

SAPPI LTD
Form 6-K
April 05, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934

For the month of April 2011

Commission file number: 1-14872

SAPPI LIMITED

(Translation of registrant's name into English)

48 Ameshoff Street
Braamfontein
Johannesburg 2001

REPUBLIC OF SOUTH AFRICA

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

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

Yes

No

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

Table of Contents

INCORPORATION BY REFERENCE

Sappi Limited's information below, which is furnished by the Registrant under this Form 6-K, is incorporated by reference into (i) the Registration Statements on Form S-8 of the Registrant filed December 23, 1999, December 15, 2004 and February 2, 2010 in connection with The Sappi Limited Share Incentive Scheme, (ii) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited Share Incentive Scheme, (iii) the Registration Statements on Form S-8 of the Registrant filed December 15, 2004 and December 21, 2005 in connection with The Sappi Limited 2004 Performance Share Incentive Plan and (iv) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited 2004 Performance Share Incentive Plan.

FORWARD-LOOKING STATEMENTS

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 (the "Reform Act"), Sappi Limited (the "Company") is providing the following cautionary statement. Except for historical information contained herein, statements contained in this Report on Form 6-K may constitute "forward-looking statements" within the meaning of the Reform Act. The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions which are predictions of or indicate future events and future trends which do not relate to historical matters identify forward-looking statements. In addition, this Report on Form 6-K may include forward-looking statements relating to the Company's potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond the control of the Company, together with its subsidiaries (the "Group"), and may cause the actual results, performance or achievements of the Group to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to the impact of the global economic downturn, 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), adverse changes in the markets for the group's products, consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed, changing regulatory requirements, unanticipated production disruptions (including as a result of planned or unexpected power outages), economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions and achieving expected savings and synergies and currency fluctuations. These and other risks, uncertainties and factors are discussed in the Company's Annual Report on Form 20-F and other filings with and submissions to the Securities and Exchange Commission, including this Report on Form 6-K. Shareholders and prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the submission of this Report on Form 6-K and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Use of Terms and Conventions</u>	<u>2</u>
<u>Forward-Looking Statements</u>	<u>3</u>
<u>Presentation of Financial Information</u>	<u>4</u>
<u>Currency of Presentation and Exchange Rates</u>	<u>5</u>
<u>Risk Factors</u>	<u>6</u>
<u>Capitalization</u>	<u>16</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Our Business</u>	<u>91</u>
<u>Description of Other Financing Arrangements</u>	<u>94</u>

Table of Contents

USE OF TERMS AND CONVENTIONS

Unless otherwise specified or the context requires otherwise in this document:

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 our existing €400 million OeKB Term Loan Facility; 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 "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 "2012 Notes" are to our US\$500 million 6.75% unsecured guaranteed notes due 2012;

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

References to the "SPH Notes" are to the 2012 Notes and the 2032 Notes, collectively;

References to the "Refinancing" are to the issuance of certain debt securities and the use of proceeds therefrom (a) to redeem the remaining outstanding amount of our 2012 Notes, (b) to repay approximately €200 million of the outstanding borrowings under our OeKB Term Loan Facility and (c) for general corporate purposes;

References to the "existing Revolving Credit Facility", "new or amended and restated Revolving Credit Facility", "OeKB Term Loan Facility", "Bank Austria Facility" and "Intercreditor Agreement" are to the facilities and agreements described in the section entitled "Description of Other Financing Arrangements" included elsewhere herein;

References to "BEE" are to Broad-Based Black Economic Empowerment, or Black Economic Empowerment, which arises as a result of 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"), when used in relation to the Group financial statements of Sappi Limited, or to the International Financial Reporting Standards, as adopted by the European Union, when used in relation to the consolidated financial statements of Sappi Papier Holding GmbH;

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;

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

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Table of Contents

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" and "GBP" 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 September 26, 2010;

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 document 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 this document. 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 document 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 document, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries.

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, statements contained in this document may constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

Table of Contents

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 investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions and achieving expected savings and synergies; and

currency fluctuations.

These factors are fully discussed elsewhere herein. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date hereof 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.

PRESENTATION OF FINANCIAL INFORMATION

With regard to Sappi, unless otherwise specified, all references herein to a "fiscal year" and "year ended" of Sappi Limited refer to a twelve-month financial period. All references herein to fiscal 2010, fiscal 2009 or fiscal 2008, or the years ended September 2010, 2009 or 2008 refer to Sappi Limited's twelve-month financial periods ended on September 26, 2010, September 27, 2009 and September 28, 2008, respectively. References to the three months ended December 2010 and 2009 refer to the periods from September 27, 2010 to January 2, 2011 and September 28, 2009 to December 27, 2009, respectively. References to December 2010 and December 2009 represent amounts as at, respectively, January 2, 2011 and December 27, 2009. Our Group annual financial statements included elsewhere herein have been prepared in conformity with IFRS.

Table of Contents

Certain numerical figures set out herein, including financial data presented in millions or thousands, have been subject to rounding adjustments and, as a result, the totals of the data herein may vary slightly from the actual arithmetic totals of such information.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group annual financial statements and all financial data presented herein in US dollars on a nominal (non-inflation adjusted) basis. The following table sets forth the average and closing exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements:

Exchange rates	Average rates					Closing rates				
	December 2010	December 2009	December 2010	December 2009	December 2008	December 2010	December 2009	December 2010	December 2009	December 2008
ZAR/US\$	6.9464	7.5009	7.4917	9.0135	7.4294	6.6190	7.5315	7.0190	7.4112	8.0751
EUR/US\$	0.7399	0.6786	0.7322	0.7322	0.6638	0.7474	0.6946	0.7412	0.6809	0.6843
US\$/EUR	1.3516	1.4737	1.3658	1.3657	1.5064	1.3380	1.4397	1.3491	1.4688	1.4615

The Bloomberg Composite Rate of the Rand against the US dollar on April 1, 2011 was US\$1.00 = ZAR6.6978. The Bloomberg Composite Rate of the US dollar against the euro on April 1, 2011 was €1.00 = US\$1.4237. The Bloomberg Composite Rate is a "best market" calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications. The ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

For further information regarding the conversion to US dollars, see note 2 to our Group annual financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations Principal Factors Impacting on Group Results Currency Fluctuations".

Table of Contents

RISK FACTORS

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/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 has led to 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. The timing and magnitude of 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 2010.

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.

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

During the latter half of fiscal 2008 and fiscal 2009, demand for coated Woodfree paper declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession was due to credit conditions impacted by the subprime mortgage crisis and other factors, including slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced 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, including as a result of turmoil in the sovereign debt markets. Even though our operational results improved during fiscal 2010 and the three-month period ended December 2010, we are still impacted by the slow recovery of the world economies.

Table of Contents

Furthermore, we are unable to predict the timing and/or rate of such a recovery. Finally, we cannot predict the timing or duration of any other downturn in the economy that may occur in the future.

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 in our inability to increase selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

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 strive to ensure that our facilities comply with all applicable environmental laws and the 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.

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 our 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

Table of Contents

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.

Although we have successfully negotiated the renewal of our 2011 insurance cover at rates more favorable than those of 2010 and self-insured deductibles for any one property damage occurrence have remained at €20.5 million, with an unchanged aggregate annual limit of €33 million, we are unable to predict whether past or future events will result in less favorable terms. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value. 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 widespread fires on our plantations in fiscal 2010 was substantially less than fiscal years 2007 through 2009, 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, electronic media or the internet, or as a result of environmental activist pressure from consumers, all of which could negatively impact consumption of our products.

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 December 2010, on a pro forma basis after giving effect to the Refinancing, our interest bearing net debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) would have been US\$2,469 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.

Table of Contents

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 be more leveraged than certain of our competitors;

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.

As a result of the Refinancing, assuming that it is completed, we will refinance any amount outstanding under our 2012 Notes and repay borrowings under our OeKB Term Loan Facility. In addition, in connection with the Refinancing, we will replace our existing Revolving Credit Facility with a new or amended and restated Revolving Credit Facility. We also expect to continue refinancing other renewable facilities that mature under our funding arrangements and bilateral banking facilities.

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 has improved somewhat during the 2010 fiscal year and the three months ended December 2010, there is no assurance that the situation will not deteriorate in the future, which could result in tight credit restrictions and credit being available only at premium.

Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, have resulted in general economic conditions slightly improving in the current fiscal year. However 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

Table of Contents

and can restrict activities of our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations South African 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.

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.

Despite a recent improvement in general economic conditions, 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.

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. 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 has resulted in the past and could result in the future in a decline in global demand for our products and a softening of prices for some of our products. The availability of debt financing could also be negatively impacted by a global credit crisis.

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.

Table of Contents

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 significantly affected 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.

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\$1.35, US\$1.47 and US\$1.46 per euro at the end of each of fiscal 2010, 2009 and 2008, respectively. On March 18, 2011, it was trading at approximately US\$1.40 per euro.

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 R7.02, R7.41 and R8.08 per US dollar at the end of each of fiscal 2010, 2009 and 2008, respectively. The Rand was trading at approximately R7.12 per US dollar on March 18, 2011.

For further information, see notes 2 and 29 to our Group annual financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations Currency Fluctuations".

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

We own manufacturing operations in six 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations South African Economic and Political Environment" and " South African Exchange Controls".

We face certain risks in dealing with HIV/AIDS which may have an adverse effect on our southern African operations.

There is a serious problem with HIV/AIDS infection among our southern African workforce, as there is in southern Africa generally. The HIV/AIDS infection rate of our southern African workforce is expected to increase over the next decade. The costs and lost workers' time associated with HIV/AIDS may adversely affect our southern African operations.

For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations South African Economic and Political Environment".

Table of Contents

Our 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.

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 may 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 2009, fiscal 2010 and the three months ended December 2010, no single customer individually represented more than 10% of our total sales. Any

Table of Contents

adverse development affecting our principal customers or our relationships with our principal customers could have an adverse effect on our business and results of operations.

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 us 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.

Continued volatility in equity markets and declining yields in the bond markets could adversely affect the funded status and funding needs of our post-employment 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 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 the three months ended December 2010, the funded status of our post-employment benefit arrangements has improved since the end of last fiscal year, but 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 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.

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

Table of Contents

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.

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.

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. Electricity generation companies are competing for the same raw materials, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere.

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.

Table of Contents

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.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization at January 2, 2011, on an actual basis and as adjusted to give effect to the Refinancing, the new or amended and restated Revolving Credit Facility and the recent repurchase of US\$150 million principal amount of our outstanding 2012 Notes.

	As at December 2010	
	Actual	As adjusted
	(US\$ million)	
Cash and cash equivalents	591 ⁽¹⁾	466
Short-term debt:		
OeKB Term Loan Facility ⁽²⁾	123	
Other public debt ⁽³⁾	151	151
Other short-term debt	629	629
Total short-term debt	903	780
Long-term debt:		
Existing Revolving Credit Facility ⁽⁴⁾		
OeKB Term Loan Facility ⁽⁵⁾	305	160
New or Amended and Restated Revolving Credit Facility ⁽⁶⁾		
11.75% Senior Secured Notes due 2014	468	468
12.00% Senior Secured Notes due 2014	300	300
Certain debt securities		705
6.75% Guaranteed Notes Due 2012 ⁽⁷⁾	500	
7.50% Guaranteed Notes Due 2032	221	221
Other public debt ⁽³⁾	226	226
Other long-term debt	163	163
Adjustment to long-term debt ⁽⁸⁾	(63)	(88)
Total long-term debt	2,120	2,155
Total debt	3,023	2,935
Total shareholders' equity	2,016	1,979 ⁽⁹⁾
Total capitalization	5,039	4,914

(1) Includes cash of approximately US\$160.3 million used on March 15, 2011 to repurchase a portion of the outstanding principal amount of our 2012 Notes.

(2) A portion of our borrowings under the OeKB Term Loan Facility represents short-term debt and a portion of such borrowings represents long-term debt.

(3) Represents debt under the South African note program.

(4) Represents indebtedness under our existing Revolving Credit Facility which, as of December 2010, was

entirely undrawn. In connection with the Refinancing, we intend to enter into a new or amended and restated Revolving Credit Facility providing for borrowings of up to €350 million and maturing in 2016.

- (5) Represents long-term indebtedness under our OeKB Term Loan Facility. We intend to use a portion of the proceeds from this offering to repay a portion of the outstanding borrowings under our OeKB Term Loan Facility.
- (6) Assumes that no initial drawings will be made under the new or amended and restated Revolving Credit Facility and that the entire amount of such facility will be available for drawing. Drawings under the new or amended and restated Revolving Credit Facility will rank *pari passu* with the notes offered hereby.
- (7) On March 15, 2011, we purchased for cash US\$150 million principal amount of our outstanding 2012 Notes for an aggregate consideration of approximately US\$160.3 million (which includes accrued interest thereon of approximately US\$2.5 million). We intend to use a portion of the proceeds from this offering to redeem the remaining outstanding US\$350 million principal amount of our 2012 Notes.

- (8) Adjustment to reduce principal amount of long-term debt outstanding to amounts shown on our consolidated balance sheet after taking into account aggregate discounts paid up-front, fair value adjustments relating to hedge accounting and capitalized transaction costs relating to long-term debt.
- (9) Total shareholders' equity is adjusted for redemption premia and breakage fees incurred or to be incurred as a result of the redemption of our outstanding 2012 Notes and the prepayment of indebtedness under our OeKB Term Loan Facility with the proceeds of certain debt securities.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis together with our Group financial statements, including the notes. Certain information contained in the discussion and analysis set forth below and elsewhere herein includes forward-looking statements that involve risk and uncertainties. See "Forward-Looking Statements", "Risk Factors" and the notes to our Group financial statements for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, the forward-looking statements contained herein.

The consolidated financial information of the Sappi Group contained herein have been prepared in accordance with IFRS.

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2010, 2009 and 2008 operated on a 52 accounting week cycle. The three-month period ended December 2010 included an additional accounting week.

Company and Business Overview

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

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

Sales by source and destination for the three months ended December 2010 and each of fiscal 2010, fiscal 2009 and fiscal 2008 were as follows:

	Sales by Source				Sales by Destination			
	Three Months Ended December				Three Months Ended December			
	2010	2010	2009	2008	2010	2010	2009	2008
					%			
North America	20	21	24	28	22	22	24	29
Europe	55	55	54	46	48	48	48	40
Southern Africa	25	24	22	26	12	13	13	15
Far East and others					18	17	15	16
Total	100	100	100	100	100	100	100	100

Sappi Fine Paper has a total paper production capacity of approximately 6 million tons per annum. Our Group is one of the global market leaders in the coated paper business with a capacity

Table of Contents

of approximately 5.5 million tons of coated woodfree paper and coated mechanical paper per annum.

Our Group is approximately 95% integrated on a net pulp basis. This means that while some facilities are market buyers of pulp and others are market sellers, in the aggregate we produce less pulp than we use. By region, the South African operations are net sellers of pulp, Sappi Fine Paper North America produces slightly more pulp than it uses and the European operations are approximately 51% integrated. The expansion of our Saiccor mill in South Africa increased pulp production by approximately 200,000 tons. Approximately 70% of the wood requirements of Sappi Southern Africa are from sources either owned or managed by us. Both the North American and European operations are dependent on outside suppliers of wood for their pulp production requirements.

Principal Factors Impacting on Group Results

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

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

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

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

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

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business. See " Markets" for a further discussion of the cyclical nature of the pulp and paper industry and movements in market prices. In addition, the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. Other input costs, such as energy and fuel costs, vary depending on various factors, including local and global demand and seasonality. Worldwide economic conditions experienced a significant downturn during fiscal 2009 and into fiscal 2010, resulting in significant recessionary pressures and lower business and consumer confidence. As worldwide economic conditions improved throughout 2010, demand for our products improved, and market prices increased in our major markets. Market prices for

Table of Contents

pulp increased significantly in fiscal 2010 due to higher operating rates of paper manufacturers in fiscal 2010 and a major earthquake in February 2010 which disrupted market pulp supply from Chile, and continued to be at high levels during the three months ended December 2010.

Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), euro (€) and South African Rand (ZAR). Although the reporting currency is the US dollar, a significant portion of the Group's sales and purchases are made in currencies other than the US dollar. In Europe and North America, sales and expenses are generally denominated in euros and US dollars, respectively; however, pulp purchases in Europe are primarily denominated in US dollars. In South Africa, costs incurred are generally denominated in ZAR, as are local sales. Exports from the South African businesses to other regions, which in local currency represented approximately 50% and 49%, respectively, of net sales in the three months ended December 2010 and 2009 (47% and 44%, respectively, of net sales in fiscal 2010 and 2009), are denominated primarily in US dollars.

The appreciation of the ZAR or the euro against the US dollar tends to diminish the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins on exports sales as well as those domestic sales which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which subsidiaries are exposed. The principal currencies in which subsidiaries conduct business that are subject to the risks described in this paragraph are the euro and ZAR. The following table depicts the average and year-end exchange rates for the ZAR and euro against the US dollar used in the preparation of our financial statements in the three months ended December 2010 and 2009, in fiscal 2010, fiscal 2009 and fiscal 2008:

Exchange rates	Average rates					Closing rates				
	December 2010	December 2009	December 2010	December 2009	December 2008	December 2010	December 2009	December 2010	December 2009	December 2008
ZAR/US\$	6.9464	7.5009	7.4917	9.0135	7.4294	6.6190	7.5315	7.0190	7.4112	8.0751
US\$/EUR	1.3516	1.4737	1.3658	1.3657	1.5064	1.3380	1.4397	1.3491	1.4688	1.4615

The profitability of certain of our South African operations is directly dependent on the ZAR proceeds of their US dollar exports. Selling prices in the local South African market are also influenced by pricing of foreign currency imports.

The translation of our annual results into the reporting currency (US\$) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. In the three months ended December 2010, the euro weakened against the US dollar to an average of US\$1.35/euro from an average of US\$1.47/euro in the three months ended December 2009, and the Rand strengthened against the US dollar to an average of ZAR6.95/US\$ from an average of ZAR7.50/US\$ in the three months ended December 2009. The impact on sales for the three months ended December 2010 was to decrease sales by US\$58 million compared to the same period in fiscal 2009. On average, the euro remained stable against the US dollar in fiscal 2010 and fiscal 2009, while the ZAR strengthened in fiscal 2010 returning approximately to fiscal 2008 average levels against the US dollar after having weakened to an average of ZAR9.01/US\$ in fiscal 2009.

Table of Contents

The impact of these currency movements increased reported sales in US dollars by US\$263 million for fiscal 2010, reduced reported sales in fiscal 2009 by US\$547 million and increased reported sales by US\$259 million in fiscal 2008. The impact of currency translation effects on our results of operations are described in " Operating Results Sales" and " Operating expenses".

Inflation and Interest Rates

The graph below summarizes the South African inflation and interest rates, as well as the South African Reserve Bank lending rate (repo rate) for the relevant periods.

South African Inflation and Interest Rates

Source: Nedbank

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group monitors market conditions and may utilize approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimized by means of hedge accounting, fair value accounting or other means. As at December 2010, no fixed to floating interest rate swaps were in place and one floating to fixed interest rate swap was in place to hedge the funding provided by the South African securitization program.

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

Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives

We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base on a regional basis, including closing non-performing

Table of Contents

assets and pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

Potential Biberist closure. On March 31, 2011, we announced that Sappi Fine Paper Europe envisages the closure of its Biberist mill in Switzerland in response to market conditions and sustained increases in input costs. Sappi Fine Paper Europe will enter into a consultation process with its Biberist mill employee representatives and social partners in order to identify the best way of improving Sappi Fine Paper Europe's profitability, which may also include a full closure of the Biberist mill.

Kangas closure. On October 22, 2009, we announced that we would enter into a consultation process with our Kangas mill employee representatives in response to the reduction in European consumption of coated magazine paper arising from the global recession. The mill had experienced a substantial amount of commercial downtime since the beginning of 2009 in response to this reduction in demand. As a result of this process, we closed the mill in January 2010. On July 7, 2010, we sold the Kangas mill land and buildings to M-real for €13 million.

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

Acquisition of M-real Corporation's coated graphic paper business. On December 31, 2008, we acquired the coated woodfree and coated mechanical paper business from M-real Corporation. We acquired four paper mills from M-real Corporation: the Kirkiemi mill and the Kangas mill in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland and other specified assets, as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated woodfree and coated mechanical paper business of M-real Corporation. Sappi acquired M-real's coated graphic paper business for an enterprise value of €750 million (approximately US\$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital) amounting to €102 million (US\$143 million) in total.

Completion of the Sappi Saiccor expansion project. In August 2006, we announced the expansion of the capacity at our Saiccor mill in South Africa, where chemical cellulose products are produced. The capacity of the mill was approximately 600,000 tons per annum. The expansion has increased capacity to approximately 800,000 tons per annum. Originally scheduled for completion in the first half of calendar 2008, the project was subject to delays and cost increases. The increased capacity came on-line in September 2008 and became fully operational in April 2009. As a result of the rapid decline in demand for chemical cellulose experienced in the period from November 2008 to April 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 the plant was operating at close to full capacity by the end of September 2009.

Blackburn and Muskegon mill closure and cessation of production from PM 5 at Maastricht mill. In August 2008, we announced that we had undertaken a review of our European production activities in response to overcapacity and significant input cost pressure, and in accordance with our strategy of maintaining an efficient asset base. In that context, we reached an agreement with labor representatives at our Blackburn mill on September 22, 2008, pursuant to which the mill closed on November 12, 2008 as no buyer could be found before that date. Production at the Blackburn mill stopped on October 17, 2008. On December 19, 2008 we also ceased production from PM 5 at our Maastricht mill. As a result of the closure of our Blackburn mill and the cessation of production from PM 5 at our Maastricht mill, our coated woodfree paper capacity has been

Table of Contents

reduced by 180,000 tons. Profitable products have been moved to other facilities in Europe. In light of significantly lower global demand for coated woodfree paper products, we permanently ceased operations at the Muskegon mill on April 1, 2009, and announced the closure of the Muskegon mill on August 26, 2009.

South African Operations

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 25% and 22% of our net sales in the three months ended December 2010 and 2009, respectively, and 24% and 22% of our net sales in fiscal 2010 and fiscal 2009, respectively. See " Operating Results" for the proportion of South African operating profit to total profit and " South African Economic and Political Environment" for a description of the South African economic and political environment.

Environmental Matters

We operate in an industry subject to extensive environmental regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters. We do separately account for environmental capital expenditures.

Operating Results

Financial Condition and Results of Operations

The operations of the Group are organized into the following three reportable segments:

Sappi Fine Paper North America

Sappi Fine Paper Europe

Sappi Southern Africa

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

The Sappi Southern Africa reportable segment includes the following divisions: Sappi Paper and Paper Packaging, Sappi Chemical Cellulose, and Sappi Forests. The volume, revenue and cost relationship within the Sappi Forests business is substantially different from that of the paper and chemical cellulose businesses which form part of this segment.

Corporate, profit or losses from our Chinese joint venture and costs related to non-manufacturing entities which form part of the Sappi Group are not included in the reportable segments mentioned above, and are disclosed as Unallocated and eliminations in the segmental reporting.

The analysis and discussion which follows should be read in conjunction with our Group annual financial statements included elsewhere in this Offering Memorandum.

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

Table of Contents

Cost of sales is comprised of:

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

wood;

energy;

chemicals;

pulp;

delivery charges; and

other variable costs;

fixed costs, which include:

employment costs allocated to cost of sales;

depreciation expense allocated to cost of sales; and

maintenance;

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

other overheads.

Selling, general and administrative expenses are comprised of:

employment costs not allocated to cost of sales;

depreciation expense not allocated to cost of sales;

marketing and selling expenses;

administrative and general expenses; and

Other operating expenses (income) are comprised of:

net asset impairment (reversal);

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

restructuring provisions raised (released) and closure costs; and

alternative fuel mixture tax credits in the United States.

Comparison of the Three Months ended December 2010 and 2009

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below.

Table of Contents

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

Key figures	Three Months Ended December 2010 2009 (US\$ million, except for share amounts)	
	Sales	1,873
Operating profit	121	1
Special items	16	80
Operating profit excluding special items	137	81
Basic earnings (loss) per share (US cents)	7	(10)

The following table reconciles operating profit (loss) excluding special items to net profit (loss).

	Three Months Ended December 2010 2009 (US\$ million)	
Net profit (loss)	37	(51)
Taxation charge (benefit)	13	(21)
Net finance costs	71	73
Operating profit	121	1
Special items losses	16	80
Operating profit excluding special items	137	81
Plantation price fair value adjustment loss	11	95
Restructuring provisions raised	3	38
Loss on disposal of property, plant & equipment		2
Asset impairment reversals		(8)
Alternative fuel mixture tax credits		(49)
BEE transaction charge	1	
Fire, flood, storm and related events	1	2
Total Special items:	16	80

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

Segment contributions to operating profit were as follows:

Operating Profit (Loss)	Three Months Ended December 2010	Dec 2010 vs. Dec 2009 (US\$ million)	Three Months Ended December 2009
Sappi Fine Paper North America	23	(44)	67
Sappi Fine Paper Europe	34	22	12
Sappi Southern Africa	66	152	(86)
Unallocated and eliminations	(2)	(10)	8

Total	121	120	1
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25

Table of Contents

	Three Months Ended December	
Special items (Gain) Loss	2010	2009
Sappi Fine Paper North America		(48)
Sappi Fine Paper Europe		13
Sappi Southern Africa	13	115
Unallocated and eliminations	3	
Total	16	80

Operating Profit (Loss) excluding special items	Three Months Ended December 2010	Dec 2010 vs. Dec 2009 (US\$ million)	Three Months Ended December 2009
Sappi Fine Paper North America	23	4	19
Sappi Fine Paper Europe	34	9	25
Sappi Southern Africa	79	50	29
Unallocated and eliminations	1	(7)	8
Total	137	56	81

Special items for the Group in the three months ended December 2010 and the three months ended December 2009 are generally summarized below:

Plantation price fair value: This relates to an accounting fair value adjustment of the timber assets of Sappi Forests and Usutu Forests. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, and discount rates applied. The parameters applied are all market related. The impact was a negative US\$11 million in the three-month period ended December 2010 and a negative impact of US\$95 million in the three-month period ended December 2009.

Impairment and restructuring charges: In the three-month period ended December 2009 operating profit was positively impacted by asset impairment reversals of US\$8 million, which comprised the reversal of previously impaired land and buildings of the Kangas mill following its sale to M-real Corporation.

In the three-month period ended December 2009 operating profit was negatively impacted by restructuring charges of US\$38 million which related mostly to the closure of our Kangas and Usutu mills.

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

BEE charges: Charges related to a BEE transaction completed during the three-month period ended December 2010 amounted to US\$1 million.

Group

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The operating profit of US\$1 million recorded in the three months ended December 2009 improved to an operating profit of US\$121 million in the three-month period ended December 2010. The three-month period ended December 2010 included an additional accounting week in the quarter, which occurs every six years in our Group's accounting calendar.

Table of Contents

Operating profit in the three months ended December 2010 was negatively affected by net special items of US\$16 million compared to a negative impact of net special items of US\$80 million in the three months ended December 2009. Special items in the three months ended December 2010 included a negative plantation fair value price adjustment of US\$11 million compared to a negative plantation fair value price adjustment of US\$95 million in the three months ended December 2009.

Operating profit excluding special items increased in the three months ended December 2010 to US\$137 million from US\$81 million in the three months ended December 2009. This significant improvement was mainly due to increased demand and sales volumes in the Group's major markets and increased average selling price for some of the Group's major products.

Sappi Fine Paper North America

Key figures	Three Months Ended December	
	2010	2009
	(US\$ million)	
Operating profit	23	67
Restructuring provisions raised		1
Fuel tax credit		(49)
Operating profit excluding special items	23	19

Operating profit for the three months ended December 2010 was US\$23 million as compared to US\$67 million for the corresponding period in 2009 due to the lower pulp production as a result of the planned outage at our Somerset mill to update the chemical recovery complex and the positive impact, in the three months ended December 2009, of US\$49 million of special items related to the U.S. fuel tax credit, which did not recur in the three months ended December 2010 following the expiry of such tax credit at the end of 2009. Operating profit excluding special items was US\$19 million in the three-month period ended December 2009. There were no special items impacting operating profit in the three months ended December 2010. Demand for all our major products was strong during the three months ended December 2010 and average selling prices increased compared to the average selling prices in the three months ended December 2009.

Sappi Fine Paper Europe

Key figures	Three Months Ended December	
	2010	2009
	(US\$ million)	
Operating profit	34	12
Restructuring provisions raised ⁽¹⁾		17
Loss on disposal of property, plant and equipment		1
Asset impairment reversals		(8)
Written-off assets		1
Fire, flood, storm and related events		2
Operating profit excluding special items	34	25

(1)
Relates to the closure of our Kangas mill.

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Operating profit for the three months ended December 2010 was US\$34 million as compared to US\$12 million for the comparative period in 2009. In the three months ended December 2010,

Table of Contents

operating profit excluding special items was US\$34 million, the same as operating profit for the same period, as there were no special items impacting operating profit during this period. In the three months ended December 2009, operating profit excluding special items was US\$25 million. The improvement in operating profit excluding special items was due to increased sales volumes and average selling prices, which were mainly driven by increased demand for coated paper. Selling prices for coated mechanical paper remained depressed during the three-month period ended December 2010 resulting in negative margins for this product. Average selling prices in Europe in euro terms were approximately 12% higher than the average selling prices in the three months ended December 2009.

Sappi Southern Africa

Key figures	Three Months Ended December	
	2010	2009
	(US\$ million)	
Operating profit (loss)	66	(86)
Plantation price fair value adjustment loss	11	95
Restructuring provisions raised		20
Black Economic Empowerment charge	1	
Fire, flood, storm and related events	1	
Operating profit excluding special items	79	29

Operating profit for the three months ended December 2010 was US\$66 million as compared to an operating loss of US\$86 million for the comparative period in 2009.

Operating profit excluding special items improved to US\$79 million in the three months ended December 2010 compared to an operating profit excluding special items in the three-month period ended December 2009 of US\$29 million. This significant improvement was mainly due to increased sales volumes and average selling prices achieved by the chemical cellulose business, driven by increased demand for viscose fibers, particularly in Asia. With respect to the paper and paper packaging business, demand for containerboard, sackkraft and newsprint improved but demand for fine paper weakened.

Competition from low-priced imports continued during the quarter as a result of the strengthening of the Rand against the US dollar, resulting in lower profit margins for paper and paper packaging business products.

Table of Contents*Sales**Group*

An analysis of sales movements in the three months ended December 2010 and in the three months ended December 2009 is presented below:

Sales Volume	Three Months Ended December 2010	Dec 2010 vs. Dec 2009 ('000 tons)	Three Months Ended December 2009
Sappi Fine Paper North America	364	42	322
Sappi Fine Paper Europe	1,012	68	944
Sappi Southern Africa			
Pulp & Paper	452	2	450
Forestry	194	26	168
Total Sappi Southern Africa	646	28	618
Total	2,022	138	1,884

Sales Value	Three Months Ended December 2010	Dec 2010 vs. Dec 2009 (US\$ million)	Three Months Ended December 2009
Sappi Fine Paper North America	382	62	320
Sappi Fine Paper Europe	1,027	91	936
Sappi Southern Africa			
Pulp & Paper	447	97	350
Forestry	17	3	14
Total Sappi Southern Africa	464	100	364
Total	1,873	253	1,620

The main factors impacting sales are volume, price, product mix and currency exchange rate changes. The South African and European businesses transact in ZAR and EUR, respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rates between local currency and the US dollar during periods of high volatility significantly impacts results reported in US dollars from one period to the next. Movements in exchange rates impacted sales negatively by US\$58 million in the three months ended December 2010. An analysis of the drivers of sales movements is presented below:

Sales Variance Analysis

Three Months Ended December 2010
vs.
Three Months Ended

December 2009
(US\$ million)

Exchange rate effects	(58)
Volume change effects	118
Price and product mix effects	193

Total **253**

Sales for the three months ended December 2010 were US\$1,873 million, an increase of approximately 16% compared to the three months ended December 2009. This increase was driven by improved demand in all our major markets leading to increased sales volumes and increased average selling prices for some of our products.

Table of Contents

Average selling prices realized by the Group in the three months ended December 2010 were approximately 8% higher in US dollar terms than the average selling prices realized in the three months ended December 2009, mainly as a result of an increase in pulp selling prices. The average world benchmark NBSK pulp price increased by 24% in the three months ended December 2010 compared to the three-month period ended December 2009.

In the three months ended December 2010, sales volume for the Group was approximately 7% higher than in the three-month period ended December 2009.

Sappi Fine Paper North America

Sales increased by approximately 19% from US\$320 million in the three months ended December 2009 to US\$382 million in the three months ended December 2010. Improved demand in the three months ended December 2010 for coated paper and pulp allowed Sappi Fine Paper North America to increase sales volumes by 13% compared to the three months ended December 2009. Average selling prices realized in the three months ended December 2010 of US\$1,049/ton were higher than average selling prices of US\$994/ton achieved in the corresponding period in 2009.

Sappi Fine Paper Europe

Market conditions improved for all Sappi Fine Paper Europe products during the three months ended December 2010 compared to the three-month period ended December 2009. In three months ended December 2010, sales volumes were 7% higher than the sales volume in the corresponding period for 2009.

Overall, average selling prices during the three months ended December 2010, in both euro and US dollar terms were higher than those achieved in the three months ended December 2009. Average realized prices in euro terms increased from €673/ton in the three-month period ended December 2009 to €751/ton in the corresponding period for 2010. Average selling prices realized in US dollar terms in the three-month period ended December 2010 were US\$1,015/ton compared to US\$992/ton in the corresponding period for 2009.

Sappi Southern Africa

Sales from the southern African pulp and paper operations (Sappi Chemical Cellulose and Sappi Paper and Paper Packaging) increased by approximately 27% in US dollar terms or 18% in Rand terms in the three months ended December 2010 (US\$464 million; ZAR3,223 million) compared to the corresponding period in 2009 (US\$364 million; ZAR2,730 million). The increase in sales was largely due to increased sales volumes and an increase in the average selling price in Rand terms of pulp and paper products of approximately 18% from ZAR5,833/ton to ZAR6,869/ton.

Sales volumes for the southern African pulp and paper operations increased slightly by approximately 0.4% in the three months ended December 2010 compared to the three-month period ended December 2009. Demand for chemical cellulose products was significantly better in the three months ended December 2010 than during the corresponding period in 2009 and sales volume for the Sappi Chemical Cellulose business increased by 18% compared to the three months ended December 2009. The sales volumes for the Sappi Paper and Paper Packaging business decreased by 10% compared to the three-month period ended December 2009.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. During the three months ended December 2010 the average NBSK pulp price increased by 24% from an average of US\$772/ton in the comparable period in 2009 to an average of US\$957/ton in the three months ended December 2010. During the three months ended December 2010, our average chemical cellulose selling prices in US dollar terms increased by 30%

Table of Contents

compared to the three months ended December 2009, but increased by only 21% in Rand terms due to the strengthening of the Rand to the US dollar during the same period.

Average selling prices realized in the Sappi Paper and Paper Packaging business increased by 24% in US dollar terms and by 15% in Rand terms compared to the three-month period ended December 2009.

Sales of our Sappi Forests business increased by 21% in US dollar terms or 12% in Rand terms in the three months ended December 2010 (US\$17 million; ZAR118 million) compared to the three months ended December 2009 (US\$14 million; ZAR105 million). The sales volumes of the Sappi Forests business increased by 15% compared to the three-month period ended December 2009. Average selling prices of timber in Rand terms decreased slightly by 3% compared to the three-month period ended December 2009 due to increased availability of timber.

Operating expenses

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

Operating Costs	Three Months Ended December 2010	December 2010 vs. December 2009	Three Months Ended December 2009
	(US\$ million)		
Variable Costs			
Delivery	149	13	136
Manufacturing	1,008	173	835
Total Variable Costs	1,157	186	971
Fixed Costs			
Price Fair value plantation	11	(84)	95
Impairment reversals		8	(8)
Restructuring	3	(35)	38
Alternative fuel mixture tax credits		49	(49)
Fire, flood, storm and related events	1	(1)	2
BEE charge	1	1	
Sundry loss	7	6	1
Other	(11)	(17)	6
Total	1,752	133	1,619

Variable and fixed costs are analyzed in more detail below.

Table of Contents*Variable manufacturing costs**Group*

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

Variable Manufacturing Costs	Three Months Ended December 2010		Change 2010 vs. 2009 (US\$ million)	Three Months Ended December 2009	
	Costs (US\$ million)	US\$/Ton		Costs (US\$ million)	US\$/Ton
Wood	201	99	23	178	94
Energy	167	83	7	160	85
Pulp ⁽¹⁾	283	140	94	189	100
Chemicals	264	131	11	253	134
Other costs	93	46	38	55	29
Total	1,008	499	173	835	442

(1)

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

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

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

Regional Variable Manufacturing Costs(1)	Three Months Ended December 2010		Change 2010 vs. 2009 (US\$ million)	Three Months Ended December 2009	
	Costs (US\$ million)	US\$/Ton		Costs (US\$ million)	US\$/Ton
Sappi Fine Paper North America	208	569	44	164	508
Sappi Fine Paper Europe	615	608	79	536	567
Sappi Southern Africa	250	326	38	212	287

(1)

Note: Regional variable manufacturing costs are pre-consolidation adjustments.

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Cost management is a major focus area for the Group. We have engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. Product design and raw material inputs are constantly reviewed to ensure product attributes and quality meet market specifications.

Sappi Fine Paper North America

During the three months ended December 2010, variable manufacturing costs per ton increased by 12% compared to the three-month period in 2009, due to increases in purchase prices of pulp, energy and consumables, offset to some extent by a decrease in purchase prices of wood.

Table of Contents*Sappi Fine Paper Europe*

Sappi Fine Paper Europe experienced significant variable manufacturing cost pressure during the three-month period ended December 2010. Our European business purchases approximately 49% of the pulp required for paper production in the open market. Variable manufacturing cost per ton in euro terms increased by 17% compared to the three-month period ended December 2009, mainly due to a significant increase in wood, pulp and consumable input costs per ton. This increase was slightly offset by a decrease in purchased energy prices. The increase of 15% in variable manufacturing costs in US dollar terms compared to the three-month period ended December 2009 was offset to some extent by the strengthening of the US dollar from the average US\$/euro exchange rate for the two quarters changed from 1.4737 in the three months ended December 2009 to 1.3516 in the three months ended December 2010.

Sappi Southern Africa

During the three months ended December 2010, variable manufacturing input costs per ton in Rand terms increased by 5% compared to the three-month period ended December 2009 due to increased pulp input costs per ton, offset to some extent by a decrease in chemicals input costs per ton. The increase in input costs per ton in US dollar terms stems from the change in average exchange rates used for translation in the three-month period ended December 2010 (ZAR/US\$ = 6.9464) and in the three-month period ended December 2009 (ZAR/US\$ = 7.5009).

*Fixed costs**Group*

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

Fixed Costs	Three Months Ended December 2010 Costs	Variance Value (US\$ million)	Three Months Ended December 2009 Costs
	Personnel	312	8
Maintenance	80	8	72
Depreciation	109	(3)	112
Other	82	8	74
Total	583	21	562

The regional analysis which follows excludes corporate fixed costs and consolidation adjustments which are not material.

Fixed Costs	Three Months Ended December 2010 Costs	Variance Value (US\$ million)	Three Months Ended December 2009 Costs
	Sappi Fine Paper North America	127	6
Sappi Fine Paper Europe	297	(18)	315
Sappi Southern Africa	164	27	137

Sappi Fine Paper North America

Fixed costs increased by US\$6 million or 5% in the three months ended December 2010 compared to the three months ended December 2009. This increase was mainly due to salary and wage increases and an increase in the number of employees.

Table of Contents***Sappi Fine Paper Europe***

Fixed costs increased by €6 million or 3% in the three months ended December 2010 compared to the three months ended December 2009. This increase was mainly due to increases in maintenance costs and salary and wage increases.

Sappi Southern Africa

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

Fixed costs increased in Rand terms by 10% from ZAR1,031 million to ZAR1,138 million, in the three months ended December 2010 compared to the three months ended December 2009. This increase was mainly due to a 25% increase in maintenance costs relating to costs incurred as a result of maintenance shutdowns at our Ngodwana and Saiccor mills and a 9% increase in personnel costs. The increase in personnel costs is due to an increase in the number of employees at our Saiccor mill and salary and wage increases.

Net Finance Costs

Quarterly finance costs may be analyzed as follows:

Finance Costs	Three Months Ended December	
	2010	2009
	(US\$ million)	
Finance costs	81	82
Finance revenue	(3)	(3)
Net interest paid	78	79
Net foreign exchange gains	(4)	(3)
Net fair value gain on financial instruments	(3)	(3)
Net finance costs	71	73

Net interest paid (finance costs less finance revenue) in the three months ended December 2010 was US\$78 million compared to US\$79 million in the three months ended December 2009.

The US\$4 million net foreign exchange gain in the three-month period ended December 2010 and the US\$3 million net foreign exchange gain in the corresponding period in 2009 were mainly due to the unwinding or Rand/US dollar foreign exchange positions to cover exports from the South African business denominated in US dollars. The Group's policy is to identify foreign exchange risks immediately when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third party banks.

The US\$3 million net fair value gain on financial instruments in each of the three-month periods ended December 2010 and 2009 relates to the net impact of currency and interest rate movements after hedge accounting for certain interest rate and currency swaps the Group has entered into in order to manage the interest and currency exposure on internal and external loans.

Table of Contents*Taxation*

	Three Months Ended December 2010 2009 (US\$ million)	
Profit/(loss) before taxation	50	(72)
Taxation at the average statutory tax rates	12	(14)
Net exempt income and non-tax deductible expenditure	1	(4)
Effect of tax rate changes		
Deferred tax asset not recognized	9	21
Utilization of previously unrecognized tax assets	(9)	(24)
Secondary Tax on Companies		
Prior year adjustments		
Other taxes		
Taxation charge/(benefit)	13	(21)
Effective tax rate	26%	29%

With a profit before taxation of US\$50 million, the total taxation charge to the income statement of US\$13 million corresponds to an effective tax rate of 26% for the three-month period ended December 2010.

Profit (loss)

We produced a net profit of US\$37 million for the three months ended December 2010 compared to a net loss of US\$51 million for the three months ended December 2009. The main reason for the change in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010, was the beneficial impact on sales volume and selling prices of a significant increase in demand for all major products as major world economies started to recover.

Comparison of Fiscal 2010, 2009 and 2008*Overview*

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below. The Group's results reflect the Acquired Business from December 31, 2008, the date of the closing of the Acquisition, as further specified in note 33 to our Group annual financial statements for fiscal 2010.

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

Key figures	2010	2009	2008
	(US\$ million, except for share amounts)		
Sales	6,572	5,369	5,863
Operating profit/(loss)	341	(73)	314
Special items (gains) losses	(2)	106	52
Operating profit excluding special items	339	33	366
Basic earnings (loss)/per share (US cents)	13	(37)	28
		35	

Table of Contents

The following table reconciles operating profit excluding special items to net profit (loss).

	Year Ended		
	September		
	2010	2009	2008
	(US\$ million)		
Net profit (loss)	66	(177)	102
Taxation charge (benefit)	20	(41)	86
Net finance costs	255	145	126
Operating profit (loss)	341	(73)	314
Special items (gains) losses	(2)	106	52
Operating profit (loss) excluding special items	339	33	366
Plantation price fair value adjustment (loss) gain	(31)	67	(120)
Restructuring provisions raised	46	34	41
Profit on disposal of property, plant & equipment	(5)	(1)	(5)
Asset (impairment reversals) impairments	(10)	79	119
Alternative fuel mixture tax credits	(51)	(87)	
Integration costs		3	
BEE transaction charge	23		
Fire, flood, storm and related events	26	11	17
Total Special items (gains) losses	(2)	106	52

Table of Contents

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

Segment contributions to operating profit were as follows:

Operating Profit/(Loss)	2010 vs.		2009 vs.		
	2010	2009	2009	2008	2008
	(US\$ million)				
Sappi Fine Paper North America	180	127	53	(39)	92
Sappi Fine Paper Europe	72	139	(67)	(3)	(64)
Sappi Southern Africa	112	166	(54)	(333)	279
Unallocated and eliminations ⁽¹⁾	(23)	(18)	(5)	(12)	7
Total	341	414	(73)	(387)	314

- (1) Includes the Group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

Special items (Gain)/Loss	2010	2009	2008
	(US\$ million)		
Sappi Fine Paper North America	(56)	(55)	3
Sappi Fine Paper Europe	4	79	119
Sappi Southern Africa	22	72	(70)
Unallocated and eliminations ⁽¹⁾	28	10	
Total	(2)	106	52

- (1) Includes the Group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

Operating Profit/(Loss) excluding special items	2010 vs.		2009 vs.		
	2010	2009	2009	2008	2008
	(US\$ million)				
Sappi Fine Paper North America	124	126	(2)	(97)	95
Sappi Fine Paper Europe	76	64	12	(43)	55
Sappi Southern Africa	134	116	18	(191)	209
Unallocated and eliminations ⁽¹⁾	5		5	(2)	7
Total	339	306	33	(333)	366

- (1) Includes the Group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

Table of Contents

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

Plantation price fair value: The impact was a positive US\$31 million in fiscal 2010 and a negative impact of US\$67 million in fiscal 2009.

Impairment and restructuring charges: In fiscal 2010 operating profit was positively impacted by asset impairment reversals of US\$10 million, which comprised the reversal of a portion of the fiscal 2009 impairment of the coated mechanical paper business unit in Europe, which negatively impacted operating profit in that year (US\$74 million). Fiscal 2009 operating profit was further negatively impacted by the impairment of the Usutu mill in southern Africa (US\$5 million).

In fiscal 2010 operating profit was negatively impacted by restructuring charges of US\$46 million, which related to the closure of the Usutu mill in southern Africa and the Kangas mill in Europe. The fiscal 2009 operating profit was negatively impacted by restructuring charges of US\$34 million which related mostly to the closure of the Muskegon mill in the United States.

Alternative fuel mixture tax credits: During fiscal 2010 and 2009, we 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 have reflected such amounts in the accompanying Group income statement in " Other operating expenses (income)". Cash received, net of fees and expenses paid by us 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. We consider 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.

BEE charges: Charges related to a BEE transaction completed during fiscal 2010 amounted to US\$23 million.

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

During fiscal 2009 the southern African business experienced devastating fires across a wide area of afforested land and some flooding at the Saiccor mill. The cost of these damages was US\$10 million in fiscal 2009.

Group

Comparing fiscal 2010 with fiscal 2009

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

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

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

Table of Contents*Comparing fiscal 2009 with fiscal 2008*

Operating profit declined from US\$314 million in fiscal 2008 to a loss of US\$73 million for fiscal 2009.

Operating profit in fiscal 2009 was adversely affected by special items which included an unfavorable plantation fair value price adjustment (US\$67 million), restructuring charges (US\$34 million), asset impairment charges (US\$79 million) and fire and flood damage (US\$11 million) which were partly offset by alternative fuel mixture tax credits earned in North America (US\$87 million).

Operating profit excluding special items decreased in fiscal 2009 to US\$33 million from US\$366 million in fiscal 2008. This significant decline was mainly due to declines in sales volumes and selling prices in the Group's major markets, which were driven by decreased demand for all major products.

Sappi Fine Paper North America

Key figures	2010	2009	2008
	(US\$ million)		
Operating profit	180	53	92
Profit loss on disposal of property, plant & equipment	(3)		(1)
Asset (impairment reversals) impairments	(2)		4
Alternative fuel mixture tax credits	(51)	(87)	
Restructuring provisions raised		31	
Fire, flood, storm and related events		1	
Operating profit (loss) excluding special items	124	(2)	95

Comparing fiscal 2010 with fiscal 2009

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

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

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

Comparing fiscal 2009 with fiscal 2008

Operating profit decreased from US\$92 million in fiscal 2008 to US\$53 million in fiscal 2009.

The operating profit in fiscal 2009 included favorable net special items of US\$55 million which consisted mainly of alternative fuel mixture tax credits earned (US\$87 million), offset by restructuring charges for the closure of the Muskegon mill (US\$27 million) and other restructuring charges (US\$4 million).

The operating profit excluding special items declined to a loss of US\$2 million in fiscal 2009 from an operating profit excluding special items in fiscal 2008 of US\$95 million. This decrease was mainly due to a significant decrease in demand for our major products and therefore a decrease in sales volumes, a decrease in average selling prices, offset by reductions in variable costs and fixed costs.

Table of Contents*Sappi Fine Paper Europe*

Key figures	2010	2009	2008
	(US\$ million)		
Operating profit (loss)	72	(67)	(64)
(Profit) loss on disposal of property, plant & equipment	(2)	1	(1)
Asset (impairment reversals) impairments	(10)	74	78
Self insurance	(22)		
Restructuring provisions raised	17	1	41
Fire, flood, storm and related events	21		1
Integration costs		3	
Operating profit excluding special items	76	12	55

Comparing fiscal 2010 with fiscal 2009

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

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

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

Comparing fiscal 2009 with fiscal 2008

Operating profit decreased from a loss of US\$64 million in fiscal 2008 to loss of US\$67 million in fiscal 2009.

The operating loss in fiscal 2009 included unfavorable net special items of US\$79 million which consisted mainly of asset impairments (US\$74 million).

Operating profit excluding special items declined to US\$12 million in fiscal 2009 from an operating profit excluding special items in fiscal 2008 of US\$55 million. This decrease was mainly due to an 8% decrease in average selling prices and increased fixed costs, offset by increased sales volumes and a reduction in variable cost per ton. The increase in sales volume and fixed costs were mainly due to the inclusion of the Acquired business in fiscal 2009.

Table of Contents*Sappi Southern Africa*

Key figures	2010	2009	2008
	(US\$ million)		
Operating profit (loss)	112	54	279
Plantation price fair value adjustment	(31)	67	(120)
(Profit) loss on disposal of property, plant & equipment		(2)	(3)
Asset (impairment reversals) impairments	2	5	37
Self insurance		(10)	
Restructuring provisions raised	23	2	
Fire, flood, storm and related events	5	10	16
BEE transaction charge	23		
Operating profit excluding special items	134	18	209

Comparing fiscal 2010 with fiscal 2009

Operating profit improved from a loss of US\$54 million in fiscal 2009 to an operating profit of US\$112 million in fiscal 2010.

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

Operating profit excluding special items improved to US\$134 million in fiscal 2010 from an operating profit excluding special items in fiscal 2009 of US\$18 million. This significant improvement was mainly due to increased sales volumes in our chemical cellulose business, increased average selling prices for our pulp and paper operations, a decrease in variable input cost per ton offset by an increase in fixed costs.

Comparing fiscal 2009 with fiscal 2008

Operating profit decreased from US\$279 million in fiscal 2008 to loss of US\$54 million in fiscal 2009.

The operating loss in fiscal 2009 included unfavorable net special items of US\$72 million which consisted mainly of an unfavorable plantation price fair value adjustment (US\$67 million), fire damage to plantations (US\$10 million) and asset impairments (US\$5 million) offset by self insurance recoveries related to the fire damage (US\$10 million).

Operating profit excluding special items declined to US\$17 million in fiscal 2009 from an operating profit excluding special items in fiscal 2008 of US\$209 million. This decrease was due to a significant reduction in average selling prices of chemical cellulose, a decrease in average selling prices of paper and paper packaging products, a large increase in variable input costs per ton and a slight increase in fixed costs.

Table of Contents

Sales

Group

An analysis of sales movements in fiscal 2010, 2009 and 2008 is presented below:

Sales Volume	2010	Change		2008	2008
		2010 vs. 2009	2009 vs. 2008		
		('000 tons)			
Sappi Fine Paper North America	1,354	80	1,274	(279)	1,553
Sappi Fine Paper Europe ⁽¹⁾	3,796	840	2,956	410	2,546
Sappi Southern Africa					
Pulp & Paper	1,751	91	1,660	(98)	1,758
Forestry	993	176	817	(177)	994
Total Sappi Southern Africa	2,744	267	2,477	(275)	2,752
Total	7,894	1,187	6,707	(144)	6,851

Sales Value	2010	Change		2008	2008
		2010 vs. 2009	2009 vs. 2008		
		(US\$ million)			
Sappi Fine Paper North America	1,373	78	1,295	(369)	1,664
Sappi Fine Paper Europe ⁽¹⁾	3,638	743	2,895	175	2,720
Sappi Southern Africa					
Pulp & Paper	1,488	364	1,124	(279)	1,403
Forestry	73	18	55	(21)	76
Total Sappi Southern Africa	1,561	382	1,179	(300)	1,479
Total	6,572	1,203	5,369	(494)	5,863

(1)

Includes nine months contribution of the Acquired Business.

The main factors impacting sales are volume, price, product mix and currency exchange rate changes. The South African and European businesses transact in ZAR and EUR respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rate from local currency to US dollars during the periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales positively by US\$263 million in fiscal 2010 compared to fiscal 2009 and negatively by US\$547 million in fiscal 2009 compared to fiscal 2008. An analysis of the drivers of sales movements is presented below:

Sales Variance Analysis	2010 vs. 2009 vs.	
	2009	2008
	(US\$ million)	
Exchange rate effects	263	(547)
Volume change effects	951	(123)
Price and product mix effects	(11)	176

Total	1,203	(494)
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Comparing fiscal 2010 with fiscal 2009

Sales for fiscal 2010 were US\$6,572 million, an increase of 22% compared to fiscal 2009. This increase was driven by improved demand in all our major markets leading to increased sales

Table of Contents

volumes and increased average selling prices for some of our products. Another reason for the increase in sales was that the Acquired Business was included for twelve months in fiscal 2010 compared to 9 months in fiscal 2009. Sales also included a positive currency translation impact of US\$263 million when compared to a negative currency translation impact of \$547 million in fiscal 2009.

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

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

Comparing fiscal 2009 with fiscal 2008

The decrease of 8% in sales from US\$5,863 million in fiscal 2008 to US\$5,369 million in fiscal 2009 was the result of the large negative currency translation effect on translation of the sales of our European and South African businesses into US dollars and a decline in sales volume, offset to some extent by a relatively higher priced product mix for the Group after the Acquisition.

The average exchange rate of the US dollar was stronger versus the euro in 2009 than in 2008 (euro/US\$1.37 in 2009 compared to euro/US\$1.51 in 2008). This difference in translating the sales of our European business had a US\$298 million negative impact on the Group's sales in US dollars. The stronger US dollar versus the South African Rand (ZAR/US\$9.01 in 2009 compared to ZAR/US\$7.43 in 2008) had the effect of reducing the sales of the South African divisions in US dollars compared to fiscal 2008 by US\$249 million.

Average selling prices realized by the Group in fiscal 2009 were 6% lower in US dollar terms than the average selling prices realized in fiscal 2008, mainly as a result of a sharp decline in pulp prices. The average NBSK pulp price in fiscal 2009 decreased by 26% relative to the prior year. Selling prices for paper products in local currency terms were lower than fiscal 2008 for some of our major product groups as discussed in " Markets" and further on in this section where we discuss our sales by region.

In fiscal 2009, sales volume for the Group declined by approximately 16% (excluding the sales volume of the Acquired Business of approximately 926,000 tons) compared to fiscal 2008, as a result of a decline in demand for coated paper and pulp in the Group's major markets. Actual sales volumes, including the Acquired Business, were approximately 98% of volumes for fiscal 2008.

Sappi Fine Paper North America

Comparing fiscal 2010 with fiscal 2009

Sales increased by approximately 6% from US\$1,295 million in fiscal 2009 to US\$1,373 million in fiscal 2010. Improved demand in fiscal 2010 for coated paper and pulp allowed Sappi Fine Paper North America to increase sales volumes by 6% compared to fiscal 2009. Average selling prices realized in fiscal 2010 of US\$1,014/ton were slightly lower than the US\$1,016/ton achieved in fiscal 2009.

Comparing fiscal 2009 with fiscal 2008

Sales volume in fiscal 2009 declined by 18% compared to fiscal 2008 due to a significant weakening in demand for coated paper and pulp. The decline in demand was the result of a severe reduction in economic activity and a resulting decline in demand for advertising (a major driver for

Table of Contents

coated woodfree paper consumption). Average selling prices decreased from US\$1,071/ton in fiscal 2008 to US\$1,016/ton in fiscal 2009.

Sappi Fine Paper Europe

Comparing fiscal 2010 with fiscal 2009

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

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

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

Comparing fiscal 2009 with fiscal 2008

Market conditions were exceptionally weak during fiscal 2009 compared to the fiscal 2008 year. In fiscal 2009, sales volumes, including the Acquired Business, were approximately 116% of the sales volume for fiscal 2008. Volumes excluding the Acquired Business declined by approximately 20% compared to the 2008 fiscal year, as a result of a decline in demand for coated paper in the region's major markets.

Average selling prices realized in US dollar terms in fiscal 2009 were US\$979 per ton compared to US\$1,068 per ton for fiscal 2008. This reduction in US dollar price realization was due to the strengthening of the US dollar against the euro from an average of US\$1.51/euro for fiscal 2008 to US\$1.37/euro for fiscal 2009. Average realized prices in euro terms increased from €709 per ton in 2008 to €717 per ton in fiscal 2009.

Sappi Southern Africa

Comparing fiscal 2010 with fiscal 2009

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

Sales volumes for the southern African pulp and paper operations increased by 5% in fiscal 2010 compared to fiscal 2009. Demand for chemical cellulose products was significantly better in fiscal 2010 than during fiscal 2009 and sales volume for the Sappi Chemical Cellulose business increased by 22% compared to fiscal 2009. The sales volumes for the Sappi Paper and Paper Packaging business declined by 3% compared to fiscal 2009, despite market conditions and demand being better than in fiscal 2009. This comparison includes the closure of the Usutu Mill in January 2010 and the resulting loss of sales volume. Excluding the fiscal 2009 sales volumes of the Usutu mill, sales volumes of the Sappi Paper and Paper Packaging business increased by 6% in fiscal 2010 compared to fiscal 2009.

Table of Contents

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

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

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

Comparing fiscal 2009 with fiscal 2008

Sales, in US dollar terms, from the southern African pulp and paper operations (Sappi Chemical Cellulose and Sappi Paper and Paper Packaging) declined by 20% in fiscal 2009 compared to fiscal 2008 due to a 5% reduction in sales volume and a significant reduction in chemical cellulose selling prices which are denominated in US dollars. We experienced a strong decline in demand for chemical cellulose products as market conditions were significantly worse than during fiscal 2008, due to the global economic slow down. A major determinant of sales and sales pricing in the southern African pulp and paper operations is the NBSK market price. During fiscal 2009, the average NBSK price declined by 26% from an average of US\$876 per ton for fiscal 2008 to an average of US\$650 per ton for fiscal 2009.

Sales in South Africa of the Sappi Paper and Paper Packaging business benefited from the weaker Rand to the US dollar during the first half of fiscal 2009, which reduced import substitution and improved local pricing. The Rand strengthened against the US dollar towards the end of the year, increasing competition from imports and placing pressure on local product prices.

Timber sales volumes in our Sappi Forests business declined as the business reduced external sales in order to supply the increased timber requirement of the Saiccor mill after the expansion.

Table of Contents**Operating expenses**

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

Operating Costs	2010	Change	2009	Change	2008
		2010 vs. 2009		2009 vs. 2008	
(US\$ million)					
Variable Costs					
Delivery	547	93	454	(55)	509
Manufacturing	3,570	702	2,868	(205)	3,073
Total Variable Costs	4,117	795	3,322	(260)	3,582
Fixed Costs					
Price Fair value plantation	2,163	193	1,970	51	1,919
(Impairment reversals) impairments	(31)	(98)	67	187	(120)
Restructuring	(10)	(89)	79	(40)	119
Alternative fuel mixture tax credits	46	12	34	(7)	41
Fire, flood, storm and related events	(51)	36	(87)	(87)	
BEE charge	26	15	11		11
Sundry (income) loss	23	23			
Other	(4)	(11)	7	13	(6)
	(48)	(87)	39	36	3
Total	6,231	789	5,442	(107)	5,549

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

Variable and fixed costs are analyzed in more detail below.

Variable manufacturing costs*Group*

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

Variable Manufacturing Costs	2010			2009			2008	
	CostsUS\$/Ton	Change 2010 vs. 2009	2009	CostsUS\$/Ton	Change 2009 vs. 2008	2008	CostsUS\$/Ton	2008
(US\$ million)								
Wood	706	89	43	663	99	(59)	722	105
Energy	626	79	42	584	87	26	558	81
Pulp ⁽¹⁾	929	118	386	543	81	(159)	702	102
Chemicals	1,050	133	182	868	129	(67)	935	136
Other costs	259	33	49	210	31	54	156	23
Total	3,570	452	702	2,868	427	(205)	3,073	447

(1)

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

Variable manufacturing costs relate to costs of inputs which vary directly with output. The line "Other costs" in the table above relates to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables. The Group's variable costs are impacted by sales volume, exchange rate impacts on translation of our European and South African businesses into US dollars, and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been the impact of the exchange rates on translation of the

Table of Contents

European and the South African operations into the US dollar presentation currency and actual input cost escalations. See " Principal Factors Impacting on Group Results" and " Currency Fluctuations" for a discussion of exchange rate movements. Cost increases are driven by international commodity price increases.

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

Regional Variable Manufacturing Costs(1)	2010			2009			2008	
	Change			Change				
	2010			2009				
	vs.			vs.				
	Costs	US\$/Ton	2009	Costs	US\$/Ton	2008	Costs	US\$/Ton
	(US\$ million)							
Sappi Fine Paper North America	741	521	34	707	543	(218)	925	578
Sappi Fine Paper Europe	2,199	579	598	1,601	542	(7)	1,608	630
Sappi Southern Africa	771	281	73	698	250	(73)	771	244

(1)

Note: Regional variable manufacturing costs are pre-consolidation adjustments

Cost management is a major focus area for the Sappi group. We have engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. Product design and raw material inputs are constantly reviewed to ensure product attributes and quality meet market specifications.

Sappi Fine Paper North America

Comparing fiscal 2010 with fiscal 2009

During fiscal 2010, variable manufacturing costs per ton decreased by 4% compared to fiscal 2009 due to decreases in purchase prices of wood, energy and chemicals, partially offset by an increase in pulp input costs.

Comparing fiscal 2009 with fiscal 2008

Total variable manufacturing costs decreased by approximately 24% due to the significant amount of curtailment of output during fiscal 2009 to align with reduced demand (including the suspension and closure of operations of the Muskegon mill), and due to reduced variable manufacturing costs per ton. Variable manufacturing costs per ton decreased by 6% in fiscal 2009 compared to fiscal 2008 largely due to decreases in the costs of purchased pulp and energy, partially offset by increases in the costs of wood and chemicals.

Sappi Fine Paper Europe

Comparing fiscal 2010 with fiscal 2009

Sappi Fine Paper Europe experienced significant variable manufacturing cost pressure during fiscal 2010. Our European business purchases approximately 49% of the pulp required for paper production in the open market. Variable manufacturing cost per ton in euro terms increased by 7% compared to fiscal 2009, mainly due to a 44% increase in pulp input costs per ton. This increase was offset to some extent by a decrease in purchased energy prices. The increase in variable manufacturing costs from fiscal 2009 to fiscal 2010 in US Dollar terms was also 7% as the average US\$/euro exchange rate for the two years did not change significantly.

Comparing fiscal 2009 with fiscal 2008

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During the period under review the region undertook cost reduction projects which contributed to cost reductions through process as well as product re-engineering initiatives. A large part of the

Table of Contents

target synergies from the Acquisition consist of variable cost reduction initiatives. Variable costs per ton declined by 5%, in euro terms, during fiscal 2009 compared to fiscal 2008, due to a reduction in global commodity prices, in particular market pulp and realization of cost synergies from the Acquisition.

Sappi Southern Africa*Comparing fiscal 2010 with fiscal 2009*

During fiscal 2010, input costs per ton in Rand terms decreased by 9% compared to fiscal 2009 mainly due to decreases in the input prices for chemicals and other input costs, driven by decreases in international commodity prices. The increase in input costs per ton in US dollar terms stems from the change in average exchange rates used for translation in fiscal 2010 (ZAR/US\$ = 7.4917) and in fiscal 2009 (ZAR/US\$ = 9.0135).

Comparing fiscal 2009 with fiscal 2008

Variable manufacturing input costs per ton in Rand terms increased significantly (25%) in fiscal 2009 compared to fiscal 2008. This was due to increased purchase prices for energy and chemicals, the additional operating costs we incurred as a result of the interrupted ramp up of the Saiccor mill expansion and the decision to take commercial downtime as local demand weakened during the latter part of the year. Average wood costs increased significantly in fiscal 2009 compared to fiscal 2008, due to a wood shortage after severe forest fires in southern Africa that occurred in 2007 and 2008. Energy costs increased sharply due to increased electricity prices in South Africa. Sub-optimal operating conditions lead to the use of oil to fire the boilers and the requirement for additional chemical loads.

Fixed costs*Group*

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

Fixed Costs	2010	Change	Change	2009	2008
		2010 vs. 2009	2009 vs. 2008		
		(US\$ million)			
Personnel	1,176	130	1,046	29	1,017
Maintenance	275	25	250	(2)	252
Depreciation	411	15	396	22	374
Other	302	24	278	2	276
Total	2,164	194	1,970	51	1,919

The regional analysis which follows excludes corporate fixed costs and consolidation adjustments which are not material.

Regional Fixed Costs	2010	Change	Change	2009	2008
		2010 vs. 2009	2009 vs. 2008		
		(US\$ million)			
Sappi Fine Paper North America	461	(14)	475	(68)	543
Sappi Fine Paper Europe	1,156	104	1,052	189	863
Sappi Southern Africa	577	115	462	(52)	514
			48		

Table of Contents

Sappi Fine Paper North America

Comparing fiscal 2010 with fiscal 2009

The decrease in fixed costs of US\$14 million in fiscal 2010 compared to fiscal 2009 is mainly due to a decrease in depreciation of US\$11 million at our Somerset mill and the benefits of ongoing cost reduction efforts in services and administration, offset by small increases in personnel and maintenance costs. The decrease in depreciation at the Somerset mill was due to certain assets being fully depreciated early in fiscal 2010.

Comparing fiscal 2009 with fiscal 2008

The impact of our restructuring actions and focus on a reduction of overheads is reflected in the reduction of US\$68 million in fixed costs compared to fiscal 2008. In addition to permanent selling, general and administrative restructuring actions during fiscal 2009, we curtailed paper production due to weak demand and ceased operations at our Muskegon mill.

Sappi Fine Paper Europe

Comparing fiscal 2010 with fiscal 2009

Fixed costs increased by €76 million or 10% in fiscal 2010 compared to fiscal 2009. The major portion of this increase was due to the inclusion of the Acquired Business for 12 months in fiscal 2010 compared to 9 months in fiscal 2009. Excluding the Acquired Business, fixed costs increased by €26 million or 4% in fiscal 2010 compared to fiscal 2009, mainly due to increased personnel and maintenance costs.

Comparing fiscal 2009 with fiscal 2008

In fiscal 2009, cost saving initiatives remained a key focus area of the region. Fixed costs in fiscal 2009 increased by €198 million compared to fiscal 2008, due to the integration of the Acquired Business into our European business in the second quarter of 2009. Fixed costs excluding the Acquired Business were at a similar level in fiscal 2009 compared to fiscal 2008. The movement in fixed costs in US dollar terms, shown in the table above, in fiscal 2009 as compared to fiscal 2008, includes the impact of the strengthening of the US dollar against the euro.

Sappi Southern Africa

Comparing fiscal 2010 with fiscal 2009

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

Fixed costs increased, in Rand terms, by 4% from ZAR4,168 million to ZAR4,324 million, in fiscal 2010 compared to fiscal 2009. This increase was mainly due to a 7% increase in personnel costs. Maintenance and services expenses were well controlled and remained at similar levels in fiscal 2010 than in fiscal 2009.

Comparing fiscal 2009 with fiscal 2008

As in the case of the other regions, the South African businesses placed great emphasis on management of fixed costs. In Rand terms fixed costs were 1% above the level achieved in fiscal 2008.

Table of Contents**Net Finance Costs**

Annual finance costs may be analyzed as follows:

Finance Costs	2010	2009	2008
	(US\$ million)		
Finance costs	309	198	181
Finance revenue	(16)	(61)	(38)
Net interest paid	293	137	143
Finance costs capitalized			(16)
Net foreign exchange gains	(17)	(17)	(8)
Net fair value (gains) losses on financial instruments	(21)	25	7
Net finance costs	255	145	126

Net interest paid (finance costs less finance revenue) in fiscal 2010 was US\$293 million compared to US\$137 million in 2009. The increase in net interest paid was a result of higher interest rates on higher average debt following the 2009 Refinancing completed towards the end of fiscal 2009. The fiscal 2009 net interest paid also includes a US\$41 million gain relating to the discount received when we repaid, prior to maturity, the vendor loan notes related to the Acquisition.

The finance costs capitalized in fiscal 2008 relate to the Saiccor expansion project in South Africa. After the plant was commissioned in the latter part of fiscal 2008, capitalization of finance costs for the project ceased.

The US\$17 million net foreign exchange gain in fiscal 2010 was due to the timing of the netting process of foreign exchange exposure. The Group's policy is to identify foreign exchange risks immediately when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third party banks.

The net fair value movement on financial instruments relates to the net impact of currency and interest rate movements after hedge accounting for certain interest rate and currency swaps the Group has entered into in order to manage the interest and currency exposure on internal and external loans. During fiscal 2009 certain interest rate swaps were closed early in anticipation of the 2009 Refinancing and this resulted in additional swap charges. The closure of these swaps stopped the hedging relationship with the underlying debt and therefore the difference between the carrying amount and the notional amount of the debt is being amortized over the period that the swaps would have been in place, had they not been closed early. This has resulted in a gain to financial instruments of US\$21 million for fiscal 2010.

Table of Contents**Taxation**

	2010	2009	2008
	(US\$ million)		
Profit (loss) before taxation	86	(218)	188
Taxation at the average statutory tax rates	35	(60)	72
Net exempt income and non-tax deductible expenditure	(10)	(32)	(51)
Effect of tax rate changes		(3)	(9)
Deferred tax asset not recognized	65	72	103
Utilization of previously unrecognized tax assets	(54)	(22)	(19)
Secondary Tax on Companies		4	7
Prior year adjustments	(20)	(4)	(19)
Other taxes	4	4	2
Taxation charge/(benefit)	20	(41)	86
Effective tax rate	23%	19%	46%

With a profit before taxation of US\$86 million, the total taxation charge to the income statement of US\$20 million results in an effective tax rate of 23% for fiscal 2010. The expected charge of US\$35 million was favorably impacted by exempt income components and favorable prior year adjustments, mainly consisting of changed risk assessments subsequent to various tax audits.

Profit (loss)

We produced a net profit of US\$66 million for fiscal 2010 compared to a net loss of US\$177 million in fiscal 2009 and compared to a net profit of US\$102 million for fiscal 2008. The main reason for the change in fiscal 2010 compared to fiscal 2009, was the beneficial impact on sales volume and selling prices of a significant increase in demand for all major products as major world economies started to recover from the slow down experienced during fiscal 2009.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements, to service our debt and to make dividend payments. Based on our current level of operations, we believe our cash flow from operations, available borrowings under our credit facilities and cash and cash equivalents will be adequate to meet our liquidity needs for at least the next twelve months.

Our liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower than expected cash flow from operations, including decreases caused by lower demand, weaker prices for our products, or higher input costs. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash could have a significant effect on our liquidity resources. Our liquidity could also be impacted by any limitations on the availability of our existing debt and our ability to refinance existing debt, raise additional debt and the associated terms of such debt. However, at the end of fiscal 2010 and the three-month period ended December 2010 we had substantial cash and cash equivalents of US\$792 million and US\$591 million, respectively.

One of our liquidity requirements is usually the payment of annual dividends to shareholders. Considering among others the macro economic and global financial market conditions and our performance in fiscal 2010, as well as our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided on November 8, 2010 not to declare a dividend for fiscal 2010.

Table of Contents**Cash Flow**

In fiscal 2010, we placed an increased emphasis on cash generation and kept our capital expenditure at low levels, without compromising our current high levels of maintenance activities. During fiscal 2010 we did not experience a full recovery of demand and prices after the severe slowdown experienced during fiscal 2009. Similar to fiscal 2010, in the three-month period ended December 2010, our focus on managing working capital remained strong, particularly in relation to levels of inventory and trade receivables, keeping our level of working capital in line with the level of trading activity.

Cash Flow Summary	Three Months		Year Ended		
	Ended December 2010	2009	2010	2009	2008
	(US\$ million)				
Cash generated from operations⁽¹⁾	245	245	737	432	623
Movement in working capital	(335)	(170)	(5)	152	1
Net finance costs paid	(63)	(64)	(194)	(81)	(126)
Taxation paid	(2)	(4)	(9)	(5)	(70)
Dividends paid				(37)	(73)
Cash (utilized in) retained from operating activities	(155)	7	529	461	355
Investing activities⁽²⁾	(41)	(37)	(188)	(762)	(494)
Cash (utilized)/generated	(196)	(30)	341	(301)	(139)

(1) Cash generated by operations is calculated by adding to the profit/(loss) for the period, net finance costs, taxation and various non-cash items as set out in the table below. For further information, see note 23 to our Group annual financial statements.

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

Total non-cash items (as set out in the table below) in the three months ended December 2010 amounted to US\$125 million, compared to US\$244 million in the three months ended December 2009, and in fiscal 2010 amounted to US\$469 million, compared to US\$567 million in fiscal 2009 and compared to US\$397 million in fiscal 2008.

Non-cash Items	Three Months		Year Ended		
	Ended December 2010	2009	2010	2009	2008
	(US\$ million)				
Depreciation	109	112	411	396	374