

SAPPI LTD
Form 20-F
December 15, 2011

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As filed with the Securities and Exchange Commission on December 15, 2011

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

FORM 20-F

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 02, 2011
- OR**
- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report.....[]

For the transition period from to
Commission file number 1-14872

SAPPI LIMITED
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Republic of South Africa
(Jurisdiction of incorporation or organization)

**48 Ameshoff Street
Braamfontein
Johannesburg 2001
Republic of South Africa**
(Address of principal executive offices)

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Sappi Limited
P.O. Box 31560,
Braamfontein, 2017, South Africa

(Name, Telephone, E-mail and / or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

American Depositary Shares, evidenced by
American Depositary Receipts, each representing
1 Ordinary Share
Ordinary Shares, par value R1.00 per Share*
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

541,446,223 Ordinary Shares

19,961,476 "A" Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ☒ **NO ☐**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES ☐ **NO ☒**

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ **NO ☐**

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statements item the registrant has elected to follow.

ITEM 17 ☐

ITEM 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES ☐ NO ☐

*

Not for trading but only in connection with the registration of the American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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OUR USE OF TERMS AND CONVENTIONS IN THIS ANNUAL REPORT

Unless otherwise specified or the context requires otherwise in this Annual Report on Form 20-F ("Annual Report"):

References to "Sappi", "Sappi Group", "Sappi group", "Group", "we", "us" and "our" are to Sappi Limited together with its subsidiaries including, unless otherwise indicated, the Acquired Business (as defined below);

References to the "Acquired Business" and the "Acquisition" are to the coated graphic paper business and certain related uncoated graphic paper business activities of M-real Corporation and their acquisition by us on December 31, 2008;

References to the "2009 Refinancing" are to the refinancing that we implemented in August 2009 which was comprised of the following transactions: (a) the issuance of the 2014 Notes; (b) the refinancing of a bank syndicated loan of €400 million which was replaced by a €400 million OeKB Term Loan Facility (which has been repaid in full in connection with the 2011 Refinancing); and (c) the refinancing of a €600 million revolving credit facility which was replaced by our existing €209 million Revolving Credit Facility;

References to the "2011 Refinancing" are to the refinancing that we implemented in April 2011 which was comprised of the following transactions (a) the issuance of the 2018 and 2021 Notes (b) the redemption of the remaining US\$350 million 2012 Notes, (c) the repayment of €200 million of the outstanding borrowings under our OeKB Term Loan Facility and (d) the increase of our existing undrawn revolving credit facility from €209 million to €350 million and maturity extension from 2012 to 2016;

References to the "2012 Notes" are to our US\$500 million 6.75% unsecured guaranteed notes due 2012;

References to the "2018 Notes" are to our €250 million 6.625% senior secured notes due 2018, issued in connection with the 2011 Refinancing;

References to the "2021 Notes" are to our US\$350 million 6.625% senior secured notes due 2021, issued in connection with the 2011 Refinancing;

References to the "2014 Notes" are to our €350 million 11.75% and US\$300 million 12.00% senior secured notes due 2014, issued in connection with the 2009 Refinancing;

References to the "2032 Notes" are to our US\$250 million 7.50% unsecured guaranteed notes due 2032;

References to the "Revolving Credit Facility" are to our €350 million Revolving Credit Facility maturing in 2016, as amended and restated in the 2011 Refinancing;

References to "BEE" are to Broad-Based Black Economic Empowerment, or Black Economic Empowerment, which arises as a result of the following South African legislation: the Employment Equity Act (No. 55 of 1998); the Skills Development Act (No. 97 of 1998); the Preferential Procurement Policy Framework Act (No. 5 of 2000); and the Broad Based Black Economic Empowerment Act (No. 53 of 2003).

References to "IFRS" are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB");

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References to "southern Africa" are to the Republic of South Africa, the Kingdom of Swaziland, the Kingdom of Lesotho, the Republic of Namibia and the Republic of Botswana;

References to "North America" are to the United States, Canada and the Caribbean;

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References to "Latin America" are to the countries located on the continent of South America and Mexico;

References to "Rand", "ZAR" and "R" are to South African Rand, the currency of South Africa, and references to "SA cents" are to South African cents;

References to "US dollar(s)", "dollar(s)", "US\$", "\$" and "US cents" are to United States dollars and cents, the currency of the United States;

References to "euro", "EUR" and "€" are to the currency of those countries in the European Union that form part of the common currency of the euro;

References to "UK pounds sterling", "GBP" and "£" are to United Kingdom pounds sterling, the currency of the United Kingdom;

References to "m²" are to square meters and references to "hectares" or "ha" are to a land area of 10,000 square meters or approximately 2.47 acres;

References to "tons" are to metric tons (approximately 2,204.6 pounds or 1.1 short tons);

References to "market share" are based upon sales volumes in a specified geographic region during the fiscal year ended October 2, 2011;

References to "NBSK" are to northern bleached softwood kraft pulp frequently used as a pricing benchmark for pulp;

References to "groundwood" or to "mechanical" are to pulp manufactured using a mechanical process, or where applicable to paper, made using a high proportion of such pulp;

References to "woodfree paper" are to paper made from chemical pulp, which is pulp made from wood fiber that has been produced in a chemical process; and

References to "PM" are to individual paper machines.

Except as otherwise indicated, in this Annual Report the amounts of "capacity" or "production capacity" of our facilities or machines are based upon our best estimates of production capacity at the date of filing of this Annual Report. Actual production by machines may differ from production capacity as a result of products produced, variations in product mix and other factors.

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

Except as otherwise indicated in this Annual Report any reference to capacity, production capacity, market share information and data of a similar nature include the impact of the Acquired Business, which was acquired on December 31, 2008.

Unless otherwise provided in this Annual Report, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries.

ACCOUNTING PERIODS AND PRINCIPLES

Our 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)

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Unless otherwise specified, all references in this Annual Report to a "fiscal year", "year ended", "fiscal 2011", "fiscal 2010", and "fiscal 2009", or "the year ended September 2011", "the year ended September 2010" or "the year ended September 2009" of Sappi Limited refer to the fiscal periods as above.

Our annual financial statements as of September 2011 and 2010 and for each of the three years in the period ended September 2011 are hereinafter referred to as the Group Annual Financial Statements and have been included elsewhere in this Annual Report. Our Group Annual Financial Statements have been prepared in conformity with IFRS.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group Annual Financial Statements and all financial data presented in this Annual Report in US dollars on a nominal (non-inflation adjusted) basis. For information regarding the conversion of certain financial information to US dollars in fiscal 2011, 2010 and 2009, see note 2 to our Group Annual Financial Statements included elsewhere in this Annual Report and "Item 5 Operating and Financial Review and Prospects Currency Fluctuations".

FORWARD-LOOKING STATEMENTS

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 (the "Reform Act"), we are providing the following cautionary statement. Except for historical information contained herein, statements contained in this Annual Report may constitute "forward-looking statements" within the meaning of the Reform Act.

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

the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);

the impact on our business of the global economic downturn;

unanticipated production disruptions (including as a result of planned or unexpected power outages);

changes in environmental, tax and other laws and regulations;

adverse changes in the markets for our products;

consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;

adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;

the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies; and

currency fluctuations.

These factors are fully discussed in this Annual Report. For further discussion on these factors, see "Item 3 Key Information Selected Financial Data", "Item 3 Key Information Risk Factors", "Item 4 Information on the Company", "Item 5 Operating and Financial Review and Prospects", "Item 10 Additional Information Exchange Controls" and note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the filing of this Annual Report and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

PART I**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**Selected Financial Data**

The selected financial data set forth below as of September 2011, 2010 and for each of the three years ended September 2011 has been derived from our Group Annual Financial Statements and the notes thereto, which are included elsewhere in this Annual Report. The selected financial data set forth below as of September 2009, 2008 and 2007 and for the two years ended September 2008, has been derived from our Group Annual Financial Statements for such periods which are not presented herein.

	Year Ended September				
	2011	2010	2009	2008	2007
	(US\$ million, except per share data)				
Group Income Statement Data:					
Sales ⁽¹⁾	7,286	6,572	5,369	5,863	5,304
Operating profit (loss)	86	341	(73)	314	383
(Loss) profit for the year	(232)	66	(177)	102	202
Basic (loss) earnings per share (US cents)	(45)	13	(37)	28	56
Diluted (loss) earnings per share (US cents)	(45)	13	(37)	28	55
Dividends per share (US cents)				16	32

	Year Ended September				
	2011	2010	2009	2008	2007
	(US\$ million)				
Group Balance Sheet Data:					
Total assets	6,308	7,184	7,297	6,109	6,344
Net assets	1,478	1,896	1,794	1,605	1,816
Total long-term interest-bearing borrowings	2,289	2,317	2,726	1,832	1,828
Shareholders' equity	1,478	1,896	1,794	1,605	1,816

	Year Ended September				
	2011	2010	2009	2008	2007
	(US\$ million, except number of shares data)				
Other Information:					
Operating profit excluding special items ⁽²⁾	404	339	33	366	313
EBITDA excluding special items ⁽²⁾	821	752	431	740	688
Weighted average number of ordinary shares in issue (in million) ⁽³⁾	519.9	516.7	482.6	362.2	360.6
Number of ordinary shares in issue at fiscal year end (in million) ⁽³⁾	520.5	519.5	515.7	229.2	228.5

(1)

Sales are defined in note 2.2.11 to our Group Annual Financial Statements included elsewhere in this Annual Report.

(2)

In compliance with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled operating profit excluding special items to (loss) profit for the year and EBITDA excluding special items rather than operating profit and EBITDA excluding special items to (loss) profit for the year.

Operating profit excluding special items represents profit (loss) for the year before taxation charge (benefit), net finance costs, and special items. EBITDA excluding special items represents profit (loss) for the year before taxation charge (benefit), net finance costs, depreciation and amortization, and special items.

Net finance costs include: finance costs, finance income, net foreign exchange gains and net fair value gain or loss on financial instruments. See the Group Income Statement, included elsewhere in this Annual Report, for an explanation of the computation of net finance costs.

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, plant and equipment, investments and businesses, asset and investment impairments and reversals, restructuring provisions raised, integration costs related to acquisitions, insurance recoveries, fires, flood, storm and related events, plantation price fair value adjustment, alternative fuel mixture tax credits and the BEE transaction charge.

We use operating profit excluding special items and EBITDA excluding special items as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. Operating profit excluding special items and EBITDA excluding special items are used as measures by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe operating profit excluding special items and EBITDA excluding special items are useful measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. For these reasons, we believe operating profit excluding special items, EBITDA excluding special items and similar measures are regularly used by the investment community as a means of comparison of companies in our industry.

Different companies and analysts may calculate operating profit excluding special items and EBITDA excluding special items differently, so making comparisons among companies on this basis should be done very carefully. Operating profit excluding special items and EBITDA excluding special items are not measures of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.

The following table reconciles operating profit excluding special items and EBITDA excluding special items to (loss) profit for the year.

Year Ended September
2011 2010 2009 2008 2007
(US\$ million)

(Loss) profit for the year	(232)	66	(177)	102	202
Taxation charge (benefit)	11	20	(41)	86	47
Net finance costs	307	255	145	126	134
Operating profit (loss)	86	341	(73)	314	383
Special items-losses (gains)	318	(2)	106	52	(70)
Operating profit excluding special items	404	339	33	366	313
(Loss) profit for the year	(232)	66	(177)	102	202
Taxation charge (benefit)	11	20	(41)	86	47

Net finance costs	307	255	145	126	134
Depreciation and amortization	417	413	398	374	375
Special items-losses (gains)	318	(2)	106	52	(70)
EBITDA excluding special items	821	752	431	740	688
Special Items(a):					
Plantation price fair value adjustment	16	(31)	67	(120)	54
Restructuring provisions raised	135	46	34	41	7
(Profit) loss on disposal of property, plant & equipment	(1)	(5)	(1)	(5)	26
Impairments (reversals) of assets and investments	167	(10)	79	119	
Alternative fuel mixture tax credits		(51)	(87)		
Integration costs			3		
BEE transaction charge	5	23			
Insurance recoveries	(10)	1			
Fire, flood, storm and related events	6	25	11	17	(17)
Total Special items	318	(2)	106	52	(70)

-
- (a) See "Item 5 Operating and Financial Review and Prospects Operating Results" for a discussion of special items.
- (3) Net of Treasury shares, which include "A" ordinary shares, as described in note 17 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Risk Factors

In addition to other information contained in this Annual Report, you should carefully consider the following factors before deciding to invest in our ordinary shares and American Depositary Shares ("ADSs"). However, the risks and uncertainties our Company faces are not limited to those described below. There may be additional risks that we do not currently know of, or that we currently deem immaterial based on information available to us, which may also adversely affect our business. Our business, financial condition and results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares and ADSs.

Risks Related to Our Industry

We operate in a cyclical industry, which has in the past resulted in substantial fluctuations in our results.

The markets for our pulp and paper products are commodity markets to a significant extent and are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply and demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices.

In addition, recent turmoil in the capital and credit markets, coupled with the uncertainty created by the sovereign debt crises, has led to the decreased availability of credit, which is having an adverse effect on the world economy and consequently has already affected, and may continue to adversely affect the markets for our products through either a decrease in demand and/or a decrease in achievable selling prices. The timing and magnitude of demand and price increases or decreases in the pulp and paper market have generally varied by region and by type of pulp and paper.

Despite a relatively high level of pulp integration on a Group-wide basis, a significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased costs. Other input cost increases including (but not limited to) energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently.

The majority of our woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with between 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed 6 to 12 months. In southern Africa, we have entered into longer-term fixed-price agreements of between 6 to 12 months duration for primarily packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5% of consolidated sales during fiscal 2011.

Most of our chemical cellulose sales contracts are multi-year contracts. However, the pricing is generally based on a formula linked to the NBSK price and reset on a quarterly basis.

As a result of the short-term duration of paper and chemical cellulose pricing arrangements, we are subject to cyclical decreases in market prices for these products. A downturn in paper or chemical cellulose prices could have a material adverse effect on our business, results of operations and financial condition.

For further information, see "Item 4 Information on the Company Business Overview".

The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.

We compete against a large number of pulp and paper producers located around the world. A recent trend towards consolidation in the pulp and paper industry has created larger, more focused pulp

and paper companies. Some of these companies benefit from greater financial resources or operate mills that are lower cost producers of pulp and paper products than our mills, or are government subsidized. Some of our competitors have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs which could lead to a loss in market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

Global economic conditions could adversely affect our business, results of operations and financial condition.

During the latter half of fiscal 2008 and during fiscal 2009, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession was due to the subprime mortgage crisis, which originated in the US, and led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced and/or canceled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. These trends have negatively impacted our results of operations during fiscal 2009. Despite the aggressive measures taken by governments and central banks thus far, the economic recovery has been extremely slow. Also, a significant risk remains that these measures may not prevent the global economy from falling back into an even deeper and longer lasting recession or even a depression. In addition, the current turmoil in the sovereign debt markets as a result of the European debt crisis has resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

Even though our operational results improved during fiscal 2010 and continued to improve during fiscal 2011, we are still negatively impacted by the slow recovery of the world economies, and the results our European business have been adversely affected by the worsening economic conditions in Europe in the last two quarters of fiscal 2011. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing or duration of any other downturn in the economy that may occur in the future.

The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in us paying higher premiums and periodically being unable to maintain the levels or types of insurance carried.

The insurance market remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and unavailability of coverage due to reasons totally unconnected with our business. In addition, recent turmoil and volatility in the global financial markets may adversely affect the insurance market. This may result in some of the insurers in our insurance portfolio failing and being unable to pay their share of claims.

We successfully negotiated the renewal of our 2011 insurance cover at rates similar to those of 2010. Self-insured retention for any one property damage occurrence is EUR 20.5 million, with an annual aggregate of EUR 33 million. We are unable to predict whether past or future events will result in more or less favorable terms for 2012. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value.

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From fiscal 2011 our property damage insurance policy is euro denominated as most of our assets are based in euro denominated jurisdictions.

Sappi places the insurance for its plantations on a stand-alone basis into international insurance markets. While the impact of fires on our plantations in fiscal 2011 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

While we believe our insurance programs provide adequate coverage for reasonably foreseeable losses, we continue working on improved risk management to lower the risk of incurring losses from uncontrolled incidents. We are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

New technologies or changes in consumer preferences may affect our ability to compete successfully.

We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect our operations and product range could render the technologies we utilize or the products we produce obsolete or less competitive in the future. Difficulties in assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely impact our results of operations.

Consumer preferences may change as a result of the availability of alternative products or of services including less expensive product grades, or as a result of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. While neither the exact timing nor the extent of those trends can be predicted with certainty, competition from electronic media, for example, has led to weaker demand for certain of our products in some of our markets. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and consequently, could have a material and adverse impact on our results of operations.

The cost of complying with environmental, health and safety laws may be significant to our business.

Our operations are subject to a wide range of environmental, health and safety laws in the various jurisdictions in which we operate. Such laws govern, among other things, the control of emissions and discharges, the management and disposal of hazardous substances and wastes, the cleanup of contamination, the purchase and use of safety equipment, workplace safety training and the monitoring of workplace hazards.

Although we actively strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental requirements. Impacts from historical operations, including the land disposal of waste materials, or our own activities may require costly investigation and cleanup. In addition, we could become subject to environmental liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental requirements and the costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

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We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade pollution control equipment at our mills and to meet new regulatory requirements, including those in the United States, southern Africa and Europe. For example, under new benchmarks for the allocation of emissions rights pursuant to European Union regulations governing the reduction of greenhouse gas emissions we expect to fall short of emission rights from 2013, which is currently estimated to result in costs for extra emission rights estimated at EUR 14 million per annum.

For further information, see "Item 4 Information on the Company Environmental and Safety Matters".

Risks Related to Our Business

Our significant indebtedness may impair our financial and operating flexibility.

Our significant level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2011, our net interest bearing debt (long-term and short-term interest bearing debt plus overdraft, less cash on hand) was US\$2,100 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt has important consequences, including:

our ability to obtain additional financing may be limited, which could limit, among other things, our ability to exploit growth opportunities;

a substantial portion of our cash flow from operations may be required to make debt service payments;

we are exposed to increases in interest rates because a portion of our debt bears interest at variable rates;

we may have higher levels of indebtedness than certain of our competitors, which may place us at a competitive disadvantage;

we may be more vulnerable to economic downturns and adverse changes in our business;

our ability to withstand competitive pressure may be more limited; and

certain of our financing arrangements contain covenants and conditions that may restrict the activities of certain Group companies.

Our ability to refinance our debt, incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments. In the third quarter of fiscal 2008, the global debt markets were subject to significant pressure triggered by the collapse of the sub-prime mortgage market in the U.S. This liquidity crunch continued through calendar 2009, leading to unprecedented volatility in the financial markets, an acute contraction in the availability of credit, including in interbank lending, and the failure of a number of leading financial institutions. Although this situation improved somewhat during the 2010 and 2011 fiscal year, there is no assurance that the situation will not deteriorate in the future, including as a result of continued or renewed turmoil in the sovereign debt markets, which could result in tight credit restrictions and credit being available only at premium.

In light of previously worsening economic conditions, certain government bodies and central banks worldwide have undertaken unprecedented intervention programs, the effects of which remain uncertain. In addition, since 2006 the Group's credit ratings have been downgraded to sub-investment

grade by Standard & Poor's (S&P) and Moody's. Adverse developments in the credit markets and in our credit rating, as well as other future adverse developments such as renewed deterioration in the financial markets, including as a result of turmoil in the sovereign debt markets and a renewed worsening of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favorable than the terms of the debt being refinanced. It is also possible that we will need to agree to covenants that place additional restrictions on our business.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. See "Item 10 Additional Information Exchange Controls". We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on their debt will depend on its financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realized from any such disposition would depend upon circumstances at the time.

We require a significant amount of financing to fund our business and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to fund our working capital, capital expenditure and research and development requirements, to engage in future acquisitions, to make payments on our debt, to fund post-retirement benefit programs and to pay dividends will depend upon our future operating performance. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. For example, we are currently expanding our chemical cellulose capacity in South Africa and North America and expect to finance the corresponding capital expenditures primarily through internally generated funds. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions, which would result in a decline in global demand for our products, such as the current decline in demand in Europe, and a softening of prices for some of our products.

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness, reduce or delay our capital expenditures and research and development or to decrease the amount of the annual dividend. We may not be able to accomplish these alternatives on a timely basis or on satisfactory terms. The failure to do so could have an adverse effect on our business, results of operations and financial condition.

We may not be successful in implementing, or may not realize all the expected benefits from, our strategic initiatives.

As part of our overall business strategy, we are in the process of implementing a series of strategic initiatives to improve profitability, including mill closures and other cost saving initiatives, measures to

enhance productivity and an expansion of our chemical cellulose capacity. Any future growth, cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates, or we may not be able to successfully implement part or all of our initiatives. In addition, any cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for chemical cellulose may decline. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

Continued volatility in equity markets and declining yields or defaults in the bond markets could adversely affect the funded status and funding needs of our post-employment defined benefit funds.

Several global economic factors currently in force make the general outlook for the forthcoming fiscal years uncertain. The equity and bond markets (including sovereign debt markets) may remain volatile and move in uncertain and unusual ways in the forthcoming fiscal years leading to significant swings in the value of the assets and liabilities of our funded and unfunded defined benefit schemes.

Generally, but not always, rising corporate bond yields reduce our net balance sheet liabilities whereas falling bond yields increase our net balance sheet liabilities. As a result of movements in global equity and bond markets during fiscal 2011, the funded status of our post-employment benefit arrangements has deteriorated very slightly since the end of fiscal 2010. The risk exists that equity and bond markets will deteriorate if the global economic climate worsens, which could negatively affect the funded status of our post-employment defined benefit arrangements. In addition, volatility in our net balance sheet liabilities resulting from the relative change in the value of assets and liabilities may be further enhanced by investment strategies resulting in exposure to various classes of assets.

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. Although recent statutory easements in the pace of funding on these bases have provided some contribution relief to us, as long as yields on these asset classes remain low, we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

In addition, our pension and post-retirement funds hold various sovereign bonds as part of their fund assets, including Italian index-linked treasuries and sovereign bonds issued by Austria, Belgium, France, Germany, South Africa, the United Kingdom and the United States of America. Any significant decline in value or default of such securities, including in the context of the current European sovereign debt crisis, could negatively affect the funded status of our post-employment defined benefit arrangements.

Fluctuations in the value of currencies, particularly the Rand and the euro in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our earnings in these currencies.

Exchange rate fluctuations have in the past, and may in the future, affect the competitiveness of our products in relation to the products of pulp and paper companies based in other countries.

Fluctuations in the exchange rate between currencies, particularly the Rand and euro in relation to the US dollar, have in the past and could in the future significantly affect our earnings, inter alia, the competitiveness of our exports, depressing landed prices of imported competitors' products, and increasing the costs of our raw materials.

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Since the adoption of the euro by the European Union on January 1, 1999 (when the euro was trading at approximately US\$1.18 per euro), it has fluctuated against the US dollar, reaching a low of approximately US\$0.83 per euro in October 2000 before trading at approximately US\$1.34, US\$1.35 and US\$1.47 per euro at the end of fiscal 2011, 2010 and 2009, respectively.

In recent years, the value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R8.10, R7.02 and R7.41 per US dollar at the end of fiscal 2011, 2010 and 2009, respectively.

For further information, see notes 2 and 29 to our Group Annual Financial Statements included elsewhere in this Annual Report and "Item 5 Operating and Financial Review and Prospects Currency Fluctuations".

There are risks relating to the countries in which we operate that could impact our earnings or affect your investment in our Company.

We own manufacturing operations in five countries in Europe, two states in the United States and in South Africa, have an investment in a joint venture in China and own plantations in South Africa and Swaziland. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could have an adverse effect on our business, results of operations and financial condition.

For further information see "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment" and "Item 10 Additional Information Exchange Controls".

The inability to recover increasing input costs through increased prices of our products has had, and may continue to have, an adverse impact on our profitability.

The selling prices of the majority of the products we manufacture and the purchase prices of many of the raw materials we use, generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control.

Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. Although oil prices have decreased from the historical highs of 2008, they could return to high levels in the foreseeable future because of, among other things, political instability in the oil-producing regions of the world. Recent political developments in North Africa and the Middle East have led to the highest crude oil prices since 2008. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

As occurred in previous years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices. This results in reduced operating profit, and has a negative impact on business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, other than maintaining a high level of pulp integration, the hedging techniques we apply on our raw materials and products are on a small scale and short-term in nature. Moreover, in the event of significant increases in the prices of pulp, 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.

If we are unable to obtain energy or raw materials at reasonable prices, or at all, it could adversely affect our operations.

We require substantial amounts of oil-based chemicals, fuels and other raw materials for our production activities and transport of our timber products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber, which are consumed in our operations. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. For example, energy costs for our Southern African operations have risen sharply in recent years which has had a significant impact on profitability in the region.

Environmental litigation aimed at protecting forests and species habitats as well as regulatory restrictions may in the future cause significant reductions in the amount of timber available for commercial harvest. In addition, future claims and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. The availability of harvested timber may further be limited by factors such as fire, insect infestation, disease, ice and wind storms, droughts, floods and other nature and man-made causes, thereby reducing supply and increasing prices.

The prices of various sources of energy supplies and raw materials have significantly increased in the past, and may in the future further increase significantly from current levels. An increase in energy and raw material prices could materially adversely affect our results of operations, plantation valuation and financial condition.

A limited number of customers account for a significant amount of our revenues.

We sell a significant portion of our products to several major customers, including PaperlinX, Igepa, Xpedx and Antalis. During fiscal 2010 and 2011, no single customer individually represented more than 10% of our total sales. However, we cannot assure you that sales to these major customers, or any other customers not listed above, will not exceed 10% of our total sales in the future. As a significant portion of our sales revenue is generated through sales to our major customers, any adverse development affecting our major customers or our relationships with our major customers could have an adverse effect on our credit risk profile, our business and results of operations.

For further information see "Item 4 Information on the Company Sappi Fine Paper Marketing and Distribution Customers" and "Item 4 Information on the Company Sappi Southern Africa Marketing and Distribution Customers".

The recent global liquidity and credit crises could have a negative impact on our major customers, which in turn could materially adversely affect our results of operations and financial position.

The global liquidity and credit crises continue to have a negative impact on businesses around the world. The impact of these crises on our major customers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers to access sources of liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position.

Because of the nature of our business and workforce, we may face challenges in the retention of staff and the employment of skilled people that could adversely affect our business.

We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements. The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

A large percentage of our employees are unionized and wage increases or work stoppages by our unionized employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. Although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future which could adversely impact our business.

For example, during the 2011 wage negotiations with the southern African labor unions, most of our unionized employees participated in a strike action which affected a number of industries, including (but not limited to) the pulp and paper, chemical and transport industry. The strike action lasted for approximately three weeks and impacted our production and shipment capabilities, culminating in a loss of turnover. Furthermore, the settlement as agreed with the labor unions and our employees will require us to incur above inflation salary and wage increases for all unionized employees.

Any further strike actions or other labor disruptions, or any related negotiations that result in onerous terms for us may have an adverse effect on our business and profitability.

The prevalence of HIV/AIDS, specifically in Africa, exposes us to certain risks which may have an adverse effect on our southern African operations.

The southern African region has one of the highest infection rates of HIV/AIDS in the world. Although we initiated in the early 1990's a comprehensive HIV/AIDS management program to address the effects of the disease and its impact on our employees and our business, our operations, and in specific our southern African operations, continue to be exposed to certain risks related to the HIV/AIDS pandemic. We incur and will continue to incur costs related to the prevention, detection and treatment of the disease. Also, we cannot guarantee that any current or future management program will be successful in preventing or reducing the infection rate amongst our employees and any potential effect thereof on the mortality rate. We may therefore be exposed to lost workers' time associated with the disease and a potential loss of skill which may adversely affect our operations.

For further information, see "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment".

Catastrophic events affecting our plantations, such as fires, may adversely impact our ability to supply our southern African mills with timber from the region.

The southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. In 2007 and 2008, southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa and Swaziland affecting 14,000 hectares and 26,000 hectares, respectively, of our plantations. There is some cause for concern that these abnormal weather conditions may be occurring more frequently as a result of the impact of climate change. In addition, because the transformation of land ownership and management in southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

Concerns about the effects of climate change may have an impact on our business.

Concerns about global warming and carbon footprints, as well as legal and financial incentives favoring alternative fuels, are causing the increased use of sustainable, non-fossil fuel sources for electricity generation.

The increased emphasis on water footprint in southern Africa is causing increased focus on the use of water by our operational units, on the quality of water released back into the water systems and on the control of effluent. The costs of water used also have a direct bearing on our input costs and operating profit.

Climate change could also cause the spread of disease and pestilence into our plantations and fiber sources, far beyond their traditional geographic spreads, increasing the risk that wood supply necessary to our operations may be negatively impacted.

Our ability to utilize our net operating tax loss carry forwards generated by our United States operations could be substantially limited if we experience a Company ownership change as defined under the United States Internal Revenue Code, which may adversely affect our results of operations and financial condition.

As a result of Sappi Fine Paper North America's past financial performance, we have net operating tax loss carry forwards generated by our United States operations. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), contains rules that limit the ability of a company that undergoes an ownership change, at the Sappi Limited company level, to utilize its net operating tax loss carry forwards in years after the ownership change. An "ownership change" for purposes of Section 382 of the Code generally refers to any change in ownership of more than 50% of the company's shares over a three-year period. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the share capital of a company or any change in ownership arising from a new issuance of the company's shares.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our share capital, including purchases or sales of shares between our greater than 5% shareholders, our ability to use our net operating tax loss carry forwards generated by our United States operations would be subject to the limitations of Section 382. Depending on the resulting limitations, a portion of our United States net operating tax loss carry forwards could expire before we would be able

to use them. Our inability to utilize our United States net operating tax loss carry forwards could have an adverse effect on our financial condition and results of operations.

Risks Related to Our Shares

Your ability to sell a substantial number of ordinary shares may be restricted by the limited liquidity of shares traded on the JSE Limited.

The principal trading market for our ordinary shares is on the exchange operated by the JSE Limited ("JSE") (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2011, 469 million of our ordinary shares were traded on the JSE and 6.3 million ADSs were traded on the New York Stock Exchange. The relatively low liquidity of shares traded on JSE Limited could affect your ability to sell ordinary shares.

For further information, see "Item 7 Major Shareholders and Related Party Transactions Major Shareholders", "Item 9 The Offer and Listing Offer and Listing Details" and "Item 9 The Offer and Listing Markets".

Significant shareholders may be able to influence the affairs of our Company.

Although our investigation of beneficial ownership of our shares identified only one beneficial owner of more than 5% of our ordinary shares, holding approximately 10.6%, as shown in our shareholders' register on September 30, 2011, the four largest shareholders of record, all of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 89.3% of our ordinary shares as of September 30, 2011. These significant potential voting blocks of nominee registered shareholders may have the power to influence voting decisions for the shares they hold.

See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

Risks Related to Our Indebtedness

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to make payments on our indebtedness, and to refinance our indebtedness, and to fund planned capital expenditures and working capital requirements will partly depend on our ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. See "Risks Related to Our Industry" and "Risks Related to Our Business".

We cannot assure you that we will generate sufficient cash flow from operations, that we will realize operating improvements on schedule or that future borrowings will be available to us in an amount sufficient to enable us to service and repay our indebtedness or to fund our other liquidity needs. If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms.

If we default under our debt covenants, we may not be able to meet our payment obligations.

Some of our credit facilities contain covenants that restrict some of our corporate activities, including our ability to:

make acquisitions or investments;

make loans or otherwise extend credit to others;

incur indebtedness or issue guarantees;

create security;

sell, lease, transfer or dispose of assets;

merge or consolidate with other companies; and

make substantial changes to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain covenants and specified financial covenants and ratios. Our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit (as a result of a cross-default in certain cases) the lending banks and or our bondholders under our credit facilities to take certain actions, including declaring all amounts that we have borrowed to be due and payable, together with accrued and unpaid interest. Any acceleration of our credit facilities would cause a cross-acceleration of our 2014 Bonds, 2018 Bonds and 2021 Bonds. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks and or the bondholders, they could proceed against any collateral that secures the debt under the credit facilities and our bonds. If we are unable to make payments on time or refinance our indebtedness, or if our debt or any other material financing arrangement that we enter into is accelerated, this could have a material adverse effect on our business and financial condition.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Sappi Limited is a public company incorporated in the Republic of South Africa. Our principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa, our telephone number is +27-11-407-8111 and our web address is www.sappi.com. We currently have our primary listing on the JSE Limited ("JSE"), formerly the Johannesburg Stock Exchange, and have a secondary listing on the New York Stock Exchange.

Sappi Limited was founded and incorporated in 1936 in South Africa and is a corporation organized under the Companies Act No.71 of 2008, as amended, of the Republic of South Africa.

Until 1990, we primarily expanded our operations within southern Africa. Since 1990, we have grown through acquisitions outside of southern Africa. In the mid 1990's we acquired S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other speciality paper products. It now conducts business as Sappi Fine Paper North America. In the late 1990's we acquired KNP Leykam, a leading European producer of coated woodfree paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. In 2002 we acquired Potlatch Corporation's coated woodfree paper business and have integrated it in Sappi Fine Paper North America.

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.

In August 2006, we announced the expansion of the existing capacity at Sappi Saiccor in South Africa, where chemical cellulose products are produced. The capacity of the mill was increased from approximately 600,000 tons per annum to 800,000 tons per annum.

On December 31, 2008, we acquired the coated graphic paper business of M-real Corporation, including brands, know-how, intellectual property, order books, and four mills. We also entered into agreements to purchase pulp, wood and energy from M-real Corporation and its associates and to sell the coated paper output of two mills owned and operated by the M-real Corporation.

On November 2, 2009 we delisted from the London Stock Exchange (LSE). The London share register was closed on November 23, 2009 with all remaining shareholders on the United Kingdom share register being transferred to the South African share register.

On January 31, 2010 we closed our production facilities at the Usutu mill in Swaziland due to market conditions and forest fire damage. However, the re-habilitation of the forestry operations at Usutu will continue. With this closure, we have exited the unbleached kraft pulp market.

During January 2010 we permanently ceased operations at the Kangas mill in Finland. Products produced at the Kangas mill were moved to and supplied from the Lanaken mill in Belgium and our Kirkniemi mill in Finland.

On March 24, 2010, we announced a BEE transaction involving the issuance of 24.3 million Sappi shares (approximately 4.5% of Sappi Limited). The transaction empowers our South African employees, our strategic empowerment partner, Lereko Investments, and the South African communities in which we operate. The transaction was approved by our shareholders on April 29, 2010. We recorded a charge of US\$23.4 million to the income statement in respect of this transaction.

On April 19, 2010, we announced the acquisition of 14,500ha of forestry land in Mpumalanga, South Africa. The plantation will supply an additional 150,000 tons of fiber to our Ngodwana mill.

During the second half of fiscal 2011, we ceased operations at Adamas Mill in South Africa and Biberist Mill in Switzerland. We will continue to service our affected customers from other group mills. We

also announced significant restructuring and cost reduction programs in the European and southern African paper business.

To address a long-term declining trend in coated graphic paper demand in our major markets, we plan to reposition the group in an effort to generate 60% or more of operating profit from higher margin products such as chemical cellulose and speciality casting release paper. As part of this plan we announced an investment to convert Ngodwana Mill's bleached pulp production facility to produce 210,000 tons of chemical cellulose. In November 2011 we announced the conversion of our Cloquet Mill's bleached pulp production facility to produce 330,000 tons of chemical cellulose.

For information on our principal investments and capital expenditures, see the description of our business in "Business Overview" and "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources".

BUSINESS OVERVIEW

Our Business

Sappi is a global pulp, paper and cellulose-based solutions group. We are a leading producer of coated woodfree and coated mechanical paper widely used in books, brochures, magazines, catalogues and many other print applications. We are also a leading producer of chemical cellulose, used primarily in the manufacture of viscose fiber, acetate tow, and consumer and pharmaceutical products. In addition, we produce newsprint, uncoated graphic and business papers, premium quality packaging papers, a range of coated speciality papers and a range of paper grade pulp.

Business strategy

We endeavor to be, on a sustainable basis, the most profitable company in paper, pulp and chemical cellulose-based solutions, measured in terms of return on capital employed. Although we made further progress during the year, our performance is still well short of our objectives.

Sappi's strategy involves four key themes, namely: continuing to optimize our better performing businesses, fixing our underperforming businesses, investing for future growth in higher margin businesses, including chemical cellulose, and achieving this within the reality of the group's balance sheet and liquidity position.

Despite a long-term declining demand trend for graphic paper in our major markets, we believe that our graphic paper businesses will continue to be able to generate reasonable net profits and strong cash flows for the foreseeable future.

Optimizing better performing businesses

We intend to further optimize our better performing businesses, which include our North American business that we restructured in 2009 and our chemical cellulose business, each of which has continued to perform well. We will explore opportunities to maintain and further strengthen the performance of these businesses by focusing on efficient manufacturing and distribution, customer service, innovation and reliability.

Fixing under-performing businesses

We have undertaken a wide-ranging review of our existing graphic paper business, with a focus on our operations in Europe and southern Africa and, as a result, we are implementing a series of initiatives.

Europe: A series of cost saving and capacity management measures are well advanced in Europe. Following the closure of the Biberist Mill in 2011, we are progressing with the next stage of cost reduction action which includes both fixed and variable cost minimization.

In addition, based on detailed input from our customers throughout the value chain, academics, and lessons from our turnaround strategy in North America, we have recently started the implementation of new service offerings in Europe, which are supported by our tailor-made support infrastructure and leading products.

Southern Africa (paper business): We are restructuring our business processes and paper operations in South Africa to ensure that we adapt to our customers' changing needs and that we align our assets with profitable markets for future growth. The first step in this regard was the closure of the Adamas Mill, which was completed during fiscal 2011. We are well advanced with the implementation of further cost reduction and streamlining actions for both our administrative and production areas.

We will continue to make capital investments into these businesses on a selective basis to ensure that the core business remains healthy. We will also continue to invest capital in cost reduction projects, particularly energy-related projects.

Investing for future growth

In order to achieve a shift in focus to higher margin businesses and to achieve real growth in revenue and returns, we have decided to invest in the higher growth chemical cellulose business, in innovative products based on our very successful Ultracast and other technologies, in energy projects related to our core operations and in low cost wood resources.

Sappi is a global leader in chemical cellulose production, a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. The investment of US\$340 million in the Ngodwana Mill announced in May this year will add 210,000 tons per annum of chemical cellulose production. During November 2011, we also announced an additional investment of US\$170 million in our Cloquet Mill's pulp production facilities which will enable the mill to produce 330,000 tons of chemical cellulose. This will effectively increase our total chemical cellulose production capacity to approximately 1.3 million tons per year. Both projects have been initiated and are scheduled to be commissioned during the 2013 calendar year. We continue to evaluate a number of additional opportunities.

In addition, in line with our strategy to secure a stable fibre supply for our southern African operations, we acquired 14,500 hectares of developed softwood plantations near Ngodwana mill during 2010 and have made progress in rehabilitating plantations lost to fire in 2007 and 2008, including at Usutu in Swaziland.

Liquidity and balance sheet

We intend to achieve our strategic initiatives within the constraints of the group's balance sheet and liquidity position. In fiscal 2011, we undertook a debt refinancing to improve our debt maturity profile, and as a result we believe that our strengthened balance sheet will allow us to execute our initiatives. We intend to continue to carefully manage the group's level of indebtedness and to retain our focus on maintaining a good liquidity position during the implementation of our growth strategy.

Investment Highlights

Leading market positions

We are currently one of the largest producers of coated woodfree paper in the world with an estimated global market share of 11%. On a regional basis, we have an estimated market share in Europe and North America of 24% and 26% respectively (estimated market share based on production capacity). We believe we are also a global leader in the chemical cellulose market through Sappi Saiccor, the world's largest single producer of chemical cellulose. We have achieved leading positions in our core products, in particular in the coated woodfree paper business, by building a portfolio of

premium international brands. Our leading market positions place us in an advantageous position as the global economic conditions continue to improve. We believe that the expansion of our chemical cellulose production capacity in southern Africa and North America that we are currently implementing will favorably reposition us to generate additional benefits from any growth in this market.

High level of economic pulp integration

Our Group, as a whole, sells slightly more pulp (including chemical cellulose) than it purchases and is therefore generally neutral to pulp prices other factors remaining neutral. From a regional perspective, Sappi Southern Africa and Sappi Fine Paper North America are net sellers of pulp with a pulp integration of approximately 191% and approximately 121% respectively, whilst Sappi Fine Paper Europe is a net buyer of pulp with a pulp integration of approximately 57%.

Efficient asset base

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated woodfree paper, coated mechanical paper and chemical cellulose sectors in the world. A significant portion of our past capital expenditures were to increase production capacity at efficient facilities, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base, including by divesting or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. We have very strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio. Since 1995, we have closed 24 paper machines and pulp mills, including the closure of our Kangas mill in Finland, Usutu mill in Swaziland and in fiscal 2011, the Biberist mill in Switzerland and the Adamas mill in South Africa. We will continue to align our production capacity with market demand, which may require us to financially impair operating assets or initiate further capacity reductions.

Global presence

We believe that our 17 pulp and paper mills across Europe, North America and southern Africa enable us to take greater advantage of opportunities where markets are strong and reduce risk where they are weak. Our geographic diversity assists us in offsetting the effects of volatile movements of major currencies as we can benefit from imbalances in demand and relative strengths of currencies. In fiscal 2011, our operations in North America, Europe and southern Africa accounted for 21%, 54% and 25% of our sales, respectively.

Long-standing customer relationships supported by product innovation and customer service

We sell our products to a large number of customers, including merchants such as PaperlinX, IGEPA, Antalis and Xpedx, a division of International Paper Company, converters such as Amcor Flexibles and Novelis, and other direct consumers such as The CTP Group and Media 24, many of whom have long-standing relationships with us. We support these customer relationships through our portfolio of premium international operating brands, including several well-known brands acquired in the Acquisition, under which we produce and market our products, as well as through the quality of our products, our customer service and our reliability. We are continually improving service and reliability through innovation, and we believe that our three research and development centers in Europe, North America and South Africa enhance our ability to design and improve value added products and services and to bring them to market with increased efficiency.

Experienced management team and strong track record of integrating acquisitions

Our management team has substantial experience in the global paper industry. In addition, we have been a key player in the consolidation process of the coated paper market, with a strong track record of successfully executing and integrating acquisitions. These acquisitions included S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other speciality paper products that is now Sappi Fine Paper North America, KNP Leykam, a leading European producer of coated woodfree paper that is now Sappi Fine Paper Europe, Potlatch Corporation's coated woodfree paper business that is now part of Sappi Fine Paper North America and, most recently, the coated paper business of M-real that is now part of Sappi Fine Paper Europe.

The Pulp and Paper Industry

Overview

The paper industry is generally divided into the graphics paper business (consisting of woodfree paper, mechanical paper and newsprint) and the packaging business (consisting of label papers, sackkraft, boxboard and containerboard).

Over the long-term, paper and packaging consumption has grown in line with overall economic growth, but consumption patterns are also influenced by short-term economic developments. Pricing is largely influenced by the supply/demand balance for individual products, which is partially dependent on capacity and inventory levels in the industry. The ability to adapt capacity changes in response to shorter-term fluctuations in demand is limited, as large amounts of capital are required for the construction or upgrade of production facilities and as lead times are long between the planning and completion of new facilities. Industry-wide over-investment in new production capacity has in the past led to situations of significant oversupply, which have caused product prices to decrease. This has been exacerbated by inventory speculation, as purchasers have sought to benefit from the price trend. As a result, our financial performance has deteriorated during periods of significant oversupply and improved when demand has increased to levels that support the implementation of price increases.

The pulp and paper industry, as many other industries, experienced significant recessionary pressures and lower business and consumer confidence as a result of the global economic downturn during the latter half of fiscal 2008 and fiscal 2009. As global economic conditions improved during fiscal 2010, demand for pulp and paper products improved, and market prices increased in most of our major markets. Market prices for pulp increased significantly in fiscal 2010 due to higher demand and a major earthquake in February 2010, which resulted in a disruption of supply of market pulp from Chile. During the first three quarters of fiscal 2011, pricing and demand for pulp and paper products continued to improve, with NBSK reaching a record high of US\$1,023 in June 2011, mainly driven by demand from Asia. However, the global economic recovery was negatively impacted during the latter half of calendar 2011 as concerns mounted over the European sovereign debt crisis, which led to a reduction in the demand, and consequently, our ability to successfully implement price increases for pulp and paper products in our major markets was undermined.

In recent years, the industry experienced significant strategic changes. The high costs associated with building new paper mills and establishing and growing market share led to companies focusing on acquisitions, rather than construction of new capacity. As a result, the regional market shares of leading producers have increased significantly over the past decade. Another important emerging trend for leading industry producers is to focus on fewer paper grades as a result of divesting non-core assets that are not part of the industry, or which have been considered not consistent with long-term strategies. Increased grade focus is more advanced in the North American paper industry when compared to Europe, where the two largest producers, Stora Enso and UPM Kymmene, still retain extensive operations across a broad range of grades.

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Significant developments have also taken place in China, where rapid economic growth and government incentives have spurred investment in the pulp and paper industry. In recent years, China's paper and packaging capacity, and in particular its woodfree paper capacity, increased considerably, allowing China to change from a net importer to a net exporter of coated woodfree paper, mainly to Asian markets and to the United States. To ensure that local industries are not negatively affected by low cost substitutes from China, both the United States and the European Union imposed import duties and tariffs on certain coated paper products manufactured in China during the first half of fiscal 2011. In addition, while the coated graphic paper market is characterized by a declining demand trend in developed countries, there is a growing demand trend in China and many other emerging and developing countries.

The following table shows a breakdown and description of the major product categories we participate in, the products in these categories and the typical uses for such products. We have produced and sold each of these products in each of our last three fiscal years.

Major Product Categories

Woodfree paper:

Coated paper

Uncoated paper

Speciality paper

Packaging products:

Packaging paper

Mechanical paper:

Newsprint

Uncoated mechanical paper

Coated mechanical/magazine paper

Description and Typical Uses

Higher level of smoothness than uncoated paper, achieved by applying a coating (typically pigment based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines. Uses typically include business forms, business stationery, tissue, photocopy paper as well as cut-size, preprint and office paper. Certain brands are used for books, brochures and magazines. Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (e.g. artificial leather and decorative laminates) for use in the textile, automotive, furniture and engineering film markets.

Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sackkraft (multi-walled shipping sacks) and machine glazed kraft (grocery bags). Can be coated to enhance barrier and aesthetics properties.

Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers. Mechanical fibre based printing paper used primarily for the printing of books, and advertising inserts. Coated mechanical fibre based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.

Major Product Categories**Pulp:**

Paper pulp

Chemical cellulose

Description and Typical Uses

Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibres to leave cellulose fibres. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.

Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibres. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose-based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders. The various grades of chemical cellulose are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the chemical cellulose is one of the key determinants of its suitability for particular applications with the purer grades of chemical cellulose generally supplied into the speciality segments.

Timber products:

Sawn timber for construction and furniture manufacturing purposes.

The following table sets forth selected pulp and paper prices in certain markets for the periods presented.

	Year ended September					
	2011		2010		2009	
	High	Low	High	Low	High	Low
Coated Woodfree Paper						
100 gsm delivered Germany (euro per ton) ⁽¹⁾	880	780	870	710	850	740
60 lb. delivered US (US\$ per short ton) ⁽²⁾	1,030	930	1,000	880	1,105	905
Uncoated Woodfree Paper						
50 lb. delivered US (US\$ per short ton) ⁽³⁾	965	920	950	845	975	805
Paper Pulp						
NBSK (US\$ per ton) ⁽⁴⁾	1,023	950	980	730	840	570
Chemical cellulose						
92 alpha (US\$ per ton) ⁽⁵⁾	2,400	903	1,460	780	860	590

- (1) 100 gsm sheets, RISI.
- (2) 60 lb. Coated Web, RISI.
- (3) 50 lb. Offset, RISI.
- (4) Northern Bleached Softwood Kraft Pulp CIF Western Europe, RISI.
- (5) Includes selected indicative spot prices. However most of our product is sold at contract prices.

Woodfree Paper

Our woodfree paper activities are divided into coated and uncoated woodfree paper and speciality paper grades.

Coated Woodfree Paper: Major end uses of coated woodfree paper include high-end magazines, catalogues, brochures, annual reports and commercial printing. Coated woodfree paper is made from chemical pulp and is coated on one or both sides for use where high reprographic quality is required. The majority of coated woodfree paper production is coated on two sides, permitting quality printing on both sides of the paper. Paper that is coated on one side is used in special applications such as consumer product and mailing label applications.

Our North American sheet volume is largely influenced by brochure and general commercial printing activities using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal. Reels volume is heavily influenced by catalogue and magazine activity, which is strongest in the third and fourth calendar quarters, text book activity, which is strongest in the second and third calendar quarters, and publication printer activity, which is not particularly seasonal. These printers principally use heat-set web offset printing processes.

Due to the diversity in languages in the European market, the print editions of brochure and general commercial printing activities are considerably smaller than in the US market. This translates into a significantly higher volume in sheets. The seasonal patterns of both sheets and reels are mostly influenced by the catalogue business. This business has its highest seasonal activity in the spring, when the fashion catalogues come out, and the autumn, when the Christmas catalogues and holiday brochures are printed. Commercial print and publishing business provide a more steady demand in this market.

Uncoated Woodfree Paper: Uncoated woodfree paper represents the largest industry woodfree paper grade in terms of both global capacity and consumption. Uncoated woodfree paper is used for bond/writing and offset printing papers, photocopy papers, writing tablets (e.g. legal pads), speciality lightweight printing paper (e.g. bibles) and thin paper. The market for uncoated paper products generally follows cyclical trends, which do not necessarily coincide with cycles for coated paper but are impacted by capacity changes in uncoated woodfree paper output levels.

Speciality Paper: The high value-added speciality paper markets, in which Sappi Fine Paper operates, generally follow trends in the respective end use sectors in addition to changes in production capacity, output levels and cyclical changes in the world economy. Largely due to the highly specialized nature of speciality paper, price fluctuations have historically tended to lag and be less precipitous than price changes in the uncoated woodfree paper market.

Mechanical Paper Products

Coated Mechanical Paper: Coated mechanical paper has similar end-uses as coated woodfree paper and is used mainly for magazines and, among other things, for brochures, catalogues, advertising materials and promotional products. Depending on quality requirements and price levels, substitution between coated woodfree paper and coated mechanical paper is possible. Coated mechanical paper is made mainly from mechanical pulp and typically has glossy finishes on both sides.

Newsprint: The Ngodwana mill, situated in South Africa, produces newsprint. The worldwide market for newsprint is a low growth sector in the paper industry and was adversely affected during the early 1990s by substantial increased capacity and stagnating demand from, and cost-cutting measures imposed by, major newsprint end-users.

Paper Packaging Products

We are one of the major suppliers of paper packaging solutions in southern Africa, which we produce locally at our Cape Kraft, Tugela and Ngodwana mills. These products are sold predominantly to customers in southern Africa with some products destined for export markets.

Paper Packaging: We provide a wide range of packaging solutions to the industrial, agricultural and fast moving consumer goods industries. This includes containerboard products and multi-walled shipping sacks for use in the transport of goods as well as grocery bags for use by the end consumer. The market for packaging papers is therefore affected by changes in the world economy, local economic growth, retail sales and by changes in production capacity, demand and inventory levels.

Pulp

We produce chemical cellulose, as well as a wide range of paper pulp grades, including mechanical pulp used in newsprint, bleached kraft pulp and bleached sulphite pulp.

Paper Pulp: The paper pulp industry is highly competitive and is sensitive to changes in industry capacity, producer inventories, demand for paper, exchange rates and cyclical changes in the world economy. The market price of NBSK pulp per ton, a pulp principally used for the manufacture of woodfree paper, is a benchmark widely used in the industry for comparative purposes.

NBSK prices are cyclical and can change rapidly due to changes in the dynamics of the supply/demand balance. Pulp markets continued to recover during fiscal 2010 with prices reaching a peak of US\$979 per ton in July 2010, due to tight supply and increasing demand. Prices continued to climb during the 2011 fiscal year, predominantly due to the substitution of NBSK for chemical cellulose in the Asian markets. NBSK pulp prices reached a record high of US\$1,023 in June 2011 but have eased and were trading at US\$958 at the end of fiscal 2011.

For further information, see "Item 5 Operating and Financial Review and Prospects Markets".

Chemical cellulose: The viscose staple fibre (VSF) industry, which manufactures textile and non-woven fibres, is the largest market segment for chemical cellulose. Prices of VSF grade chemical cellulose have historically tended to follow those of European NBSK prices, but more recently the unique market drivers in the chemical cellulose market have caused a disconnect in the correlation between the spot market VSF grade chemical cellulose prices and the NBSK prices for short periods of time. In line with the improved demand and the rising NBSK prices, the VSF grade price of chemical cellulose increased during the second half of fiscal 2009 and into 2010, reaching highs of around US\$1,400 per ton in some instances. This increasing price trend continued in fiscal 2011, with the market price of VSF grade chemical cellulose reaching a record high of US\$2,400 per ton before retreating to more stable price levels. Prices of the higher purity chemical cellulose used in applications other than for VSF products tend to be more stable and are largely unrelated to the price of NBSK. The market price for these chemical cellulose products is set by competitive forces within those specific markets.

Timber Products

Our timber products operations are concentrated in South Africa and consist of sawn timber for the building industry and components for the furniture and packaging industry.

Business Review

Our Group has three reportable segments, Sappi Fine Paper North America, Sappi Fine Paper Europe, and Sappi Southern Africa. Sappi Fine Paper comprises the reporting segments Sappi Fine Paper North America and Sappi Fine Paper Europe. We operate 17 pulp and paper mills, with an aggregate annual paper, pulp and chemical cellulose production capacity of approximately 6 million

tons, approximately 3.4 million tons and approximately 0.8 million tons, respectively. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of our products throughout the world in areas outside our core operating segments of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa.

Sappi Fine Paper

Sappi Fine Paper, which is comprised of the Group's Sappi Fine Paper North America and Sappi Fine Paper Europe reportable segments, is our largest operating business, accounting for approximately 67% of our sales volume in fiscal 2011. Sappi Fine Paper has an aggregate annual paper and pulp production capacity of 4.9 million tons and 2.2 million tons respectively, at 11 paper and related paper pulp mills in North America and Europe.

Sappi Fine Paper North America: Sappi Fine Paper North America is a leading producer and supplier of coated woodfree paper, coated speciality paper and from time to time, uncoated woodfree paper in the United States. Headquartered in Boston, Massachusetts, the segment operates three paper mills in the United States with an aggregate annual production capacity of approximately 1.2 million tons of paper and approximately 1 million tons of paper pulp, which represents approximately 121% of Sappi Fine Paper North America's pulp requirements. This significantly reduces Sappi Fine Paper North America's exposure to fluctuations in the price of market pulp that are not driven by fluctuations in wood or other major raw material prices. Sappi Fine Paper North America accounted for US\$1,520 million or 21% of our sales in fiscal 2011.

Sappi Fine Paper Europe: Sappi Fine Paper Europe is a leading producer and supplier of coated and uncoated woodfree paper, coated and uncoated speciality paper and coated mechanical paper in Europe. Headquartered in Brussels, Belgium, the segment operates eight paper mills in five countries with an aggregate annual production capacity of approximately 3.7 million tons of paper and 1.2 million tons of related paper pulp, which represents approximately 57% of Sappi Fine Paper Europe's pulp requirements. As Sappi Fine Paper Europe is not fully integrated from a pulp perspective, the segment is exposed to fluctuations in the price of market pulp. Sappi Fine Paper Europe accounted for US\$3,965 million or 54% of our sales in fiscal 2011.

Sappi Southern Africa

Sappi Southern Africa, headquartered in Johannesburg, South Africa, is an integrated pulp, packaging paper, coated paper, uncoated paper, speciality paper, crepe tissue paper and timber products producer. Sappi Southern Africa operates five paper and paper packaging mills, one chemical cellulose mill and one sawmill. The segment is managed in three divisions: Sappi Paper and Paper Packaging, Sappi Chemical Cellulose and Sappi Forests. Sappi Southern Africa is a major pulp and paper producer in Africa, with a production capacity of 630,000 tons of paper packaging products, 450,000 tons of paper products, 800,000 tons of chemical cellulose and 1,025,000 tons of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 567,000 hectares of forestland. Currently, we have access to approximately 415,000 hectares of plantable forestland; however, due to forest fires and timing differences between felling and planting activities, approximately 392,000 hectares is planted with primarily pine and eucalyptus. Approximately 70% of our southern African timber requirements are from our managed, owned and leased plantations. The term "directly manages" relates to plantations in southern Africa established on land that we either own or lease from a third party. The term "indirectly manages" relates to plantations in southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form of advice on the growing and tending of trees. Sappi Southern Africa accounted for US\$1,801 million or 25% of our sales in fiscal 2011.

Sappi Trading

Our trading network, Sappi Trading, coordinates the international marketing and distribution of our woodfree and mechanical paper products in areas outside our core operating segments of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Sappi Trading is also responsible for the international marketing and distribution of chemical cellulose and market pulp throughout the world. Sappi Trading operates in Hong Kong (China), Sydney (Australia), Sao Paulo (Brazil), Shanghai (China), Bogotá (Colombia), Konstanz (Germany), Nairobi (Kenya), Mexico City (Mexico), Singapore, Johannesburg and Durban (South Africa), Zurich (Switzerland), Taipei (Taiwan) and New York (United States). It manages a network of agents around the world, handling exports to over 70 countries. All sales and costs associated with Sappi Trading are allocated to our three reportable segments.

For further information, see "Item 5 Operating and Financial Review and Prospects Principal Factors Impacting on our Group Results", "Item 5 Operating and Financial Review and Prospects Markets" and " Business Overview".

As of fiscal 2010, our southern African fine paper operations, which had previously been part of our Sappi Fine Paper business, have been incorporated with our former Sappi Forest Products business to form our Sappi Southern Africa segment. Unless otherwise indicated, operational data for fiscal 2009 presented in this Annual Report has been adjusted to retroactively reflect this reorganization.

The chart below represents our operational rather than the legal or ownership structure as of September 2011. Units shown are not necessarily legal entities.

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The following tables set forth certain information with respect to our operations for, or as of the end of, fiscal 2011.

Sappi Fine Paper

	North America	Europe	Sappi Southern Africa (tons 000)	Unallocated and Eliminations	Total
Segment sales volume	1,436	3,845	2,617		7,898

	(US\$ million)				
Segment sales	1,520	3,965	1,801		7,286
Segment operating profit	136	(71)	63	(42)	86
Segment operating profit excluding special items	129	68	199	8	404

SAPPI FINE PAPER

Overview

Sappi Fine Paper contributed approximately 75% and 76%, respectively, of our sales in fiscal 2011 and fiscal 2010. Sappi Fine Paper comprises two reportable segments: Sappi Fine Paper North America and Sappi Fine Paper Europe.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Fine Paper as of September 2011:

-
- (1) As of fiscal 2010, Sappi Fine Paper South Africa has been integrated with our former Sappi Forest Products business to form our Sappi Southern Africa segment.
 - (2) We ceased production at our Biberist mill in August 2011.

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The following table sets out the approximate annual production capacity of Sappi Fine Paper's products as of September 2011.

Annual Production Capacity			
North America Europe Total			
(tons '000)			
Production capacity:			
Woodfree paper			
Coated ⁽¹⁾⁽²⁾	1,160	3,495	4,655
Uncoated ⁽²⁾		215	215
Total ⁽³⁾	1,160	3,710	4,870
Paper pulp	980	1,175	2,155

(1)

Includes coated woodfree paper, coated mechanical paper and coated speciality papers.

(2)

Excludes 500,000 tons for the Biberist mill which ceased production during August 2011 (430,000 coated and 70,000 tons uncoated).

(3)

Excludes Chinese joint venture tons.

Facilities and Operations

Sappi Fine Paper North America

Coated paper accounted for approximately 75% and 74% of Sappi Fine Paper North America's sales in fiscal 2010 and fiscal 2011 respectively. Speciality paper and pulp accounted for the remaining 25% and 26% of our sales in fiscal 2010 and fiscal 2011 respectively.

The following table sets forth sales by product for our North American operations.

Year ended September			
2011	2010	2009	
(US\$ million)			
Sales:			
Coated woodfree paper	1,122	1,024	1,021
Speciality paper and other ⁽¹⁾	398	349	274
Total	1,520	1,373	1,295

(1)

Other consists primarily of market pulp.

For fiscal 2011, Sappi Fine Paper North America sold approximately 1.6 million tons of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products at each of our mills in North America:

Products

Mill	Production Number		Paper	Market pulp
	capacity (‘000 tons)	of paper machines		
	Paper			
Cloquet	330	2	Coated woodfree paper	Bleached kraft pulp
Somerset	795	3	Coated woodfree paper	Bleached kraft pulp
Westbrook	35	1	Casting release paper	

Cloquet: The Cloquet mill has two paper machines and an offline coater, producing premium coated paper. The newest paper machine and coater were installed in 1988 and 1989, respectively. The pulp mill was started up by the previous owner in 2000 at a total cost of US\$525 million. The Cloquet

paper machines have a production capacity of 330,000 tons of coated paper per annum, and the state of the art pulp mill has a production capacity of 455,000 tons per annum.

Somerset: The Somerset mill is a low-cost producer and has a production capacity of 795,000 tons of paper and 525,000 tons of pulp per annum. Each of the three paper machines at the Somerset facility employs Sappi Fine Paper North America's patented on-line finishing technology. This technology combines the three phases (paper making, coating and finishing) in the manufacture of coated paper into one continuous process. This technology is well suited for the lighter weight coated woodfree papers produced at Somerset, as it allows for the production of high gloss, consistent quality products at high speeds.

Westbrook: Westbrook is Sappi Fine Paper North America's original mill, with origins dating back to 1854. The mill is primarily a speciality paper production facility with a capacity of 35,000 tons of coated and uncoated casting release paper per annum. Its paper machine primarily produces base paper, which is coated off-line. Westbrook also has six speciality coaters, including four employing Sappi Fine Paper North America's patented Ultracast process. This process uses an electron beam to cure the coating against a finely engraved steel roll, resulting in a virtually exact replication of the roll pattern. Sappi Fine Paper North America also has a research and development facility at Westbrook.

Sappi Fine Paper North America also operates a coated paper sheeting and distribution facility in Allentown, Pennsylvania, which was completed in 1994, with a sheeting capacity of approximately 100,000 tons per annum.

Sappi Fine Paper Europe

Coated paper accounted for approximately 87% and 85% of Sappi Fine Paper Europe's sales in fiscal 2010 and fiscal 2011 respectively. Uncoated paper and speciality paper accounted for the remaining 13% and 15% of our sales in fiscal 2010 and fiscal 2011, respectively.

The following table sets forth sales by product for our Sappi Fine Paper Europe operations:

	Year ended September		
	2011	2010	2009(3)
	(US\$ million)		
Sales:			
Coated paper ⁽¹⁾⁽²⁾	3,373	3,167	2,527
Uncoated woodfree paper ⁽²⁾	303	265	160
Speciality coated paper and other	290	206	208
Total	3,966	3,638	2,895

(1) Includes coated mechanical paper produced at Lanaken, Kirkniemi and Kangas mill.

(2) We ceased production at the Biberist mill in August 2011 and continue to serve our customers from other Group mills.

(3) Includes 9 months of sales relating to the Acquired Business.

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For fiscal 2011, Sappi Fine Paper Europe sold approximately 3.8 million tons of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products for fiscal 2011 at each of Sappi Fine Paper Europe's mills in Europe.

Mill	Mill Locations	Production capacity ('000 tons) Paper	Number of paper machines	Products
Alfeld	Germany	330	5	Coated and Uncoated woodfree paper, coated speciality paper
Ehingen	Germany	250	1	Coated woodfree paper
Gratkorn	Austria	950	2	Coated woodfree paper
Kirkniemi	Finland	730	3	Coated mechanical paper
Lanaken	Belgium	500	2	Coated mechanical paper and coated woodfree paper
Maastricht	Netherlands	280	1	Coated woodfree paper
Nijmegen	Netherlands	240	1	Coated woodfree paper
Stockstadt	Germany	430	2	Coated woodfree paper and uncoated woodfree paper

Alfeld: The Alfeld mill is located to the south of Hannover, Germany, and was originally commissioned in 1706. It has a paper production capacity of 330,000 tons and a pulp production capacity of 125,000 tons per annum. It produces coated and uncoated woodfree and speciality paper products with a variety of finishes. In 1995, a major rebuild of Alfeld's PM 3 was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM 3 employs a fully integrated on-line coating and calendaring system. The Alfeld mill produces totally chlorine-free ("TCF") bleached sulphite pulp for its own use. In early 2002, a €50 million rebuild of Alfeld's PM 2 was completed.

Ehingen: The Ehingen mill is located to the southeast of Stuttgart, Germany and was acquired by Hannover Papier, predecessor entity to Sappi Alfeld, in 1987. A paper machine with a capacity of 180,000 tons of coated woodfree paper per annum was commissioned in July 1991, expanding Ehingen from a market pulp mill into an integrated pulp and paper mill. During 1994, the construction of a high-rack warehouse was completed. As a result of upgrades during 1994 and 1996, Ehingen's total paper capacity was increased to 235,000 tons per annum. During June and July 2006 the paper machine was rebuilt and started up, together with a new coater, allowing a significant quality upgrade from single coated to triple coated woodfree paper with capacity of 250,000 tons per annum. The pulp mill's capacity is currently 135,000 tons per annum of TCF bleached sulphite pulp. The pulp is produced mainly for internal use, but is also sold to third party customers when market conditions are favorable.

Gratkorn: Paper has been produced at the Gratkorn, Austria site for more than four centuries. Following a major expansion and renovation project, the Gratkorn mill has been transformed from an ageing five-machine mill into a state of the art two-machine mill. As a result of this project, Gratkorn currently has the capacity to produce 950,000 tons of triple-coated woodfree paper on just two paper machines and 255,000 tons of TCF chemical pulp per annum. The machines at Gratkorn are among the largest and most efficient paper machines in the world. After the extension of Gratkorn's sheeting plant, it also has a sheet finishing capacity of 800,000 tons per annum.

Kirkniemi: As part of the M-real Corporation acquisition in 2008, we acquired the assets comprising the Kirkniemi mill, located 70 kilometers west of Helsinki, Finland. The mill was built in 1966 and has a production capacity of 730,000 tons of paper and 330,000 tons of mechanical pulp per annum. The Kirkniemi mill produces Galerie Lite (coated ultra-lightweight paper with high bulk and opacity), Galerie Brite (coated lightweight paper with high bulk, soft gloss and improved brightness) and Galerie Fine (coated mechanical paper with high brightness, smoothness and improved opacity).

Lanaken: The Lanaken mill, situated in Lanaken, Belgium, began commercial operations in 1966. It produces coated mechanical paper and lower weight wood-containing coated paper for offset printing. Coated mechanical paper for web offset presses is used primarily in the production of advertising materials and magazines. Lanaken's two paper machines have a total capacity of 500,000 tons per annum. One machine principally produces coated mechanical paper and was completely overhauled in 1992. An additional off-line coater was also installed during the upgrade to provide triple coating capability. The second paper machine produces lower-weight wood-containing paper. Its capacity was increased to 305,000 tons per annum as a result of an optimization process during the mid-1990s. The Lanaken mill also produces chemi-thermo-mechanical pulp (CTMP) in an integrated plant which has a production capacity of 180,000 tons per annum. This enables the mill to supply approximately 60% of its own fibre requirements for paper production.

Maastricht: The Maastricht mill is situated on the Maas River in Maastricht, The Netherlands and was originally commissioned in 1852. The mill has a production capacity of 280,000 tons of coated woodfree paper per annum from a single paper machine, PM 6. This machine was installed in 1962, was rebuilt in 1977 and underwent an extensive €102 million refurbishment and upgrade in 1996. The Maastricht mill specializes in high basis-weight triple-coated woodfree paper for graphics applications.

Nijmegen: The Nijmegen mill, situated in the town of Nijmegen, The Netherlands, began operations in 1955 and operates a single paper machine. The mill specializes in the production of coated woodfree paper in reel form for web offset printing. It also produces special coated woodfree paper for use in digital printing. The Nijmegen mill was upgraded in 2001, which increased its capacity by 40,000 tons per annum. The mill currently has the capacity to produce 240,000 tons of coated woodfree paper per annum and is one of Europe's largest suppliers of coated woodfree web offset paper. Web offset paper is used for commercial printing and publishing.

Stockstadt: We acquired the shares of M-real Stockstadt GmbH, which holds the Stockstadt mill located in Stockstadt, Germany, from the M-real Corporation during 2008. The mill was established in 1898 and has a production capacity of 430,000 tons of coated and uncoated woodfree paper as well as 150,000 tons of bleached chemical pulp per annum. The pulp is produced mainly for internal use, but is also sold to third party customers when market conditions are favorable.

Marketing and Distribution

Overview

The further integration of our international marketing and distribution systems is one of our main strategic objectives. In order to attain this objective, we have adopted a system whereby the marketing and distribution of our woodfree and mechanical paper products is performed by our operating business in the respective region, supplemented by Sappi Trading network outside these core regions.

We sell the vast majority of our woodfree and mechanical paper products through merchants. We also sell paper directly to converters. We generally deliver products sold to converters from the mill or via a distribution warehouse. Electronic business-to-business interaction has become more important to us, and we will continue to focus on increasing service and efficiency through business-to-business interaction. Systems and structures have been put in place to actively continue these efforts.

Merchants are authorized to distribute Sappi Fine Paper's products by geographic area and to carry competitors' product lines to cover all segments of the market. Merchants perform numerous functions, including holding inventory, sales promotion and marketing, taking credit risk on sales and delivery, and distribution of the products. Merchants buy paper from Sappi Fine Paper, add a mark up to the purchase price and on-sell it to the end customer. A merchant may either deliver to the customer from its own warehouse or arrange for delivery directly from the mill or one of the Sappi Fine Paper distribution warehouses.

Sappi Fine Paper North America

Sappi Fine Paper North America's coated paper sales structure is organized in multiple regions with sales representatives located in all major market areas. In addition, six technical representatives, located in different regions in North America, support the sales effort.

Approximately 8% and 6%, respectively, of Sappi Fine Paper North America's sales for fiscal 2010 and 2011 were outside North America. Sappi Fine Paper North America's sales outside North America are handled in southern Africa by Sappi Southern Africa, in Europe by Sappi Fine Paper Europe and outside those regions by Sappi Trading.

In fiscal 2010 and 2011, the Sappi Fine Paper North America sales force sold coated woodfree paper to approximately 360 and 340 merchant distribution locations, respectively. By selling exclusively through merchant channels, Sappi Fine Paper North America believes it has created a loyal group of merchant customers. Rather than competing with merchant distributors, the Sappi Fine Paper North America sales force focuses on generating demand with key printers, publishers and end users, which are then serviced by the merchant distributors.

Sappi Fine Paper North America's coated specialty papers are sold directly to customers in North America through a dedicated specialty paper sales team and outside of North America through a direct sales force, agents and distributors.

Sappi Fine Paper Europe

The sales and marketing operations of Sappi Fine Paper Europe are organized into graphic papers (which comprise printing and writing paper) and specialty papers (which comprise paper for labeling, packaging and other specialty uses).

The sales and marketing operations of Sappi Fine Paper Europe are responsible for all sales of woodfree papers, mechanical papers as well as specialty papers in Europe. An export sales office manages exports to markets outside Europe through Sappi Trading, Sappi Fine Paper North America and Sappi Southern Africa.

Sappi Fine Paper Europe's centralized logistics department was formed in early 1998. It is responsible for the development and optimization of the logistics function for the graphic and specialty papers business units as well as the re-engineering of the supply chain.

Under distribution agreements entered into as part of the Acquisition, M-real Corporation granted us the exclusive right to market and sell the products of certain coated paper machines at M-real Corporation's Husum mill and Äänekoski mill for a period of five years, with a minimum duration of 27 months or, if earlier, until M-real Corporation sells the relevant mill. We are entitled to a commission on these sales while the agreements are in effect. The coated paper machines subject to the distribution agreements are described below:

Husum PM 8: We entered into a distribution agreement in respect of PM 8 at M-real Corporation's Husum mill in Sweden. PM 8 is the only asset producing coated woodfree paper at Husum mill and has an annual production capacity of 285,000 tons of Galerie Fine, a coated woodfree paper with high brightness, smoothness and improved opacity.

Äänekoski PM 2: We entered into a distribution agreement in respect of PM 2 at M-real Corporation's Äänekoski mill in Finland. Äänekoski's PM 2 produces triple blade coated wood-free art paper on one paper machine that is marketed under the brand name Galerie Art. The machine has a production capacity of 200,000 tons per annum. During November 2011, the M-real Corporation announced that it was entering into a consultation process with the employees of Äänekoski mill to negotiate the possible closure of the facility. However, in an agreement reached with us, the M-real

Corporation confirmed the uninterrupted supply of Galerie Art, which, should the facility be closed, will be produced at the Husum mill in Sweden.

Customers

Sappi Fine Paper sells its products to a large number of customers, many of whom have long-standing relationships with us. These customers include merchants, converters and other direct consumers.

The most significant merchant customers, based on sales during fiscal 2011 include:

North America: Xpedx (a division of International Paper Company), Lindenmeyr Paper Company (owned by Central National Gottesman Inc.), Unisource Worldwide, Inc. (a majority interest of which is owned by Bain Capital Corporation), Domtar Distribution and a select number of regionally strong merchants.

Europe: Igepa Group, PaperlinX, Papyrus, Antalis (owned by Sequana Capital), Inapa and Berberich. Two of these merchants, PaperlinX and IGEPA, represented individually approximately 21% of our total sales during fiscal 2011.

Sappi Fine Paper's converter customers include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2011 include: Novelis, Orafol, Mayr-Melnhof, Constantia, Vaassen and Amcor. These customers use our products in the production of pressure-sensitive products, flexible packaging as well as NWS labels. No converter customer, however, represented more than 10% of our total sales during fiscal 2011.

Merchant sales constitute the majority of our woodfree and mechanical paper sales. Pricing of coated paper products is generally subject to change upon notice of 30 days with longer notice periods (typically 3 to 6 months) for some large end-use customers. Sales to converters may be subject to longer notice periods, which would generally not exceed 12 months. We have long-standing relationships with most of our customers, with volume and pricing generally agreed on a quarterly basis.

Competition

Overview

Although the markets for pulp and paper have regional characteristics, they are highly competitive international markets involving a large number of producers located around the world.

Historically pulp and paper products were subject to relatively low tariff protection in major markets, with existing tariff protections being further reduced under the World Trade Organization ("WTO"). However, with ever increasing amounts of low cost substitutes emerging from Asia, and in particular, from China, both the US and Europe imposed import duties and tariffs on certain coated paper products during the 2011 calendar year.

Competition in markets for our products is primarily based on price, quality, service, breadth of product line, product innovation and sales and distribution support. The speciality paper market places greater emphasis on product innovation, quality and technical considerations.

The North American and Western European printing and writing paper sector, comprising coated and uncoated woodfree and mechanical products, implemented the closure of more than 13 million tons of annual production capacity between 2007 and 2011.

North America

The major domestic coated woodfree paper producers which compete with Sappi Fine Paper in North America are NewPage, who filed for Chapter 11 protection during September 2011, and Verso

Paper. In addition, approximately 21% of United States consumption is supplied by foreign producers, primarily Asian and European.

Europe

The market leaders in coated woodfree paper production in Europe are Sappi, Stora Enso, Burgo-Marchi Group, UPM-Kymmene and Lecta (which is owned by an affiliate of CVC Partners).

SAPPI SOUTHERN AFRICA

Overview

Sappi Southern Africa contributed approximately 24% and 25%, respectively, of our sales in fiscal 2010 and fiscal 2011. The Sappi Southern Africa segment comprises three separate divisions: Sappi Chemical Cellulose, Sappi Paper and Paper Packaging and Sappi Forests.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Southern Africa as of September 2011:

(1)

During August 2011 we announced the closure of our Adamas mill with a production capacity of 40,000 tons per annum.

(2)

During fiscal 2011 we also announced the closure of the 60,000 ton containerboard machine at our Tugela mill.

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The following table sets forth sales by product for Sappi Southern Africa's operations:

	Year ended September		
	2011	2010	2009
	(US\$ million)		
Sales:			
Commodity paper products ⁽¹⁾	540	452	355
Chemical cellulose	796	604	366
Woodfree and speciality papers	359	380	321
Paper pulp	35	59	82
Timber and timber products	71	676	55
Total	1,801	1,561	1,179

(1)

Includes newsprint and packaging products.

For the fiscal years 2010 and 2011, Sappi Southern Africa sold approximately 2.7 million tons and 2.6 million tons respectively, of paper, pulp and forest products.

The following table sets forth annual production capacity with respect to Sappi Southern Africa's products:

Production capacity: ('000 tons)	
Paper products	
Packaging paper	630
Newsprint	140
Coated woodfree paper	80
Uncoated ⁽¹⁾	230
Total	1,080
Pulp	
Chemical cellulose	800
Paper pulp	1,025
Total	1,825
Timber products ⁽²⁾	43

(1)

Includes 30,000 tons of tissue paper manufactured at the Stanger mill and 14,000 tons of kraft paper manufactured at the Enstra mill. Excludes 40,000 tons per annum of product capacity, at Adamas mill which was closed in August 2011.

(2)

Represents 85,000 cubic meters.

Facilities and Operations

Sappi Chemical Cellulose

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Saiccor was established in 1951 and was acquired by us in 1988. It is the world's largest single producer of chemical cellulose. In 1995, we completed an approximately US\$221 million expansion project to increase capacity by one third to 600,000 tons per annum. Capital expenditures during the period from October 2005 to the end of September 2010 were approximately US\$615 million. Included in this period were a modernization project to de-bottleneck production at Saiccor at a cost of US\$40 million and an amount of US\$551 million spent on an expansion project to increase Saiccor's chemical cellulose capacity to 800,000 tons per annum. Construction on the expansion project commenced in August 2006 and was originally scheduled for completion in the first half of calendar

2008. Unfortunately the project was subject to delays and cost increases, with the increased capacity only coming on line in September 2008 and achieving full operational efficiency only in April 2009. As a result of the rapid decline in demand for chemical cellulose that was experienced in the first half of fiscal 2009, we did not utilize all of the additional capacity initially and curtailed production in certain elements of the old plant while utilizing the new plant to improve efficiencies. Demand came back strongly in the latter half of fiscal 2009 and for fiscal 2010 and fiscal 2011 the plant operated at full capacity, except for the three week strike in July 2011.

Saiccor's chemical cellulose production is exported from South Africa and marketed and distributed internationally by Sappi Trading. The pulp principally produced is the type used in the manufacture of a variety of cellulose products, including viscose staple fibres or rayon, solvent spun fibres (lyocell) and viscose filament yarns. Both viscose and lyocell fibres are used in the manufacture of fashion and decorating textiles which have a soft, natural feel and excellent breathing properties. Given their particularly high absorbency properties, these fibres are also used in non-woven applications in the healthcare, industrial and disposable product markets. Chemical cellulose is also used in the manufacture of acetate flake, which is used in products such as filter tow for cigarette filters, high quality yarns and fabrics, and LCD screens. It is also used to manufacture microcrystalline cellulose, which is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various ethers for the chemical industry. It is also used to manufacture cellophane film for use in a variety of packaging applications.

The mill's timber consumption is comprised primarily of eucalyptus hardwoods. These relatively fast growing trees are grown in relatively close proximity to the mill, which contributes to Saiccor's position as a low cost producer of chemical cellulose.

Sappi Paper and Paper Packaging

The following table sets forth the annual paper and paper packaging production capacity, number of machines, and products at each of Sappi Paper and Paper Packaging's mills in South Africa:

Mill Locations in South Africa	Production capacity ('000 tons)	Number of paper machines	Products
Cape Kraft	60	1	Linerboard, corrugating medium and coated products
Enstra	200	3	Uncoated woodfree paper
Ngodwana	380	2	Kraft linerboard, white top linerboard, newsprint, plasterboard and bleached and unbleached market pulp
Stanger	110	2	Coated woodfree paper, coated label paper and tissue
Tugela	330	3	Kraft linerboard, corrugating medium, sackkraft and machine glazed kraft

Cape Kraft: The Cape Kraft mill was built during 1980, commissioned in 1981 and upgraded in 1995. The mill presently has a capacity to produce 60,000 tons of linerboard and corrugating medium per annum, which it sells principally to the corrugating industry in the Western Cape. The mill uses approximately 67,000 tons of waste paper to produce 60,000 tons of packaging paper per annum. The fact that the mill's product is produced from 100% recycled paper provides a competitive advantage in our markets, which are becoming increasingly environmentally aware.

Enstra: The Enstra mill is an integrated pulp and uncoated paper mill, with a capacity of 200,000 tons of elemental chlorine-free uncoated woodfree paper products per annum. In 1996, the Enstra mill completed a US\$96 million capital expenditure program. This program increased capacity by 50,000 tons per annum and resulted in improved production efficiencies and product quality. The product range at the Enstra mill caters to the business forms, scholastic, office, envelope and general printing industries. The mill has a capacity to produce 105,000 tons of bleached hardwood pulp per annum and

employs an oxygen bleaching process which was developed at the mill in the 1970s and has since become the industry standard.

Ngodwana: The Ngodwana mill was expanded between 1981 and 1985 from an unbleached kraft mill with a capacity of 100,000 tons per annum to a modern integrated mill with a capacity of approximately 240,000 tons of linerboard and white top liner as well as 140,000 tons of newsprint per annum. The mill produces nearly 410,000 tons of bleached and unbleached pulp and 100,000 tons of mechanical pulp per annum. The mill markets paper, paper packaging and pulp products locally and internationally. The mill is a large consumer of waste paper, which is used in the production of packaging paper. In 1995, the mill commissioned the world's first ozone bleaching plant, thus eliminating the use of elemental chlorine and significantly reducing mill effluent.

Stanger: The Stanger mill commenced operations in 1976, and is the only producer of coated woodfree paper in South Africa. It is unique in South Africa as it uses bagasse (the fibrous residue of sugar cane) as its basic raw material to produce high quality matt and gloss coated art papers and tissue. Art paper is used for high quality books and magazines, brochures, annual reports and labels. A US\$26 million upgrade of the mill's paper machine was completed in August 2001, increasing the coated paper capacity to 80,000 tons per annum. The mill also produces 30,000 tons of tissue and 60,000 tons of bleached bagasse pulp per annum. We also completed an elemental chlorine free bleach plant upgrade during 2006 at a cost of US\$11 million and commissioned a tissue converting line during September 2011 at a cost of US\$7 million.

Tugela: The Tugela mill is our largest integrated unbleached kraft mill, with a capacity of 330,000 tons of packaging paper per annum. The mill supplies kraft linerboard, corrugating medium and most of South Africa's requirements for sackkraft, which is used in the production of multiwall sacks. Machine glazed packaging papers are also produced at the mill. The Kraft Linerboard machine was upgraded in 1996 at a cost of approximately US\$81 million and the Sackkraft machine and components of the pulp plant were upgraded in 2003 and 2004 at a cost of approximately US\$50 million. It is the only mill in South Africa to offer high performance containerboard packaging and extensible Sackkraft. During fiscal 2011, we announced the permanent suspension of production from the 60,000 ton containerboard machine at the Tugela mill.

Sappi ReFibre: Sappi Paper and Paper Packaging also manages Sappi ReFibre (formerly Sappi Waste Paper) which collected approximately 210,000 tons of waste paper during fiscal 2010 and 2011. Most of the waste paper is supplied to our mills as it represents approximately 30% of the fibre requirements of our packaging grades.

Sappi Forests

Sappi Forests, (which includes Usutu Forests), supplies or procures all of Sappi Southern Africa's domestic pulpwood requirements of approximately 5.6 million tons per annum. 88% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 567,000 hectares of land situated in: Mpumalanga (48%), KwaZulu-Natal (40%) and Swaziland (12%).

	Hectares
Owned by us in South Africa	385,000
Leased by us or managed directly in South Africa	8,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	108,000
Leased by us in Swaziland	66,000
Total	567,000

Securing raw material for the future is a vital element in the long-term planning of Sappi Southern Africa's business. Sappi Forests has an extensive research operation which concentrates on programs to improve the yield per hectare of forestland used. Significant progress has been made in developing faster-growing trees with enhanced fibre yields. Sophisticated nurseries have been developed to accommodate the seedling requirements of Sappi Southern Africa's operations. Approximately 51 million seedlings are grown annually at Sappi Forests nurseries, and by contract growers in both South Africa and Swaziland. In addition, 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.

Sappi Forests have spent approximately US\$223 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2008 to September 2011.

The sawmill division operates one mill, Lomati sawmill, with a total production capacity of 85,000 cubic meters per annum of structural timber for the building industry and components for the furniture and packaging industry.

Marketing and Distribution

Overview

Each of Sappi Southern Africa's divisions, with major South African markets, has its own marketing, sales and technical support teams based in three major centers in South Africa. Sappi Trading manages the exports of Sappi Southern Africa's products, in particular the marketing and distribution of chemical cellulose produced at the Saiccor mill.

Customers

Sappi Paper and Paper Packaging's coated, uncoated and speciality paper products are distributed in southern Africa primarily through merchants. In addition, some large volume orders are sold directly to printers and converters. Its most significant fine paper customers include Antalis SA (Pty) Limited, Peters Papers and Finwood Papers (a division of Buhrmann Paper Merchant Division).

Sappi Paper and Paper Packaging's most significant packaging paper and newsprint customers, based on sales in fiscal 2010 and fiscal 2011, include The CTP Group and Paarl, which uses Sappi's newsprint. The most significant converter customers include Nampak Limited, Mpact, APL (Pty) Ltd and Houers Co-operative.

A significant number of the viscose staple fibre manufacturers around the world purchase chemical cellulose from Sappi Chemical Cellulose. This includes large groups such as the Aditya Birla Group and the Lenzing Group. Most of our chemical cellulose sales contracts are multi-year contracts with pricing generally based on a formula linked to the NBSK price, which resets on a quarterly basis.

During fiscal 2011, approximately 48% of the total sales volume of Sappi Southern Africa was destined for the export market.

Competition

The Mondi Paper Company Limited and Mpact Limited are significant competitors of Sappi Southern Africa in the southern African market, but more specifically in the uncoated woodfree, newsprint and packaging paper sectors.

Coated woodfree paper imports, primarily from Europe and Asia, have gained an increasing share of the southern African woodfree paper market as a direct result of declining import duties which were

removed in 2006 and the strengthening Rand. However, a portion of the imports originate from Sappi Fine Paper's European mills.

In recent years, the regional recycled containerboard capacity has increased by approximately 120,000 tons. Due to exchange rate fluctuations, a number of offshore containerboard suppliers have also entered the southern African packaging market.

In respect of chemical cellulose, competitors include Borregaard ChemCell, Bahia Pulp, Tembec Inc., Western Pulp Inc., Buckeye Technologies Inc. and Rayonier Inc.

SUPPLY REQUIREMENTS

Overview

The principal supply requirements for the manufacture of our products are wood, water, pulp, energy and chemicals. We believe that we have adequate sources of these and other raw materials and supplies for the foreseeable future. However, global warming and carbon footprint imperatives are causing an increase in the use of sustainable, non-fossil fuel, sources for electricity generation. Consequently, electricity generating companies are competing for the same raw materials, namely, wood and chips, in the same markets as us, thereby driving prices upwards.

For further information on regulation affecting our supplies, please see "Environmental and Safety Matters Environmental Matters South Africa". For further information on other factors affecting the availability of our supplies, please see "Item 5 Operating and Financial review and Prospects Principal Factors Impacting our Group Results Cyclical Nature of the Industry and Movement in Market Prices, Raw Materials and Input Costs".

North America

Wood

In connection with the 1998 sale of our US timberlands to Plum Creek Timber Company L.P., Sappi Fine Paper North America and Plum Creek are parties to a fibre supply agreement with an initial term expiring in December 2023 and with three, five-year renewal options. Under the supply agreement, Sappi Fine Paper North America is required to purchase from Plum Creek, and Plum Creek is required to sell to Sappi Fine Paper North America, a guaranteed annual minimum of 318,000 tons of hardwood pulpwood, or approximately 11% of Sappi Fine Paper North America's annual pulpwood requirements, at prices calculated based on a formula linked to market prices. Sappi Fine Paper North America has the option to purchase additional quantities of hardwood pulpwood, harvested from these timberlands, at prices generally higher than the ones paid for the guaranteed quantities. The remainder of Sappi Fine Paper North America's pulpwood requirements is met through market purchases.

Pulp

Sappi Fine Paper North America's mills, taken together, are fully integrated on an economic basis with respect to hardwood pulp usage. Mills that are not fully integrated make market purchases, and mills that produce more pulp than they utilize make market sales.

Sappi Fine Paper North America's coated fine paper mills have achieved certification according to the chain of custody standards of the Forest Stewardship Council ("FSC"), The Sustainable Forestry Initiative ("SFI") and the Programme for the Endorsement of Forest Certification ("PEFC") and our wood procurement group is certified to SFI's Fibre Sourcing standard. The mills also use post-consumer waste and offer products containing up to 30% recycled content in addition to using reprocessed fibre recovered from its existing operations.

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Sappi Fine Paper North America manufactures, in aggregate, pulp and fibre equivalent to approximately 121% of its own pulp requirements. This vertical integration reduces its exposure to fluctuations in the market price for pulp.

Energy Requirements

Sappi Fine Paper North America's energy requirements are satisfied through wood and by-products derived from the pulping process, coal, fuel oils, purchased electricity, steam, natural gas, biomass and other sources.

A substantial majority of Sappi Fine Paper North America's electricity requirements are satisfied through its own electricity generation or co-generation agreements. During 2002, Sappi Fine Paper North America entered into a series of contracts with Central Maine Power ("CMP") and a third party energy provider. The contracts provide that Somerset mill is to produce power at its maximum generation capacity, sell all of its excess generated power to CMP and purchase all of its power needs beyond its generation capacity from the third party provider. However, Sappi Fine Paper North America has entered into amendments to these contracts, pursuant to which Sappi Fine Paper North America may, at its election, produce power at less than its maximum generation capacity for non-operational or economic reasons and purchase additional power from the third party provider. The rates for part of the purchases were pre-set in 2002 for the duration of the agreements and the remaining purchases are at market rates. The price we receive for any sales of generated power is equal to the average price of our monthly purchases of power.

The Westbrook mill sells excess electricity which is co-generated through a number of hydroelectric facilities, in addition to its power boiler.

The Cloquet mill is partly supplied with internally generated electricity. The facility includes a hydroelectric plant that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet mill has entered into a take-or-pay agreement to purchase a portion of its power from Minnesota Power. We may terminate this agreement at any time subject to a four-year notice period.

Alternative Fuel Mixture Tax Credits Black Liquor

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. This tax credit expired on December 31, 2009.

During fiscal 2010 and 2009, 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, respectively 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 totaled 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 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 Biofuel 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.

Chemicals

Major chemicals used by Sappi Fine Paper North America include clays, carbonates, latexes and plastic pigments, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the speciality business. Sappi Fine Paper North America purchases these chemicals from a variety of suppliers. Most of these chemicals are subject to price fluctuations based on a number of factors, including energy and crude oil prices, the availability of feedstock's, transportation costs and the specific market supply and demand dynamics.

Europe

Wood

Sappi Fine Paper Europe purchases approximately 3,7 million cubic meters of pulpwood per annum for its pulp mills. The wood is purchased both on contract and in the open market. Wood supply contracts are fixed for one year in terms of volumes. Price agreements range from three months for wood chips to one year for logwood.

Logwood and wood chips used in the Gratkorn TCF pulp mill are purchased through the Papierholz Austria GmbH joint venture arrangement amongst Sappi, the Norske Skog Bruck mill *Zellstoff Pöls*, and the Frantschach Group. We hold a 42.5% ownership interest in Papierholz.

The wood chips used in the Lanaken Chemithermomechanical Pulp ("CTMP") plant are purchased through Sapin S.A. ("Sapin"), a 50% joint venture company which we operate together with Norske Skog. Sapin was initially formed on November 25, 1986, pursuant to a joint venture agreement between the predecessors of Sappi Lanaken and Norske Skog. Under the agreement, as amended in September 2003, the parties agree to utilize Sapin exclusively to furnish the entire wood requirements of the joint venture partners' affiliated mills.

Under a wood supply agreement, M-real Corporation's parent company (Metsäliitto Group) will supply us with up to 704,000 cubic meters of wood annually, substantially all of which is sourced in southern Finland, to the Kirkniemi mill for a minimum period of 12 years from 2009 at market rates.

Pulp

Sappi Fine Paper Europe produces approximately 57% of its pulp requirements. The remainder is mostly supplied through open market contracts, the biggest supplier being M-real Corporation who supply up to 376,000 tons of pulp per annum, for contracted periods of between 1 and 6 years.

Energy Requirements

Sappi Fine Paper Europe's energy requirements are generally met by the internal generation of energy and external purchases of electricity, natural gas, biomass, and to a lesser extent, hard coal and oil. The delivery of electricity, natural gas, oil, coal and biomass is covered by various mid-term supply agreements.

Since July 2007, Gratkorn has operated a combined heat and power plant ("CHP plant") on site and has become an exporter of about 10 MW of electricity. The mill's additional energy requirements are met through the usage of biomass and mineral coal fuels.

Substantially all of the electricity requirements of the Maastricht mill are satisfied by a 60 MW CHP plant, which was operated as a 50% joint venture (VOF WarmteKracht Maastricht mill) between Sappi Fine Paper Europe and Essent until January 1, 2010. On this date, we acquired the remaining shareholding from Essent. The plant utilizes natural gas, which is procured from a Dutch supplier at market prices. All surplus electrical energy generated is supplied to the national grid.

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The Nijmegen mill's electricity requirements are largely satisfied by its co-generation power plant. The Nijmegen mill purchases natural gas from a Dutch gas supplier and a small amount of electricity from the public grid.

The Lanaken mill's energy requirements are generally met by purchases of natural gas and electricity. Certain of the energy requirements of the mill are furnished by a CHP plant, constructed and operated pursuant to the Albertcentrale N.V. joint venture arrangement between Sappi, the Belgian power company Electrabel and Rabo Energie. We hold a 49% ownership interest in the Albertcentrale facility and are obligated to purchase steam from the joint venture facility under a long-term supply agreement. The facility commenced operations in April 1997. Lanaken mill's electricity requirements are satisfied by a supply contract with the national utility company Electrabel.

Alfeld and Ehingen generate about 50% of their power needs from renewable resources and the remainder is purchased from an Austrian power company.

To a great extent, the electricity and steam requirements of the Kirkniemi mill are covered under a long-term supply agreement with Fortum Heat & Power, a large Finnish utility company. The energy is generated on site by a 100 MW CHP plant which is owned and operated by the utility company. The large amount of natural gas required to operate the CHP plant is delivered by Gasum, the national gas supplier. The balance of the mill's power requirements is met through purchases of electricity from the public grid. Biomass and natural gas are purchased for the generation of additional steam.

Stockstadt generates about 50% of their power needs from renewable resources and the remainder is purchased from an Austrian power company. The mill's steam requirements are met through the usage of biomass and mineral coal as fuels.

Chemicals

Major chemicals used by Sappi Fine Paper Europe include clays, carbonates, latexes, starches and chemicals for the speciality business. Sappi Fine Paper Europe purchases most of these chemicals from a portfolio of suppliers, and in only one case is Sappi Fine Paper Europe dependent on a sole source of supply. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feedstock's, transportation costs and the specific market supply and demand dynamics.

Southern Africa

Wood

Sappi Southern Africa manages directly or indirectly approximately 567,000 hectares of forestland in southern Africa. Approximately 392,000 hectares are forested, which produce approximately 70% of the timber required for this reporting segment's operations. Sappi Forests owns approximately 385,000 hectares and manages the majority of the remainder. Usutu Forests cultivates 52,000 hectares of pine and eucalyptus on 66,000 hectares of land that is leased from the Swazi nation under a long-term lease agreement which is extendable to 2089. Sappi Forests presently has supply contracts for the timber from approximately 108,000 hectares of plantations planted by small growers with our technical and financial support. The remaining timber requirements are met through a number of significant medium-term contracts and open market purchases.

A feasibility study for the establishment of 150,000 hectares of plantations in Mozambique was done during the 2009 and 2010 fiscal years. However, this project has been abandoned due to various regulatory and social obstacles in establishing and maintaining the plantations.

Pulp

Sappi Southern Africa, in aggregate, manufactures all of the pulp required for its own paper production, except minimal quantities of specialized pulps which are procured from international suppliers. It is a net seller of bleached and unbleached paper pulp to the local and international markets. This vertical integration substantially reduces our exposure to fluctuations in the market price of pulp.

Energy Requirements

Our energy requirements in southern Africa are principally met through the purchases of coal and electricity, supplemented by purchases of fuel, oil and natural gas. Coal, both for steam generation and electricity production, and oil are purchased on contract. Much of the energy demand is met by utilizing internally generated biomass and spent liquors from the pulping process. Electricity is supplied by Eskom, the state-owned electricity company, or generated internally. During the course of 2009, we commissioned a new electricity generating turbine unit at our Saiccor mill, and we now generate in excess of 50% of the total electricity requirements of the mill. This electricity is generated from bio-fuel and represents an increase of 30% in our internal generation capacity.

Energy costs for our Southern African operations have risen sharply in recent years, which has had a significant impact on profitability in the region. In addition, in February 2010, NERSA, the National Energy Regulator of South Africa, announced that it had approved substantial annual tariff increases for electricity in South Africa for the years 2010 to 2012. In fiscal 2010 and 2011, electricity purchased from Eskom amounted to approximately 17% and 20% respectively, of the variable costs in the southern African operations.

Sappi Southern Africa has contractually agreed to sell up to 35MW of electricity generated from the Saiccor and Ngodwana mills to Eskom under the Medium Term Power Purchase Program. Furthermore, Sappi Southern Africa is currently pursuing a number of renewable and co-generation energy projects in order to further increase its electricity self-sufficiency and thus to reduce the impact of higher than inflation electricity increases that are expected over the forthcoming few years.

Chemicals

Major chemicals used by Sappi Southern Africa include caustic soda, calcium carbonates, latexes, starches, sulphur and sulphuric acid. Sappi Southern Africa purchases these chemicals from a variety of South African and overseas suppliers. There are generally adequate sources of supply, and in only one case are we dependent upon a sole source of supply. Most of these chemicals are subject to price and foreign currency fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feedstock, transportation costs and the specific market supply and demand dynamics.

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Matters

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate and these 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 (CO₂) 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 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.

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 finalized or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as the "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 completes an ongoing reconsideration process with respect to certain requirements in the rules or various court proceedings concerning Boiler MACT are completed, whichever comes first. Based on motions before the court, it is not clear whether the reconsideration process or the litigation will reach

resolution first, or what the timing would be for completion or implementation of a revised rule. Capital expenditures, currently estimated to range between US\$10 million and US\$15 million, could be required for emissions control equipment at our 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 regulating GHGs is highly uncertain and, currently, we do not know what precise effect, if any, such legislation will have on our financial condition and 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).

The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonize 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 March 3, 2013. We believe 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.

The European Union (EU) has embarked on a plan to cut its energy consumption by 20% by 2020 in a bid to reduce its dependency on imported oil and gas and reduces energy costs by an estimated EUR100 billion every year. The EU target has three '20% elements' 20% reduction of greenhouse gas emissions, achieve a 20% share of renewable primary energy and a 20% increase in energy efficiency by 2020. The EU Emission Trading Scheme (ETS) has backed this approach by introducing specific carbon limits for the pulp and paper industry of 318g CO₂/kg paper and 20g CO₂/kg sulphite pulp as a benchmark.

Previously, we have had a surplus of emission rights due to our efforts to reduce our energy needs and to increase the share of renewable fuel use. These were either traded between mills or sold onto the market. For the next phase, as of 2013, the allocation will be based on a product benchmark and we expect to fall short of emission rights as the benchmark is very low. Currently, the cost for extra emission rights is estimated at EUR 14 million per annum.

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 prioritized 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 our 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 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 1, 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 on our mills of new standards contained in the Air Quality Act and the Waste Act 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.

Safety Matters

The forestry, timber and pulp and paper industries involve inherently hazardous activities including, among other things, the operation of heavy machinery. All countries in which we have significant manufacturing operations, including South Africa, the United States and European countries, regulate health and safety in the workplace. We actively seek to reduce the frequency of accidents in our workplaces and to improve health and safety conditions by extensive training and educational programs.

Our global safety improvement initiative, Project Zero, sets out the goal of no injuries. It involves implementing behavior-based safety programs throughout our Group and focusing on those activities which have in the past resulted in injuries or fatalities.

In the United States, Sappi Fine Paper North America must comply with a number of Federal and state laws regarding health and safety in the workplace. The most important of these laws is the Federal Occupational Safety and Health Act.

In Europe, we participate in various governmental worker accident and occupational health insurance programs. In Belgium and The Netherlands, these programs are funded by mandatory contributions by employers and employees. In Germany, we participate in a similar mandatory contribution scheme controlled by the German government, which permits employer and employee participation in its administration. In Austria and the United Kingdom, employee liability insurance is funded by the employer. In Finland, employment accident insurance is funded by the employer while occupational health insurance is funded partly by employees. In Switzerland, employee insurances of non-work accidents, work accidents and occupational diseases are funded by mandatory contributions by the employer. The administrative board of the assigned insurance consists of representatives of government, employers and employees. The safety and health issues are integrated into the management systems and all mills of Sappi Fine Paper Europe comply with health and safety legislation and are OHSAS 18001 certified.

In South Africa, we must comply with a number of laws regulating workers' compensation for injuries and health and safety within the workplace, the most important of which is the Occupational Health and Safety Act and related regulations. Our South African businesses are audited every two years to evaluate compliance with this legislation. All Pulp and Paper mills, as well as Sappi Forests Plantations, are both OHSAS 18001:2007 and ISO 14001:2004 certified for health and safety management systems and environmental management systems, respectively.

ORGANIZATIONAL STRUCTURE

Sappi Limited is the ultimate holding company of the Sappi Group. The following table sets forth significant subsidiaries and joint ventures owned directly or indirectly by Sappi Limited at September 2011.

Name	Trading Name	% Held*	Country of Incorporation	Nature of Business
<i>Southern Africa</i>				
Sappi Southern Africa (Pty) Ltd(1)	Sappi Southern Africa or Sappi Manufacturing or Sappi Forest Products or Sappi Paper and Paper Packaging South Africa or Sappi Chemical Cellulose or Sappi Forests or Sappi ReFibre	100	South Africa	Pulp and paper manufacturer and forestry operations
Umkomaas Lignin (Pty) Ltd	Lignotech	50	South Africa	Lignosulphonate Manufacturer
Usutu Forest Products Company Limited	Sappi Forests, Sappi Southern Africa	100	Swaziland	Forestry Operations
<i>America</i>				
S.D. Warren Company	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
Sappi Cloquet LLC	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
<i>Europe</i>				
PE Paper Escrow GmbH	PE Paper Escrow	100	Austria	Finance
Sappi Alfeld GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Austria Produktions-GmbH & Co. KG	Sappi Fine Paper	100	Austria	Pulp and paper manufacturer
Sappi Deutschland GmbH	Sappi Fine Paper	100	Germany	Sales and marketing
Sappi Ehingen GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Europe S.A.	Sappi Fine Paper	100	Belgium	European head office
Sappi Esus Beteiligungsverwaltungs GmbH	Sappi Fine Paper	100	Austria	Holding Company
Sappi Finland I Oy	Sappi Fine Paper	100	Finland	Pulp and paper manufacturer
Sappisure Försäkrings AB	Sappisure	100	Sweden	Captive Insurance company

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Sappi Gratkorn GmbH	Sappi Fine Paper	100	Austria	Property company
Sappi Holding GmbH	Sappi Holding	100	Austria	Holding company
Sappi International S.A	Sappi International	100	Belgium	Treasury
Sappi Lanaken NV	Sappi Fine Paper	100	Belgium	Paper manufacturer
Sappi Lanaken Press Paper NV	Sappi Fine Paper	100	Belgium	Pulp and paper manufacturer
Sappi Maastricht B.V	Sappi Fine Paper	100	The Netherlands	Paper manufacturer
Sappi Nijmegen B.V.	Sappi Fine Paper	100	The Netherlands	Paper manufacturer
Sappi Papier Holding GmbH	Sappi Papier Holding or Sappi Fine Paper	100	Austria	Pulp and paper manufacturer Treasury and holding company
Sappi Schweiz AG	Sappi Fine Paper	100	Switzerland	Pulp and paper manufacturer
Sappi Stockstadt GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
<i>Asia</i>				
Jiangxi Chenming Paper Co Ltd	Jiangxi Chenming	34	China	Operating Joint Venture

*
Voting power is in the same proportion as the percentage ownership held.

- (1)
On October 12, 2010 Sappi Manufacturing (Proprietary) Limited changed its name to Sappi Southern Africa (Proprietary) Limited.

PROPERTY, PLANT AND EQUIPMENT

For a description of the production capacity of our mills, see "Sappi Fine Paper" and "Sappi Southern Africa".

For a description of the plantations we own or have recently sold, see "Sappi Southern Africa" and "Supply Requirements".

For a description of our capital expenditures, see "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources".

The following table sets forth the location and use of our principal headquarters, manufacturing and distribution facilities. These facilities are owned unless otherwise indicated.

Location	Use	Approximate Size(1)	Secured/ Leased
<i>Sappi Limited</i>			
Johannesburg, South Africa	Sappi Headquarters(2)	15,058 m2	Leased
<i>Sappi Fine Paper</i>			
Sappi Fine Paper North America			
Boston, Massachusetts	Headquarters(3)	2,964 m2	Leased
Skowhegan, Maine (Somerset mill)	Manufacturing facility: coated paper, softwood and hardwood pulp	1,094 ha	Financing Collateral
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility	123.4 ha	
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp(4)	420.1 ha	Financing Collateral Partly Leased
Allentown, Pennsylvania	Coated paper sheeting facility	12.1 ha	
Dayton, New Jersey	Distribution center(5)	33,243m2	Leased
South Portland, Maine	Financial and customer service office(2)	4,500 m2	Leased
Chicago, Illinois	Distribution center(11)	20,903m2	
<i>Sappi Fine Paper Europe</i>			
Brussels, Belgium	Headquarters(6)	0.4 ha	Leased
Gratkorn, Austria	Manufacturing facility: coated paper and pulp(10)	99.9 ha	Financing Collateral, Partly Leased
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha	Financing Collateral
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha	Financing Collateral
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	32.6 ha	
Alfeld, Germany		33.3 ha	

	Manufacturing facility: coated paper, uncoated paper and pulp		
Ehingen, Germany	Manufacturing facility: coated paper and pulp	35.7 ha	
Blackburn, England	Subsequently sold	36.0 ha	
Wesel, Germany	Distribution center(7)	62.1 ha	Partly Leased
Stockstadt, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	60.2 ha	
Biberist, Switzerland	Industrial Site(12)	78.7 ha	
Kirkniemi, Finland	Manufacturing facility: coated paper and pulp	186.9 ha	Financing Collateral
<i>Sappi Southern Africa</i>			
Johannesburg, South Africa	Headquarters(9)		
Sappi Chemical Cellulose			
Umkomaas, South Africa	Manufacturing facility: chemical cellulose(8)	159.4 ha	Partly Leased

Location	Use	Approximate Size(1)	Secured/ Leased
Sappi Paper and Paper Packaging			
Ngodwana, South Africa	Manufacturing facility: linerboard, newsprint and kraft pulp	1,282.9 ha	
Tugela, South Africa	Manufacturing facility: linerboard, corrugating medium, sackkraft and industrial kraft	914.4 ha	
Cape Kraft, South Africa	Manufacturing facility: linerboard and corrugating medium	9.5 ha	
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp(8)	582.7 ha	Partly Leased
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp(8)	55.4 ha	Partly Leased
Adamas, South Africa	Industrial Site(12)	7.2 ha	
Bunya, Swaziland (Usutu)	Leased to third party timber processor	45.0 ha	
Sappi Forests			
Barberton, South Africa (Lomati Sawmill)	Sawmill	24.6 ha	

- (1) The approximate size measurement relates to, in the case of manufacturing and distribution facilities, the perimeter of the property on which the principal manufacturing or distribution facilities are situated and, in the case of offices, the interior office space owned or leased.
- (2) Subject to a lease expiring in 2015.
- (3) Subject to a lease expiring in 2021.
- (4) A portion of the equipment is subject to lease agreements.
- (5) Subject to a lease expiring in 2015.
- (6) Subject to leases expiring in 2016.
- (7) Of the total 62,140 m2, 8,800 m2 is subject to a lease that operates on a year-to-year basis. The remainder of the property is subject to a heritable building right ("Erbbaurecht").

- (8) Substantial assets are leased pursuant to finance lease agreements.
- (9) Included under Sappi Limited headquarters.
- (10) Part of the Gratkorn mill is built on land leased from the Gratkorn municipality.
- (11) Subject to a lease expiring in 2018.
- (12) Ceased production in 2011.

Sappi Plantations

	Hectares
Owned by us in South Africa	385,000
Leased by us or managed directly in South Africa	8,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	108,000
Leased by us in Swaziland	66,000
Total	567,000

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis together with our Group Annual Financial Statements, including the notes, included elsewhere in this Annual Report. Certain information contained in the discussion and analysis set forth below and elsewhere in this Annual Report includes forward-looking statements that involve risk and uncertainties. See "Forward-Looking Statements", "Item 3 Key Information Selected Financial Data", "Item 3 Key Information Risk Factors", "Item 4 Information on the Company", "Item 10 Additional Information Exchange Controls" and the notes to our Group Annual Financial Statements included elsewhere in this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Annual Report.

The Group Annual Financial Statements including the applicable notes thereto, contained herein, have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2011 operated on a 53 accounting week cycle while Fiscal 2010 and 2009 operated on a 52 accounting week cycle.

Company and Business Overview

We are a global company, which through acquisitions in the 1990s, was transformed into one of the global market leaders in the coated woodfree paper sector. Two acquisitions were pivotal in establishing us as a global company, namely the acquisition in 1994 of S.D. Warren Company, now known as Sappi Fine Paper North America, and the acquisition in 1997 of KNP Leykam, now integrated into Sappi Fine Paper Europe. On December 31, 2008 we acquired the coated paper business of M-real Corporation, which is now integrated in Sappi Fine Paper Europe. Further opportunities to grow within our core businesses will continue to be evaluated.

The Group has three reportable segments, namely Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Sappi Fine Paper comprises the reporting segments Sappi Fine Paper North America and Sappi Fine Paper Europe. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of chemical cellulose and market pulp throughout the world and for our other products in areas outside our core operating segments of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. All sales and costs associated with Sappi Trading are allocated to the three reportable segments.

Sappi Fine Paper has a total paper production capacity of approximately 4.9 million tons per annum, of which approximately 4.7 million tons relate to the manufacture of coated woodfree and coated mechanical paper.

Sales by source and destination for fiscal 2011, fiscal 2010 and fiscal 2009 were as follows:

	Sales by Source			Sales by Destination		
	2011	2010	2009	2011	2010	2009
	%					
North America	21	21	24	22	22	24
Europe	54	55	54	46	48	48
Southern Africa	25	24	22	13	13	13
Far East and others				19	17	15
Total	100	100	100	100	100	100

Beneficial Shareholding by Region

On November 5, 1998, our American Depositary Receipts commenced trading on the New York Stock Exchange. Based on available information, as of September 30, 2011 we believe our beneficial shareholding by region to be as follows:

	September		
	2011	2010	2009
	%		
North America	18	16	12
Europe and elsewhere	11	13	13
Southern Africa	71	71	75
	100	100	100

Source: Registered addresses and disclosure by nominee companies, excluding the shares owned by a subsidiary of Sappi.

Principal Factors Impacting our Group Results

Our results of operations are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in sales volumes and prices. Sales volumes and prices are significantly affected by changes in industry capacity and output levels, customer inventory levels and cyclical changes in the world economy. Industry profitability is also influenced by factors such as the level of raw material, energy, chemicals and other input costs, exchange rates, and operational efficiency.

The principal factors that have impacted the business during the fiscal periods presented in the following discussion and analysis and that are likely to continue to impact the business are:

- (a) Cyclical nature of the industry and its impact on sales volumes;
- (b) Movement in market prices for products and for raw materials and other input costs of manufacturing;
- (c) Sensitivity to currency movements and inflation rates;
- (d) The additional week in fiscal 2011; and
- (e) New acquisitions, expansions, restructurings, cost-reduction initiatives, capacity closures, our ability to maintain and continuously improve operational efficiencies and performance and other significant factors impacting costs;

Because many of these factors are beyond our control and certain of these factors have historically been volatile, past performance is not necessarily indicative of future performance and it is difficult to predict future performance with any degree of certainty.

Cyclical Nature of the Industry and Movement in Market Prices, Raw Materials and Input Costs:

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business. See "Markets" for a further discussion of the cyclical nature of the pulp and paper industry and movements

in market prices. In addition, the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. Other input costs, such as energy and fuel costs, vary depending on various factors, including local and global demand and seasonality. Worldwide economic conditions experienced a significant downturn during fiscal 2009 which continued into fiscal 2010, resulting in significant recessionary pressures and lower business and consumer confidence. As worldwide economic conditions improved throughout 2010, demand for our products improved, and market prices increased in our major markets. Market prices for pulp increased significantly in fiscal 2010 and continued to do so during fiscal 2011 due to higher worldwide-demand, and in specific, demand from Asia. However, with the emergence of the sovereign debt crises in the European Union during the latter half of calendar 2011, the global economic recovery slowed and demand for our products, and consequently sales prices declined.

Sensitivity to Currency Movements:

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), euro (€) and South African Rand (ZAR). See "Currency Fluctuations".

Sensitivity to Inflation Rates:

Movements in inflation rates in the various regions in which we operate can affect our results. See "Inflation and Interest Rates".

Additional week in fiscal 2011:

Our normal reporting cycle comprises 4 quarters, each consisting of thirteen 7-day weeks, which is equal to 364 days per year. As a result, after 6 years we have effectively "lost" a week (including the leap year). Accordingly, every 6 years we add an additional week to one of our quarters, which we did in the first quarter of fiscal 2011 thus fiscal 2011 consists of 53 weeks of operations instead of the usual 52 weeks.

The main impacts of the additional week this year are:

an increase in Operating Profit excluding Special Items by about US\$8 million (assuming a pro-rata accumulation of operating profit over the period); and

our accounting cut-off in all four quarters of fiscal 2012 falling after the calendar month-end. Since most of our suppliers (particularly in Europe and South Africa) are paid on the calendar month-end, this resulted in a substantial cash outflow of between US\$150 million and US\$200 million just before our quarterly accounting cut-offs, which was not the case in fiscal 2010. Thus, when comparing our Net Cash Generated in fiscal 2011 to 2010, we believe it would be appropriate to add approximately US\$150 million to Net Cash Generated in fiscal 2011 or to deduct the same amount in fiscal 2010. This impact was reflected through Working Capital and impacted Net Debt.

Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives:

We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base on a regional basis, including closing non-performing assets and pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

Blackburn mill closure and cessation of production from PM 5 at Maastricht mill: During August 2008, we announced the possible closure of Blackburn mill in the United Kingdom and the possible cessation of production from our PM 5 at Maastricht mill in The Netherlands. We reached an agreement with labor representatives at our Blackburn mill during September 2008 and finally closed the facility on

November 12, 2008. On December 19, 2008 we also ceased production from PM 5 at our Maastricht mill. As a result of the closure of our Blackburn mill and the cessation of production from PM 5 at our Maastricht mill, our coated woodfree paper capacity was reduced by 180,000 tons. Profitable products were moved to our other facilities in Europe.

Acquisition of M-real Corporation's coated graphic paper business: On December 31, 2008, we acquired the coated woodfree and coated mechanical paper business from the M-real Corporation. See " Mill Closures, Acquisitions, Dispositions, Impairment, Joint Venture and Broad Based Black Economic Empowerment".

Muskegon mill closure: During April 2009, we announced the suspension of production from our Muskegon mill in North America due to weak demand and prices for coated woodfree paper products in the North American market. We announced the final closure of our Muskegon mill on August 26, 2009. We continue to serve all our affected customers from our other operations in the United States. During August 2011, we sold the Muskegon mill site for US\$2.2 million to a third party.

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.

Usutu mill closure: The Usutu mill was closed on January 31, 2010 in response to adverse market conditions in the pulp sector, as well as the cumulative severe impact of fire damage during August 2008, which destroyed 40% of the mill's timber crop. As a result, the mill was no longer self-sufficient with respect to timber supplies.

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 in 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.

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 3, 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 customers.

Expansion of chemical cellulose capacity: On May 17, 2011, we announced the US\$340 million expansion of our Ngodwana mill in South Africa. The expansion 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 2013.

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.

European and southern African restructuring initiatives: During fiscal 2011, we embarked on restructuring initiatives in our European and southern African operations in an effort to streamline our operations further, to adapt to the changing needs of our customers and to match our assets to profitable markets for future growth. We expect to start realizing the cost-saving benefits from these initiatives in Europe in the first half of fiscal 2012, and in southern Africa in the second half of fiscal 2012.

Markets

The markets for our products are cyclical, with demand and pricing significantly affected by supply and demand dynamics, customer inventory levels and changes in the world economy. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business.

Coated Woodfree Paper

Demand for coated woodfree paper is heavily dependent on global economic growth. The slowdown in the global economy at the end of 2008 through most of 2010 meant demand for our products was lower than in previous years, where the global economy enjoyed stable growth. During 2011, demand for coated woodfree paper declined in mature markets, but grew in emerging markets, which we believe also reflects longer-term demand trends. Overall, there was a small decrease in global demand of 1.5% when compared to the previous year.

Global Coated Woodfree Paper Market Balance

Source: EMGE

The global demand to capacity ratio for coated woodfree paper averaged 94% through fiscal 2008, but declined to approximately 82% in fiscal 2009 due to the slowdown in the global economy. The demand to capacity ratio rose to approximately 90% in 2010 as global economic conditions improved in our major markets and capacity curtailments were implemented. No increases in industry capacity in Europe and North America were discernible during this period, with companies reluctant to undertake

major new capital projects in these regions due to the poor returns being achieved. Despite global overcapacity, high Asian demand and growth rates and availability of funding led to significant coated woodfree paper capacity additions between fiscal 2000 and fiscal 2011 in Asia, particularly in China. Over 1 million tons of coated woodfree capacity was added in 2011. This additional capacity, coupled with flat demand, led the demand to capacity ratio to decline to 86% in fiscal 2011.

North American apparent consumption declined by 26% in fiscal 2009 compared to fiscal 2008, largely as a result of the global economic recession. In fiscal 2010, as economic conditions improved, demand for our products improved by 13% compared to fiscal 2009. However, with the emergence of the sovereign debt crisis, growth rates declined in 2011 and apparent consumption grew by less than 1% during fiscal 2011 compared to fiscal 2010. Coated woodfree paper prices in North America increased during fiscal 2011 compared to fiscal 2010, with an increase of approximately 8% in the grade that represents the largest end use of coated woodfree paper (No. 3 60lb rolls).

Demand in Europe grew 2% in fiscal 2007 and was flat in fiscal 2008. Deteriorating economic conditions in 2009 led to a severe reduction in demand for coated fine paper of approximately 17% but demand grew again slightly by 1% in fiscal 2010 compared to fiscal 2009. During fiscal 2011, demand for coated woodfree paper fell by 6% when compared to fiscal 2010 as a result of sovereign debt issues combined with competition from electronic media. Industry shipments, which include export volumes, fell 5% in the same period. Due to global overcapacity and low demand for coated woodfree paper, manufacturers announced closures of approximately 1.7 million tons of coated woodfree paper capacity in 2008 and 2009. These closures positively affected the supply / demand relationship in Europe and around the world. There were no major capacity closures in 2010. In 2011, a major producer has announced the closure of 1.3 million tons of coated paper in Europe, including approximately 800,000 tons of coated paper, which is expected to further improve the supply / demand balance for magazine paper in Europe.

The graph below reflects apparent consumption for the United States and Europe. Apparent consumption is consumption as indicated by mill sales volumes, which ignores the impact of customer inventory and the reclassification of imports. The sales volume to customers is used as the indicator of demand, with the difference between apparent and real demand being the movement in inventories.

US and European Apparent Consumption of Coated Woodfree Paper

Source: AF&PA & Cepifine

United States short tons converted to tons

The price history for benchmark coated woodfree grades in North America and Europe is shown in the following chart:

Benchmark Coated Woodfree Paper Prices for North America and Europe

Source: RISI (Resource Information System Inc)

Prices are list prices. Actual transaction prices could differ.

Coated Woodfree Paper North America:

The average sales prices achieved by Sappi Fine Paper North America increased by US\$44 to US\$1,058 per ton, in fiscal 2011 compared to fiscal 2010. Prices showed an improving trend over the course of the fiscal year as economic conditions improved and demand for our products grew.

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In October 2010, the US International Trade Commission determined that imports of coated paper from China and Indonesia threatened material injury to US producers and workers. The decision allowed the US Department of Commerce to impose duties on coated paper arriving in the US from China, ranging from 27.1% to 338.7% and for imports arriving from Indonesia, at 38%. These duties are expected to remain in effect for five years from November 2010, although there can be no guaranty that the duties will not be eliminated or reduced prior to that time.

Coated Woodfree Paper Europe:

In fiscal 2011, the average prices realized for our European products increased by €33 per ton compared to fiscal 2010. Prices for coated woodfree paper in Europe were higher in the first half of the year but declined slowly as demand weakened on rising uncertainty surrounding the European sovereign debt crisis. Sales prices in Europe are impacted by the movement in the US\$ / euro exchange rate, as explained in detail in the analysis of sales by region contained in "Operating Results Sales".

Coated Mechanical Paper Europe:

European deliveries of coated magazine paper increased 5% in fiscal 2011 compared to fiscal 2010, while average market prices also increased by 5%. The market for coated mechanical paper was more favorable than that of coated woodfree paper due to an exaggerated price differential between the grades, which made coated mechanical paper more affordable and more attractive to purchasers. Sales prices in Europe are impacted by the movement in the US\$ / euro exchange rate, as explained in detail in the analysis of sales development by region contained in "Operating Results Sales".

Pulp

The global economic recession in fiscal 2009 led to a decrease in demand for paper and subsequently, market pulp. As economic conditions began to recover in fiscal 2010, coupled with a disruption of supply from Chile due to an earthquake, prices for market pulp rose quickly. Average NBSK pulp prices increased by 36% in fiscal 2010 compared to fiscal 2009. Average NBSK pulp prices continued to perform well and remained high into fiscal 2011, showing an 11% increase when compared to 2010. NBSK pulp prices peaked in June 2011 but began falling as worldwide economic conditions became increasingly uncertain due to the European Union sovereign debt crisis.

Since we sell roughly as much pulp as we purchase, fluctuations in market pulp prices have a marginal direct impact on our overall profitability. However, at a divisional level, pulp prices do affect the profitability of our divisions as Sappi Fine Paper Europe is a net buyer of hardwood pulp and Sappi Southern Africa and Sappi North America are net sellers of hardwood pulp.

The price of NBSK and Bleached Hardwood Kraft pulp (BHKP) is depicted in the following chart:

PIX Benchmark Pulp Prices

Source: PIX (Index from FOEX Indexes Ltd)

Chemical cellulose accounts for the majority of external pulp sales. Chemical cellulose is produced at our Saiccor mill in South Africa and is used principally as an input in the production of various textiles, non-woven fibres, microcrystalline cellulose for the food and pharmaceutical industries, ethers and Cellulose Microcrystalline's ("CMC") for a range of household as well as mining products, and a number of other application areas. Sappi is not currently active in the acetate segment primarily due to production constraints at the Saiccor mill, coupled with strong demand from its other segments.

The movement in the price of certain chemical cellulose grades is linked to the price of NBSK. However, higher technical grade specifications allow chemical cellulose to typically trade at a premium to NBSK. BHKP generally sells at a lower price than NBSK.

After a decline in the US\$ denominated sales price of NBSK, which dropped to a low of US\$577 per ton in March 2009, the market has seen a steady recovery, reaching a high of US\$1,023 per ton in June 2011 before retreating to US\$958 per ton by the end of September 2011. Spot prices for chemical cellulose reached record highs at the beginning of 2011 before falling back sharply in the latter half of the year.

While demand for chemical cellulose experienced a sharp downturn during the first half of fiscal 2009 as a result of the global economic crisis, this was short lived and demand recovered strongly in the second half of fiscal 2009, driven mainly by a recovery in demand for textile fibres, including viscose staple fibres and lyocell. The Saiccor mill has operated at full capacity from the second half of 2009 and during fiscal 2010 and 2011, except for the three week strike during July 2011. Towards the end of 2011, a number of viscose staple fibre producers, largely those purchasing chemical cellulose on a non-contract basis, began reducing their chemical cellulose order quantities as a result of weakening demand, the introduction of new viscose capacity and the expectation of lower chemical cellulose prices from the newly announced chemical cellulose capacity entering the market. However, Saiccor's order book remains full as a significant portion of its capacity is contracted with key industry players.

In fiscal 2010 the 90,000 ton per annum Baikalsk plant in Russia restarted production while the P.T. Toba plant in Indonesia, which had been switched to run on paper grade pulp, recommenced producing

chemical cellulose at an estimated rate of around 140,000 tons per annum. Furthermore, China increased its bamboo based chemical cellulose capacity by 40,000 tons per annum during the year.

During fiscal 2011, the spot price for certain chemical cellulose grades peaked at US\$2,400 per ton on the back of strong global demand. With pricing at these levels, a number of pulp and paper companies around the world announced new chemical cellulose capacities. However, as pricing for chemical cellulose eased back to more stable levels, some of these capacity expansions were cancelled or placed on hold, although, the market did see the commissioning of approximately 300,000 tons of chemical cellulose conversions (swing production capacity) due to the record high prices of chemical cellulose and cotton linter pulp in 2011. However, these production facilities exited the chemical cellulose market and recommenced with the production of paper pulp as the spot prices for chemical cellulose products declined.

During 2011, the Cosmo Speciality Fibres production facility restarted its 140,000 ton per annum chemical cellulose line in the USA, bamboo based chemical cellulose capacity in China was expanded by a further 70,000 tons per annum and the Paskov Mill commissioned an additional 50,000 tons per annum of chemical cellulose in the Czech Republic.

Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), the euro (€) and the South African Rand (ZAR). Although the reporting currency is the US dollar, a significant portion of the Group's sales and purchases are made in currencies other than the US dollar. In Europe and North America, sales and expenses are generally denominated in euro and US dollars, respectively; however, pulp purchases in Europe are primarily denominated in US dollars. In South Africa, costs incurred are generally denominated in ZAR, as are local sales. Exports from the South African businesses to other regions, which in local currency represented approximately 49% of net sales of Sappi Southern Africa in fiscal 2011 (fiscal 2010: 47%; fiscal 2009: 44%), are denominated primarily in US dollar.

The appreciation of the ZAR or the euro against the US dollar diminishes the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins on exports sales as well as those domestic sales which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which subsidiaries are exposed. The principal currencies in which subsidiaries conduct business that are subject to the risks described in this paragraph are the euro and ZAR. The following table depicts the average and year end exchange rates for the ZAR and euro against the US dollar used in the preparation of our financial statements in fiscal 2011, fiscal 2010 and fiscal 2009:

Exchange rates	Average rates			Closing rates		
	2011	2010	2009	2011	2010	2009
US\$/ZAR	6.9578	7.4917	9.0135	8.0963	7.0190	7.4112
EUR/US\$	1.3947	1.3658	1.3657	1.3386	1.3491	1.4688

Exchange Rate Trends

Source: Thomson Reuters

US\$ 1 = ZAR, EUR 1 = US\$.

The profitability of certain of our South African operations is directly dependent on the ZAR proceeds of their US dollar exports. Selling prices in the local South African market are also influenced by pricing of foreign currency imports, and appreciations of the ZAR against the US dollar lead to increased pressure from imports.

The translation of our annual results into the reporting currency (US dollar) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. On average, the euro strengthened 2% against the US dollar in fiscal 2011 compared to fiscal 2010, but weakened towards the end of fiscal 2011 to close below its 2010 fiscal closing levels. The ZAR strengthened in fiscal 2011 to an average level against the US dollar of 6.96, 7% stronger than fiscal 2010 average levels, but weakened to a closing rate of ZAR8.10 / US\$ at the end of fiscal 2011, approximately 14% weaker than the closing rate of fiscal 2010. The impact of these currency movements increased reported sales in US dollars by US\$210 million for fiscal 2011, reduced reported sales in fiscal 2010 by US\$264 million and increased reported sales by US\$547 million in fiscal 2009. The impact of currency translation effects on our results of operations are described in "Operating Results Sales" and "Operating Results Operating Expenses".

Inflation and Interest Rates

The graph below summarizes the South African inflation and interest rates (3 month JIBAR), as well as the South African Reserve Bank lending rate (repo rate) at the relevant fiscal year ends.

South African Inflation and Interest Rates

Source: Bloomberg

In view of the global financial and economic crisis, inflation rates in the United States and Europe continued to decline in the first half of calendar 2009 before rising again in late calendar 2009 and early 2010. United States inflation rates declined again in late calendar 2010 before rising sharply in early calendar 2011 to reach levels closer to those of 2007 and 2008. European inflation rates continued to rise gradually in late calendar 2010 and 2011, also reaching levels closer to those of 2007 and 2008.

Short term interest rates declined sharply in early calendar 2009, as central banks reacted to the sharp decline in economic activity, and remained at their low levels during the second half of calendar 2009, 2010 and 2011. The table below depicts the fiscal period average United States three month Libor.

United States 3 Month Average Libor

The fiscal period average three-month Euribor interest rate in Europe is depicted below. The low short-term interest rates in the United States and Europe continue to represent a significant interest rate

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differential when compared to South Africa's 5.5% repurchase rate as determined by the South African Reserve Bank, and could result in further short-term strengthening of the ZAR.

European 3 Month Average Euribor

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 utilize 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 statement volatility can be minimized by means of hedge accounting, fair value accounting or other means.

With regard to interest rate and currency swaps, hedge accounting is permitted when the hedging relationship between the hedging instrument and the underlying debt meets the relevant requirements of IFRS. For example, the Group has entered into two hedging relationships, an interest rate and currency swap which swaps the fixed rate on a US dollar public bond to a euro fixed rate, as well as swapping the US dollar principal of the bonds to euro, and an interest rate swap which swaps the fixed rate on a US dollar public bond into a floating US dollar rate.

The Group has a current policy of not hedging translation risks. The South African and European operations use the ZAR and the euro as their respective functional currencies. Any translation of the value of these operations into US dollars results in foreign exchange translation differences as the ZAR and the euro exchange rates move against the US dollar. These changes are booked to the foreign currency translation reserve via other comprehensive income. Borrowings taken up in a currency other than the functional currency of the borrowing entity are specifically hedged with financial instruments, such as currency swaps and forward exchange contracts.

For further information, see note 29 to our Group Annual Financial Statements included elsewhere in this Annual Report for a detailed explanation.

South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 25% of our net sales in fiscal 2011, 24% of our net sales in fiscal 2010 and 22% of our net sales in fiscal 2009. See " Operating Results" for the proportion of South African operating profit to total profit.

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South Africa features a highly developed, sophisticated "first world" infrastructure at the core of its economy. Econometrix, a provider of economic analysis and forecasting for the South African economy, forecasts the South African GDP to grow by 3.1% in calendar year 2011. South Africa's long-term foreign currency investment ratings have remained constant over the last year. For information on South Africa's exchange control regime, see "Item 10 Additional Information Exchange Controls".

South Africa continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. Access to land, poverty, unemployment, crime and a growing prevalence of HIV/AIDS are some of the social and economic factors that affect businesses operating in this country.

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. Fifteen of the claims in KwaZulu-Natal have been withdrawn as have two in Mpumalanga. Another ten claims in KwaZulu-Natal are in the process of being settled. In addition, we have made an offer for the settlement of four further claims in KwaZulu-Natal and three claims in Mpumalanga. These settlements involve the sale of the portions of the land subject to the respective claims at prices to be agreed with the Commissioner on Restitution of Land Rights. The remaining claims have not been finalized and are still under investigation by the Regional Land Claims Commissioner.

The southern African region has one of the highest infection rates of HIV/AIDS in the world. In 1992, we started a program to address the effects of HIV/AIDS and its impact on our employees and our business. Our aim is to ensure that our program prevents new infections and to treat the HIV/AIDS positive employees. The program places special emphasis on testing and counseling to ensure that staff is informed with regard to their HIV/AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. We have also extended our voluntary counseling and testing (VCT) programs, and are offering an HIV test to every employee who visits the clinics for a medical examination.

The key components of Sappi's HIV/AIDS management program include health risk assessments and counseling services. The health risk assessment mechanism assesses the health risk levels among our employees, and channels the high risk individuals into various managed programs. Sappi have now reached a position where more than 50% of our southern African employees check their HIV status every year. Regular voluntary counseling and testing (VCT) ensures that we achieve early diagnosis of HIV infection and timely access to care.

Following the first anonymous voluntary prevalence tests in 2003, a fourth comprehensive voluntary study was conducted during 2011 in all of our southern African operations. Based on a participation rate of greater than 80%, at the locations tested, we estimate that the overall infection rate in our southern African operations has stabilized at approximately 15%, which compares favorably with the national average (19.2%). In response to these surveillance results, renewed focus has been placed on the HIV/AIDS management program so as to further contribute to the containment of the pandemic. We

estimate that approximately 64% of our employees that are HIV/AIDS positive participate in our HIV/AIDS managed care programs, which is an improvement on the prior year's participation rate (58%). Furthermore, the impact of HIV/AIDS on a company is generally reflected in the mortality rate of its employees. Sappi Southern Africa's mortality rate has more than halved from a high of 1.12% in 2005 to a rate of 0.47% in fiscal 2011.

Each Sappi operation in southern Africa has also identified the relevant role players in their geographical area and is working with them on the implementation of a comprehensive HIV/AIDS program, eliminating duplication and making optimum use of relevant resources through private-public partnerships.

The government and organized business have taken a number of steps in recent years to increase the participation of Black people in the South African economy. To this end, the Employment Equity Act (No. 55 of 1998), the Skills Development Act (No. 97 of 1998) and the Preferential Procurement Policy Framework Act (No. 5 of 2000) were promulgated. The Broad-Based Black Economic Empowerment Act (No. 53 of 2003) has formalized the country's approach to distributing skills, employment and wealth more equitably between races and genders. BEE focuses on increasing equity ownership, management and control of businesses by Black people, and improving Black representation in all levels of employment. It also promotes the development of skills within a business, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment.

In February 2007, the BEE scorecard as set out in the Codes of Good Practice published by the Department of Trade and Industry was streamlined and simplified without affecting their intended objectives. Our South African businesses were evaluated by Empowerdex, an independent BEE certification agency, against the Department of Trade and Industry's generic BEE scorecard and we achieved a score of 41 points with an overall BEE status of a "level seven contributor" (B rating) and a preferential procurement recognition level of 50%. Preferential procurement is used to drive transformation throughout the South African economy in that many customers will only buy from high BEE scorecard suppliers to boost their own BEE scorecard ratings. In July 2009, Empowerdex undertook the second verification of our South African businesses' BEE scorecard, and we improved our rating to a score of 54 points and an overall BEE status of a "level six contributor" (BB rating) and a preferential procurement recognition level of 60%.

The Forest Sector Charter was published in the Government Gazette in June 2009 as the "Forest Sector Code". This Charter applies to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses are signatories to this charter via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). This charter sets the objectives and principles for BEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by the government and the private sector (or South African forestry companies) to assist the forestry industry to achieve its BEE targets. With effect from calendar 2010, our South African businesses were evaluated against the Forest Sector's BEE scorecard.

In June 2010, Sappi completed a BEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of Sappi Limited were issued to its strategic empowerment partners, and to various trusts for the benefit of its black managers, its employees and growers/communities in the geographic areas where Sappi's South African businesses have 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".

In September 2010, Empowerdex verified the South African businesses against the Forestry Sector's BEE scorecard for the first time, and we further improved our rating to a score of 75.2 points with an overall BEE status of a "level three contributor" (AA rating) and a preferential procurement recognition level of 110%. As a result, 110% of the value of all purchases from our South African businesses qualify as preferential procurement spend in a customer's BEE scorecard.

The representation of Black people, particularly Black women, in management and all levels of employment within the company is a focus within the organization, driven by employment equity targets set in each occupational category. Skills development initiatives, particularly programs aimed at improving management and leadership skills, are geared to meet these targets. Where practical, we purchase goods and services from Black-owned businesses and seek opportunities to develop future Black vendors. We are committed to the support of our Project Grow, which is an initiative with local communities using their land for plantations while training them in the core principles of forestry management. This is achieved through financial and technical input, as well as by providing a secure market during the start-up phase of these small tree farming enterprises. This initiative has been extended to encourage aspirant tree farmers who wish to undertake forestry activities on a larger scale consistent with the government's strategy of promoting forestry as a means of sustainable livelihood in rural areas. We have a number of enterprise development initiatives and have established programs to train new entrepreneurs. These initiatives involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market. We have a history of investment in the communities in which we operate. Initiatives to promote education, health and welfare, arts and culture, and rural and community development, amongst others, are regularly undertaken.

The South African constitution guarantees ownership rights of assets, and it is the stated intent of the constitution that transfer of ownership will occur at market prices. It should be noted that BEE equity participation need not necessarily occur at the corporate level, and can be effected at divisional, business unit or lower levels. Because the BEE Act sets forth a framework for plans rather than specific requirements or goals, it is not possible to predict whether or how our business or assets may be impacted.

For further information, see "Item 4 Information on the Company History and Development of the Company" and "Item 3 Key Information Risk Factors".

Environmental Matters

We operate in an industry subject to extensive environmental regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters. We do separately account for environmental capital expenditures. See note 32 to our Group Annual Financial Statements included elsewhere in this Annual Report for a discussion of these matters.

For further information, see "Item 4 Information on the Company Environmental and Safety Matters".

Operating Results

Financial Condition and Results of Operations

The operations of the Group are organized into the following three reportable segments: (for a more detailed description of the operations of the Group, see "Item 4 Information on the Company Business Overview"):

Sappi Fine Paper North America

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Sappi Fine Paper Europe

Sappi Southern Africa

The Sappi Fine Paper business comprises the two reportable segments, Sappi Fine Paper North America and Sappi Fine Paper Europe.

The Sappi Southern Africa reportable segment includes the following divisions: Sappi Paper and Paper Packaging, Sappi Chemical Cellulose, and Sappi Forests. Sappi Paper and Paper Packaging consists of two fine paper mills, three packaging paper mills and the Sappi ReFibre operation. The volume, revenue and cost relationship within the Sappi Forests business is substantially different to that of the paper and chemical cellulose businesses which form part of this segment.

Profit or losses from investments in equity accounted associates and joint ventures not accounted for in our reportable segments and costs related to our Corporate Head Office, the Group's treasury operations and non-manufacturing entities which form part of the Sappi Group are not included in the reportable segments mentioned above, and are disclosed as Unallocated and eliminations in the segmental reporting.

The analysis and discussion which follows should be read in conjunction with our Annual Financial Statements included elsewhere in this Annual Report.

The key indicators of the Group's operating performance include sales and operating profit and operating profit excluding special items. Operating profit represents sales after operating expenses, which are comprised of cost of sales, selling, general and administrative expenses, other operating expenses or income and share of profit or loss from associates and joint ventures. As described in more detail in the discussion and analysis which follows, the key components of the Group's operating expenses can be characterized as variable costs (primarily variable manufacturing costs) or fixed costs (the fixed cost components of cost of sales and selling, general and administrative expenses).

Cost of sales is comprised of:

variable costs, which include raw materials, energy and other direct input costs, including:

wood;

energy;

chemicals;

pulp;

delivery charges; and

other variable costs;

fixed costs, which include:

employment costs allocated to cost of sales;

depreciation expense allocated to cost of sales; and

maintenance;

fair value adjustment on plantations, representing an accounting fair value adjustment of the timber assets of the Sappi Forests operation, which is mainly impacted by timber selling prices, costs associated with standing timber values, costs of harvesting and delivery, the estimated growth rate or annual volume changes in the plantations and discount rates applied; and

other overheads.

Selling, general and administrative expenses are comprised of:

employment costs not allocated to cost of sales;

depreciation expense not allocated to cost of sales;

marketing and selling expenses;

administrative and general expenses; and

Other operating expenses (income) are comprised of:

net asset impairment (reversal);

(profit) loss on sale and write-off of property, plant and equipment;

restructuring provisions raised (released) and closure costs; and

alternative fuel mixture tax credits in the United States.

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below. The Group's results reflect the Acquired Business from December 31, 2008, the date of the closing of the Acquisition.

The key indicators of the Group's operating performance are:

Key figures	2011	2010	2009
	US\$ million (except for share amounts)		
Sales	7,286	6,572	5,369
Operating profit (loss)	86	341	(73)
Special items ⁽¹⁾	318	(2)	106
Operating profit excluding special items	404	339	33
Basic (loss) earnings per share (US cents)	(45)	13	(37)

(1)

Please see "Item 3 Key Information Selected Financial Data" for a discussion of our use of Operating profit excluding special items and its usefulness for investors as a non-GAAP measure.

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The following table reconciles operating profit (loss) excluding special items to profit (loss) for the year.

	Year Ended September		
	2011	2010	2009
	(US\$ million)		
(Loss) profit for the year	(232)	66	(177)
Taxation charge (benefit)	11	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	
Fire, flood, storm and related events	(4)	26	11
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:

		2011 vs.		2010 vs.	
Segment Operating Profit (Loss)	2011	2010	2010	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 vs.	2009
		2010		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.

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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

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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	2010	Change	2009
		2011 vs.		2010 vs.	
		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

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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.

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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	2010	Change	2009
		2011 vs. 2010		2010 vs. 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	Costs	2011		2010		2009		
		Change		Change				
		US\$	2011	US\$	2010	US\$		
		/	vs.	/	vs.	/		
		Ton	2010	Ton	2009	Costs	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			2010			2009	
	Costs	Change		Costs	Change		Costs	US\$
		US\$	2011		US\$	2010		
		/	vs.		/	vs.		
		Ton	2010		Ton	2009		
(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.

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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

(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)

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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

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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)	
<i>Group Covenants</i>		
Net Debt to EBITDA	2.60	<4.5
EBITDA to Net Interest	3.25	>2.0
Net Debt to Total Capitalization	59%	<65%
<i>Sappi Southern Africa Covenants</i>		
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.

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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			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(US\$ millions)			
<i>On Balance Sheet</i>					
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				
<i>Off Balance Sheet</i>					
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