source" is not defined and the factual circumstances determine the location of the source of income.

Whatever, the source of such profits, non-residents are not subject to CGT on the sale of capital assets held in South Africa except in respect of immovable property situated in South Africa (or any interest or right in such immovable property) and any assets attributable to a permanent establishment of that non-resident in South Africa. For CGT purposes, an asset is widely defined to include assets that are movable, immovable, corporeal or incorporeal and rights or interests in such property, but excludes certain limited items.

In the case of a natural person, residence is established either when the person can be regarded as "ordinarily resident" in South Africa (in accordance with case law tests) or when the person satisfies a physical presence test in terms of which he/she becomes resident by virtue of his/her physical presence in South Africa for a certain prescribed period of time.

In the case of a legal person, residence is established by virtue of incorporation or formation, or by having a place of effective management, in South Africa. Excluded from the definition of "resident" are persons or entities which are, in terms of a double taxation agreement ("DTA") entered into by South Africa, deemed to be exclusively a resident of another country.

A non-resident may be protected by the provisions of a DTA from an exposure to South African tax.

South Africa and the United States concluded a DTA in 1997 ("the US DTA"). In terms of the US DTA, an individual may become a South African resident if he or she became ordinarily resident in South Africa, subject to the tie-breaker rules under Article 4 of the US DTA. A company may be resident in South Africa if it was incorporated or effectively managed in South Africa, subject to the tie-breaker rule. In terms of the tie-breaker rule of the US DTA, a company that is a resident of both South Africa and the United States will be deemed to be a resident of the country in which it is incorporated.

STC

STC is imposed on South African resident companies at a flat rate of 10% in respect of the net amount of dividends declared by such company. As mentioned above, STC is due to be replaced by the DWT on April 01, 2012.

The net amount of dividends declared is calculated as dividends declared by the company in question less all dividends which accrued to that company (but subject to certain exclusions) during its relevant "dividend cycle". Such accrued dividends are referred to as STC credits. "Dividend cycle" means the period commencing immediately after the previous dividend cycle and ending on the date on which the dividend in question accrues to the shareholder concerned. Any excess dividends which accrued to a company in a dividend cycle may be carried forward to the subsequent dividend cycle as STC credits in that period. Foreign dividends do not qualify as STC credits.

The DWT legislation contains a grandfather clause which provides for the utilization of STC credits against the DWT for a period of five years from the date of replacement of STC.

The imposition of STC effectively means that a dual corporate tax system exists in South Africa, comprising of normal income tax and STC. The combination of income tax and STC increases the effective tax rate of a resident company which distributes all of its profits by way of dividends, from 28% (the normal corporate income tax rate) to 34.545%.

Liability for STC is determined independently from normal income tax. Accordingly, a company without a normal tax liability may have a liability for STC, and vice versa, and may be liable for both normal tax and STC.

The award of certain capitalization shares to shareholders, that is, the issue of shares which are funded by transferring reserves or undistributed profits to the company's share capital, would not be regarded as a dividend and would thus not be subject to STC, provided the shares issued constituted equity share capital of the company. Listed South African companies may offer capitalization shares, constituting equity share capital of the company, in lieu of cash dividends. The capitalization shares must carry the right to participate to an unlimited extent in the dividends or capital of the company in order to constitute equity share capital. However, on a subsequent partial reduction or redemption of capital, or upon reconstruction or liquidation of the company, the amount so transferred from reserves or undistributed profits to the equity share capital of a company will, subject to certain exceptions, be deemed to be a dividend subject to STC. Capitalization shares issued from such reserves or profits which do not qualify as equity shares are regarded as dividends and, as such, attract STC.

Withholding Tax on Dividends

Sappi Limited is not currently obliged to withhold any form of tax on dividends paid to any shareholders, including non-residents of South Africa. Instead, Sappi is required to pay STC as mentioned above. However, STC will be replaced by the DWT with effect from April 01, 2012. DWT will be levied on the shareholders at a rate of 10%.

In contrast to STC, the new DWT is a tax on the shareholder, although it will be collected as a withholding tax by the company paying a dividend, which implies that Sappi Limited will incur the obligation to withhold the DWT.

Unlike STC, the DWT rate may be reduced in terms of the provisions of a DTA, if applicable. A number of DTAs until recently provided for the reduction of tax on dividends to 0%. The Government has been renegotiating the relevant articles of these DTAs over the last few years. Therefore, all the renegotiated DTAs should provide for a reduction to 5%, typically if a company resident in the other contracting state holds at least 10% of the capital of the South African company.

The US DTA limits the DWT rate to 5% of the gross amount of the dividends if the beneficial owner of the shares is a US company holding directly at least 10% of the voting stock of the South African company paying the dividends.

The DWT will be imposed on dividends declared by a resident company and by non-resident companies listed on the Johannesburg Stock Exchange in South Africa. However, several shareholders will be exempt from the withholding tax*, inter alia* a resident company and a pension fund.

For purposes of the DWT, a "dividend" will essentially constitute any amount transferred to a shareholder in relation to a share to the extent that it does not constitute a reduction of "contributed tax capital". The term "contributed tax capital" is defined to comprise the stated capital or share capital and share premium of a company immediately before January 01, 2011, excluding certain amounts that constitute capitalized profits that did not give rise to a dividend, plus the consideration received by or accrued to the company on the issues of shares on or after January 01, 2011.

In those instances where an exemption from the DWT is available, e.g. where the beneficial owner of the shares is a resident company, the beneficial owner will be required to submit to the company a written declaration that he/she is exempt from the DWT and an undertaking to advise the company should the beneficial owner cease to be the beneficial owner, failing which the company will be required to withhold the DWT. Similarly, where the beneficial owner is subject to the DWT at a reduced rate as a result of the application of a DTA, the shareholder will be required to submit such a declaration and an undertaking to the company declaring the dividend.

Income tax on dividends

Dividends received by or accruing to persons from South African tax resident companies are generally exempt from income tax, subject to certain exceptions.

Income Tax and Capital Gains Tax

Profits derived from the sale or redemption of shares in a resident company may be subject to either income tax or CGT, depending on whether the shares were held as trading stock or as a capital investment. The profits would only be subject to income tax if the seller carried on business as a share dealer, i.e. if it held the shares as trading stock. If the seller is a resident company, the profits will be subject to income tax at the corporate rate of 28%, and in the case of an individual, at the marginal individual rate, which reaches a maximum of 40% on a progressive scale. Where the seller is a non-resident company, the profits will be subject to income tax at a rate of 33% unless the profits are protected by an applicable DTA.

Profits derived by a resident from the sale or redemption of shares which were held as capital investments are subject to CGT as opposed to income tax. Companies are liable to CGT on 50% of the net capital gain. At the current corporate tax rate of 28%, the effective tax rate on the net capital gains for a resident company is thus 14%. Resident natural persons are liable to CGT on 25% of the net capital gain, resulting in an effective tax rate of 10% at a maximum marginal rate of 40%.

Any gain realized on the disposal of shares held by non-residents in a South African company as capital investments are generally not subject to CGT, unless the shares were attributable to a permanent establishment of the non-resident in South Africa, or if the non-resident shareholder (alone or together with any connected persons) held more than 20% of the issued equity share capital of the South African company and more than 80% of the net asset value of that company was attributable to immovable property situated in South Africa. Should a non-resident company be subject to CGT on the disposal of shares held as capital assets, the applicable CGT rate will be 16.5%, being 50% of the 33% income tax rate applicable to non-resident companies.

An ADR in respect of a share in a South African resident company is regarded as an equity share for the purpose of the ITA. Therefore, the sale of such ADRs could potentially generate South African sourced income or gains, subject to the relevant facts and circumstances. However, as indicated above, a non-resident would only be exposed to South African tax in respect of such sourced income or gains if they were of a speculative nature or if the ADRs were held via a permanent establishment of that non-resident in South Africa or if the South African company qualified as an immovable property company.

A "safe harbor" provision is contained under section 9C of the ITA, in terms whereof the gain from the sale of shares will be deemed to be of a capital nature if the seller held the shares for a period of at least three years. However, there are several conditions for and exclusions from the safe harbor rule.

If an exposure should arise for a non-resident shareholder, an applicable DTA may protect that shareholder from such exposure. For example, the US DTA prohibits, subject to exceptions, the imposition of South African tax on gains of a United States resident seller from the sale of shares, unless such shares form part of the business property of a permanent establishment which the seller has in South Africa, whether the gains are of a speculative or capital nature.

Duty on the Shares

STT is payable at a rate of 0.25% of the consideration payable on the transfer of beneficial ownership of any security issued by a South African incorporated company, or by a foreign company listed on the Johannesburg Stock Exchange.

"Securities" is defined to include any share or depository receipt in a company, i.e. STT will be payable on the transfer of the shares and/or on the ADRs.

"Transfer" includes the sale, assignment, cession, disposal of a security as well as the cancellation or redemption of that security, but does not include any event that does not result in a change in beneficial ownership.

STT is payable regardless of whether the transfer is executed within or outside South Africa. In respect of the shares of a listed company, STT is payable by the person to whom the security is transferred.

United States

Introduction

This section, which represents the views of Cravath, Swaine & Moore LLP, our United States counsel, summarizes the material United States Federal income tax consequences to holders of our ordinary shares and ADSs as of the date of this Annual Report. The summary applies to you only if you hold our ordinary shares or ADSs, as applicable, as a capital asset for tax purposes (that is, for investment purposes). The summary does not cover United States' state or local or non-United States law. This summary is based in part upon representations of the Depositary made to Sappi and the assumption that each obligation in the Deposit Agreement and any related agreements will be performed in accordance with its terms. In addition, this summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;

- a tax-exempt organization;
- a person that holds our ordinary shares or ADSs as part of a straddle or a hedging, integrated, constructive sale or conversion transaction for tax purposes;
- a United States holder (as defined below) whose functional currency for tax purposes is not the US dollar;
- a person liable for alternative minimum tax; or
- a person that owns, or is treated as owning, 10% or more of any class of our ordinary shares or ADSs.

For purposes of the discussion below, you are a "United States holder" if you are a beneficial owner of our ordinary shares or ADSs who or which is:

- an individual United States citizen or resident alien;
- a corporation, or entity taxable as a corporation, that was created under United States law (federal or state); or
- an estate or trust whose worldwide income is subject to United States Federal income tax.

If you are not a United States holder, you are a "non-United States holder" and the discussion below titled "United States Federal Income Tax Consequences to non-United States Holders" will apply to you.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisor.

United States Federal Income Tax Consequences to United States Holders

ADSs. In general, for United States Federal income tax purposes, United States Holders of ADSs will be treated as the beneficial owners of the ordinary shares underlying those ADSs.

Distributions. Subject to the discussion of "passive foreign investment companies" below, the gross amount of any distribution (other than in liquidation), including the fair market value of all distributions of ordinary shares whenever a holder may elect to receive cash distributions in lieu of ordinary share distributions, that you receive with respect to our ordinary shares or ADSs (before reduction for South African income tax, if any, withheld from such distributions) generally will be included in your gross income on the day on which you, in the case where you own ordinary shares, or the Depositary, in the case where you own ADSs, receive the distribution. This distribution will be taxed to you as a dividend (that is, ordinary income) to the extent such distribution does not exceed our current or accumulated earnings and profits, as calculated for United States Federal income tax purposes ("E&P"). Dividends received by an individual United States holder during taxable years before 2013 should be considered "qualified dividend income" and will generally be taxed at a maximum rate of 15%, provided certain holding period requirements and other conditions are satisfied. Dividends received by an individual United States holder for taxable years after 2012 will be subject to tax at ordinary income rates, absent legislative action fixing a different rate. To the extent any distribution exceeds our E&P, the distribution will first be treated as a tax-free return of capital to the extent of your adjusted tax basis in our ordinary shares or ADSs, as applicable, and will be applied against and reduce such basis dollar-for-dollar (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such ordinary shares or ADSs). To the extent that such distribution exceeds your adjusted tax basis, the distribution will be taxed as gain recognized on a sale or exchange of our ordinary shares or ADSs, as applicable. See " Sale or Other Disposition of Company Ordinary Shares and ADSs", below. Because we are not a United States corporation, no dividends-received deduction will be allowed to a corporate United States holder with respect to dividends paid by us.

Distributions on the ordinary shares and ADSs are expected to be made by us in US dollars. In the event that distributions on the ordinary shares and ADSs are made by us in Rand, any dividends paid in Rand generally will be included in your gross income in a US dollar amount calculated by reference to the exchange rate in effect on the day you, in the case of ordinary shares, or the Depositary, in the case of ADSs, receive the dividend. It is anticipated that the Depositary will, in the ordinary course, convert Rand received by it as distributions on the ADSs into US dollars. To the extent that the Depositary does not convert the Rand into US dollars at the time that you are required to take the distribution into your gross income for United States Federal income tax purposes, you may recognize foreign currency gain or loss, taxable as ordinary income or loss, on the later conversion of the Rand into US dollars. The gain or loss recognized will generally be based upon the difference between the exchange rate in effect when the Rand are actually converted and the "spot" exchange rate in effect at the time the distribution is taken into account and any such gain or loss will generally be treated as United States source income for United States foreign tax credit purposes.

Dividends paid by us will generally be treated as foreign source income for United States foreign tax credit limitation purposes. Subject to certain limitations, United States holders may elect to claim a foreign tax credit against their United States Federal income tax liability for South African tax withheld (if any) from dividends received in respect of our ordinary shares or ADSs, as applicable. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid by us in respect of our ordinary shares or ADSs, as applicable, generally will be "passive income" or, in the case of certain types of United States holders, "general income", and therefore any United States tax imposed on these dividends cannot be offset by excess foreign tax credits that you may have from foreign source income not qualifying as "passive income" or "general income", respectively. Additional limitations on the credit apply to individual United States holders receiving dividends if the dividends are eligible for the 15% maximum tax rate on dividends described above. United States holders that do not elect to claim a foreign tax credit generally may instead claim a deduction for South African tax withheld (if any).

Sale or Other Disposition of Company Ordinary Shares and ADSs. Subject to the discussion of "passive foreign investment companies" below, generally speaking, in connection with the sale or other taxable disposition of our ordinary shares or ADSs, as applicable:

- you will recognize gain or loss equal to the difference (if any) between:
  - the US dollar value of the amount realized on such sale or other taxable disposition; and
  - your adjusted tax basis in such ordinary shares or ADSs;
- any gain or loss will be capital gain or loss and will be long-term capital gain or loss if your holding period for our ordinary shares or ADSs, as applicable, is more than one year at the time of such sale or other taxable disposition;
- long-term capital gains recognized by individual United States holders during taxable years before 2013 will generally be taxed at a maximum rate of 15%;
- any gain or loss will generally be treated as having a United States source for United States foreign tax credit purposes; and
- your ability to deduct capital losses (if any) is subject to limitations.

If you are a cash basis United States holder who receives foreign currency (e.g. Rand) in connection with a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, the amount realized will be based on the US dollar value of the foreign currency received with respect to such ordinary shares or ADSs, as determined on the settlement date of such sale or other taxable disposition.

If you are an accrual basis United States holder, you may elect the same treatment required of cash basis taxpayers with respect to a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service. If you are an accrual basis United States holder and do not elect to be treated as a cash basis taxpayer (pursuant to the Treasury Regulations applicable to foreign currency transactions) for this purpose, you may have a foreign currency gain or loss for United States Federal income tax purposes because of differences between the US dollar value of the foreign currency received prevailing on the date of the sale or other taxable disposition of our ordinary shares or ADSs, as applicable, and the date of payment. Any such currency gain or loss generally will be treated as ordinary income or loss and would be in addition to gain or loss, if any, that you recognized on the sale or other taxable disposition of our ordinary shares or ADSs, as applicable.

South African securities transfer tax will be payable on a subsequent registration of transfer of ordinary shares. See "- South Africa Duty on the Shares". STT will not be a creditable tax for United States foreign tax credit purposes, but will generally be deductible. In the case of an individual United States holder, such deduction will be subject to specified limits on the deductibility of investment expenses.

Passive Foreign Investment Company. United States holders (who are not tax-exempt) would be subject to a special, adverse tax regime (that would differ in certain respects from that described above) if we were or were to become a passive foreign investment company for United States Federal income tax purposes. Although the determination of whether a corporation is a passive foreign investment company is made annually, and thus may be subject to change, we do not believe that we are, nor do we expect to become, a passive foreign investment company. Notwithstanding the foregoing, we urge you to consult your own United States tax advisor regarding the adverse United States Federal income tax consequences of owning the stock of a passive foreign investment company and of making certain elections designed to lessen those adverse consequences.

United States Federal Income Tax Consequences to non-United States Holders

Distributions. If you are a non-United States holder, you generally will not be subject to United States Federal income tax on distributions made on our ordinary shares or ADSs unless:

- you conduct a trade or business in the United States; and

- the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to United States Federal income tax on a net income basis in respect of income from our ordinary shares or ADSs, as applicable, such distributions are attributable to a permanent establishment that you maintain in the United States).

If you fail the above test, you generally will be subject to tax in respect of such distributions in the same manner as a United States holder, as described above, except as altered by applicable income tax treaty. In addition, any effectively connected distributions received by a non-United States corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Sale or Other Disposition of Company Ordinary Shares and ADSs. If you are a non-United States holder, you will not be subject to United States Federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our ordinary shares or ADSs, as applicable, unless:

- your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to United States Federal income tax on a net income basis in respect of gain from the sale or other disposition of our ordinary shares or ADSs, as applicable, such gain is attributable to a permanent establishment maintained by you in the United States); or

you are an individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and either:

your gain is attributable to an office or other fixed place of business that you maintain in the United States; or

you have a tax home in the United States.

If you fail the above test, you generally will be subject to tax in respect of such gain in the same manner as a United States holder, as described above except as altered by applicable income tax treaty. Effectively connected gains realized by a non-United States corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

Payments and sale proceeds in respect of our ordinary shares or ADSs, as applicable, which are made in the United States or by a United States related financial intermediary may be subject to United States information reporting rules. You will not be subject to "backup" withholding of United States Federal income tax provided that:

you are an exempt recipient; or

you provide a taxpayer identification number (which, in the case of an individual, is his or her social security number) and meet other information reporting and certification requirements.

If you are a non-United States holder, you generally are not subject to information reporting and backup withholding, but you may be required to provide a certification of your non-United States status in order to establish that you are exempt. You may be subject to information reporting and backup withholding if you sell your ordinary shares or ADSs through a United States broker and you are not eligible for an exemption. You may be subject to information reporting, but not backup withholding if you sell your shares or ADSs through a broker with certain connections with the United States and you are not eligible for an exemption.

Amounts withheld under the backup withholding rules may be credited against your United States Federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service.

Documents on Display

Sappi Limited files periodic reports and other information with the SEC. You may read and copy any document that Sappi Limited files with the SEC on the SEC's website, www.sec.gov, or at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 (in the United States) or at +1 202 942 8088 (outside the United States) for further information on the operation of its public reference room.

The documents concerning Sappi Limited referred to in this Annual Report may also be inspected at the registered office of Sappi Limited at 48 Ameshoff Street, Braamfontein, Johannesburg, Republic of South Africa.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal quantitative and qualitative disclosures about market risks (that are, the risk of loss arising from adverse changes in market rates and prices) to which Sappi is exposed are:

Market Risk

Interest rate risk. We are exposed to interest rate risk as we borrow funds at both fixed and floating interest rates.

Currency risk. We are exposed to economic, transaction and translation currency risks.

Commodity price risk. We are exposed to commodity price risk from price volatility and threats to security of our raw material supply and other inputs to the production process.

See note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Credit Risk

Credit risk. We are exposed to credit risk in relation to trade receivables, cash deposits and financial investments.

See note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Liquidity Risk

Liquidity risk. We are exposed to liquidity risk in that we may be unable to meet our current and future financial obligations as they fall due.

See note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Other Risks

Plantation risk. We are exposed to fair value fluctuations on plantations, as well as to fire, hazardous weather, disease and other damages to our plantations. See "Item 5 Operating and Financial Review and Prospects Critical Accounting Policies and Estimates"

Discount rates. We are exposed to the discount rate fluctuations in the calculation of post-employment benefit liabilities. See "Item 5 Operating and Financial Review and Prospects Critical Accounting Policies and Estimates".

For additional descriptions of these risks, see notes 2, 10, 16, 20, 27 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Commodity Price Risk

The selling prices of the majority of products manufactured and purchase prices of many raw materials used generally fluctuate in line with commodity cycles. Prices of chemical cellulose generally follow those of paper pulp, although the cycle is generally less volatile. As a result, the sale of chemical cellulose also tends to act as a natural hedge for paper pulp. Our total pulp production capacity is approximately 104% of our total pulp requirements. However, there are differences between the types of pulp required in our paper making operations and the grades of pulp we produce, as well as regional differences. We are therefore a buyer as well as a seller of paper pulp. For a description of our level of pulp integration, see "Item 4 Information on the Company Business Overview", "Item 4 Information on the Company Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa". Despite our present relatively high level of pulp integration on a Group-wide basis, in the event of significant increases in the prices of pulp on a Group-wide basis, our non-integrated and partially

integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins. For a description of our markets see "Item 5 Operating and Financial Review and Prospects Markets"

We are exposed to commodity price risk from price volatility and threats to security of supply of our raw materials and other inputs to the production process. A combination of contract and spot deals are used to manage price volatility and contain supply costs. Contracts are limited to the Group's own use requirements. For details on commodity price deals see note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report; and for a description of our supply requirements see "Item 4 Information on the Company Supply Requirements".

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

American Depositary Shares

Fees and Charges Payable by Holders of American Depositary Receipts

The Bank of New York Mellon serves as the depositary for our American Depositary Shares ("ADSs"), evidenced by American Depositary Receipts ("ADRs"). Holders of ADRs are required to pay various fees and charges to the depositary.

ADR holders are required to pay the depositary amounts in respect of expenses incurred by the depositary on behalf of ADR holders, including expenses arising from taxes or other governmental charges, cable, telex and facsimile transmission, or conversion of foreign currency into US dollars.

ADR holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below:

Depositary service	Fee payable by ADR holders
Execution and delivery of ADRs, including in connection with share distributions	Up to US$5.00 per 100 ADSs (or portion thereof)
Surrender of ADRs and withdrawal of shares underlying ADSs	Up to US$5.00 per 100 ADSs (or portion thereof)
Cash distributions other than distributions of cash dividends	Not in excess of US$0.02 per ADS (or portion thereof)
Registration for the transfer of shares	Registration or transfer fees that may from time to time be in effect

In addition, holders are required to pay a fee for the distribution of proceeds from sales of securities or rights. Such fee (which may be deducted from such proceeds) will be in an amount equal to the lesser of (i) the fee for the issuance of ADRs referred to above which would have been charged if the securities were treated as deposited shares and (ii) the amount of such proceeds.

The depositary collects fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The depositary may seek payment of fees and charges in connection with distributions by deducting relevant amounts from cash dividends or other cash distributions to holders.

Direct and Indirect Payments by the Depositary to Us

The depositary has agreed to reimburse us annually for certain expenses we incur in connection with the administration and maintenance of our ADR facility, including, but not limited to, investor relations expenses, the annual NYSE listing fees or any other program related expenses. The depositary has also agreed to waive certain depositary fees that would otherwise be payable by us, including its basic administration charge for the ADR facility and its fees for certain other services available to us or ADR holders, and to pay all its standard out-of-pocket administrative, maintenance and shareholder services expenses for providing services to ADR holders. The amount of expenses for which the depositary will reimburse us is subject to an annual cap agreed between us and the depositary. In fiscal 2011, we received a payment of US$353,272 (fiscal 2010: US$712,712 for the period from August 2007 to July 2009) from the depositary as reimbursement for our expenses incurred in connection with the ADR facility.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

For information on our dividend policy see "Item 8 Financial Information Dividends".

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report (the "Evaluation Date") Sappi's management (with the participation of its Chief Executive Officer and Chief Financial Officer), conducted an evaluation pursuant to Rule 13a-15 promulgated under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, Sappi's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, such disclosure controls and procedures (which include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Sappi in the reports it files or submits under the Exchange Act is accumulated and communicated to Sappi's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure) were effective to provide reasonable assurance that information required to be disclosed by Sappi in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Management's Report on Internal Control over Financial Reporting

Management of Sappi, together with its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. Sappi's internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Sappi's financial statements for external reporting purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As of September 2011, we conducted an assessment of the effectiveness of Sappi's internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on this assessment, we determined that Sappi's internal control over financial reporting as of September 2011 is effective. We also determined that there were no material weaknesses as of this date.

The registered public accounting firm that audited the financial statements has issued an attestation report on the effectiveness of Sappi's internal control over financial reporting. This report appears below.

(c) Attestation Report of the Independent Registered Public Accounting Firm

To the board of directors and shareholders of Sappi Limited

We have audited the internal controls over financial reporting of Sappi Limited and its subsidiaries (the "Company") as of September 2011 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the group financial statements as of and for the year ended September 2011 of the Company and our report dated December 15, 2011 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche
December 15, 2011
Johannesburg, South Africa

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reports that occurred during the reporting period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Dr Deenadayalen Konar qualifies as an audit committee financial expert on the Audit Committee of Sappi Limited. The Board determined that Dr Konar acquired the required attributes by way of education, practical experience, practice as a registered accountant and auditor, and participation as a member of the audit committees of significant entities that have applied International Financial Reporting Standards. See "Item 6 Directors, Senior Management and Employees Directors and Senior Management" for a description of Dr Konar's background and relevant experience. Dr Konar is an independent Non-Executive Director of Sappi.

ITEM 16B. CODE OF ETHICS

We have adopted the Sappi Code of Ethics (the "Code") that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer and Group Financial Manager (such officers, collectively, the "senior officers"). We believe the Code constitutes a "code of ethics" as defined in Item 16B of Form 20-F.

See "Item 19 Exhibits 11.2 Sappi Limited Code of Ethics". The Code of Ethics can be found on the Sappi Limited website, at www.sappi.com. Hard copies are available on written request. The information on our website does not form part of this Annual Report and is not incorporated by reference herein.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal independent auditor fees paid for fiscal 2011 and 2010 were as follows:

	2011	2010
	(US$ millions)	
Audit Fees(1)	6	7
Tax Fees(2)	1	1
Other		
Refinancing related services	1	
	8	8

(1) Audit fees consist of fees related to the audit or review of the Group's financial statements.

(2) Tax services are fees for professional services performed with respect to tax compliance, tax advice and tax planning. This includes advice on tax aspects of Group acquisitions, disposals, reorganizations, and financing, as well as analysis of the impact on the Group for changes to tax laws in various countries.

Audit Committee Pre-Approval Policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee of our board of directors, which concluded that the provision of such services by the independent accountants was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for specific audit committee pre-approval, prior to engagement, of any services, other than audit services covered by the annual engagement letter. In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested and the amount.

Requests or applications for services that require specific separate approval by the audit committee must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants.

Pre-approval may be granted either by the audit committee or its chairman or any member of the audit committee to whom this authority has been delegated by the audit committee. Where pre-approval is granted by an individual member of the audit committee, the matter is tabled for noting at the next meeting of the full Sappi Limited audit committee.

The pre-approval requirements for taxation services obliges the auditor to (a) describe the proposed tax services engagements in writing, (b) discuss with the audit committee the potential effects of the services on the auditor's independence, and (c) document the substance of that discussion.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASER

During fiscal 2011 no Sappi Limited share repurchases were made.

Sappi stated its intention, on November 9, 2000, to acquire Sappi shares through a wholly owned Sappi subsidiary, subject to applicable stock exchange and legal limitations. In prior years up to the meeting held on March 3, 2008, Sappi was given approval at its annual general meetings of shareholders, to purchase its shares up to a maximum of 10% of the issued ordinary share capital in any one fiscal year. The general authority was subject to the Listings Requirements of the JSE Limited and the Companies Act of South Africa, as amended, and was granted until the next annual general meeting. Since 2008 no authority to purchase shares was sought from shareholders. Some of the repurchased shares, have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. Sappi is unlikely to seek approval to repurchase shares in the near future.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As Sappi is listed on the JSE Limited in Johannesburg, Sappi is required to comply with the King III Report on Corporate Governance for South Africa (King Report). Although there are differences between the King Report and the NYSE corporate governance rules, Sappi applies the principles of the King Report and has voluntarily adopted corporate governance practices that do not differ in any significant ways from the requirements of the NYSE corporate governance rules. See "Item 6 Directors, Senior Management and Employees Corporate Governance".

PART III

ITEM 17. FINANCIAL STATEMENTS

Sappi Limited is furnishing financial statements pursuant to International Financial Reporting Standards as issued by the International Accounting Standards Board.

ITEM 18. FINANCIAL STATEMENTS

Sappi Limited is furnishing financial statements pursuant to International Financial Reporting Standards as issued by the International Accounting Standards Board.

ITEM 19. EXHIBITS

1.1 Memorandum and Articles of Association of Sappi Limited, as amended and restated on April 29, 2010. Incorporated by reference to Exhibit 1.1 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 13, 2010.

1.3 Special Resolution number 2 of Sappi Limited dated April 29, 2010 pursuant to the South African Companies Act, inserting a new Article 38 containing the rights and privileges attaching to the "A" Ordinary Shares to be created in terms of special resolution number 1. Incorporated by reference to Exhibit 1.3 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 13, 2010.

2.1 Specimen Ordinary Share Certificate. Incorporated by reference to Exhibit 2.1 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.

2.2 Amended and Restated Deposit Agreement among Sappi Limited, The Bank of New York, as depositary, and the Owners from time to time of American Depositary Receipts dated October 26, 1999. Incorporated by reference to Exhibit 2.2 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 14, 2007.

2.3 Form of American Depositary Receipt (included in Exhibit 2.2).

2.5 Special and Ordinary Resolutions of Sappi Limited dated April 29, 2010: a) The creation of "A" Ordinary Shares; b) Authority for specific repurchase; c) Authority for Financial Assistance and d) Specific issue of shares for cash. Incorporated by reference to Exhibit 2.5 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 13, 2010.

2.6 Long-term debt instruments not exceeding 10% of our total assets. Sappi Limited undertakes to provide the Securities and Exchange Commission with copies upon request.

2.9 Special Resolution of Sappi Limited dated March 2, 2009 pursuant to the South African Companies Act, decreasing the authorized share capital of Sappi Limited from 1,325,000,000 ordinary shares of ZAR1.00 each to 725,000,000 ordinary shares of ZAR1.00 each. Incorporated by reference to Exhibit 2.9 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 11, 2009.

4.1 Revised Sappi Limited Share Incentive Trust rules, incorporating all prior deeds of amendments, and the revisions to comply with the JSE Limited's revised Schedule 14 Listings Requirements, effective January 1, 2010. Incorporated by reference to Exhibit 4.1 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 13, 2010.

4.10 Amendment and Restatement Agreement relating to a facilities agreement dated August 27, 2009, for Sappi International S.A., Sappi Papier Holding GmbH and the other parties named therein, arranged by Citibank, N.A. London Branch, Credit Agricole Corporate and Investment Bank, Erste Group Bank AG, J.P. Morgan Limited, KBC Bank NV, The Royal Bank of Scotland NV, (Belgium) Branch, UniCredit Bank Austria AG with J.P. Morgan Europe Limited acting as Agent and Security Agent and others dated April 28, 2011.*

4.12 Intercreditor Agreement, dated August 27, 2009 among Sappi Limited, the subsidiaries of Sappi Limited named as Original Debtors therein, J.P. Morgan Europe Limited as Security Agent and as RCF Agent, UniCredit Bank Austria AG as OeKB Agent and as Bank Austria Agent, The Bank of New York Mellon as Bond Trustee and the financial institutions and other parties named therein. Incorporated by reference to Exhibit number 4.12 to the Current Report on Form 6-K of Sappi Limited filed with the Securities and Exchange Commission on July 7, 2010.

4.14 Revised Sappi Limited Performance Share Incentive Trust rules, incorporating all prior deeds of amendments, and the revisions to comply with the JSE Limited's revised Schedule 14 Listings Requirements, effective January 1, 2010. Incorporated by reference to Exhibit 4.14 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 13, 2010.

4.18 Indenture dated as of July 29, 2009 by and among PE Paper Escrow GmbH as Issuer, J.P. Morgan Europe Limited as Security Agent, The Bank of New York Mellon as Trustee, Principal Paying Agent, Registrar and Transfer Agent, and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg Paying Agent, Transfer Agent and Registrar, with respect to the euro denominated 11.75% Senior Secured Notes due 2014 and the dollar denominated 12% Senior Secured Notes due 2014. Incorporated by reference to Exhibit number 4.18 to the Current Report on Form 6-K of Sappi Limited filed with the Securities and Exchange Commission on July 7, 2010.

4.19 First Supplemental Indenture dated as of August 27, 2009, by and among PE Paper Escrow GmbH as Issuer, Sappi Limited, the other Subsequent Guarantors named therein, J.P. Morgan Europe Limited as Security Agent, The Bank of New York Mellon as Trustee, Principal Paying Agent, Registrar and Transfer Agent, and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg Paying Agent, with respect to the euro denominated 11.75% Senior Secured Notes due 2014 and the dollar denominated 12% Senior Secured Notes due 2014. Incorporated by reference to Exhibit 4.19 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on December 11, 2009.

4.20 Indenture dated as of April 14, 2011 by and among Sappi Papier Holding GmbH as Issuer, J.P. Morgan Europe Limited as Security Agent, The Bank of New York Mellon as Trustee, Principal Paying Agent, Registrar and Transfer Agent, and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg Paying Agent, Transfer Agent and Registrar, with respect to the US dollar denominated 6.625% Senior Secured Notes due 2021.*

4.21 Indenture dated as of April 14, 2011 by and among Sappi Papier Holding GmbH as Issuer, J.P. Morgan Europe Limited as Security Agent, The Bank of New York Mellon as Trustee, Principal Paying Agent, Registrar and Transfer Agent, and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg Paying Agent, Transfer Agent and Registrar, with respect to the euro denominated 6.625% Senior Secured Notes due 2018.*

4.22 Securitisation of Trade Receivables by Sappi Papier Holding GmbH, Sappi International S.A. and other Sappi companies through Elektra Purchase No. 29 Limited funded under the Arabella Programme arranged by UniCredit Bank AG effective August 25, 2011.*

6.1 Computation of Earnings per Share. Incorporated by reference to note 7 of the notes to the Group Annual Financial Statements included elsewhere in this Annual Report.

7.1 An explanation of other ratios and definitions used in this Annual Report. Incorporated by reference to notes 2 and 3 of the notes to the Group Annual Financial Statements included elsewhere in this Annual Report.

8.1	List of significant subsidiaries. Incorporated by reference to "Item 4 Information on the Company Organizational Structure" included elsewhere in this Annual Report.
11.2	Sappi Limited Code of Ethics. Incorporated by reference to Exhibit 11.2 to the Annual Report on Form 20-F of Sappi Limited filed with the Securities and Exchange Commission on January 26, 2009.
12.1	Certification of Roeloff Jacobus Boëttger, Chief Executive Officer of Sappi Limited pursuant to Exchange Act Rule 13a-14(a). *
12.2	Certification of Mark Richard Thompson, Chief Financial Officer of Sappi Limited pursuant to Exchange Act Rule 13a-14(a). *
13.1	Certification of Roeloff Jacobus Boëttger, Chief Executive Officer of Sappi Limited and Mark Richard Thompson, Chief Financial Officer of Sappi Limited pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
15.1	Consent of independent registered public accounting firm. *

*
Filed herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SAPPI LIMITED

By:	/s/ ROELOFF BOËTTGER	By:	/s/ MARK THOMPSON
	Name: Roeloff Boëttger		Name: Mark Thompson
	Title: *Chief Executive Officer*		Title: *Chief Financial Officer*

Date: December 15, 2011

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REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the board of directors and shareholders of Sappi Limited:

We have audited the accompanying group balance sheets of Sappi Limited and subsidiaries (the "Company") as of September 2011 and 2010 and the related group income statements, group statements of comprehensive income, group statements of changes in equity and group cash flow statements for each of the three years in the period ended September 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these group financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the group financial statements referred to above present fairly, in all material respects, the financial position of Sappi Limited and its subsidiaries as of September 2011 and 2010 and the results of their operations and cash flows for each of the three years in the period ended September 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 15, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche

December 15, 2011
Johannesburg, South Africa

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GROUP INCOME STATEMENTS

for the year ended September 2011

	Note	2011	2010	2009
			(US$ million)	
Sales		**7,286**	6,572	5,369
Cost of sales	4	**6,454**	5,786	5,029
Gross profit		**832**	786	340
Selling, general and administrative expenses	4	**454**	448	385
Other operating expenses	4	**298**	10	39
Share of profit from associates and joint ventures	13	**(6)**	(13)	(11)
Operating profit (loss)	4	**86**	341	(73)
Net finance costs	5	**307**	255	145
Finance costs		**348**	309	198
Finance revenue		**(12)**	(16)	(61)
Net foreign exchange gains		**(13)**	(17)	(17)
Net fair value (gain) loss on financial instruments		**(16)**	(21)	25
(Loss) profit before taxation		**(221)**	86	(218)
Taxation charge (benefit)	6	**11**	20	(41)
(Loss) profit for the year		**(232)**	66	(177)
Basic weighted average number of ordinary shares in issue (millions)		**519.9**	516.7	482.6
Basic (loss) earnings per share (US cents)	7	**(45)**	13	(37)
Diluted (loss) earnings per share (US cents)	7	**(45)**	13	(37)

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GROUP STATEMENTS OF COMPREHENSIVE INCOME

for the year ended September 2011

	Note	2011	2010	2009
		(US$ million)		
(Loss) profit for the year		**(232)**	66	(177)
Other comprehensive (loss) income, net of tax	18	**(205)**	8	(197)
Exchange differences on translation of foreign operations		**(151)**	52	14
Actuarial losses on post-employment benefit funds		**(59)**	(71)	(229)
Movement on available-for-sale financial assets		**2**	2	
Movement in hedging reserves		**6**	14	(14)
Deferred tax on other comprehensive (loss) income		**(3)**	11	32
Total comprehensive (loss) income for the year		**(437)**	74	(374)

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GROUP BALANCE SHEETS

at September 2011

	Note	2011	2010
		(US$ million)	
Assets			
Non-current assets		**4,085**	4,653
Property, plant and equipment	9	**3,235**	3,660
Plantations	10	**580**	687
Deferred tax assets	11	**45**	53
Goodwill and intangible assets	12	**25**	27
Joint ventures and associates	13	**76**	125
Other non-current assets	14	**83**	82
Financial instruments	29	**41**	19
Current assets		**2,223**	2,531
Inventories	15	**750**	836
Trade and other receivables	16	**831**	888
Financial instruments	29	**3**	15
Cash and cash equivalents		**639**	792
Total assets		**6,308**	7,184
Equity and liabilities			
Shareholders' equity		**1,478**	1,896
Ordinary share capital and share premium	17	**1,425**	1,638
Non-distributable reserves	19	**163**	161
Foreign currency translation reserve		**(304)**	(385)
Hedging reserves		**5**	1
Retained earnings		**189**	481
Non-current liabilities		**3,178**	3,249
Interest-bearing borrowings	20	**2,289**	2,317
Deferred tax liabilities	11	**336**	386
Other non-current liabilities	21	**553**	546
Current liabilities		**1,652**	2,039
Interest-bearing borrowings	20	**449**	691
Overdraft		**1**	5
Financial instruments	29	**10**	3
Trade and other payables		**1,065**	1,271
Taxation payable		**20**	36
Provisions	22	**107**	33
Total equity and liabilities		**6,308**	7,184

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GROUP STATEMENTS OF CASH FLOWS

for the year ended September 2011

	Note	2011	2010	2009
		(US$ million)		
Cash retained from operating activities		**406**	529	461
Cash generated from operations	23.1	**798**	737	432
(Increase) decrease in working capital	23.2	**(98)**	(5)	152
Cash generated from operating activities		**700**	732	584
Finance costs paid	23.3	**(266)**	(206)	(107)
Finance revenue received		**10**	12	26
Taxation paid	23.4	**(38)**	(9)	(5)
Cash available from operating activities		**406**	529	498
Dividends paid				(37)
Cash utilized in investing activities		**(243)**	(188)	(762)
Investment to maintain operations		**(194)**	(150)	(143)
Replacement of non-current assets	23.5	**(213)**	(173)	(147)
Proceeds on disposal of non-current assets	23.6	**6**	21	2
Decrease in other non-current assets		**13**	2	2
Investment to expand operations		**(49)**	(38)	(619)
Additions of non-current assets		**(49)**	(38)	(29)
Acquisition	23.7			(590)
Cash effects of financing activities		**(296)**	(256)	707
Proceeds from interest-bearing borrowings		**1,364**	204	3,469
Repayment of interest-bearing borrowings		**(1,578)**	(444)	(3,222)
Rights issue proceeds				575
Share issue costs			(3)	(31)
Costs attributable to refinancing transactions		**(78)**		(78)
Decrease in bank overdrafts		**(4)**	(13)	(6)
Net movement in cash and cash equivalents		**(133)**	85	406
Cash and cash equivalents at beginning of year		**792**	770	274
Translation effects		**(20)**	(63)	90
Cash and cash equivalents at end of year	23.8	**639**	792	770

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GROUP STATEMENTS OF CHANGES IN EQUITY

for the year ended September 2011

	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
				(US$ million)					
Balance September 2008	229.2	28	679	707	124	(121)		895	1,605
Transfer from retained earnings					6			(6)	
Share-based payments					9				9
Transfers from Sappi Limited Share Incentive Trust	0.3		2	2					2
Rights issue proceeds	275.0	28	547	575					575
Costs directly attributable to the rights issue			(31)	(31)					(31)
Issue to M-real	11.2	1	44	45					45
Total comprehensive (loss) income		13	230	243	4	(233)	(14)	(374)	(374)
Dividends US$0.16 per share(1)								(37)	(37)
Balance September 2009	515.7	70	1,471	1,541	143	(354)	(14)	478	1,794
Transfer from retained earnings					2			(2)	
Share-based payments					17				17
Transfers to Sappi Limited Share Incentive Trust	(0.5)		(6)	(6)					(6)
Black Economic Empowerment (BEE) transaction	4.3	1	19	20					20
Costs directly attributable to the BEE transaction			(3)	(3)					(3)
Total comprehensive income (loss)		3	83	86	(1)	(31)	15	5	74
Balance September 2010	519.5	74	1,564	1,638	161	(385)	1	481	1,896
Share-based payments					20				20
Transfers from Sappi Limited Share Incentive Trust	1.0		6	6					6
Transfers of vested share options					(7)				(7)
Total comprehensive loss (income)		(10)	(209)	(219)	(11)	81	4	(292)	(437)

Balance September 2011	520.5	64	1,361	1,425	163	(304)	5	189	1,478
Note reference:				*17*	*19*				

(1)
Dividends relate to the previous financial year's earnings but were declared subsequent to year end.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended September 2011

1. BUSINESS

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the "company" and, together with its consolidated subsidiaries, "Sappi" or the "group"), was formed in 1936 and is a global company focused on providing chemical cellulose, paper-pulp and paper based solutions to its direct and indirect customer base across more than 100 countries. Our chemical cellulose products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern Africa region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa reportable segments. Sappi Fine Paper which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe and Asia and produces mainly high quality branded coated fine paper. The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

2. ACCOUNTING POLICIES

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Sappi Limited group financial statements.

2.1 Basis of preparation

The group's consolidated financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the IFRS Interpretations Committee of the IASB;
- the AC 500 Standards issued by the Accounting Practices Board in South Africa; and
- the requirements of the Companies Act of South Africa.

The financial statements are presented in United States Dollars (US$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million except as otherwise indicated.

The financial statements are prepared on the historical-cost basis, except as set out in the accounting policies below. Certain items, including derivatives are stated at their fair value while plantations and non-current assets held for sale are stated at fair value less costs to sell.

The preparation of the annual financial statements was supervised by the Chief Financial Officer, M R Thompson CA(SA).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

The group has made the following significant accounting policy elections in terms of IFRS. The elections are explained further in each specific policy on sections 2.2 and 2.3:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability;
- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model; and
- unrecognised actuarial gains or losses on post-employment benefits are recognised in OCI.

(i) Fiscal year

The group's financial year end is on the Sunday closest to the last day of September.

Accordingly, the last three financial years were as follows:

- 27 September 2010 to 02 October 2011 (53 weeks)
- 28 September 2009 to 26 September 2010 (52 weeks)
- 29 September 2008 to 27 September 2009 (52 weeks)

The group has disclosed two years' comparative information for the income statement, statement of comprehensive income and the statement of cash flows to be consistent with its disclosure in the annual report prepared on Form 20-F that is filed with the United States Securities Exchange Commission.

(ii) Underlying concepts

The financial statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group's individual operations at the rate of exchange ruling at the date of such transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in the profit or loss in the period in which they arise.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-dollar functional currencies are translated at the closing rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in other comprehensive income and are only reclassified to profit or loss on disposal of the foreign operation.

The group used the following exchange rates for financial reporting purposes:

	Rate at		
	Sep 11	**Sep 10**	**Sep 09**
ZAR to one US$	**8.0963**	7.0190	7.4112
GBP to one US$	**0.6417**	0.6321	0.6268
EUR to one US$	**0.7470**	0.7412	0.6809

	Average annual rate		
	Sep 11	**Sep 10**	**Sep 09**
ZAR to one US$	**6.9577**	7.4917	9.0135
GBP to one US$	**0.6225**	0.6406	0.6419
EUR to one US$	**0.7170**	0.7322	0.7322

2.2.2 Group accounting

(i) Subsidiary undertakings and special-purpose entities

The group financial statements include the assets, liabilities and results of the company and subsidiaries (including special-purpose entities) controlled by the group. The results of subsidiaries acquired or disposed of in the year are included in the consolidated income statements from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions, and profits and losses arising from intra-group transactions, are eliminated in the preparation of the group financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, assets and liabilities of associates and joint ventures are incorporated in the group's financial statements using the equity method of accounting. The share of the associate's or joint venture's profit after tax is determined from their latest financial statements or, if their year ends are different to those of the group, from their unaudited management accounts that corresponds to the

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

groups' financial year end. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss, which is recorded in other operating expenses, recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised, in accordance with IAS 36, to the extent that the recoverable amount of the investment subsequently increases.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability except for those classified as 'fair value through profit and loss' where the transaction costs are recognised immediately in profit and loss.

(iii) Subsequent measurement

Financial assets and financial liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss consist of items classified as held for trading. The group has not designated any financial instruments as at fair value through profit or loss.

Non-trading financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost.

Loans and receivables

Loans and receivables are carried at amortised cost, with interest revenue recognised in profit and loss for the period using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts, are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

(vi) Impairment of financial assets

Loans and receivables

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses previously recognised in equity are removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment loss reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or outflows through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives, which is on average ten years.

(iv) License fees

License fees are amortised on a straight-line basis over the useful life of each license.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

First in first out (FIFO): finished goods

Weighted average: raw materials, work in progress and consumable stores

The specific identification inventory valuation basis is used to measure the cost of items that are not interchangeable.

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a consistent basis as those with owned assets except where the transfer of ownership is uncertain at the end of the lease period in which case they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification.

Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

2.2.9 Segment reporting

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's operating segments. The group's reportable segments are North America, Europe and Sappi Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.11 Revenue

Revenue, arising from the sale of goods, is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

Revenue is measured at the fair value of the amount received or receivable which is arrived at after deducting trade and settlement discounts, rebates, and customer returns.

Shipping and handling costs, such as freight to our customers' destination are included in cost of sales. These costs, when included in the sales price charged for our products are recognised in net sales.

2.2.12 Emission trading

The group recognises grants, when allocated by governments for emission rights, as an intangible asset at cost with an equal liability at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying value, a gain is recognised in selling, general and administrative expenses in profit or loss for the period .

2.2.13 Alternative Fuel Mixture Credits

Up until 31 December 2009, the U.S. Internal Revenue Code allowed an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer's trade or business.

The group qualified for the alternative fuel mixtures tax credit through its North American operations because it used a bio-fuel known as black liquor, which is a by-product of its wood pulping process, to power its mills.

The group recognises income for the alternative fuel mixture credits when its right to receive the credit is established. This occurs when the group has complied with the requirements of the Internal Revenue Code and has submitted a claim for the credits due. This is recorded in profit and loss under other operating income. The group considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and have treated them as such in the calculation of its tax provision in the consolidated financial statements.

2.3 Critical accounting policies and estimates

Management of the group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results.

The group believes that the following accounting policies are critical due to the degree of management judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or the reversal of a previously recognised impairment.

Intangible assets not yet available for use are tested at least annually for impairment.

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

Refer to note 9 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently where there is an indication of impairment based on an allocation to one or more CGUs in which the synergies from the business combinations are expected.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in allocating goodwill to CGUs.

2.3.3 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

Depreciation which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

The following methods and rates were used during the year to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line 40 years
Plant	straight-line 5 to 20 years
Vehicles	straight-line 5 to 10 years
Furniture and equipment	straight-line 3 to 6 years

2.3.4 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case, it is also recognised in other comprehensive income.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

Secondary Tax on Companies (STC) is a South African income tax, that arises from the distribution of dividends and is recognised in profit or loss at the same time as the liability to pay the related dividend.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Before recognising a deferred tax asset the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales and external market conditions.

2.3.5 Derivatives and hedge accounting

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

Cash flow hedges

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised in other comprehensive income, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecasted transaction results in the recognition on a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from other comprehensive income to the underlying asset or liability on the transaction date.

Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in other comprehensive income is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

Refer to note 29 to the group annual financial statements for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.6 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 10.

Estimated prices less cost of delivery

The group uses a 12 quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. 12 quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

Mature timber that is expected be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

The fair value is derived by using the prices as explained above reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

Discount rate

The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

Volume and growth estimations and cost assumptions

The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between eight and eighteen years. In the southern African region, softwood less than eight years and hardwood less than five years is classified as immature timber.

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled it is taken out of plantations and accounted for under inventory and reported as depletion cost (fellings).

Depletion costs include the fair value of timber felled, which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of 8 to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.7 Pension plans and other post-retirement benefits

Defined-benefit and defined-contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group's policy is to recognise actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the vesting period of those benefits.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

Refer to note 27 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2011.

2.3.8 Provisions

Provisions are recognised when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

2.3.9 Restructuring provisions

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, and are recorded in other operating expenses in profit or loss.

2.3.10 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability is accreted over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected-present-value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

2.3.11 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using modified binomial option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-Based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and AC 503 and, the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions management uses estimates and assumptions to determine shares based-payment expenses. Key inputs to this process include; the volatility of the group's share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 28 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2011.

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

Interpretations and amendments to IFRS

The group adopted IFRIC 19, amendments to IFRS 1, IFRS 2, IAS 32 and various improvements to IFRSs in fiscal 2011. The adoption of these interpretations, amendments and improvements to standards did not have a material impact on the group's reported results or financial position.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

2. ACCOUNTING POLICIES (Continued)

2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2011 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

IFRS 9 *Financial Instruments* IFRS 9 introduces new requirements for classifying and measuring financial assets September 2014;

IFRS 10 *Consolidated Financial Statements* IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee September 2014;

IFRS 11 *Joint arrangements* classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these September 2014;

IFRS *13 Fair value measurements* establishes a single source of guidance for fair value measurements under IFRS September 2014;

IAS 19 (Revised) *Employee Benefits* IAS 19 (revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields September 2014; and

IAS 28 *Investments in Associates and Joint Ventures* amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 September 2014.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

IFRS 7 *Financial Instruments: Disclosures* Transfers of financial assets September 2012;

IFRS 12 *Disclosure of interest in subsidiaries, joint arrangements and associates* September 2014;

IAS 1 *Presentation of Financial Statements* Other Comprehensive Income September 2013;

IAS 12 *Deferred tax* Investment property measured at fair value September 2013;

IAS 24 *Related Party Disclosures* Revised definition of related parties September 2012;

Amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* September 2012; and

Various improvements to IFRSs.

2.6 Comparative figures

Comparative figures are re-classified as necessary to afford a proper and more meaningful comparison of results as set out in the affected notes to the financial statements.

The group adjusted note 25 to the financial statements. This adjustment only impacted the notes to the financial statements and therefore the group has disclosed two comparative periods for the affected note. Due to the fact that no changes were made to the fiscal 2010 and 2009 balance sheets, only one comparative period has been disclosed for the balance sheet.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

3. SEGMENT INFORMATION

The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The group regards its primary measure of segment performance as operating profit (loss) excluding special items.

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's reportable segments. Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on a geographical region. The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

	Sappi Fine Paper														
	North America			Europe			Sappi Southern Africa			Unallocated and eliminations(3)			Group		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
								(US$ million)							
Income statement															
External sales(1)	**1,520**	1,373	1,295	**3,965**	3,638	2,895	**1,801**	1,561	1,179				**7,286**	6,572	5,369
Operating profit (loss) excluding special items	**129**	124	(2)	**68**	76	12	**199**	134	18	**8**	5	5	**404**	339	33
Special items (gains) losses(2)	**(7)**	(56)	(55)	**139**	4	79	**136**	22	72	**50**	28	10	**318**	(2)	106
Segment operating profit (loss)	**136**	180	53	**(71)**	72	(67)	**63**	112	(54)	**(42)**	(23)	(5)	**86**	341	(73)
EBITDA excluding special items(2)	**203**	201	98	**300**	310	226	**309**	236	101	**9**	5	6	**821**	752	431
Share of profit of equity investments					1	3	**2**	4	4	**4**	8	4	**6**	13	11
Depreciation and amortisation	**74**	77	100	**232**	234	214	**110**	102	83	**1**		1	**417**	413	398

Impairments (reversals) of assets and investments	**(3)**	(2)		**57**	(10)	74	**68**	2	5	**45**			**167**	(10)	79
Fellings							**82**	71	69				**82**	71	69
Plantation fair value adjustment							**(65)**	(98)	(6)				**(65)**	(98)	(6)
Restructuring provisions (released) raised and closure costs	**(2)**		31	**89**	17	1	**44**	23	2	**4**	6		**135**	46	34
Other non-cash items	**17**	10	17	**9**	1	11	**22**	(37)	(66)	**(2)**	2	(38)	**46**	(24)	(76)
Balance sheet															
Capital expenditures	**58**	42	31	**111**	100	82	**97**	64	71	**2**			**268**	206	184
Segment assets(2)	**908**	935	981	**1,889**	2,109	2,340	**1,574**	1,887	1,891	**51**	65	38	**4,422**	4,996	5,250
Total assets	**1,072**	1,100	1,160	**2,617**	2,917	3,080	**2,149**	2,376	2,262	**470**	791	795	**6,308**	7,184	7,297
Property, plant and equipment	**762**	777	810	**1,484**	1,663	1,928	**987**	1,220	1,196	**2**			**3,235**	3,660	3,934

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

3. SEGMENT INFORMATION (Continued)

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

	Sappi Fine Paper														
	North America			Europe			Sappi Southern Africa			Unallocated and eliminations(3)			Group		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(US$ million)														
Operating profit (loss) excluding special items	**129**	124	(2)	**68**	76	12	**199**	134	18	**8**	5	5	**404**	339	33
Special items (gains) losses(2)	**(7)**	(56)	(55)	**139**	4	79	**136**	22	72	**50**	28	10	**318**	(2)	106
Segment operating profit (loss)	**136**	180	53	**(71)**	72	(67)	**63**	112	(54)	**(42)**	(23)	(5)	**86**	341	(73)

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	Sappi Fine Paper														
	North America			Europe			Sappi Southern Africa			Unallocated and eliminations(3)			Group		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(US$ million)														
EBITDA excluding special items(2)	**203**	201	98	**300**	310	226	**309**	236	101	**9**	5	6	**821**	752	431
Depreciation and amortisation	**74**	77	100	**232**	234	214	**110**	102	83	**1**		1	**417**	413	398
Operating profit (loss) excluding special items	**129**	124	(2)	**68**	76	12	**199**	134	18	**8**	5	5	**404**	339	33
Special items (gains) losses(2)	**(7)**	(56)	(55)	**139**	4	79	**136**	22	72	**50**	28	10	**318**	(2)	106
Segment operating profit (loss)	**136**	180	53	**(71)**	72	(67)	**63**	112	(54)	**(42)**	(23)	(5)	**86**	341	(73)

Net finance costs	**307**	255	145
Loss (profit) before taxation	**(221)**	86	218

Reconciliation of segment assets to total assets:

	Sappi Fine Paper														
	North America			Europe			Sappi Southern Africa			Unallocated and eliminations(3)			Group		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(US$ million)														
Segment assets(4)	**908**	935	981	**1,889**	2,109	2,340	**1,574**	1,887	1,891	**51**	65	38	**4,422**	4,996	5,250
Deferred tax assets				**45**	53	56							**45**	53	56
Cash and cash equivalents	**5**	7	14	**8**	8	16	**279**	129	86	**347**	648	654	**639**	792	770
Derivative financial instruments								1		**10**	2	14	**10**	3	14
Trade and other payables	**152**	155	151	**592**	722	633	**264**	339	275	**57**	55	57	**1,065**	1,271	1,116
Provisions		1	14	**73**	15	19	**30**	14	2	**4**	3		**107**	33	35
Taxation payable	**7**	2		**10**	10	16	**2**	6	8	**1**	18	32	**20**	36	56
Total assets	**1,072**	1,100	1,160	**2,617**	2,917	3,080	**2,149**	2,376	2,262	**470**	791	795	**6,308**	7,184	7,297

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(1) Sales of products are allocated to where the product is manufactured.

(2) Refer to Item 3 Key Information Selected Financial Data, for the definition of Special Items.

(3) Includes the group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

(4) Segment assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

4. OPERATING PROFIT

Operating profit has been arrived at after charging (crediting):

	2011		**2010**		**2009**	
	Cost of sales	**Selling, general and administrative expenses**	**Cost of sales**	**Selling, general and administrative expenses**	**Cost of sales**	**Selling, general and administrative expenses**
			(US$ million)			
Raw materials, energy and other direct input costs(1)	**3,962**		3,461		2,842	
Wood (includes growth and felling adjustments(2))	**773**		624		570	
Energy	**670**		611		564	
Chemicals	**1,117**		1,025		839	
Pulp	**987**		907		525	
Other variable costs	**415**		294		344	
Plantation price fair value adjustment	**16**		(31)		67	
Employment costs	**1,027**	**211**	968	208	882	164
Depreciation	**392**	**22**	388	23	376	20
Delivery charges	**597**		547		454	
Maintenance	**300**		275		250	
Other overheads(1)	**160**		178		158	
Marketing and selling expenses		**112**		112		102
Administrative and general expenses		**109**		105		99
	6,454	**454**	5,786	448	5,029	385

(1) To facilitate a more meaningful comparison of costs, for the years ended 2009 and 2010, the growth fair value adjustment on plantations and costs included in other overheads has been reallocated to wood and other categories within raw materials, energy and other direct input costs respectively.

(2)

	2011	**2010**	**2009**
		(US$ million)	
Changes in plantation volumes			
Fellings	**82**	71	69

Growth	**(81)**	(67)	(73)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

4. OPERATING PROFIT (Continued)

	2011	2010	2009
	(US$ million)		
Silviculture costs (included within cost of sales)	**79**	67	50
Leasing charges for premises	**14**	14	16
Leasing charges for plant and equipment	**22**	48	15
Remuneration paid other than to employees of the company in respect of:	**35**	31	27
technical services	**16**	12	11
administration services	**19**	19	16
Auditors' remuneration:	**8**	8	8
audit and related services	**6**	7	6
tax planning and tax advice	**1**	1	1
acquisition and refinancing related services[1]	**1**		1
Government grants towards environmental expenditure			(2)
Research and development costs	**26**	25	31
Amortisation	**3**	3	2
Cost on derecognition of loans and receivables[2]	**11**	14	16

4.1 Employment costs

	2011	2010	2009
	(US$ million)		
Wages and salaries	**1,112**	1,054	936
Defined contribution plan expense (refer note 27)	**46**	42	33
Pension costs (refer to note 27)	**14**	15	21
Post-employment benefits other than pension expense (refer to note 27)	**14**	14	10
Share-based payment expense	**15**	13	9
Other	**37**	38	37
	1,238	1,176	1,046

(1) These costs have been capitalised.

(2) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

4. OPERATING PROFIT (Continued)

4.2 Other operating expenses (income)

	2011	2010	2009
	(US$ million)		
Included in other operating expenses are the following:			
Impairments (reversals) of assets and investments	**167**	(10)	79
Profit on sale and write-off of property, plant and equipment	**(1)**	(5)	(1)
Restructuring provisions raised and closure costs	**135**	46	34
Alternative fuel mixture credits		(51)	(87)
Black Economic Empowerment (BEE) charge:	**5**	23	
unwinding of the 2006 Black Economic Empowerment transaction		19	
IFRS 2 costs on management and employee share option plans	**5**	4	

5. NET FINANCE COSTS

	2011	2010	2009
	(US$ million)		
Gross interest and other finance costs on liabilities carried at amortised cost	**348**	309	198
Interest on bank overdrafts	**2**	1	6
Interest on redeemable bonds and other loans	**299**	303	190
Premium on early redemption of redeemable bonds	**31**		
Costs on early settlement of loans	**12**		
Interest cost on finance lease obligations	**4**	5	2
Finance revenue received on assets carried at amortised cost	**(12)**	(16)	(61)
Interest on bank accounts	**(9)**	(6)	(16)
Discount on early redemption of redeemable bonds and other loans		(5)	(41)
Interest revenue on other loans and investments	**(3)**	(5)	(4)
Net foreign exchange gains	**(13)**	(17)	(17)
Net fair value (gain) loss on financial instruments	**(16)**	(21)	25
Realised (gain) loss on termination of interest rate swaps	**(1)**		18
Gain on non-hedged swaps and loans			(2)
Gain on amortisation of de-designated hedges	**(18)**	(21)	
Hedge ineffectiveness			
gain on hedging instrument (derivative)	**(19)**		(41)
loss on hedged item	**22**		50
	307	255	145

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

6. TAXATION CHARGE (BENEFIT)

	2011	2010	2009
	(US$ million)		
Current taxation:			
Current year	**10**	10	6
Prior year over provision	**(2)**	(20)	(7)
Other company taxes[1]	**6**	4	4
Deferred taxation (refer to note 11):			
Current year		26	(44)
Prior year under provision	**(3)**		3
Attributable to tax rate changes			(3)
	11	20	(41)

(1) Includes Secondary Tax on Companies (STC)(2) in 2009 as well as state taxes.

(2) The imposition of Secondary Tax on Companies (STC) effectively means that a dual corporate taxation system exists in South Africa comprising of normal income taxation and STC. Liability for STC is determined independently from normal income taxation and is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant 'dividend cycle'. Dividend cycle means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

In addition to income taxation charges (benefits) to profit and loss, a deferred taxation charge of US$3 million (2010: US$11 million relief; 2009: US$32 million relief) has been recognised directly in other comprehensive income (refer to note 11).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

6. TAXATION CHARGE (BENEFIT) (Continued)

Reconciliation of the tax rate

	2011	2010	2009
	(US$ million)		
(Loss) profit before taxation	**(221)**	86	(218)
Profit-making regions	**231**	307	133
Loss-making regions	**(452)**	(221)	(351)
Taxation at the average statutory tax rate	**(49)**	35	(60)
Profit-making regions at 30% (2010: 30%; 2009: 28%)	**69**	92	38
Loss making regions at 26% (2010: 26%; 2009: 28%)	**(118)**	(57)	(98)
Net exempt income and non-tax deductible expenditure	**(10)**	(10)	(32)
Effect of tax rate changes[1]			(3)
Deferred tax asset not recognised	**110**	65	72
Utilisation of previously unrecognised tax assets	**(41)**	(54)	(22)
Secondary Tax on Companies (STC)			4
Prior year adjustments	**(5)**	(20)	(4)
Other taxes	**6**	4	4
Taxation charge (benefit)	**11**	20	(41)
Effective tax rate for the year	**(5%)**	23%	19%

(1) Our effective tax rate for 2009 benefited from a reduced tax rate in Germany where the tax rate was reduced to 28.6% in that year.

7. (LOSS) EARNINGS PER SHARE AND HEADLINE (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share (EPS)

EPS is based on the group's (loss) profit for the year divided by the weighted average number of shares in issue during the year under review.

	2011			2010			2009(1)		
	Loss (US$ million)	Shares (millions)	Loss per share (US cents)	Profit (US$ million)	Shares (millions)	Earnings per share (US cents)	Loss (US$ million)	Shares (millions)	Loss per share (US cents)
Basic EPS calculation	**(232)**	**519.9**	**(45)**	66	516.7	13	(177)	482.6	(37)

3.9

Share options and performance shares under Sappi Limited Share Trust									
Share options granted under the Broad-Based Black Economic Empowerment transaction					0.2				
Diluted EPS calculation	**(232)**	**519.9**	**(45)**	66	520.8	13	(177)	482.6	(37)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR33.66 (2010: ZAR31.86; 2009: ZAR30.12) and exclude the effect of certain share options granted under the

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

7. (LOSS) EARNINGS PER SHARE AND HEADLINE (LOSS) EARNINGS PER SHARE (Continued)

Sappi Share Incentive Scheme as well as share options granted under the Broad-Based Black Economic Empowerment transaction as they would be anti-dilutive.

There are 12.0 million (2010: 10.6 million; 2009: 15.6 million) share options that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are anti-dilutive.

Headline (loss) earnings per share[(2)]

Headline (loss) earnings per share is based on the group's headline (loss) earnings divided by the weighted average number of shares in issue during the year. This is a JSE Limited Listings required measure.

Reconciliation between attributable (loss) earnings to ordinary shareholders and headline (loss) earnings:

	2011			2010			2009		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Attributable (loss) earnings to ordinary shareholders	**(221)**	**11**	**(232)**	86	20	66	(218)	(41)	(177)
Profit on sale and write-off of property, plant and equipment	**(1)**		**(1)**	(4)		(4)	(1)		(1)
Impairments (reversals) of assets and investments	**167**	**17**	**150**	(10)		(10)	79		79
Headline (loss) earnings	**(55)**	**28**	**(83)**	72	20	52	(140)	(41)	(99)
Basic weighted average number of ordinary shares in issue (millions)			**519.9**			516.7			482.6
Headline (loss) earnings per share (US cents)			**(16)**			10			(21)
Diluted weighted average number of shares (millions)			**519.9**			520.8			482.6
Diluted headline (loss) earnings per share (US cents)			**(16)**			10			(21)

(1) In the 2009 financial year, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders.

(2) Headline earnings as defined in circular 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings.

8. DIVIDENDS

	2011	2010	2009
		(US$ million)	
Dividend paid (2009: 16 US cents per share), net of dividends attributable to treasury shares			(37)

The board decided not to declare a dividend in respect of the 2011 and 2010 financial years.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

9. PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	(US$ million)	
Land and buildings[(1)]		
At cost	**1,542**	1,628
Accumulated depreciation and impairments	**840**	875
	702	753
Plant and equipment[(2)]		
At cost	**7,408**	7,742
Accumulated depreciation and impairments	**4,932**	4,992
	2,476	2,750
Capitalised leased assets[(3)]		
At cost	**581**	741
Accumulated depreciation and impairments	**524**	584
	57	157
Aggregate cost	**9,531**	10,111
Aggregate accumulated depreciation and impairments	**6,296**	6,451
Aggregate book value	**3,235**	3,660

The movement of property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalized leased assets	Total
	(US$ million)			
Net book value at September 2009	799	2,949	186	**3,934**
Additions	23	183		**206**
Acquisition	8	5		**13**
Disposals	(13)	(3)		**(16)**
Transfers		5	(5)	
Depreciation	(41)	(350)	(20)	**(411)**
Impairment reversals		20		**20**
Translation differences	(23)	(59)	(4)	**(86)**
Net book value at September 2010	753	2,750	157	**3,660**
Additions	26	241	1	**268**
Disposals		(5)		**(5)**
Transfers		88	(88)	
Depreciation	(46)	(356)	(12)	**(414)**
Impairments[(4)]		(122)		**(122)**
Translation differences	(31)	(120)	(1)	**(152)**

Net book value at September 2011	702	2,476	57	**3,235**

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of plant and equipment.

(4) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant asset impairment charges being recorded during fiscal 2011. Refer to note 24 for details of encumbrances.

Asset impairments and impairment reversals

September 2011

Sappi Fine Paper Europe

Biberist Mill

In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. The mill has since ceased production and the mill order book has been transferred to the other Sappi mills in Europe. An impairment charge of US$57 million has been recorded against plant and equipment for the year. The remaining fixed assets, comprising land and buildings, are recorded at a carrying amount of US$12 million. The mill was a producer of woodfree coated paper.

Sappi Southern Africa

Usutu Mill

At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. The mill's property, plant and equipment had already been substantially impaired in previous years and the final balance of the assets were impaired by a further US$9 million in the current fiscal year.

Sappi continues its forestry operations in Swaziland, and is investigating the potential establishment of various timber processing operations at the Usutu Mill site.

Adamas Mill

In May 2011, we announced the potential closure of Adamas Mill. The more profitable grades produced at Adamas Mill were transferred to Enstra Mill and Stanger Mill. The property, plant and equipment other than land and buildings have been impaired by US$10 million.The carrying amount of land and buildings is US$3 million, which is US$1 million below the valuation by the local municipality.

Sappi Paper and Paper Packaging Operations

Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. The curtailment of the production of these products resulted in an impairment charge of US$49 million being incurred for the year.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

September 2010

Sappi Fine Paper Europe

European mechanical coated cash generating unit: Kangas Mill

On 12 January 2010, Sappi ceased operations at Kangas Mill which had formed part of the mechanical coated cash-generating unit. Following the closure of the mill, the recoverable amount of the remaining assets in the coated mechanical cash-generating unit were reassessed resulting in an impairment reversal of US$18 million for the 2010 fiscal year.

Sappi Southern Africa

Usutu Mill Closure

At the end of January 2010, Usutu Mill ceased operations. The mill's property, plant and equipment had already been substantially impaired in previous years and was further impaired by US$2 million during the 2010 fiscal year.

10. PLANTATIONS

	2011	2010
	(US$ million)	
Fair value of plantations at beginning of year	**687**	611
Additions		9
Gains arising from growth	**81**	67
(Loss) gain arising from fair value price changes	**(16)**	31
Harvesting agriculture produce (fellings)	**(82)**	(71)
Translation difference	**(90)**	40
Fair value of plantations at end of year	**580**	687

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in southern Africa.

As Sappi manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the group's own production or sales. Estimated volume changes on a rotational basis amount to approximately five million tons per annum.

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations. With regard to indirectly managed plantations, Sappi has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted ranging in duration from one to more than 20 years. In certain circumstances, we provide loans to farmers that are disclosed as accounts receivable on the group balance sheet (these loans are considered, individually and in aggregate,

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

10. PLANTATIONS (Continued)

immaterial to the group). If Sappi provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms and human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that is certified to ISO 9001, ISO 14001, OHSAS 18001 and FSC standards.

Changes in estimate prices, the discount rate, costs to sell and, volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value as tabled below:

	2011	2010	2009
	(US$ million)		
Market price changes			
1% increase in market prices	**4**	2	12
1% decrease in market prices	**(4)**	(2)	(12)
Discount rate (for immature timber)			
1% increase in rate	**(4)**	(5)	(3)
1% decrease in rate	**4**	5	3
Volume assumption			
1% increase in estimate of volume	**6**	9	6
1% decrease in estimate of volume	**(6)**	(9)	(6)
Costs to sell			
1% increase in costs to sell	**(3)**	(1)	(9)
1% decrease in costs to sell	**3**	1	9
Growth assumptions			
1% increase in rate of growth	**1**	2	1
1% decrease in rate of growth	**(1)**	(2)	(1)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

11. DEFERRED TAX

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	(US$ million)			
Other liabilities, accruals and prepayments	**(62)**	**24**	(100)	8
Inventory	**3**	**3**	5	(3)
USA alternative minimum tax credit carry forward	**16**		14	
Tax loss carry forward	**279**	**38**	313	63
Property, plant and equipment	**(98)**	**(276)**	(113)	(302)
Plantations	**(22)**	**(136)**	(26)	(160)
Other non-current assets	**10**		27	
Other non-current liabilities	**(81)**	**11**	(67)	8
	45	**(336)**	53	(386)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

11. DEFERRED TAX (Continued)

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses are not recognised for carry-forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

	2011	2010
	(US$ million)	
Unrecognized deferred tax assets relate to the following:		
Other non-current liabilities	**91**	74
Tax losses	**568**	630
Property, plant and equipment	**22**	
	681	704
Attributable to the following tax jurisdictions:		
Belgium	**86**	63
The Netherlands	**17**	8
Finland	**50**	47
Switzerland	**30**	
United Kingdom		64
United States of America	**158**	198
Swaziland	**34**	32
South Africa	**7**	3
Austria	**299**	289
	681	704
Expiry between two and five years	**29**	2
Expiry after five years	**174**	205
Indefinite life	**478**	497
	681	704

The following table shows the movement in the unrecognised deferred tax assets for the year:

	2011	2010
	(US$ million)	
Balance at beginning of year	**704**	700
Unrecognised deferred tax assets originating during the current year	**60**	86
Utilisation of previously unrecognised tax assets	**(41)**	(54)
Prior year adjustments	**(24)**	
Rate adjustments	**(7)**	3
Movement in foreign exchange rates	**(11)**	(31)
Balance at end of year	**681**	704

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

11. DEFERRED TAX (Continued)

Reconciliation of deferred tax

	2011	2010
	(US$ million)	
Deferred tax balances at beginning of year		
Deferred tax assets	**53**	56
Deferred tax liabilities	**(386)**	(355)
	(333)	(299)
Deferred tax benefit (charge) for the year (refer note 6)	**3**	(26)
Other liabilities, accruals and prepayments	**61**	5
Inventory	**5**	
USA alternative minimum tax credit	**2**	2
Tax loss carry forward	**(57)**	(14)
Property, plant and equipment	**14**	15
Plantations	**3**	(9)
Other non-current assets	**(15)**	
Other non-current liabilities	**(10)**	(25)
Amounts recorded directly in other comprehensive income	**(3)**	11
Translation differences	**42**	(19)
Deferred tax balances at end of year	**(291)**	(333)
Deferred tax assets	**45**	53
Deferred tax liabilities	**(336)**	(386)

Secondary Tax on Companies (STC)

Current and deferred tax are measured at the tax rate applicable to undistributed income and therefore only take STC into account to the extent that dividends have been received or declared.

Undistributed earnings that would be subject to STC	**196**	**484**
Tax effect if distributed	**18**	**44**

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

12. GOODWILL AND INTANGIBLE ASSETS

	2011					2010				
	Goodwill	Licence fees	Patents	Brands	Total	Goodwill	Licence fees	Patents	Brands	Total
	(US$ million)									
Net carrying amount at beginning of year	**4**	**3**		**20**	**27**	4	3		25	32
Amortisation				**(3)**	**(3)**				(2)	(2)
Translation difference				**1**	**1**				(3)	(3)
Net carrying amount	**4**	**3**		**18**	**25**	4	3		20	27
Cost (gross carrying amount)	**4**	**3**	**20**	**24**	**51**	4	3	20	24	51
Accumulated amortisation and impairments			**(20)**	**(6)**	**(26)**			(20)	(4)	(24)
Net carrying amount	**4**	**3**		**18**	**25**	4	3		20	27

13. JOINT VENTURES AND ASSOCIATES

	2011	2010
	(US$ million)	
Cost of equity investments	**96**	96
Share of post-acquisition profit, net of distributions received	**1**	8
Accumulated impairments	**(45)**	
Foreign currency translation effect	**24**	21
	76	125
Summarised financial information in respect of the group's equity investments is set out below:		
Total assets	**679**	640
Total liabilities	**327**	298
Net assets	**352**	342
Group's share of equity investments' net assets after accumulated impairments	**76**	125

	2011	2010	2009
	(US$ million)		
Sales	**942**	691	756
Profit for the period	**17**	35	28
Group's share of equity investments' profit for the period	**6**	13	11

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

13. JOINT VENTURES AND ASSOCIATES (Continued)

Jiangxi Chenming

Sappi owns 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) under a joint venture arrangement. Jiangxi Chenming is established in the People's Republic of China and is principally engaged in the manufacturing and sales of paper and paper products. The financial statements of Jiangxi Chenming are to 31 December of each year which was the reporting date when the company was established. The most recent audited financials were to 31 December 2010.

Umkomaas Lignin (Pty) Limited

A 50% joint venture agreement with Borregaard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Limited are to 31 December of each year which is the year end of Borregaard. The most recent audited financials were to 31 December 2010.

Sapin SA

A 50% joint venture with Sapin SA located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year end of Sapin SA. The most recent audited financials were to 31 December 2010.

Papierholz Austria GmbH

A 43% joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year end of Papierholz Austria GmbH. The most recent audited financials were to 31 December 2010.

Timber IV

A special-purpose entity (SPE) into which Sappi contributed promissory notes (relating to certain Timberlands, equipment and machinery sold by Sappi to a third party timber company) which were pledged as collateral for the SPE to issue bonds. The SPE is not consolidated in our financial statements because we have taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. The group's investment in the SPE is nil as of September 2011 (2010: US$6 million) as the underlying promissory notes and bonds have been repaid. The financial statements of Timber IV are to 30 September of each year. The results are unaudited.

Energie Biberist AG

A 10% investment in Energie Biberist AG (EBAG) in which Sappi exercises significant influence by virtue of the fact that Sappi has the power to appoint one of the five directors. EBAG is an energy company that supplied Biberist Mill with steam and 100% of its electricity requirements. On the cessation of production at Biberist Mill (refer to note 9), the investment in the associate was impaired by the group resulting in a charge to profit or loss in other operating expenses for the period. The financial statements

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

13. JOINT VENTURES AND ASSOCIATES (Continued)

of EBAG are to 31 December each year which is the year end of EBAG. The most recent audited financials of EBAG were to 31 December 2010.

Impairments of joint ventures and associates

At the end of fiscal 2011, there were indicators of impairment of certain of our equity accounted investments due to, amongst other things, a decline in the operating environment. The group therefore applied the requirements of IAS 39 to determine whether it was necessary to recognise an impairment loss. The carrying amounts of these investments, including goodwill, were tested for impairment in accordance with IAS 36 (as a single asset) by comparing the recoverable amounts with the carrying amounts. This resulted in an impairment charge of US$45 million being recorded in other operating expenses in profit or loss for the period. As there was no loss of significant influence or disposal of the groups equity accounted investments, the remaining cumulative exchange differences remained in other comprehensive income and has not been reclassified to profit or loss. The recoverable amount was calculated on a value in use basis, using a pre-tax real discount rate of 8.50%.

Where the year ends of joint ventures and associates are different to Sappi's, the unaudited management accounts of the joint ventures and associates are used for the periods to Sappi's year end.

14. OTHER NON-CURRENT ASSETS

	2011	2010
	(US$ million)	
Loans to the Sappi Limited Share Incentive Trust participants		1
Financial assets[1]	**22**	23
Post-employment benefits pension asset (refer note 27)	**43**	37
Advances to tree growers	**7**	9
Other loans	**11**	12
	83	82

(1) Details of investments are available at the registered offices of the respective companies.

15. INVENTORIES

	2011	2010
	(US$ million)	
Raw materials	**160**	185
Work in progress	**79**	86
Finished goods	**345**	376
Consumable stores and spares	**166**	189
	750	836

The charge to the group income statement relating to the write down of inventories to net realisable value amounted to US$14 million (2010: US$17 million and 2009: US$10 million).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

15. INVENTORIES (Continued)

The cost of inventories recognised as an expense and included in cost of sales amounted to US$5,831 million (2010: US$5,197 million and 2009: US$4,467 million).

Refer to note 24 for inventory pledged as security.

16. TRADE AND OTHER RECEIVABLES

	2011	2010
	(US$ million)	
Trade accounts receivable, gross	**715**	754
Allowance for credit losses	**(15)**	(14)
Trade accounts receivable, net	**700**	740
Prepayments and other receivables	**131**	148
	831	888

Management rates the quality of trade and other receivables, which are neither past due nor impaired, periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no impairment provision is necessary, except in situations where they are part of individually impaired trade receivables.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 11% (2010: 15%) of turnover.

16.1 Reconciliation of the allowance for credit losses

	2011	2010
Balance at beginning of year	**14**	15
Raised during the year	**10**	9
Released during the year	**(9)**	(9)
Foreign exchange currency translation effect		(1)
Balance at end of year	**15**	14

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US$15 million (2010: US$14 million). This allowance has been determined by reference to specific customer delinquencies.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

16. TRADE AND OTHER RECEIVABLES (Continued)

16.2 Analysis of amounts past due

September 2011

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
Less than 7 days overdue	**30**		**30**
Between 7 and 30 days overdue	**12**		**12**
Between 30 and 60 days overdue	**4**		**4**
More than 60 days overdue	**2**	**15**	**17**
	48	**15**	**63**

September 2010

The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not Impaired	Impaired	Total
Less than 7 days overdue	18		18
Between 7 and 30 days overdue	18		18
Between 30 and 60 days overdue	3	1	4
More than 60 days overdue	15	13	28
	54	14	68

All amounts due which are beyond their contractual repayment terms are reported to regional management on a regular basis. Any provision for impairment is required to be approved in line with the group limits of authority framework.

The group has a provision of US$15 million (2010: US$14 million) against trade receivables that are past due.

The group holds no collateral (2010: US$17 million) against these trade receivables that are past due.

The group has granted facilities to customers to buy on credit for the following amounts:

	2011	2010
Less than US$0.5 million	**299**	331
Less than US$1 million but equal to or greater than US$0.5 million	**277**	276
Less than US$3 million but equal to or greater than US$1 million	**597**	557
Less than US$5 million but equal to or greater than US$3 million	**213**	225
Equal to or greater than US$5 million	**1,031**	965
	2,417	2,354

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

16. TRADE AND OTHER RECEIVABLES (Continued)

16.3 Trade receivables securitisation

The group operates two trade receivable securitisation programmes due to the cost effectiveness of such structures.

Our Sappi Southern African securitisation programme is off-balance sheet and is described in detail in note 16.4.

In fiscal 2011, the group replaced its existing on-balance sheet securitisation programmes with a single three year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. Trade receivables sold in terms of this programme are disclosed as on-balance sheet together with a corresponding liability. At fiscal year end, trade receivables with a value of US$491 million have been pledged as collateral for amounts received as funding under the programme of US$368 million. The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 20.

Trade receivables pledged as collateral in fiscal 2010, under the previous on-balance sheet securitisation facilities, amounted to US$486 million while the value of the associated liabilities amounted to US$447 million.

16.4 Off-balance sheet structures

Letters of credit discounting

To improve the group working capital, the group sells certain Letters of Credit to Royal Bank of Scotland (RBS), Hong Kong and Union Bancaire Privee (UBP), Switzerland at each fiscal month end on a non-recourse basis.

"Scheck-Wechsel"

The Scheck-Wechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. At inception, the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short-term instrument (maximum 90 days). Therefore, the fair value is zero at inception. Subsequently, the financial guarantee contract is measured at the higher of:

(i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

(ii) the amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year end remains at zero. However, according to IAS 37, a contingent liability of US$32 million (2010: US$29 million) has been disclosed in this respect.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

16. TRADE AND OTHER RECEIVABLES (Continued)

Sappi Southern Africa securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter-bank Agreed Rate) plus a spread. This structure is currently treated as an off-balance sheet arrangement.

If this securitisation facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally however, future trade receivables would be recorded on balance sheet until a replacement agreement is entered into.

The total amount of trade receivables sold at the end of September 2011 amounted to US$121 million (2010: US$215 million). Details of the securitisation programme at the end of fiscal 2011 and 2010 are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2011				
Rand Merchant Bank Limited	ZAR	ZAR 979 million	Unlimited[1]	Linked to 3 month JIBAR
2010				
Rand Merchant Bank Limited	ZAR	ZAR 1,510 million	Unlimited[1]	Linked to 3 month JIBAR

(1) The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on-balance sheet securitisation facilities are described in note 20.

16.5 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from major groups of customers. None of the group's major customers represented more than 10% of our sales during the years ended September 2011 and September 2010. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivable financial instruments represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers world-wide.

The carrying amount of US$831 million (2010: US$888 million) represents the group's maximum credit risk exposure from trade and other receivables.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

16. TRADE AND OTHER RECEIVABLES (Continued)

The group has the following amounts due from single customers:

	2011			2010		
	Number of customers	US$ million	Percentage	Number of customers	US$ million	Percentage
Greater than US$10 million	**9**	**170**	**24%**	7	131	18%
Between US$5 million and US$10 million	**8**	**51**	**7%**	13	81	11%
Less than US$5 million	**2,423**	**479**	**69%**	2,176	528	71%
	2,440	**700**	**100%**	2,196	740	100%

None of the trade receivables, with balances of equal to or greater than US$5 million as at year end have breached their contractual maturity terms. No impairment charges have been recognised in respect of customers who owe the group more than US$5 million.

Refer note 29 for further details on credit risk.

17. ORDINARY SHARE CAPITAL AND SHARE PREMIUM

	2011		2010	
	Number of shares	US$ million	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
"A" ordinary shares of ZAR1 each(1)	**19,961,476**		19,961,476	
Issued share capital:				
Ordinary shares of ZAR1 each	**541,446,223**	**67**	541,446,223	77
"A" ordinary shares of ZAR1 each(1)	**19,961,476**	**2**	19,961,476	3
Treasury shares(2)	**(40,942,907)**	**(5)**	(41,896,595)	(6)
Share premium		**1,361**		1,564
	520,464,792	**1,425**	519,511,104	1,638

(1) The "A" ordinary shares are unlisted but rank *pari passu* with the ordinary shares in all respects except for dividend entitlements where the "A" ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The "A" ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of "A" ordinary shares in August 2019. The number of any "A" ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining "A" ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The "A" ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's Articles, details of which are available for inspection at the company's registered offices.

(2)

Includes 20,981,431 (2010: 21,935,119) ordinary shares as well as 19,961,476 (2010: 19,961,476) "A" ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the Scheme) and the trusts set up to house the Broad-Based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

17. ORDINARY SHARE CAPITAL AND SHARE PREMIUM (Continued)

The movement in the number of treasury shares is set out in the table below:

	Number of shares	
	2011	**2010**
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**21,935,119**	21,384,559
Treasury shares issued to participants of the Scheme	**(953,688)**	550,560
Share options (per note 28)	**(32,312)**	
Share plan options (per note 28)	**(1,087,556)**	
Scheme shares forfeited, released and other	**166,180**	550,560
Ordinary treasury shares at end of year	**20,981,431**	21,935,119
"A" ordinary treasury shares:		
"A" ordinary shares issued to the Broad-Based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	40,942,907	41,896,595

Included in the issued and unissued share capital of 725,000,000, is a total of 42,700,870 shares (adjusted for the rights issue in fiscal 2009) which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 42,700,870 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 7 March 2005.

Since March 1994, 3,002,894 (2010: 2,970,582) shares have been allocated to the Scheme participants and paid for, and 13,617,202 (2010: 14,799,182) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 7,380,900 (2010: 9,312,840) shares have been allocated and remain unpaid for, and 1,742,677 (2010: 176,491) shares have been allocated and paid for by the Plan participants.

Capital risk management

The capital structure of the group consists of:

issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively;

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

17. ORDINARY SHARE CAPITAL AND SHARE PREMIUM (Continued)

debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed under note 20; and

cash and cash equivalents.

The group's capital management objective is to achieve an optimal weighted average cost of capital while continuing to safeguard the group's ability to meet its liquidity requirements (including capital expenditure commitments), repay borrowings as they fall due and continue as a going concern.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdraft less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During fiscal 2011 and 2010, we were in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2010.

18. OTHER COMPREHENSIVE (LOSS) INCOME

	2011	2010	2009
		(US$ million)	
Exchange differences on translation of foreign operations	**(151)**	52	14
Gross amount	**(151)**	52	14
Tax			
Actuarial losses on post-employment benefit funds	**(60)**	(60)	(197)
Gross amount (refer note 27)	**(59)**	(71)	(229)
Tax	**(1)**	11	32
Fair value adjustment on available-for-sale financial instruments	**2**	2	
Gross amount	**2**	2	
Tax			
Hedging reserves	**4**	14	(14)
Gross amount	**6**	14	(14)
Tax	**(2)**		
Other comprehensive (loss) income recorded directly in equity	**(205)**	8	(197)
(Loss) profit for the year	**(232)**	66	(177)
Total comprehensive (loss) income for the year	**(437)**	74	(374)

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

19. NON-DISTRIBUTABLE RESERVES

	2011	2010
	(US$ million)	
Legal reserves in subsidiaries	**77**	78
Share-based payment reserve	**70**	69
Other	**16**	14
Capital reduction[1]	**1**	1
Capitalisation of distributable reserves[2]	**11**	11
Available-for-sale financial assets	**4**	2
	163	161

	2011				2010			
	Legal reserves(2)	Share-based payment reserve	Other	Total	Legal reserves(2)	Share-based payment reserve	Other	Total
	(US$ million)							
Opening balance	**78**	**69**	**14**	**161**	82	48	13	143
Transfer from retained earnings					2			2
Transfers of vested share options		**(7)**		**(7)**				
Share-based payment expense		**20**		**20**		17		17
Movement on available-for-sale financial assets			**2**	**2**			2	2
Translation difference	**(1)**	**(12)**		**(13)**	(6)	4	(1)	(3)
	77	**70**	**16**	**163**	78	69	14	161

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(1) Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975.

(2) Represents equity of the company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

20. INTEREST-BEARING BORROWINGS

	2011	2010
	(US$ million)	
Secured borrowings		

Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	**1,929**	1,605
Capitalised lease liabilities (refer note 24 for details of encumbered assets)	**37**	50
Total secured borrowings	**1,966**	1,655
Unsecured borrowings	**772**	1,353
Total borrowings (refer note 29)	**2,738**	3,008
Less: Current portion included in current liabilities	**449**	691
	2,289	2,317

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

The repayment profile of the interest-bearing borrowings is as follows:

Payable in the year ended September:

	(US$ million)	
2011[(1)]		691
2012	**449**	892
2013	**201**	352
2014	**1,111**	842
2015	**6**	7
2016 (September 2010: thereafter)	**62**	224
Thereafter	**909**	
	2,738	3,008

(1) Included in the US$691 million reflected as payable in 2010 is US$447 million debt relating to securitisation funding which had the characteristics of a short-term revolving facility.

Capitalised lease liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2011, the aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	2011			2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
	(US$ million)					
Payable in the year ended September:						
2011				16	(5)	11
2012	**19**	**(4)**	**15**	17	(3)	14
2013	**14**	**(2)**	**12**	15	(2)	13
2014	**5**	**(1)**	**4**	6	(1)	5
2015	**7**	**(1)**	**6**	7		7
Total future minimum lease payments	**45**	**(8)**	**37**	61	(11)	50

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2011:

	Currency	Interest rate(1)	Principal amount outstanding	Balance sheet value	Security/ Cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€350 million	€322 million(2)(3)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US$	Fixed(4)	US$300 million	US$285 million(2)(3)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	EUR	Fixed	€250 million	€245 million(2)(3)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Variable(5)	US$350 million	US$361 million(2)(3)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million(3)(6)(7)	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	October 2011(8)	No financial

							covenants
Public bond	ZAR	Fixed	ZAR499 million	ZAR499 million(3)	Unsecured	June 2012	No financial covenants
Public bond	ZAR	Fixed	ZAR499 million	ZAR499 million(9)	Unsecured	June 2016	No financial covenants
Private Placement Bond	ZAR	Fixed	ZAR149 million	ZAR149 million	Unsecured	November 2012	No financial covenants
Private Placement Bond	ZAR	Fixed	ZAR148 million	ZAR148 million	Unsecured	January 2013	No financial covenants
Private Placement Bond	ZAR	Fixed	ZAR37 million	ZAR37 million	Unsecured	March 2013	No financial covenants
Private Placement Bond	ZAR	Fixed	ZAR68 million	ZAR68 million(3)	Unsecured	December 2013	No financial covenants

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

	Currency	Interest rate(1)	Principal amount outstanding	Balance sheet value	Security/ Cession	Expiry	Financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€192 million	€192 million	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation(10)
UniCredit Bank	US$	Variable	US$111 million	US$111 million	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation(10)
Revolving Credit Facility	EUR	Variable	€100 million	€100 million	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2016	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation(10)
Österreichische Kontrollbank	EUR	Variable	€17 million	€17 million(6)(9)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2013	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation(10)
Capitalised leases							
Fortum	EUR	Variable	€15 million	€15 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR131 million	ZAR131 million(9)	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million(9)		December 2011	No financial covenants
Nedbank	ZAR	Fixed	ZAR281 million	ZAR281 million		March 2014	Gearing ratio/interest and dividend cover(11)
Peritum Trading	ZAR	Fixed				June 2014	

			ZAR15 million	ZAR15 million(9)		No financial covenants
Royal Bank of Scotland	EUR	Fixed	€10 million	€10 million	December 2011	No financial covenants

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

	Local currency million	US$ million
The analysis of the currency per debt is:		
US Dollar(12)	975	975
Euro	964	1,290
ZAR	3,827	473
		2,738

(1) The nature of the rates for the group bonds is explained in note 29 to the financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

(2) Under the relevant indenture, certain limitations exist including, on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

(3) The principal value of the loans / bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

(4) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

(5) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting ..

(6) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidation. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.

(7) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the 2032

public bonds (the "Securities"), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 30 basis points, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

(8) The bond was repaid. Refer to note 31.

(9) The value outstanding equals the total facility available.

(10) Financial covenants relate to the Sappi Limited Group.

(11) The financial covenant relates to the financial position of Sappi Southern Africa (Pty) Limited, a wholly-owned subsidiary of Sappi Limited.

(12) This amount includes debt of US$300 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.

Other restrictions

As is the norm for bank loan debt, a portion of Sappi Limited's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of Sappi Limited consolidated liabilities might eventually become payable on demand.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

During fiscal 2011 and 2010, we were in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

On 25 August 2011, Sappi entered into a three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. The proceeds from the programme was used to refinance the group's short-term securitisation programme with Galleon Capital LLC that was due to mature in December 2011.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Sappi Fine Paper Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi Fine Paper North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Ltd (Elektra), an Irish bankruptcy remote entity, that is consolidated by the Sappi Group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2011, a reserve, that is reset on a monthly basis, amounting to 25% as well as a letter of credit covering the credit risk up to the maximum facility was required.

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin of 1.75% in addition to a commitment fee of 0.90% computed on the difference between €330 million and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for de-recognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a result, the trade receivables' sold under the programme is accounted for as on-balance sheet with a corresponding liability (external loan) being recognised. The corresponding interest is recorded within finance costs.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 16 and 24.

Unutilised facilities

The group monitors its availability of funds on a weekly basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

20. INTEREST-BEARING BORROWINGS (Continued)

included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2011	2010
			(US$ million)	
Unutilized committed facilities				
Syndicated loan/revolving credit facility[1]	EUR	Variable (EURIBOR)	**335**	282
Cash management overdraft facility	EUR	Variable (EURIBOR)	**24**	
Various southern African facilities	ZAR	Variable (JIBAR)	**62**	
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**114**	
			535	282
Unutilised uncommitted facilities				
Southern Africa	ZAR	Variable (JIBAR)	**43**	61
Total unutilised facilities (committed and uncommitted) excluding cash			**578**	343

(1) Syndicated loan with a consortium of banks with JP Morgan Europe Limited as facility agent with a remaining revolving facility available of €250 million, which is subject to financial covenants relating to the Sappi Group and is secured by the same assets as the public bonds maturing in 2014, 2018 and 2021. In April 2011, the then undrawn syndicated loan facility maturing in 2012 was increased from €209 million to a €350 million facility and extended to April 2016. We have paid a total commitment fee of US$7 million (2010: US$7 million) in respect of the syndicated loan facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 29.

21. OTHER NON-CURRENT LIABILITIES

	2011	2010
	(US$ million)	
Post-employment benefits pension liability (refer note 27)	**311**	298
Post-employment benefits other than pension liability (refer note 27)	**175**	178
Long-term employee benefits (refer note 27)	**4**	5
Workmen's compensation (refer note 27)	**11**	9
Long service awards	**22**	26
Land restoration provision	**21**	19
Deferred income	**3**	3
Other	**6**	8

	553	546

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

22. PROVISIONS

	2011	**2010**
	(US$ million)	
Restructuring provisions	**105**	29
Other provisions	**2**	4
Balance at September	**107**	33

Details of the restructuring provisions are provided below. These provisions are expected to be utilised within the next financial year and consequently, are disclosed as current liabilities.

Restructuring provisions	**Severance, retrenchment & related costs**	**Lease cancellation & penalty costs**	**Other closure costs**	**Total**
		(US$ million)		
Balance at September 2009	18	3	11	**32**
Increase in provisions	10		31	**41**
Utilised	(19)		(23)	**(42)**
Released during the year			(2)	**(2)**
Other movements			1	**1**
Translation effect		(1)		**(1)**
Balance at September 2010	9	2	18	**29**
Increase in provisions[1]	76	22	40	**138**
Utilised	(17)		(37)	**(54)**
Released during the year			(1)	**(1)**
Translation effect	(5)	(1)	(1)	**(7)**
Balance at September 2011	63	23	19	**105**

(1) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant restructuring charges being recorded during fiscal 2011.

September 2011 restructuring provisions

Sappi Fine Paper Europe

Biberist Mill. In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. A total of 550 employee positions were affected by the closure and a restructuring charge related to severance, retrenchment and other related closure costs of US$70 million was raised during the year. US$26 million was utilised by fiscal year end.

Sappi Fine Paper Europe: Central Services

As a result of the Biberist mill closure, approximately 100 employees are expected to be made redundant across Europe, 30 of whom were made redundant by fiscal year end. A restructuring charge of US$6 million was raised in the last quarter of fiscal 2011. US$1 million was utilised by fiscal year end.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

22. PROVISIONS (Continued)

A further fixed cost optimisation program commenced in the last fiscal quarter affecting approximately 330 positions across Europe. A restructuring charge of US$14 million was raised in the last fiscal quarter. At fiscal year end, 4 employees were impacted.

Sappi Southern Africa

Adamas Mill. During the financial year ended September 2011, Sappi Southern Africa announced the decision to permanently close the Adamas Mill and integrate the mill's products into the production lines at the Stanger Mill and Enstra Mill. A total of 215 employees were affected by the closure of the Adamas Mill. The mill was a producer of uncoated woodfree specialities paper. A provision of approximately US$7 million relating to restructuring charges and scrapping of spares was raised and utilised during the year.

Sappi Paper and Paper Packaging Operations

Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. As a result of the curtailment, a restructuring charge of US$29 million was raised. Approximately 560 employees are expected to be affected.

Usutu Mill. At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. An additional restructuring charge of US$3 million was incurred against the spares related to the mill.

Sappi Southern Africa: Central Services

During the financial year ended September 2011, Sappi announced the decision to restructure the support function which include Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees will be affected by this restructure. A restructuring provision of approximately US$5 million relating to restructuring charges was raised.

September 2010 restructuring provisions

Sappi Fine Paper Europe

Kangas Mill. In January 2010, Sappi Fine Paper Europe ceased operations at its Kangas mill. A total of 150 employees were affected by the closure of the mill. A restructuring provision of US$14 million was raised during the year, of which, US$8 million was utilised by September 2010. The balance of the provision at the end of fiscal 2011 was US$4 million.

Sappi Southern Africa

Usutu Mill. In January 2010, Sappi Southern Africa ceased production at Usutu mill affecting 491 employees by that fiscal year end. Adverse market conditions and the cumulative severe impact of fire damage over previous years had made the mill unviable. A provision relating to severance, retrenchment and other related closure costs of US$24 million was raised during fiscal 2010. At the end of fiscal 2011, the balance of the provision was US$5 million.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

23. NOTES TO THE GROUP STATEMENTS OF CASH FLOWS

23.1 Cash generated from operations

	2011	2010	2009
	(US$ million)		
(Loss) profit for the year	**(232)**	66	(177)
Adjustment for:			
Depreciation	**414**	411	396
Fellings	**82**	71	69
Amortisation	**3**	2	2
Taxation charge (benefit)	**11**	20	(41)
Net finance costs	**307**	255	145
Impairments (reversals) of assets and investments	**167**	(20)	79
Restructuring provisions raised and closure costs	**135**	46	34
Fair value adjustment gains and growth on plantations	**(65)**	(98)	(6)
Post-employment benefits funding	**(70)**	(73)	(62)
Broad-Based Black Economic Empowerment transaction charge	**5**	23	
Other non-cash items	**41**	34	(7)
	798	737	432

23.2 (Increase) decrease in working capital

	2011	2010	2009
	(US$ million)		
Decrease (increase) in inventories	**62**	(72)	116
Decrease (increase) in receivables	**66**	(74)	175
(Decrease) increase in payables	**(226)**	141	(139)
	(98)	(5)	152

23.3 Finance costs paid

	2011	2010	2009
	(US$ million)		
Gross interest and other finance costs	**(348)**	(309)	(198)
Net foreign exchange gains	**13**	17	17
Net fair value gains (losses) on financial instruments	**16**	21	(25)
Non-cash movements included in items above	**53**	65	99
	(266)	(206)	(107)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

23. NOTES TO THE GROUP STATEMENTS OF CASH FLOWS (Continued)

23.4 Taxation paid

	2011	2010	2009
	(US$ million)		
Amounts unpaid at beginning of year	**(35)**	(54)	(54)
Translation effects	**(2)**	4	(2)
Taxation (charge) benefit to profit or loss	**(14)**	6	(3)
Net amounts unpaid at end of year	**13**	35	54
Cash amounts paid	**(38)**	(9)	(5)

23.5 Replacement of non-current assets

	2011	2010	2009
	(US$ million)		
Property, plant and equipment	**(213)**	(173)	(146)
Plantations			(1)
	(213)	(173)	(147)

23.6 Proceeds on disposal of non-current assets

	2011	2010	2009
	(US$ million)		
Book value of property, plant and equipment disposed of	**5**	16	
Profit on disposal	**1**	5	2
	6	21	2

23.7 Acquisition

On 31 December 2008, Sappi acquired M-real's coated graphic paper business for an enterprise value of €750 million (approximately US$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital). The transaction was settled through a vendor loan note, an issue of Sappi Limited shares and cash. The transaction included M-real's coated graphic paper business, including brands and company knowledge, as well as four coated graphic mills.

23.8 Cash and cash equivalents

	2011	2010	2009
	(US$ million)		
Cash and deposits on call	**595**	791	727
Money market instruments	**44**	1	43
	639	792	770

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

24. ENCUMBERED ASSETS

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

	2011	2010	2009
	(US$ million)		
Land and buildings	**278**	309	322
Plant and equipment	**1,164**	1,295	1,542
Inventory	**178**	186	164
Trade receivables	**491**	486	460
	2,111	2,276	2,488

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered assets relate mainly to the security provided under the following facilities:

Public high yield bonds of (refer to note 20):

US$300 million due in 2014;
€350 million due in 2014;
€250 million due in 2018; and
US$350 million due in 2021.

An Österreichische Kontrollbank loan of €25 million with an outstanding balance of €17 million (refer to note 20).

The committed revolving credit facility of €350 million with a drawn amount of €100 million (refer to note 20).

The securitisation facility with UniCredit Bank of €360 million with a current balance of €275 million (refer to notes 16 and 20).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

25. COMMITMENTS

	2011	2010	2009
	(US$ million)		
Capital commitments			
Contracted but not provided	**61**	62	62
Approved but not contracted[1]	**416**	109	126
	477	171	188
Future forecasted cash flows of capital commitments at September:			
2010			102
2011		104	48
2012 (2009: thereafter)	**365**	32	38
2013 (2010: thereafter)	**75**	35	
Thereafter	**37**		
	477	171	188

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(1) Includes approximately US$302 million related to our chemical cellulose expansion project in southern Africa.

The capital expenditure is expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

Lease commitments

Future undiscounted minimum operating lease obligations payable in the year ended September:

	2011	2010	2009
	(US$ million)		
2010			31
2011		20	14
2012	**29**	16	7
2013	**17**	10	4
2014	**12**	7	2
2015 (2009: thereafter)	**8**	5	38
2016 (2010: thereafter)	**3**	37	
Thereafter	**36**		
	105	95	96

The lease commitments for 2010 were previously disclosed as US$130 million. This has been revised to US$95 million as certain purchase obligations were previously recorded as operating leases in terms of IFRIC 4.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

25. COMMITMENTS (Continued)

Future undiscounted minimum operating lease obligations payable in the year ended September:

	As previously reported	Adjustment	Adjusted
2011	40	(20)	20
2012	23	(7)	16
2013	16	(6)	10
2014	9	(2)	7
2015	5		5
2016 (2010: thereafter)	37		37
	130	(35)	95

Further information on capital commitments relating to environmental matters can be found in note 32.

26. CONTINGENT LIABILITIES

	2011	2010
	(US$ million)	
Guarantees and suretyships	33	48
Other contingent liabilities	15	8

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivables.

Other contingent liabilities mainly relate to taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that they are not expected to have a material effect on the group's consolidated financial position, results of operations or cash flows.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS

Summary of results

	All plans	Defined contribution plans		Defined benefit pension plans		Other defined benefit plans	
	2012	2011	2010	2011	2010	2011	2010
	(US$ million)						
Post-retirement plan costs recognised in income statements		**46**	42	**14**	15	**14**	14
Employer contributions paid over the fiscal year		**47**	40	**58**	66	**11**	11
Expected employer contributions to be paid over next fiscal year							
Defined contribution plans	**37**						
Defined benefit pension plans	**47**						
Other defined benefit plans	**12**						
Pension/other benefit plan liabilities are presented on the balance sheets as follows:							
Pension/other benefit liabilities (refer note 21)				**311**	298	**175**	178
Pension assets (refer note 14)				**(43)**	(37)		
Accrued contributions[(1)]/obligations (included in other payables)		**3**	4			**7**	7
Net balance sheet liabilities		**3**	4	**268**	261	**182**	185

(1) Amounts to defined contribution plans due in respect of the current reporting period that had not yet been paid over to the plans.

Development in the balance sheets for the pension/other benefit plans

	Defined benefit pension plans		Other defined benefit plans	
	2011	2010	2011	2010
	(US$ million)			
Net pension/other benefit liabilities at beginning of year	**(261)**	(256)	**(185)**	(179)
Net pension/other benefit costs for the year	**(14)**	(15)	**(14)**	(14)
Employer contributions	**58**	66	**11**	11
Net actuarial (losses) gains for the year to other comprehensive income (OCI)	**(50)**	(73)	**(9)**	2
Foreign currency (losses) gains exchange effect	**(1)**	17	**15**	(5)
Net pension/other benefit liabilities at end of year	**(268)**	(261)	**(182)**	(185)

Accumulated liabilities exceeded assets in all defined benefit plans except for two plans in southern Africa and one plan in Europe.

The following pages set out the summarized results above in more detail.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Detailed results

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US$46 million (2010: US$42 million, 2009: US$33 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. As at September 2011, US$3 million (2010: US$4 million, 2009: US$2 million) was due in respect of the current reporting period that had not yet been paid over to the plans.

Defined benefit pension plans

The group operates 13 principal defined benefit pension and / or lump sum plans plus a number of smaller plans. These include plans closed to new entrants and plans closed to future accrual for existing members. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new members except for the following: plans in southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Benefits are generally based upon compensation and years of service, with varying definitions of compensation such as average salary near retirement or career average revalued earnings. Exceptions to these are certain plans in Germany and Austria that provide fixed benefits and certain plans in North America that provide benefits based on years of service and a '$ multiplier'. The $ multiplier is a nominal US Dollar amount that historically has increased from time to time.

With the exception of our German and Austrian plans (which are unfunded), the assets of these plans are held in separate trustee administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries.

As of September 2011, the total number of active members (ie accruing benefits) in our defined benefit pension plans is approximately 6,500.

During the year, our plan in Switzerland was sold to an unrelated third party entity. A small contingent liability remains at year end, due to delays from regulatory clearance. The plan shows a nil net liability on the group's balance sheet. In Southern Africa, a small plan consisting of legacy pensioners was settled with a local insurance company. The agreement was set up prior to year end, but due to timing, the benefits will be settled after fiscal year end. The plan shows a nil net liability on the group's balance sheet.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Post-employment benefits other than pensions ('other defined benefit' plans)

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Other employee benefits

Group companies have no other significant post-employment defined benefit obligations except for the following:

- Jubilee (long service award plans) in continental Europe of US$22 million, an early retirement benefit plan in Belgium of US$9 million (of which US$4 million is long-term per note 21).

- 'ATZ' (early retirement) benefit obligations in Germany and Austria totalling US$9 million (within 'other payables').

- Workmen's compensation benefit obligations in North America totalling US$15 million (of which US$11 million is long-term per note 21).

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where an actuarial review is performed annually with an actuarial valuation being performed on a tri-annual basis.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

All post-employment obligations were measured at the end of the financial year.

	2011		2010	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	(US$ million)			
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of years	**2,069**	**182**	1,945	175
Current service costs	**29**	**4**	27	4
Past service (credits) costs	**(4)**		1	
Interest costs	**105**	**11**	107	11
Plan participants' contributions	**7**		7	
Actuarial (gains) losses experience	**(4)**	**5**	21	(9)
Actuarial losses assumptions	**23**	**4**	122	7
Gains on curtailments and settlements	**(233)**			
Benefits paid	**(123)**	**(11)**	(128)	(11)
Translation differences	**(42)**	**(15)**	(33)	5
Defined benefit obligations at end of years	**1,827**	**180**	2,069	182
Present value of wholly unfunded obligations	**134**	**180**	144	182
Present value of wholly and partly funded obligations	**1,693**		1,925	
Change in fair value of plan assets				
Fair value of plan assets at beginning of years	**1,808**		1,695	
Expected returns on plan assets*	**111**		114	
Actuarial (losses) gains on plan assets	**(31)**		70	
Employer contributions	**58**	**11**	66	11
Plan participants' contributions	**7**		7	
Benefits paid	**(123)**	**(11)**	(128)	(11)
Losses on curtailments and settlements	**(228)**			
Translation differences	**(43)**		(16)	
Fair value of plan assets at end of years	**1,559**		1,808	
Deficits	**(268)**	**(180)**	(261)	(182)
Unrecognised past service credits		**(2)**		(3)
Recognised pension/other benefit plan liabilities	**(268)**	**(182)**	(261)	(185)

* Net of administration costs.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

	2011		2010	
	Pension	Other	Pension	Other
	(US$ million)			
Regional split of liabilities				
Southern Africa	**357**	**88**	369	90
Europe (incl UK)	**857**		1,136	
North America	**613**	**92**	564	92
Total	**1,827**	**180**	2,069	182

	2011		2010	
	Pension	Other	Pension	Other
	(US$ million)			
Regional split of assets				
Southern Africa	**362**		399	
Europe (incl UK)	**710**		935	
North America	**487**		474	
Total	**1,559**		1,808	

	2011		2010	
	Pension	Other	Pension	Other
	(US$ million)			
Regional split of recognised liabilites				
Southern Africa	**5**	**(88)**	30	(90)
Europe (incl UK)	**(147)**		(201)	
North America	**(126)**	**(94)**	(90)	(95)
Total	**(268)**	**(182)**	(261)	(185)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

	2011		2010		2009	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
	(US$ million)					
Periodic pension/other benefit costs recognised in income statements						
Current service costs	**29**	**4**	27	4	21	2
Past service costs	**(4)**		1			
Interest costs	**105**	**11**	107	11	103	10
Expected returns on plan assets*	**(111)**		(114)		(104)	
Amortisation of past service (credits) costs		**(1)**	(6)	(1)	1	(1)
Gains on curtailments and settlements	**(5)**					(1)
Net periodic pension/other benefit costs charged to cost of sales and selling, general and administrative expenses	**14**	**14**	15	14	21	10
Actual returns on plan assets	**80**		184			
Actual returns on plan assets (%)	**4.4%**		10.9%			
Amounts recognised in the statements of other comprehensive income						
Actuarial (losses) gains	**(50)**	**(9)**	(73)	2		
Cumulative actuarial losses recognised in the statements of other comprehensive income						
Actuarial losses	**(457)**	**(61)**	(407)	(52)		

* Net of administration costs.

	2011		2010		2009	
	Pension	Other	Pension	Other	Pension	Other
	(US$ million)					
Regional split of pension / benefit cost						
Southern Africa	**3**	**9**		9		6

Europe (incl UK)	**11**		13		15	
North America		**5**	2	5	6	4
Total	**14**	**14**	15	14	21	10

Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries. In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Peer data and historical returns are reviewed for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

	2011	2010
Regional split of plan asset investment returns		
Southern Africa	**11%**	10%
Europe (incl UK)	**1%**	9%
North America	**6%**	14%

	2011		2010	
	Pension	Other	Pension	Other
	(US$ million)			
Regional split of movements to OCI				
Southern Africa	**(33)**	**(8)**	(24)	8
Europe (incl UK)	**29**		(27)	
North America	**(46)**	**(1)**	**(22)**	**(6)**
Total	**(50)**	**(9)**	(73)	2

	2011			2010		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet dates						
Discount rates (pensions) (%)	**8.75**	**5.02**	**4.50**	8.25	4.05	4.90
Compensation increases (%)**	**6.75**	**2.00**	**3.50**	6.20	2.40	3.50
Expected long-term returns on assets (%)	**9.65**	**4.43**	**7.25**	9.15	4.20	8.00
Discount rates (other benefits) (%)	**9.00**		**4.10**	8.25		4.40
Initial healthcare costs trend rates (%)	**7.25**		**7.00**	6.50		7.00
which gradually reduce to an ultimate rate of (%)	**7.25**		**5.00**	6.50		5.00
over a period of (years)			**6**			7

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

	2011			2010		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	**8.25**	**4.05**	**4.90**	9.00	4.90	5.50
Compensation increases (%)**	**6.20**	**2.40**	**3.50**	6.70	2.60	3.50
Expected long-term return on assets (%)	**9.15**	**4.20**	**8.00**	9.90	5.30	8.00
Discount rates (other benefits) (%)	**8.25**		**4.40**	9.00		5.20
Initial healthcare costs trend rates (%)	**6.50**		**7.00**	7.25		8.00
which gradually reduce to an ultimate rate of (%)	**6.50**		**5.00**	7.25		5.00
over a period of (years)			**7**			5

** Weighted average compensation increases of plans that use a compensation assumption.

Demographic assumptions (the expected change in membership), are derived by reference to historic and likely future changes in membership and using established methods recommended by actuaries. Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy that are likely to be experienced by future retirees.

Illustrating life expectancy

The table below shows sample life expectancy for a male aged 60 at fiscal year end, and life expectancy for a male aged 60 in 20 years time, taken from mortality tables used in determining regional plan obligations.

	2011			2010		
	Southern Africa	Europe (incl UK)*	North America	Southern Africa	Europe (incl UK)*	North America
Life expectancy of male aged 60 at fiscal 2011	**18.6**	**24.6**	**23.2**	18.6	24.6	22.1
Life expectancy of male aged 60 at fiscal 2031	**19.5**	**26.7**	**23.2**	19.5	26.7	22.1

* Weighted by defined benefit obligation.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Illustrating Sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

	2011					
	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate	1% increase in heath care cost trend rate	1% decrease in health care cost trend rate
	(US$ million)					
(Decrease) increase in defined benefit pension obligations	**(214)**	**258**	**30**	**(26)**		
(Decrease) Increase in aggregate of current service costs and interest costs	**(4)**	**3**				
(Decrease) increase in defined other benefit obligations	**(18)**	**21**			**16**	**(13)**
Increase (decrease) in aggregate of current service costs and interest costs					**2**	**(1)**

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which include selecting investment managers, setting long-term strategic

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

	2011 Southern Africa	2011 Europe (incl UK)	2011 North America	2010 Southern Africa	2010 Europe (incl UK)	2010 North America
			(%)			
Weighted average target asset allocation by region						
Equity Securities	**37**	**22**	**38**	26	21	38
Debt Securities*	**44**	**60**	**44**	47	60	44
Real Estate	**5**	**2**		5	5	
Other**	**14**	**16**	**18**	22	14	18
Weighted average actual asset allocation by region						
Equity Securities	**34**	**20**	**36**	27	20	38
Government Debt Securities	**29**	**37**	**6**	27	45	6
Debt Securities	**18**	**22**	**42**	23	19	38
Real Estate	**5**	**2**		5	5	
Other**	**14**	**19**	**16**	18	11	18

* Target asset allocations do not routinely split between corporate and government bonds.

** Investments that can transcend several asset classes, equity overlay on bond strategy, cash and near cash, funds heavily influenced by currency.

Expected benefit payments from pension and other benefit plans are as follows:

	Defined benefit pension plans	Other defined benefit plans
	(US$ million)	
Payable in the year ending September:		
2012	**88**	**12**
2013	**86**	**12**
2014	**88**	**13**
2015	**91**	**13**
2016	**96**	**13**
Years 2017 2021	**554**	**77**

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

The four tables below show summary data for the current annual period and the previous four annual periods:

Aggregate total of present value of the defined benefit obligations, fair value of assets and derived balance sheet liability in the defined benefit pension plans

	2011	2010	2009	2008	2007
	(US$ million)				
Defined benefit obligations	**1,827**	2,069	1,945	1,414	1,607
Fair value of assets	**1,559**	1,808	1,695	1,387	1,545
Deficits	**(268)**	(261)	(250)	(27)	(62)
Unrecognised past service (credits) costs			(6)		1
Balance sheet liabilities	**(268)**	(261)	(256)	(27)	(61)

Aggregate total of present value of the defined benefit obligations and derived balance sheet liabilities in the other benefit plans

	2011	2010	2009	2008	2007
	(US$ million)				
Defined benefit obligations deficits	**(180)**	(182)	(175)	(143)	(173)
Unrecognised past service credits	**(2)**	(3)	(4)	(5)	(6)
Balance sheet liabilities	**(182)**	(185)	(179)	(148)	(179)

Actuarial (losses) gains arising in the defined benefit pension plan liabilities and plan assets

	2011	2010	2009	2008	2007
	(US$ million)				
Plan liabilities (losses) gains	**(19)**	(143)	(254)	173	60
Plan assets (losses) gains	**(31)**	70	47	(189)	41
Net (losses) gains	**(50)**	(73)	(207)	(16)	101

Actuarial (losses) gains arising in the other benefit plan liabilities and plan assets

	2011	2010	2009	2008	2007
	(US$ million)				
Plan liabilities (losses) gains	**(9)**	2	(22)	23	

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Reconciliation of (losses) gains in group statement of comprehensive income

	2011	2010	2009	2008	2007
	(US$ million)				
Net (losses) gains from pensions	**(50)**	(73)	(207)	(16)	101
Net (losses) gains from other defined benefits	**(9)**	2	(22)	23	
Net (losses) gains in group statement of comprehensive income	**(59)**	(71)	(229)	7	101

28. SHARE-BASED PAYMENTS

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under the Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 19,000,000 shares (equivalent to 7.89% of the shares then in issue). Subsequent to the December 2008 rights offering, this number of shares increased to 42,700,870 shares (still equivalent to 7.89% of the shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (Share options), (b) may be offered the opportunity to acquire ordinary shares (Scheme shares), or (c) may be granted options to enter into agreements with the company to acquire ordinary shares (Allocation shares). In recent years, only Share Options have been offered to participants.

Under the rules of the Scheme:

Share options entitle the participant to purchase one ordinary share per share option.

Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price. The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

Allocation shares entitle the participant to accept an option to acquire one Allocation share per option. These options must be exercised by the participant within 12 months, failing which the option will automatically lapse. The Allocation shares entitle the participant to pay for one ordinary share per allocation share.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant Share options, Scheme shares, or Allocation shares, as the case may be.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

The Share options, Scheme shares and Allocation shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the shares vest, may Share options be exercised by the participants, may Scheme shares be released from the Scheme to participants and may Allocation shares be delivered to participants. For allocations prior to November 2004, the Share options, Scheme shares and Allocation shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company, may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date, for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, then the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date, for each conditional share award.

The Plan rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes: a rights offer, or is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

(a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or

(b) the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obligated to notify every Participant thereof on the basis that such Participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the Performance Criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

Number of shares	**2011 Total**	**2010 Total**
Allocations		
During the year, the following offers were made to employees:		
Share options	**2,818,000**	2,889,010
Conditional share awards	**1,567,400**	2,565,300
Share options and conditional share awards declined	**(41,900)**	(65,900)
	4,343,500	5,388,410

Scheme shares, Share options, Restricted shares, Performance shares and Allocation shares activities were as follows during the financial years ended September 2011 and 2010:

	Scheme Shares(1)	**Restricted Shares(2)**	**Share options(3)**	**Performance shares(2)(4)**	**Weighted average exercise price (ZAR)(5)**	**Allocation Shares(3)**	**Weighted average exercise price (ZAR)(5)**	**Total Shares**
Outstanding at September 2009	2,860,372		8,244,380	9,965,560	29.33	1,845,950	65.24	22,916,262
Offered and accepted			2,889,010	2,565,300	17.93			5,454,310
Paid for/released				(11,000)	11.06			(11,000)
Returned, lapsed and forfeited			(974,630)	(3,207,020)	14.48	(806,800)	77.61	(4,988,450)
Outstanding at September 2010	2,860,372		10,158,760	9,312,840	27.91	1,039,150	56.15	23,371,122
Offered and accepted			2,776,100	1,567,400	22.50			4,343,500
Paid for/released	(855,191)		(32,312)	(1,566,186)	22.17			(2,453,689)
Returned, lapsed and forfeited			(1,379,508)	(1,933,154)	28.36	(606,650)	62.43	(3,919,312)
Outstanding at September 2011	**2,005,181**		**11,523,040**	**7,380,900**	**27.28**	**432,500**	**47.34**	**21,341,621**
Exercisable at September 2009	752,600		4,835,090		55.60	1,845,950	65.24	7,433,640

Exercisable at September 2010	202,040	5,184,568	49.33	1,039,150	56.15	6,425,758
Exercisable at September 2011	35,860	5,565,298	44.70	432,500	47.34	6,033,658

(1)
The number of Scheme shares, which are not subject to credit sales amounts to 1,969,321 (2010: 2,658,332), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(2)
Restricted shares (awarded on an ad-hoc basis to certain individuals on various terms and conditions) and Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(3)
Issued in terms of the Scheme.

(4)
Issued in terms of the Plan.

(5)
The share options are issued in South African Rands.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

The fair value of Scheme shares held at September 2011 was US$5.9 million (2010: US$13.5 million).

The following table sets out the number of share options outstanding at the end of September, excluding the Scheme shares:

	2011	2010	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
13 February 2003 (i)		1,274,980	Time	(ii)	13 February 2011	62.34
30 December 2003 (i)	**238,150**	267,190	Time	(ii)	30 December 2011	47.08
14 January 2004 (i)	**1,106,640**	1,208,280	Time	(ii)	14 January 2012	47.08
25 March 2004 (i)	**2,200**	2,200	Time	(ii)	25 March 2012	50.42
13 December 2004 (i)	**1,800,080**	1,993,900	Time	(ii)	13 December 2012	46.51
12 December 2007 (i)	**1,055,260**	1,168,560	Time	(ii)	12 December 2015	52.57
19 March 2008 (i)	**518,760**	531,740	Time	(ii)	19 March 2016	55.97
22 December 2008	**1,846,640**	1,990,850	Time	(ii)	22 December 2016	35.50
09 December 2009	**2,631,810**	2,760,210	Time	(ii)	09 December 2017	33.85
03 December 2010	**2,756,000**		Time	(ii)	03 December 2017	35.20
Performance shares:						
29 January 2007 (i)		110,000	Performance	29 January 2011	N/A	N/A
31 May 2007 (i)		2,960,540	Performance	31 May 2011	N/A	N/A
02 July 2007 (i)		220,000	Performance	02 July 2011	N/A	N/A
10 September 2007 (i)		55,000	Performance	10 September 2011	N/A	N/A
12 December 2007 (i)	**1,124,200**	1,155,000	Performance	12 December 2011	N/A	N/A
19 March 2008 (i)	**451,000**	451,000	Performance	12 March 2012	N/A	N/A
23 December 2008	**1,782,000**	1,815,000	Performance	22 December 2012	N/A	N/A
	2,496,300	2,546,300	Performance		N/A	N/A

09 December 2009				09 December 2013		
03 December 2010	**1,527,400**		Performance	03 December 2014	N/A	N/A
	19,336,440	20,510,750				

(i) During the 2009 year, there was a rights issue of 6 shares for every 5 shares held at ZAR20.27 per share. According to the rules of the Scheme, this was also offered to participants. Not all the participants took up their rights.

(ii) These vest over four or five years depending on the date of allocation.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 36	**Issue 36**	**Issue 36**
Date of grant	3-Dec-10	3-Dec-10	3-Dec-10
Type of award	Normal Option	Performance	Performance
Share Price at grant date	ZAR35.57	ZAR35.57	ZAR35.57
Strike Price of share	ZAR35.20		
Vesting Period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related relative to peers	Cash flow return on net assets relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	41.0%	100%
Number of shares offered	2,818,000	783,700	783,700
Volatility	42.3%	55.0%	N/A
Risk free discount rate	5.7%	1.4% (US yield)	N/A
Expected dividend yield	2.5%	1.7%	1.7%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR14.05	ZAR25.06	ZAR26.68

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Share options, Allocation shares, Restricted shares and Performance shares to executive directors that are included earlier in this note, are as follows:

	2011 Number of options/shares	**2010 Number of options/shares**
At beginning of year	**1,087,200**	968,000
Share options, Restricted shares and Performance shares granted	**283,000**	315,000
Share options and Allocation shares exercised or declined	**(110,000)**	
Shares removed on resignation, retirement of directors or forfeited	**(143,000)**	(195,800)
At end of year	**1,117,200**	1,087,200

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

The following table sets forth certain information with respect to the 1,117,200 Share options and Performance shares granted by Sappi to executive directors:

Issue Date	Number of options/ shares(1)	Expiry date	Exercise price (ZAR)(1)
30 December 2003	39,600	30 December 2011	47.08
13 December 2004	39,600	13 December 2012	46.51
12 December 2007[(2)]	198,000	12 December 2011	
22 December 2008[(2)]	242,000	13 December 2012	
09 December 2009[(2)]	315,000	09 December 2013	
03 December 2010[(2)]	283,000	03 December 2014	
	1,117,200		

(1) Adjusted for the Share options, Restricted shares and Performance shares granted as a result of the rights issue.

(2) Performance shares.

Refer to the compensation report for further information on Directors participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

In June 2010, Sappi completed a Black Economic Empowerment ('BEE') transaction (the 'BEE Transaction') that enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans ('HDSAs') in the South African economy and, through BEE legislation, formalised the country's approach in this regard. Sappi views BEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BEE transaction (the 'Plantation BEE Transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BEE Transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE ('Broad-based Black Economic Empowerment') in the forestry industry and includes the BBBEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BEE Transaction and to implement the BEE Transaction, a new sustainable transaction of equivalent value using its listed securities.

The BEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

Sappi's South African Employees (62.5%);

South African Black Managers (15%);

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

Strategic Partners (12.5%) (refer to the section 'The BEE Transaction' in this note); and

Communities surrounding the South African mill operations and plantations (10%).

The BEE Transaction

The BEE Transaction comprised two distinct parts:

The value created through the Plantation BEE Transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 5 February 2010 of ZAR33.50.

The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE Trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest bearing loans extended by Sappi to the BEE Trusts. The BEE Transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE Transaction are as follows:

	Ordinary share allocation
Entity	
Strategic Partners:	
Lereko Investments (Proprietary) Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	4,328,353

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

28. SHARE-BASED PAYMENTS (Continued)

The number of 'A' ordinary shares allocated to the BEE Trusts are as follows:

Entity	'A' Ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group recognised a share-based payment expense of US$5 million (2010: US$4 million) in fiscal 2011 that related to the 'A' Ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' Ordinary shares granted:

Base price for hurdle rate price	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.6%
Management turnover (annual)	9.4%
Model used to value	Black Scholes Model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the MSOP and ESOP is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0-35		
36-48	40	40
49-60	10	50
61-72	10	60
73-84	10	70
85-96	10	80
97-108	10	90
109-Termination Date	10	100

Refer to note 17 for further details regarding the 'A' ordinary shares.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The principal risks to which Sappi is exposed through financial instruments are:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:

- interest rate risk
- currency risk
- commodity price risk

b) liquidity risk

c) credit risk

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

Sappi's Group Treasury is comprised of two components: Sappi International, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's southern African treasury activities.

These two operations collaborate closely and are primarily responsible for the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk (insofar as it relates to trade receivables) is primarily managed regionally but is co-ordinated on a group basis, whilst commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to the financial instruments and risks referred to in this note.

a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2011 and thereafter are based on the yield curves for each respective currency as published by Reuters on 02 October 2011. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						Total Carrying Value	2011 Fair Value	2010 Carrying Value	2010 Fair Value
	2012	2013	2014	2015	2016	2017+				
	(US$ equivalent in millions)									
US Dollar										
Fixed rate debt[1]			285			218	503	**541**	1,015	1,133
Average interest rate (%)			12.65			7.58	10.45		8.50	
Variable rate debt[2]			111			361	472	**476**	136	136
Average interest rate (%)			4.58			7.36	6.71		2.31	
Euro										
Fixed rate debt	15	2	432			330	779	**888**	868	1,066
Average interest rate (%)	5.64	3.97	12.74			6.73	10.03		10.80	
Variable rate debt[3]	234	20	257				511	**511**	453	453
Average interest rate (%)	3.68	4.00	5.08				3.24		2.74	
Rand										
Fixed rate debt	200	179	26	6	62		473	**507**	536	556
Average interest rate (%)	11.11	9.77	11.01	11.67	9.63		10.41		10.36	
Total										
Fixed rate debt	215	181	743	6	62	548	1,755	**1,936**	2,419	2,755
Average interest rate (%)	10.72	9.70	12.65	11.10	9.59	7.07	10.25		9.74	
Variable rate debt	234	20	368			361	983	**987**	589	589
Average interest rate (%)	3.68	4.00	4.93			7.36	4.90		2.64	
Fixed and variable	**449**	**201**	**1,111**	**6**	**62**	**909**	2,738	**2,923**	3,008	3,344

Current portion	449	**463**	691	732
Long term portion	2,289	**2,460**	2,317	2,612
Total interest-bearing borrowings (refer note 20)	2,738	**2,923**	3,008	3,344

(1) US Dollar fixed rates have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

The fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 3.68% and 12.74% (depending on currency). At September 2011, 64% of Sappi's borrowings were at fixed rates of interest, and 36% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 20.

Interest rate derivatives

Sappi uses interest rate options, caps, swaps (IRS) and interest rate and currency swaps (IRCS) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income, depending on the hedge designation as described in a documented hedging strategy.

There is an existing fixed for fixed interest and currency swap which has been designated as a hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US$300 million Senior Secured Notes due 2014 and converts all future US Dollar cash flows to Euro.

As at September 2011, the effectiveness test of the above mentioned hedge showed a 100% hedge effectiveness. The swaps showed a total positive fair value of US$21 million, of which, the positive fair value of the currency leg of the swap of US$18 million was booked to profit or loss to offset the corresponding foreign currency unrealised gain on the revaluation of the underlying hedged item, while the remaining positive fair value of the interest leg of the swap of US$3 million was deferred in equity.

In April 2011, Sappi entered into a new interest rate swap (IRS) converting the fixed rate of 6.625% on the underlying US$350 million Senior Secured Notes due 2021 into variable rates. This hedge has been designated as a fair value hedge whereby changes in the fair value of the fixed rate debt including the principal par value as well as the first ten coupon payments (October 2011 until April 2016) resulting from fluctuations in the US Libor swap curve, are offset against the changes in the fair value of the hedging instrument. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

At September 2011, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US$19 million which has been offset by the negative fair value adjustment to the bonds of US$22 million, resulting in a net negative impact on the income statement of US$3 million.

Overview of the outstanding derivatives as at fiscal year end:

	Interest Rate	Maturity date	2011 Nominal value	2011 Fair value(1)	2010 Nominal value	2010 Fair value(1)
				(US$ million)		
IRCS	US Dollar 12.00% into EUR 12.19%	August 2014	**300**	**21**	300	19
IRS	US Dollar 6.625% to variable (LIBOR)	April 2016	**350**	**19**		
				40		19

(1) This refers to the carrying value.

The fair values of the IRCS and IRS are the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the Sappi group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Please refer to the 'Hedge accounting' section in this note for further information.

Summary sensitivity analyses: external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US Dollar of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points (bps). The sensitivity analysis of floating rate debt, is carried out separately (see below).

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million:

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps EURIBOR-6M	(380.1)	(384.9)	(4.8)	(1.3)
+50 bps EURIBOR-6M	(380.1)	(375.4)	4.7	1.2

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps USD-LIBOR-3M	401.1	406.2	5.1	1.3
+50 bps USD-LIBOR-3M	401.1	396.2	(4.9)	(1.2)

The derivative converts fixed US Dollar interest payments of 12% into fixed Euro interest coupons, as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both, the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

At the end of fiscal 2011, the net fair value of the derivative amounted to a positive amount of US$21 million (gross "Base value" in the table above: negative US$380.1 million for the Euro leg and a positive US$401.1 million for the US Dollar leg) of which a positive amount of US$18 million was due to the exchange rate movement between inception and the reporting date. This amount is compensated for by the opposite movement of the underlying US Dollar external debt and therefore has no impact on profit or loss. The portion of the fair value due to interest rate movements amounts to a positive value of US$3 million and has been recorded in other comprehensive income. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on fair value. A decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 bps would result in an impact of approximately US$9.8 million.

The largest shift experienced over the last twelve-month period was a positive net movement of 0.47%, due to a decrease in US Dollar rates of 0.29% and an increase in the Euro rates of 0.76%. Applied to the fair value as at the end of fiscal 2011, this would have resulted in a positive change in fair value of US$10 million.

Scenario Name	Base Value	Scenario Value	Change	% Change
-29 bps USD-LIBOR-3M	401.1	404.0	2.9	0.7
+76 bps EURIBOR-6M	(380.1)	(373.0)	7.1	1.9
Total			**10.0**	

The above analysis measures the impact on profit or loss that a change in fair value of the interest rate derivatives would have if the specified scenarios were to occur.

IRS converting fixed US Dollar rates into variable rates:

Scenario Name	Base Value	Scenario Value	Change	% Change
-50 bps USD-LIBOR-3M	(353.4)	(353.5)	(0.1)	(0.03)
+50 bps USD-LIBOR-3M	(353.4)	(353.3)	0.1	0.03

Scenario Name	Base Value	Scenario Value	Change	% Change
-50 bps ST-/LT+ USD-LIBOR-3M	(353.4)	(353.5)	(0.1)	(0.03)
+50 bps ST+/LT- USD-LIBOR-3M	(353.4)	(353.3)	0.1	0.03

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

The above sensitivity analysis demonstrates this effect. The first scenario tests movements on the US Dollar interest rate curve in the same direction (parallel shift), whereas the second scenario tests the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

Sensitivity analysis: interest rate risk in case of a credit rating downgrade of Sappi

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The on-balance sheet securitisation agreement (refer to note 20) stipulates that upon a downgrade of the corporate family rating of Sappi Ltd below BB- by Standard & Poor's or a downgrade of the long-term issuer credit rating of Sappi Ltd below Ba3 by Moody's, the transaction margin would increase by 25 basis points.

Please note that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitisation programme covering Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading	Notional	Impact on income statement of a one notch downgrade below current credit rating
	(US$ million)	
Elektra Purchase N° 29 Ltd.	368	1
Sub-total	368	1
Impact calculated on total portfolio amounts to	0.30%	

The table below shows the sensitivity of certain fixed rate debt to changes in the group's own credit rating. The agreements of these specific external loans stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

External loan agreements sensitive to the group's own credit rating

	Notional	Impact on income statement of downgrade below BB "secured" credit rating
	(US$ million)	
Commitment fee on unused revolving credit facility	335	1
Interest on utilised bank syndicated loan	134	1
Interest on utilised bank loan	23	
Sub-total	492	2
Impact calculated on total portfolio amounts to	0.52%	

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
		(US$ million)		
Total debt	**2,738**	**1,755**	**983**	**5**
Ratio fixed/floating to total debt		**64%**	**36%**	

The floating rate debt represents 36% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

Currency risk

Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;

Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts; and

Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts and currency options. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Currency risk analysis

In the preparation of the currency risk analysis, the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

	Total	Total in Scope(1)	USD	EUR	ZAR	GBP	Other
			(US$ million)				
2011							
Financial assets							
Other non-current assets	**104**	**25**		12	9		4
Non-current derivative financial assets(2)	**41**	**41**	414	(411)	38		
Trade and other receivables	**831**	**735**	284	351	21	39	40
Current derivative financial assets(2)	**3**	**3**	(2)	(52)	68		(11)
Cash and cash equivalents	**639**	**639**	130	225	278	1	5
		1,443	826	125	414	40	38
Financial liabilities							
Non-current interest-bearing borrowings	**2,289**	**2,289**	975	1,042	272		
Other non-current liabilities	**553**	**2**	2				
Current interest-bearing borrowings	**449**	**449**		249	200		
Overdraft	**1**	**1**					1
Current derivative financial liabilities(2)	**10**	**10**	9			1	
Trade and other payables	**1,065**	**840**	145	475	208		12
		3,591	**1,131**	**1,766**	**680**	**1**	**13**
Foreign exchange gap		**(2,148)**	**(305)**	**(1,641)**	**(266)**	**39**	**25**

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Currency risk analysis (Continued)

	Total	Total in Scope(1)	USD	EUR	ZAR	GBP	Other
			(US$ million)				
2010							
Financial assets							
Other non-current assets	105	29	2	13	13		1
Non-current derivative financial assets[(2)]	19	19	422	(403)			
Trade and other receivables	889	777	296	366	24	56	35
Current derivative financial assets[(2)]	15	15	15				
Cash and cash equivalents	792	792	337	320	128	1	6
		1,632	1,072	296	165	57	42
Financial liabilities							
Non-current interest-bearing borrowings	2,317	2,317	1,015	830	472		
Current interest-bearing borrowings	691	691	136	490	65		
Overdraft	5	5	4	1			
Current derivative financial liabilities[(2)]	3	3	(2)	(1)	6		
Trade and other payables	1,270	991	221	436	286	18	30
		4,007	1,374	1,756	829	18	30
Foreign exchange gap		(2,375)	(302)	(1,460)	(664)	39	12

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

The above table does not indicate the group's foreign exchange exposure, it only shows the financial instruments assets and liabilities classified per underlying currency.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

The group's foreign currency forward exchange contracts at September 2011 are detailed below:

		2011 Contract amount (Notional amount)	2011 Fair value (unfavourable) favourable	2010 Contract amount (Notional amount)	2010 Fair value favourable (unfavourable)
		(US$ million)			
Foreign currency					
Bought:	US Dollar	**4**		7	
	Euro	**(21)**		43	
	ZAR				
Sold:	US Dollar	**(109)**	**(8)**	(232)	15
	Euro	**117**	**(1)**	(98)	(2)
	ZAR	**(100)**	**4**	(5)	
		(109)	**(5)**	(285)	13

The fair value of foreign currency contracts has been computed by the group using the market data at the end of fiscal 2011.

All forward currency exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the period.

Forward exchange contracts are used to hedge the group against potential unfavourable exchange rate movements that may occur on recognised financial assets and liabilities or planned future commitments.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2013.

As at the year end, there was an open exposure of US$49 million that has since been hedged.

Sensitivity analysis (loss) gain

Base currency	Exposure	+10%	-10%
	(US$ million)		
EUR	(10.0)	(0.9)	1.2
GBP	(1.0)	(0.1)	0.1
CHF	11.0	1.0	(1.2)
SEK	1.0	0.1	(0.2)
JPY	2.0	0.1	(0.2)
ZAR	(20.0)	(1.8)	2.2
Other currencies	(32.0)	(2.9)	3.6
TOTAL	**(49)**	**(4.5)**	**5.5**

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Based on the exposure as at the end of fiscal 2011, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$4.5 million or a gain of US$5.5 million respectively.

During 2011, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$145 million which were used as an overlay hedge of export sales. Since these contracts have all matured before the end of fiscal 2011, these constitute non-representative positions. The total impact on profit or loss amounts to a loss of US$0.2 million.

Hedge accounting

1. Fair value hedges

The group has the following fair value hedges which qualify for hedge accounting:

Until June 2009, the group had fair value hedges which qualified for hedge accounting. As the hedging instrument was sold in 2009, hedge accounting was ceased. The result of the sale of the hedging instrument was booked to the income statement in 2009.

The final life-to-date fair value adjustment of the underlying bonds on the date of the sale of the swaps is amortised over the life of the initial hedge designation period and amounted to US$46 million. In the course of 2010, US$136 million of the underlying bonds have been redeemed prior to maturity and the corresponding amortisation had been booked immediately to the income statement. During 2011, Sappi repurchased and redeemed its US$500 million 6.75% Guaranteed Notes due June 2012. This resulted in the immediate release to the income statement of the corresponding non-amortised portion of the fair value adjustment.

The table below discloses the impact of the amortisation on the profit and loss account:

Fiscal period	US$ million
2009	4
2010	21
2011	18
2012	3
Total	46

Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rates of the bonds were swapped into 6-month US Dollar LIBOR rates set in advance. The new hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will at maturity revert to the nominal amount of the bonds. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

expected to be material. The initial mark-to-market value of the swaps of US$2.1 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

Sappi uses the REVALHedgeRx module (REVAL), a web-based application that provides treasury and risk management solutions. The application is supplied by Reval.Com, Inc., a financial technology company based in New York and is used to assess both the prospective and the retrospective effectiveness of a fair value hedge relationship.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

The number of data points used to measure the effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical 3-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, REVAL will update the regression by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (i.e. actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

The swap was highly effective in a retrospective hedge effectiveness test.

Changes in fair value will represent period-to-period changes in "clean" fair value (accruals of interest excluded).

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

The following is an analysis of the impact on pre-tax profit and loss for the period based on the consolidated accounts translated at average rates:

	2011 at average rate favourable (unfavourable)	2010 at average rate favourable
	(US$ million)	
Fair value hedges		
Realised result on termination of interest rate swaps	**1**	
Amortisation of de-designated hedges	**18**	21
Residual ineffectiveness	**(3)**	
gain on hedging instruments	**19**	
loss on hedged item	**(22)**	
Total	**16**	**21**

2. Cash flow hedges

Interest and currency swaps

In August 2009, Sappi entered into a fixed for fixed interest and currency swap, which has been designated as a hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US$300 million Senior Secured Notes due 2014. The swap converts all future US Dollar cash flows into Euro.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense and foreign currency revaluation).

Sappi uses REVAL to assess the fair value of the IRCS and to measure the effectiveness of the cash flow hedge relationship.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

The counterparties of the hedging instruments are tested for creditworthiness on a quarterly basis. If the credit risk of a given counterparty would fall under the minimum required rating, any positive fair value of the hedging instrument would be adjusted to cater for the additional credit risk. This would not affect the hypothetical derivative.

	2011 Hedged notional	2011 Interest result deferred in other comprehensive income	2010 Hedged notional	2010 Interest result deferred in other comprehensive income
	(US$ million)			
Senior Secured Notes 2014	**300**	**3**	300	3

Ngodwana mill expansion acquisition of property, plant and equipment in foreign currency

Sappi started the expansion of its Ngodwana mill in fiscal 2011 to increase its capacity to produce chemical cellulose. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows related to the expansion of Ngodwana began in September 2011 and are estimated to keep occurring until September 2013.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through other comprehensive income. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

The total net gain recognised in equity through other comprehensive income since the inception of the hedge amounted to US$9 million for fiscal 2011. This is made up of a realised gain of US$4 million relating to forward exchange contracts that have matured and an unrealised gain of US$5 million resulting from forward exchange contracts yet to mature.

3. Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding ("SPH") in SD Warren Holdings Corporation ("SFPNA") including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot re-translation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar-Euro spot exchange risk and Sappi Ltd for US Dollar-ZAR spot exchange risk. The hedging instrument is non-derivative foreign currency external debt. At inception of the hedge, both the net investment in the

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) have been recorded at the spot rate in effect on the hedge designation date.

Exchange differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in other comprehensive income to the extent effective until the foreign operation is disposed of or liquidated. These exchange differences are recognised in the income statement on disposal or liquidation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2011, the hedge was 100% effective.

	2011		2010	
	Hedged notional	Foreign Exchange result deferred in other comprehensive income	Hedged notional	Foreign Exchange result deferred in other comprehensive income
	(US$ million)			
Bond 2012			30	
Bond 2021	**28**			
Bond 2032	**219**	**(3)**	227	2
	247	**(3)**	257	2
Net investment value of Sappi Fine Paper North America	**372**		310	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to security of raw material supply and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

The pulp swaps contracted in 2010 have matured in January 2011 and no other pulp swaps have been contracted during fiscal 2011.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

There were no pulp swap contracts outstanding at the end of fiscal 2011.

		2011		2010	
	Base currency	Contract amount (Notional amount)	Fair value favourable (unfavourable)	Contract amount (Notional amount)	Fair value favourable (unfavourable)
		(US$ million)			
Bleached Hardwood Kraft Pulp (BHKP) bought	US Dollar			1	0.2
Northern Bleached Softwood Kraft (NBSK) bought	Euro			2	(0.1)
				3	0.1

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

managing its bank balances, cash concentration methods and cash flows;

managing its working capital and capital expenditure;

ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements; and

ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 20.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management
2011

			Undiscounted cash flows					
	Total financial assets and liabilities	Fair value of financial instruments	0 6 months	6 12 months	1 2 years	2 5 years	> 5 years	Total
				(US$ million)				
Financial assets								
Other non-current assets	**25**	**25**	12	1		4	8	25
Non-current derivative financial assets	**41**	**41**	4	4	8	28		44
Receive leg			30	30	95	405		560
Pay leg			(26)	(26)	(87)	(377)		(516)
Trade and other receivables	**735**	**735**	735					735
Current derivative financial assets	**3**	**3**	2	1				3
Receive leg			72	24				96
Pay leg			(70)	(23)				(93)
Cash and cash equivalents	**639**	**639**	639					639
			1,392	6	8	32	8	1,446
Financial liabilities								
Interest-bearing borrowings	**2,289**	**2,460**	85	85	380	1,511	1,333	3,394
Other non-current liabilities	**2**	**2**			1	1		2
Interest-bearing borrowings	**449**	**463**	372	99				471
Overdraft	**1**	**1**	1					1
Current derivative financial liabilities	**10**	**10**	10					10
Pay leg			222					222
Receive leg			(212)					(212)

Trade and other payables	**840**	**840**	791	9				800
			1,259	193	381	1,512	1,333	4,678
Liquidity gap			133	(187)	(373)	(1,480)	(1,325)	(3,232)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk management
2010

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0 6 months	6 12 months	1 2 years	2 5 years	> 5 years	Total
			(US$ million)					
Financial assets								
Other non-current assets	**29**	**29**	13		1	4	11	29
Non-current derivative financial assets	**19**	**19**		1	1	17		19
Receive leg			18	18	36	372		444
Pay leg			(18)	(17)	(35)	(355)		(425)
Trade and other receivables	**777**	**777**	776		1			777
Current derivative financial assets	**15**	**15**	17					17
Receive leg			267					267
Pay leg			(250)					(250)
Cash and cash equivalents	**792**	**792**	792					792
			1,598	1	3	21	11	1,634
Financial liabilities								
Interest-bearing borrowings	**2,317**	**2,612**	71	71	1,084	1,571	507	3,304
Non-current derivative financial liabilities								
Pay leg			3	3				6
Receive leg			(3)	(3)				(6)
Interest-bearing borrowings	**691**	**732**	571	211				782
Overdraft	**5**	**5**	5					5

Current derivative financial liabilities	**3**	**3**	2	1				3
Pay leg			130	5				135
Receive leg			(128)	(4)				(132)
Trade and other payables	**991**	**991**	951	1				952
			1,600	284	1,084	1,571	507	5,046
Liquidity gap			(2)	(283)	(1,081)	(1,550)	(496)	(3,412)

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2011 and 2010, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated on an undiscounted basis.

Classes of derivative financial instruments	Total	Fair Value Hedge	Cash flow Hedge	No Hedge Accounting	Maturity analysis(1) Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years
				(US$ million)					
September 2011									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	40	19	21		4	4	7	28	
receiving leg	506	111	395		30	30	59	405	
paying leg	(466)	(92)	(374)		(26)	(26)	(52)	(377)	
Foreign exchange risk									
FX forward contracts	4		4		2	2	1		
receiving leg	132		100	32	72	24	36		
paying leg	(128)		(96)	(32)	(70)	(22)	(35)		
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps									
paying leg									
receiving leg									
Foreign exchange risk									
FX forward contracts	10			10	10				
paying leg	222			222	222				
receiving leg	(212)			(212)	(212)				

(1) The reported maturity analysis is calculated on an undiscounted basis.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Classes of derivative financial instruments	Total	Fair Value Hedge	Cash flow Hedge	No Hedge Accounting	Maturity analysis(1) Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years
				(US$ million)					
September 2010									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	19		19			1	1	17	
receiving leg	422		422		18	18	36	372	
paying leg	(403)		(403)		(18)	(17)	(35)	(355)	
Foreign exchange risk									
FX forward contracts	15			15	17				
receiving leg	265			265	267				
paying leg	(250)			(250)	(250)				
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps									
paying leg	6			6	3	3			
receiving leg	(6)			(6)	(3)	(3)			
Foreign exchange risk									
FX forward contracts	3			3	2	1			
paying leg	135			135	130	5			
receiving leg	(132)			(132)	(128)	(4)			

(1) The reported maturity analysis is calculated on an undiscounted basis.

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market-related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair values of loan commitments are based on the commitment fees effectively paid.

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Held for trading	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	Fair value
				Categories according to IAS 39 (US$ million)				
September 2011								
Non-current assets								
Other non-current assets(2)	**104**	79		5		20	25	25
Loans to associates (minority interests)				3			3	3
AFS Club debentures						3	3	3
AFS Investment funds				2		17	19	19
Other assets		79						
Non-current derivative financial assets	**41**		41				41	41
Current assets								
Trade and other receivables	**831**	96		735			735	735
Trade receivables				700			700	700
Other accounts receivable current		96		35			35	35
Current derivative financial assets	**3**		3				3	3
Cash and cash equivalents	**639**			639			639	639
Overnight deposits and current accounts (including petty cash)				271			271	271
Time deposits (< 3 months)				324			324	324
Money market funds				44			44	44

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes license fees and brands (refer to note 12).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39 Held for trading	Other financial liabilities	Total in scope	Fair value
			(US$ million)			
September 2011						
Non-current liabilities						
Interest-bearing borrowings	**2,289**			2,289	2,289	2,460
Bank loans payable (> 1 year) including syndicated loans				78	78	80
Bonds				1,809	1,809	1,975
Financial leasing liabilities				22	22	25
Securitisation debt				368	368	368
Secured loans				12	12	12
Other non-current liabilities	**553**	551		2	2	2
Current Liabilities						
Interest-bearing borrowings	**449**			449	449	463
Bank loans payable (< 1 year) including syndicated loans				93	93	93
Current portion of other non-current loans payable				197	197	211
Financial leasing liabilities				14	14	14
Secured loans (< 1 year)				145	145	145
Overdraft						
Bank overdrafts (< 3 months)	**1**			1	1	1
Current derivative financial liabilities	**10**		10		10	10
Trade and other payables	**1,065**	225		840	840	840
Accruals		225		243	243	243
Accounts payable to associates				4	4	4
Other accounts payable current				593	593	593

(1) This refers to items that are outside the scope of IAS 39.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39 Held for trading	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	Fair value
			(US$ million)					
September 2010								
Non-current assets								
Other non-current assets[2]	**105**	76		6		23	29	29
Loans to associates (minority interests)				4			4	4
AFS Club debentures						2	2	2
AFS Investment funds				2		19	21	21
Other assets		76				2	2	2
Non-current derivative financial assets	**19**		19				19	19
Current assets								
Trade and other receivables	**888**	111		773		4	777	777
Trade receivables				740			740	740
Other accounts receivable current		111		33		4	37	37
Current derivative financial assets	**15**		15				15	15
Cash and cash equivalents	**792**			792			792	792
Overnight deposits and current accounts (including petty cash)				115			115	115
Time deposits (< 3 months)				676			676	676
Money market funds				1			1	1

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes license fees and brands (refer to note 12).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39 Held for trading (US$ million)	Other financial liabilities	Total in scope	Fair value
September 2010						
Non-current liabilities						
Interest-bearing borrowings	**2,317**			2,317	2,317	2,612
Bank loans payable (> 1 year) including syndicated loans				103	103	107
Bonds				1,796	1,796	2,052
Financial leasing liabilities				39	39	34
Secured loans				379	379	419
Current Liabilities						
Interest-bearing borrowings	**691**			691	691	732
Bank loans payable (< 1 year) including syndicated loans				96	96	96
Current portion of other non-current loans payable				62	62	62
Financial leasing liabilities				13	13	13
Secured loans (< 1 year)				148	148	182
Securitisation debt				372	372	379
Overdraft						
Bank overdrafts (< 3 months)	**5**			5	5	5
Current derivative financial liabilities	**3**		3		3	3
Trade and other payables	**1,271**	280		991	991	991
Accruals		278		249	249	249
Accounts payable to associates				1	1	1
Other accounts payable current		2		741	741	741

(1) This refers to items that are outside the scope of IAS 39.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

Hierarchy of fair value measurements for financial instruments measured at fair value on the balance sheet:

	2011				2010			
	Total Fair value	Fair value hierarchy Level 1	Level 2	Level 3	Total Fair value	Fair value hierarchy Level 1	Level 2	Level 3
	(US$ million)							
Non-current assets								
Other non-current assets								
AFS Club debentures	**3**	**3**			2	2		
AFS Investment funds	**17**	**17**			19	19		
Non-current derivative financial assets	**41**		**41**		19		19	
Current assets								
Current derivative financial assets	**3**		**3**		15		15	
	64	**20**	**44**		55	21	34	
Non-current liabilities								
Non-current derivative financial liabilities								
Current liabilities								
Current derivative financial liabilities	**10**		**10**		3		3	
	10		**10**		3		3	

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade debtor management is the responsibility of regional management and is co-ordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with the credit policies and procedures. Appropriate collateral is obtained to minimise risk. Exposures are monitored on an on-going basis utilising various reporting tools which highlight potential risks.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

29. FINANCIAL INSTRUMENTS (Continued)

On average 57% of our trade receivables are credit insured.

Quantitative disclosures on credit risk are included in note 16 of the annual financial statements.

30. RELATED PARTY TRANSACTIONS

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

Joint ventures	Sale of goods 2011	2010	2009	Purchases of goods 2011	2010	2009	Amounts owed by related parties 2011	2010	Amounts owed to related parties 2011	2010
					(US$ million)					
Jiangxi Chenming Paper Company Limited	**1.1**	1.1	2.0	**0.7**	0.6	1.5			**1.8**	0.9
Sapin S.A.	**0.8**	0.5	0.4	**35.1**	22.1	21.3	**0.1**	0.1	**3.9**	0.6
VOF Warmtekracht[1]		10.8	38.1		7.1	25.0				
Umkomaas Lignin (Pty) Limited	**6.5**	5.6	0.9	**0.4**	0.3		**0.8**	1.8		
Papierholz Austria GmbH				**105.1**	90.5	68.5			**0.2**	8.1
Energie Biberist AG[2]				**31.1**	38.6				**1.1**	3.8
	8.4	18.0	41.4	**172.4**	159.2	116.3	**0.9**	1.9	**7.0**	13.4

(1) The entity was acquired by Sappi in fiscal 2010 and is fully consolidated into the group accounts

(2) The entity provided Biberist Mill with steam and electricity. Biberist Mill was closed in the last quarter of fiscal 2011.

A description concerning the joint venture, Timber IV, is discussed in note 13.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company are disclosed in Item 7 Major Shareholders and Related Party Transactions Major Shareholders.

Broad-Based Black Economic Empowerment (BEE) transaction

Refer to notes 17 and 28 for details of our BEE transaction.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

30. RELATED PARTY TRANSACTIONS (Continued)

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of our key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) are disclosed in notes 33 35.

31. EVENTS AFTER BALANCE SHEET DATE

In October 2011, Sappi Southern Africa utilised some of its cash resources to repay its 10.64% fixed rate public bond of ZAR1,000 million.

In November 2011, the board approved an investment of approximately US$170 million to convert the Cloquet Mill pulp mill in North America to produce chemical cellulose.

32. ENVIRONMENTAL MATTERS

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate which have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), wastewater discharges and solid and hazardous wastes. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mill's dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage must be completed by May 1, 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US$4 million to US$5 million. Fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed, during the spring of 2015. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi Fine Paper North America's other upstream hydrofacilities as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US$18 million to US$28 million, which includes costs

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

32. ENVIRONMENTAL MATTERS (Continued)

expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as estimated costs for upstream fish passages which may be incurred in the future. Because construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

We closely monitor state, regional and Federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal program for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules indefinitely. When announcing the stay, the USEPA stated that the stay will remain in effect until it completed an ongoing reconsideration process with respect to certain requirements in the rules or until various court proceedings concerning Boiler MACT are completed, whichever came first. Based on motions before the court, it is not clear whether the reconsideration process or whether the litigations will be resolved first, or what the timing for completion or implementation of a revised rule would be. Capital expenditures, currently estimated to range between US$10 million and US$15 million, could be required for emissions control equipment at Sappi Fine Paper North America's mills in order to comply with the Boiler MACT rules as proposed in March 2011, although the anticipated impact of the rules as well as the related costs may be subject to revision in the future, particularly in light of the ongoing reconsideration process and litigation. The nature, scope, and timing of any proposed legislation, including climate change legislation and other proposed rules regarding GHG's is highly uncertain and, currently,we do not know what the precise effect, if any, such legislation will have on Sappi Fine Paper North America, both financially and on our operations.

Europe

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). These documents are currently being revised but this exercise is taking longer than initially expected. The revised documents are expected to be adopted in early 2013.

Other laws and regulations that apply to all our facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

32. ENVIRONMENTAL MATTERS (Continued)

The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. We also registered some intermediate substances in our pulp production processes.

A timber and timber product regulation adopted by the European Commission, the obligations, of which, will also apply to our European operations. The requirements apply as from 03 March 2013. We think that we are well prepared for these new requirements as we have an effective certification and risk assessment system in place which allows us to trace wood and timber material back to its source.

An agreement with the national government in The Netherlands which we, together with other paper manufacturers, have signed to improve environmental management and further limit emissions.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

South Africa

In southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and environmental considerations.

The Minister of Water and Environmental Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMIs) in her department. The EMIs prioritised various sectors of industry and inspected those sectors in the course of the past four years. From 2008 to 2011, the EMIs focused attention on the pulp and paper sector, signaling more stringent enforcement for Sappi mills.

Our Ngodwana, Enstra and Tugela mills have undergone comprehensive initial inspections with subsequent follow up audits done by the EMIs during the course of 2008 to 2011. We are continuing to make progress on addressing the issues that were identified by the inspectors and, as appropriate, have been voluntarily submitting progress reports to the EMI lead team member's office. The purpose of submitting regular updates is to maintain a sound working relationship with the EMI based on effective communication in a transparent manner. The primary South African environmental laws affecting our operations are:

The National Water Act that addresses the water shortages in South Africa and relates to both, our manufacturing and our forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.

The National Environmental Management Act that provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

32. ENVIRONMENTAL MATTERS (Continued)

significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals.

The National Environmental Management Act: Air Quality Act was promulgated at the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations over a period of five to ten years.

The National Environmental Management Act: Waste Act was enacted on July 01, 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

The Kyoto Protocol: South Africa has also ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period, which expires in December 2012. It is unclear whether there will be a successor agreement to the Kyoto Protocol post-2012, or what the implications will be for signatory countries if the Kyoto Protocol is not extended past the initial commitment period.

The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact of new standards, contained in the Air Quality Act and the Waste Act on our mills, is expected to be distributed over the next five to ten years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate 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. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

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.

	2011			
	Board Fees	Committee Fees	Travel allowance	Total
	(US$)			
M Feldberg	**84,750**	**53,800**	**11,600**	**150,150**
J E Healey	**56,450**	**99,020**	**11,600**	**167,070**
D Konar	**39,438**	**74,320**	**5,800**	**119,558**
H C Mamsch[(1)]	**14,692**	**13,697**		**28,389**
B Radebe	**39,438**	**12,791**	**5,800**	**58,029**
A N R Rudd	**58,769**	**49,638**	**11,600**	**120,007**
K Osar	**56,450**	**28,500**	**11,600**	**96,550**
J McKenzie	**39,438**	**37,368**	**5,800**	**82,606**
D C Cronje	**287,449**		**5,800**	**293,249**
N P Mageza	**39,438**	**33,236**	**5,800**	**78,474**
R Thummer	**58,769**	**24,819**	**11,600**	**95,188**
M V Moosa	**39,438**		**5,800**	**45,238**
M A Fallon[(2)]	**4,897**		**2,900**	**7,797**
G P F Beurskens[(3)]				
	819,416	**427,189**	**95,700**	**1,342,305**

	2010			
	Board Fees	Committee Fees	Travel allowance	Total
	(US$)			
D C Brink[(4)]	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn[(4)]	8,479	2,750	2,800	14,029
K Osar	55,100	27,500	11,200	93,800
J McKenzie	33,918	27,860	5,600	67,378
D C Cronje	235,662		2,800	238,462
N P Mageza[(5)]	25,438	18,572	2,800	46,810
R Thummer[(6)]	37,879	11,206	2,800	51,885
M V Moosa[(7)]	5,653			5,653
	718,012	427,402	78,400	1,223,814

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

	2009			
	Board Fees	Committee Fees	Travel allowance	Total
	(US$)			
D C Brink	39,496	38,054	5,400	82,950
M Feldberg	54,000	51,700	13,500	119,200
J E Healey	54,000	73,500	13,500	141,000
D Konar	26,350	51,811	5,400	83,561
H C Mamsch	55,615	80,072	8,100	143,787
B Radebe	26,349	8,543	5,400	40,292
A N R Rudd	55,615	47,046	8,100	110,761
F A Sonn	26,350	8,543	5,400	40,293
K Osar	54,000	27,000	13,500	94,500
J McKenzie	26,350	23,215	5,400	54,965
D C Cronje	183,059		5,400	188,459
	601,184	409,484	89,100	1,099,768

(1) Retired in December 2010.

(2) Appointed in September 2011.

(3) Appointed in October 2011.

(4) Retired in December 2009.

(5) Appointed in January 2010.

(6) Appointed in February 2010.

(7) Appointed in August 2010.

Executive directors

Our pay philosophy is to pay our executive directors' a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2011				
	Salary	Prior Year bonuses and performance related payments(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
R J Boëttger[(2)]	**806,887**	**908,619**	**8,011**	**234,772**	**1,958,289**
M R Thompson[(3)]	**401,038**	**378,188**	**11,794**	**211,616**	**1,002,636**
	1,207,925	**1,286,807**	**19,805**	**446,388**	**2,960,925**

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

2010

	Salary	Prior Year bonuses and performance related payments(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
R J Boëttger	710,148		7,605	206,244	923,997
M R Thompson	339,708		9,280	117,927	466,915
	1,049,856		16,885	324,171	1,390,912

2009

	Salary	Prior Year bonuses and performance related payments(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
R J Boëttger	551,185	347,548		171,550	1,070,283
M R Thompson	261,921	102,582	357	152,230	517,090
	813,106	450,130	357	323,780	1,587,373

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(1)

Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

(2)

R J Boëttger received an 8% increase on his South African portion (70% of total salary), and a 3.25% increase on his off-shore portion of his salary (30% of total salary). R J Boëttger's compensation package in US$ terms increased by 112% from 2010 to 2011.

(3)

M R Thompson received a 10% salary increase on his South African portion (70% of total salary), and 2% increase on his off-shore portion (30% of total salary) of his salary. M R Thompson's compensation package in US$ terms increased by 114.7% from 2010 to 2011.

The seemingly large increases in compensation for RJ Boëttger and MR Thompson is due to no bonus and performance related payments in fiscal 2010.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 2 years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for pre-determined compensation on termination of their contracts exceeding 2 years' gross remuneration and benefits-in-kind.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

Prescribed officers[(1)]

As with our executive directors, our pay philosophy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

2011

	Salary	Prior Year bonuses and performance related payments(2)	Sums paid by way of expense allowance (US$)	Contributions paid under pension and medical aid schemes	Total
Officer 1	**772,280**	**364,740**	**3,487**	**131,898**	**1,272,405**
Officer 2	**423,659**	**391,576**		**39,145**	**854,380**
Officer 3	**368,734**	**317,555**	**6,417**	**68,789**	**761,495**
Officer 4	**335,280**	**267,110**	**10,940**	**125,399**	**738,729**
Officer 5	**304,108**	**222,697**	**10,792**	**150,704**	**688,301**
Officer 6	**264,440**	**225,295**	**9,045**	**94,342**	**593,122**
Officer 7	**658,738**	**359,782**	**595**	**70,030**	**1,089,145**
	3,127,239	**2,148,755**	**41,276**	**680,307**	**5,997,577**

2010

	Salary	Prior Year bonuses and performance related payments(2)	Sums paid by way of expense allowance (US$)	Contributions paid under pension and medical aid schemes	Total
Officer 1	728,937	27,502	3,415	100,418	860,272
Officer 2	411,320	45,891		22,482	479,693
Officer 3	266,197	102,437	3,746	27,123	399,503
Officer 4	287,719		8,812	85,824	382,355
Officer 5	260,322		9,263	92,340	361,925
Officer 6	231,353		2,246	80,261	313,860
Officer 7	360,735		2,835	88,832	452,402
	2,546,583	175,830	30,317	497,280	3,250,010

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

	2009				
	Salary	Prior Year bonuses and performance related payments(2)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
Officer 1	644,916	222,620	(3,491)	146,152	1,010,197
Officer 2	364,000	255,763	2,529	23,920	646,212
Officer 3	239,909	71,896	(2,999)	33,318	342,124
Officer 4	223,560	86,935	479	90,952	401,926
Officer 5	210,626	78,798		90,069	379,493
Officer 6	169,965	64,160	1,867	69,118	305,110
Officer 7	250,921	143,947	2,277	66,476	463,621
	2,103,897	924,119	662	520,005	3,548,683

(1) The prescribed officers of the group consist of M Gardner; R Hope; J Labuschagne (terminated 30 November 2011); A Rossi; L Swartz; A Thiel and B Wiersum. They form the group executive committee together with the executive directors.

(2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

34. DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS

The following table sets out the directors' and prescribed officers' interests in shares and other securities in Sappi Limited. For the purposes of this table, directors' and prescribed officers' interests include shares that are owned either directly or indirectly as well as those shares in which directors and

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

34. DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS (Continued)

prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2011			2010		
	Direct Interests		Indirect Interests	Direct Interests		Indirect Interests
Director	**Beneficial**	**Vested Obligations to Purchase or Repay Loans**	**Beneficial**	**Beneficial**	**Vested Obligations to Purchase or Repay Loans**	**Beneficial**
Non-executive directors						
R Thummer	**7,542**			7,542		
M V Moosa(1)			**626,998**			626,998
Executive directors						
M R Thompson(2)	**20,517**	**39,600**		20,517	72,600	
R J Boëttger	**122,038**			85,000		
Prescribed officers						
Officer 1	**11,000**			11,000		
Officer 2						
Officer 3	**13,419**			3,459		
Officer 4	**12,243**			6,917	33,000	
Officer 5	**109,737**	**39,600**		96,052	72,600	
Officer 6	**47,184**	**2,200**		37,990	19,800	
Officer 7	**24,105**	**22,000**		3,459	44,000	
TOTAL	**367,785**	**103,400**	**626,998**	271,936	242,000	626,998

(1) M V Moosa holds 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE Transaction described in notes 17 and 28. M V Moosa was appointed a director of the company after the conclusion of the BEE Transaction.

(2) M R Thompson purchased 142,000 of the Sappi Senior Secured Notes due 2014 at a total cost of €144,837.16.

There have been no changes in the direct or indirect beneficial interests of the directors and their associates between fiscal year end and the date of this report.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co. Limited, M V Moosa's interest in the BEE Transaction described above and in note 28, and M R Thompson's interest in the Senior Secured Notes due 2014, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES

Changes in executive directors' and prescribed officers' share options, allocation shares and performance shares before fiscal year end

Executive directors

	R J Boëttger Allocated price	R J Boëttger No of shares	M R Thompson Allocated price	M R Thompson No of shares	Total 2011 No of shares	Total 2010 No of shares
Outstanding at beginning of year						
Number of shares held		**679,000**		**408,200**	**1,087,200**	968,000
Issue 27			ZAR 62.34	33,000		
Issue 28a			ZAR 47.08	39,600		
Issue 29			ZAR 46.51	39,600		
Performance shares 31a	ZAR 11.06	220,000				
Performance shares 32	ZAR 11.06	110,000	ZAR 11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Offered and accepted during the year						
Performance shares 35						315,000
Performance shares 36		195,000		88,000	**283,000**	
Paid for during the year						
Number of shares		(110,000)			**(110,000)**	
Returned, lapsed and forfeited during the year						
Number of shares		(110,000)		(33,000)	**(143,000)**	(195,800)
Outstanding at end of year						
Number of shares held		**654,000**		**463,200**	**1,117,200**	**1,087,200**
Issue 28a			ZAR 47.08	39,600		
Issue 29			ZAR 46.51	39,600		
Performance shares 32	ZAR 11.06	110,000	ZAR 11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		

Performance shares 36	195,000	88,000

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 27	13 February 2011
Issue 28a	30 December 2011
Issue 29	13 December 2012
Performance shares 31a	02 July 2011
Performance shares 32	12 December 2011
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES (Continued)

Prescribed officers

r 1	Officer 2		Officer 3		Officer 4		Officer 5		Officer 6		Officer 7	
lo of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares
06,000		**413,700**		**209,800**		**280,600**		**437,200**		**260,400**		**456,600**
	ZAR 62.34	5,500			ZAR 62.34	33,000	ZAR 62.34	33,000	ZAR 62.34	17,600	ZAR 62.34	22,000
	ZAR 47.08	11,000	ZAR 47.08	1,980	ZAR 47.08	33,000						
							ZAR 47.08	39,600	ZAR 47.08	17,600	ZAR 47.08	22,000
	ZAR 46.51	17,600	ZAR 46.51	4,620	ZAR 46.51	33,000	ZAR 46.51	39,600	ZAR 46.51	30,800	ZAR 46.51	28,600
10,000												
	ZAR 11.06	28,600	ZAR 11.06	28,600	ZAR 11.06	30,800	ZAR 11.06	66,000	ZAR 11.06	26,400	ZAR 11.06	88,000
		55,000										
88,000			ZAR 11.06	39,600	ZAR 11.06	41,800	ZAR 11.06	77,000	ZAR 11.06	33,000	ZAR 11.06	88,000
	ZAR 11.06	88,000										
88,000		88,000		55,000		44,000		77,000		55,000		88,000
20,000		120,000		80,000		65,000		105,000		80,000		120,000

88,000		88,000		65,000		50,000		55,000		55,000		
55,000)		(41,800)		(14,300)		(15,400)		(33,000)		(13,200)		(44,000)
55,000)		(47,300)		(14,300)		(48,400)		(66,000)		(30,800)		(66,000)
84,000		**412,600**		**246,200**		**266,800**		**393,200**		**271,400**		**346,600**
	ZAR 62.34											
	ZAR 47.08	11,000	ZAR 47.08	1,980	ZAR 47.08	33,000						
							ZAR 47.08	39,600	ZAR 47.08	17,600	ZAR 47.08	22,000
	ZAR 46.51	17,600	ZAR 46.51	4,620	ZAR 46.51	33,000	ZAR 46.51	39,600	ZAR 46.51	30,800	ZAR 46.51	28,600
88,000			ZAR 11.06	39,600	ZAR 11.06	41,800	ZAR 11.06	77,000	ZAR 11.06	33,000	ZAR 11.06	88,000
	ZAR 11.06	88,000										
88,000		88,000		55,000		44,000		77,000		55,000		88,000
20,000		120,000		80,000		65,000		105,000		80,000		120,000
88,000		88,000		65,000		50,000		55,000		55,000		

ssued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

	13 February 2011
	14 January 2012
	30 December 2011
	13 December 2012
	29 January 2011
	31 May 2011

10 September 2011
12 December 2011
19 March 2012
22 December 2012
09 December 2013
03 December 2014

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2011

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES (Continued)

Executive directors'

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2011					
R J Boëttger	Performance Plan 31a	10-Aug-11	50,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 31a	10-Aug-11	60,000	ZAR 20.27	ZAR 25.20
			110,000		

September 2010

None

Prescribed officers'		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2011					
Officer 1	Performance Plan	29-Jan-11	25,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	29-Jan-11	30,000	ZAR 20.27	ZAR 36.43
			55,000		
Officer 2	Performance Plan	20-Dec-10	19,000	ZAR 0.00	ZAR 33.80
	Performance Plan Rights	20-Dec-10	22,800	ZAR 20.27	ZAR 33.80
			41,800		
Officer 3	Performance Plan	31-May-11	6,500	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31-May-11	7,800	ZAR 20.27	ZAR 36.43
			14,300		
Officer 4	Performance Plan	31-May-11	7,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31-May-11	8,400	ZAR 20.27	ZAR 36.43
			15,400		
Officer 5	Performance Plan	31-May-11	15,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31-May-11	18,000	ZAR 20.27	ZAR 36.43
			33,000		

Officer 6	Performance Plan	31-May-11	6,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31-May-11	7,200	ZAR 20.27	ZAR 36.43
			13,200		
Officer 7	Performance Plan	31-May-11	20,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31-May-11	24,000	ZAR 20.27	ZAR 36.43
			44,000		
September 2010					
Officer 1	Performance Plan	2-Mar-10	5,000	ZAR 0.00	ZAR 30.01
	Performance Plan Rights	2-Mar-10	6,000	ZAR 20.27	ZAR 30.01
			11,000		