

SAPPI LTD
Form 20-F
December 15, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)
[SAPPI FINANCIAL INDEX](#)

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)

**Mr L. Newman
Tel +27 11 407 8079**

SappiCorpFinance@sappi.com
Fax +27 11 403 8854
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**

Edgar Filing: SAPPI LTD - Form 20-F

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.

TABLE OF CONTENTS

	Page
<u>Our Use of Terms and Conventions in this Annual Report</u>	iv
<u>Accounting Periods and Principles</u>	v
<u>Currency of Presentation and Exchange Rates</u>	vi
<u>Forward-Looking Statements</u>	vi
<u>PART I</u>	
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	1
<u>Item 2. Offer Statistics and Expected Timetable</u>	1
<u>Item 3. Key Information</u>	1
<u>Selected Financial Data</u>	1
<u>Risk Factors</u>	3
<u>Item 4. Information on the Company</u>	15
<u>History and Development of the Company</u>	15
<u>Business Overview</u>	16
<u>Sappi Fine Paper</u>	27
<u>Sappi Southern Africa</u>	34
<u>Supply Requirements</u>	39
<u>Environmental and Safety Matters</u>	44
<u>Organizational Structure</u>	48
<u>Property, Plant and Equipment</u>	49
<u>Item 4A. Unresolved Staff Comments</u>	50
<u>Item 5. Operating and Financial Review and Prospects</u>	51
<u>Company and Business Overview</u>	51
<u>Principal Factors Impacting our Group Results</u>	52
<u>Markets</u>	55
<u>Currency Fluctuations</u>	60
<u>Inflation and Interest Rates</u>	61
<u>South African Economic and Political Environment</u>	63
<u>Environmental Matters</u>	66
<u>Operating Results</u>	66
<u>Liquidity and Capital Resources</u>	85
<u>Off-Balance Sheet Arrangements</u>	96
<u>Contractual Obligations</u>	98
<u>Research and Development, Patents and Licenses, etc.</u>	98
<u>Share Buy Backs</u>	100
<u>Dividends</u>	100
<u>Mill Closures, Acquisitions, Dispositions, Impairment, Joint Venture and Broad Based Black Economic Empowerment</u>	100
<u>Pensions and Post-retirement Benefits Other than Pensions</u>	102
<u>Insurance</u>	104
<u>Critical Accounting Policies and Estimates</u>	105
<u>Adoption of Accounting Standards in the current year</u>	111
<u>Item 6. Directors, Senior Management and Employees</u>	113
<u>Directors and Senior Management</u>	113
<u>Compensation</u>	121
<u>Board Practices</u>	122
<u>Corporate Governance</u>	123
<u>Employees</u>	124
<u>Share Ownership</u>	126

	Page	
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	<u>128</u>
	<u>Major Shareholders</u>	<u>128</u>
	<u>Related Party Transactions</u>	<u>130</u>
	<u>Interests of Experts and Counsel</u>	<u>131</u>
<u>Item 8.</u>	<u>Financial Information</u>	<u>132</u>
	<u>Consolidated Statements and Other Financial Information</u>	<u>132</u>
	<u>Legal Proceedings</u>	<u>132</u>
	<u>Dividends</u>	<u>132</u>
	<u>Significant Changes</u>	<u>133</u>
<u>Item 9.</u>	<u>The Offer and Listing</u>	<u>134</u>
	<u>Offer and Listing Details</u>	<u>134</u>
	<u>Markets</u>	<u>135</u>
<u>Item 10.</u>	<u>Additional Information</u>	<u>136</u>
	<u>Memorandum and Articles of Association</u>	<u>136</u>
	<u>South African Companies Act, 2008</u>	<u>144</u>
	<u>Material Contracts</u>	<u>145</u>
	<u>Exchange Controls</u>	<u>148</u>
	<u>Taxation</u>	<u>150</u>
	<u>Documents on Display</u>	<u>158</u>
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>159</u>
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	<u>161</u>
<u>PART II</u>		
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>162</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>162</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>	<u>162</u>
	<u>Disclosure Controls and Procedures</u>	<u>162</u>
	<u>Management's Report on Internal Control over Financial Reporting</u>	<u>162</u>
	<u>Attestation Report of the Independent Registered Public Accounting Firm</u>	<u>162</u>
	<u>Changes in Internal Control over Financial Reporting</u>	<u>163</u>
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	<u>164</u>
<u>Item 16B.</u>	<u>Code of Ethics</u>	<u>164</u>
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>164</u>
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>165</u>
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchaser</u>	<u>165</u>
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>	<u>165</u>
<u>Item 16G.</u>	<u>Corporate Governance</u>	<u>165</u>
<u>PART III</u>		
<u>Item 17.</u>	<u>Financial Statements</u>	<u>166</u>
<u>Item 18.</u>	<u>Financial Statements</u>	<u>166</u>
<u>Item 19.</u>	<u>Exhibits</u>	<u>167</u>

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");

Edgar Filing: SAPPI LTD - Form 20-F

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;

Edgar Filing: SAPPI LTD - Form 20-F

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)

v

Edgar Filing: SAPPI LTD - Form 20-F

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.

Edgar Filing: SAPPI LTD - Form 20-F

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.

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.

Edgar Filing: SAPPI LTD - Form 20-F

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.

Edgar Filing: SAPPI LTD - Form 20-F

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.

Edgar Filing: SAPPI LTD - Form 20-F

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

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.

Uncoated paper

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.

Speciality paper

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.

Packaging products:

Packaging paper

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.

Mechanical paper:

Newsprint

Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.

Uncoated mechanical paper

Mechanical fibre based printing paper used primarily for the printing of books, and advertising inserts.

Coated mechanical/magazine paper

Coated mechanical fibre based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.

Major Product Categories**Description and Typical Uses****Pulp:**

Paper pulp

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.

Chemical cellulose

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.

Edgar Filing: SAPPI LTD - Form 20-F

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.

Edgar Filing: SAPPI LTD - Form 20-F

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 capacity ('000 tons) Paper	Number of paper machines	Paper	Market pulp
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.

Edgar Filing: SAPPI LTD - Form 20-F

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).

Edgar Filing: SAPPI LTD - Form 20-F

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 speciality papers are sold directly to customers in North America through a dedicated speciality 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 speciality papers (which comprise paper for labeling, packaging and other speciality uses).

The sales and marketing operations of Sappi Fine Paper Europe are responsible for all sales of woodfree papers, mechanical papers as well as speciality 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 speciality 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.

Edgar Filing: SAPPI LTD - Form 20-F

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

Sales:	Year ended September		
	2011	2010	2009
	(US\$ million)		
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

Edgar Filing: SAPPI LTD - Form 20-F

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 Kraft linerboard, white top linerboard, newsprint, plasterboard and bleached and unbleached market pulp
Ngodwana	380	2	Coated woodfree paper, coated label paper and tissue
Stanger	110	2	Kraft linerboard, corrugating medium, sackkraft and machine glazed kraft
Tugela	330	3	

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

Edgar Filing: SAPPI LTD - Form 20-F

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, Mpack, 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 Mpack 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.

Edgar Filing: SAPPI LTD - Form 20-F

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.

Edgar Filing: SAPPI LTD - Form 20-F

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

Edgar Filing: SAPPI LTD - Form 20-F

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	

Edgar Filing: SAPPI LTD - Form 20-F

	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