

SAPPI LTD  
Form 20-F  
December 13, 2010

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**As filed with the Securities and Exchange Commission on December 13, 2010**

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

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**FORM 20-F**

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended September 26, 2010**
- OR**
- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

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

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

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

**Republic of South Africa**  
(Jurisdiction of incorporation or organization)

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

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

**Fax +27 11 403 8854**  
**Sappi Limited**  
**P.O Box 31560,**  
**Braamfontein, 2017, South Africa**

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

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

**American Depositary Shares, evidenced by**  
**American Depositary Receipts, each representing**  
**1 Ordinary Share**  
(Title of each class)

**New York Stock Exchange**  
**Ordinary Shares, par value R1.00 per Share\***  
(Name of each exchange on which registered)

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

**None**

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

**None**

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

**541,446,223 Ordinary Shares**

**19,961,476 "A" Ordinary Shares**

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

**YES**       **NO**

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

**YES**       **NO**

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

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

**YES**       **NO**

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

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S GAAP

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

Other

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

ITEM 17

ITEM 18

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

YES  NO

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

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

YES  NO

\*

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

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### OUR USE OF TERMS AND CONVENTIONS IN THIS ANNUAL REPORT

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

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

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

References to the "Refinancing" are to the issuance of our € 350 million and US\$ 300 million senior secured notes due 2014 (the "2014 Bond") and the use of the proceeds therefrom, together with a portion of available cash, to repay drawings under our existing € 600 million revolving credit facility, transaction costs and other indebtedness, the establishment of a new € 209 million revolving credit facility (the "Revolving Credit Facility") and the replacement of our existing € 400 million Österreichische Kontrollbank Aktiengesellschaft ("OeKB") term loan facility by an amended and restated € 400 million OeKB term loan facility (the "OeKB Term Loan Facility");

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");

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

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

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;

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References to "m<sup>2</sup>" 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 "tonnes" are to metric tonnes (approximately 2,204.6 pounds or 1.1 short tonnes);

References to "market share" are based upon sales volumes in a specified geographic region during the fiscal year ended September 26, 2010;

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

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

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

References to "PM" are to individual paper machines.

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

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

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

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

### ACCOUNTING PERIODS AND PRINCIPLES

Unless otherwise specified, all references in this Annual Report to a "fiscal year" and "year ended" of Sappi Limited refer to a twelve-month fiscal period. All references in this Annual Report to fiscal 2010, 2009, and 2008, or the years ended September 2010, 2009 or 2008 refer to Sappi Limited's twelve-month fiscal periods ended on September 26, 2010, September 27, 2009 and September 28, 2008, respectively; references in this Annual Report to fiscal 2010 refer to the period beginning September 28, 2009 and ending September 26, 2010.

Our annual financial statements as of September 2010 and 2009 and for each of the three years in the period ended September 2010 are hereinafter referred to as the Group Annual Financial Statements and have been included elsewhere in this Annual Report. Our Group Annual Financial Statements have been prepared in conformity with IFRS as issued by the IASB.

### CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group Annual Financial Statements and all financial data presented in this Annual Report in US dollars on a nominal (non-inflation adjusted) basis. For information regarding the conversion of certain financial information to US dollars in fiscals 2010, 2009 and 2008, see note 2 to our Group Annual Financial Statements included elsewhere in this Annual Report.

### FORWARD-LOOKING STATEMENTS

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



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

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## Selected Financial Data

The selected financial data set forth below as of September 2010, 2009 and 2008 has been derived from our Group Annual Financial Statements and the notes thereto, which are included elsewhere in this Annual Report. The selected financial data set forth below as of September 2007 and 2006, has been derived from our Group Annual Financial Statements for such periods which are not presented herein.

	Year Ended September				
	2010	2009	2008	2007	2006
	(US\$ million, except per share data)				
<b>Group Income Statement Data:</b>					
Sales <sup>(1)</sup>	6,572	5,369	5,863	5,304	4,941
Operating profit (loss)	341	(73)	314	383	125
Net profit (loss) <sup>(3)(4)</sup>	66	(177)	102	202	(4)
Basic earnings (loss) per share (US cents)	13	(37)	28	56	(1)
Diluted earnings (loss) per share (US cents)	13	(37)	28	55	(1)
Dividends per share (US cents)			16	32	30

	Year Ended September				
	2010	2009	2008	2007	2006
	(US\$ million)				
<b>Group Balance Sheet Data:</b>					
Total assets	7,184	7,297	6,109	6,344	5,517
Net assets	1,896	1,794	1,605	1,816	1,386
Total long-term borrowings	2,317	2,726	1,832	1,828	1,634
Shareholders' equity	1,896	1,794	1,605	1,816	1,386

	Year Ended September					
	2010	2009	2008	2007	2006	
	(US\$ million, except number of shares data)					
<b>Other Information:</b>						
Operating profit excluding special items <sup>(5)</sup>		339	33	366	313	91
Weighted average number of ordinary shares in issue (in million) <sup>(6)</sup>	516.7	482.6	362.2	360.6	358.0	
Number of ordinary shares in issue at fiscal year end (in million) <sup>(6)</sup>	519.5	515.7	229.2	228.5	227.0	

(1)

Sales are defined in note 2.2.12 to our Group Annual Financial Statements included elsewhere in this Annual Report.

(2)

See note 33 of the Group Annual Financial Statements included elsewhere in this Annual Report for further discussion of the M-real Corporation Acquisition which closed on December 31, 2008.

- (3) In the third quarter of fiscal 2010 the Group revised its methodology for all immature timber and mature timber resulting in US\$ 28 million positive increase in profit. See note 2 of the Group Annual Financial Statements included elsewhere in this Annual Report. In fiscal 2010 the Group entered into a BEE transaction resulting in a US\$ 23 million charge to profit. See note 28 of the Group Annual Financial Statements included elsewhere in this Annual Report for further details.
- (4) During the fiscal years 2010 to 2008, the Group recorded a (US\$ 10 million), US\$ 79 million, US\$ 119 million asset (impairment reversals) impairments. See note 4 and note 9 of the Group Annual Financial Statements included elsewhere in this Annual Report for further details.
- (5) In compliance with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled operating profit (loss) excluding special items to net profit (loss) rather than operating profit. Operating profit (loss) excluding special items represents earnings before taxation, interest (net finance costs), and special items. Net finance costs include: gross interest paid; interest received (including discounts on early redemption of loans); interest capitalized; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the Group Income Statement, included elsewhere in this Annual Report, for an explanation of the computation of net finance costs. Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel mixture tax credits receivable in cash. We use operating profit (loss) excluding special items as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. Operating profit (loss) excluding special items is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe operating profit (loss) excluding special items is a useful measure of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. For these reasons, we believe operating profit (loss) excluding special items and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate operating profit (loss) excluding special items differently, so making comparisons among companies on this basis should be done very carefully. Operating profit (loss) excluding special items is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.

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

	<b>Year Ended September</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(US\$ million)</b>				
<b>Net profit (loss)</b>	<b>66</b>	<b>(177)</b>	<b>102</b>	<b>202</b>	<b>(4)</b>
Taxation charge (benefit)	20	(41)	86	47	(1)
Net finance costs	255	145	126	134	130
<b>Operating profit (loss)</b>	<b>341</b>	<b>(73)</b>	<b>314</b>	<b>383</b>	<b>125</b>

Special items (gains) losses	(2)	106	52	(70)	(34)
<b>Operating profit (loss) excluding special items</b>	<b>339</b>	<b>33</b>	<b>366</b>	<b>313</b>	<b>91</b>
Plantation price fair value adjustment	(31)	67	(120)	54	34
Restructuring provisions raised (released)	46	34	41	7	(50)
(Profit) loss on disposal of property, plant & equipment	(5)	(1)	(5)	26	
Pension restructuring gain					28
Asset (impairment reversals) impairments	(10)	79	119		31
Alternative fuel mixture tax credits	(51)	(87)			
Integration costs(2)		3			
BEE transaction charge	23				
Fire, flood, storm and related events	26	11	17	(17)	(9)
<b>Total Special items</b>	<b>(2)</b>	<b>106</b>	<b>52</b>	<b>(70)</b>	<b>(34)</b>

- (6) Net of Treasury shares, which include "A" ordinary shares, as described in note 17 to our Group Annual Financial Statements included elsewhere in this Annual Report.

## **Risk Factors**

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

### **Risks Related to Our Industry**

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

The markets for our pulp and paper products are commodity markets to a significant extent and are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply / 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.

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

*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. 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. This recession is 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. Even though our operational results improved during fiscal 2010, we are still impacted by the slow recovery of the world economies. 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 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 equipment at our mills and to meet new regulatory requirements, including those in the United States, southern Africa and Europe.

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

***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 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 2010 insurance cover at rates similar to those of 2009 and self-insured deductibles for any one property damage occurrence have remained at US\$ 25 million, with an unchanged aggregate limit of US\$ 40 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; however, we believe that the loss limit cover of US\$ 1 billion should be adequate for what we have determined as the reasonably foreseeable loss for any single claim. From fiscal 2011 our property damage insurance policy will be 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 September 2010, our interest bearing debt (long-term and short-term interest bearing debt plus overdraft, less cash on hand) was US\$ 2,221 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt has important consequences, including:

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

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

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

we may 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, which was implemented during fiscal 2009, the average time to maturity of our debt was extended. 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, credit restrictions are still in place and available credit continues to be issued at a 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 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 and can restrict activities of our subsidiaries. See "Item 10 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 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 current 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 the downturn in worldwide economic conditions, which has resulted in a decline in global demand for our products and a softening of prices for some of our products. The availability of debt financing has also been negatively impacted by the 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.

***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 fiscal 2010, 2009 and 2008, respectively.

In recent years, the value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R7.02, R7.41 and R8.08 per US dollar at the end of fiscal 2010, 2009 and 2008, respectively.

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

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

We own manufacturing operations in 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.

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

***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 "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment".

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

The selling prices of the majority of the products manufactured 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. 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 and fiscal 2010, no single customer individually represented more than 10% of our total sales. Any 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.

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

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

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

***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.***

The general outlook for the forthcoming fiscal years is that bond and equity markets, including the sovereign debt markets, will continue to move in very uncertain and unusual ways, which in turn could result in significant swings in yields on corporate bonds and government bonds and continued volatility within the equity markets. Whilst equity and bond markets recently recovered, we expect depressed bond yields will remain and therefore maintain upward pressure on our employment benefit fund liabilities. The unusual government interventions in economies are likely to provide continued uncertainty in markets making it very difficult for us to predict which key factors, and how the interaction of these key factors, will change the post employment benefit funds' balance sheet funding status. As a result of movements in the global equity and bond markets, the funded status of our post employment benefit arrangements did not recover during fiscal 2010.

The reduction in certain statutory minimum funding requirements provided relief in the amount and timing of contributions to our employment benefit funds. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. If these yields remain at the low levels experienced in fiscal 2010 and governments vary their terms of minimum funding targets, we might need to pay additional contributions to our employment benefit funds.

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

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

***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.

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

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

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

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

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

**Risks Related to Our Shares**

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

The principal trading market for our ordinary shares is on the exchange operated by the JSE Limited ("JSE") (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2010, 467 million of our ordinary shares were traded on the JSE and 11 million ADSs were traded on the New York Stock Exchange. The relatively low liquidity of shares traded on JSE Limited could affect your ability to sell ordinary shares. See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders", "Item 9 The Offer and Listing Offer and Listing Details" and "Item 9 The Offer and Listing Markets".

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

Although our investigation of beneficial ownership of our shares identified only one beneficial owner of more than 5% of our ordinary shares, holding approximately 11.9%, as shown in our shareholders' register on October 1, 2010, the four largest shareholders of record, all of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 90.1% of our ordinary shares as of September 23, 2010. These significant potential voting blocks of nominee registered shareholders may have the power to influence voting decisions for the shares they hold. See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

**Risks Related to Our Indebtedness**

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

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

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

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

make acquisitions or investments;

make loans or otherwise extend credit to others;

incur indebtedness or issue guarantees;

create security;

sell, lease, transfer or dispose of assets;

merge or consolidate with other companies; and

make substantial changes to the general nature of our business.

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



**ITEM 4. INFORMATION ON THE COMPANY**

**HISTORY AND DEVELOPMENT OF THE COMPANY**

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

Sappi Limited was founded and incorporated in 1936 in South Africa and is a corporation organized under the Companies Act 61 of 1973 of the Republic of South Africa.

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

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

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

During 2008, we closed our Blackburn mill in the United Kingdom and ceased production from PM 5 at our Maastricht mill in The Netherlands. Profitable products produced at these mills were moved to our other facilities in Europe.

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

During August 2009 we permanently ceased operations at Muskegon mill in the United States. Customers are being served from our other North American operations.

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

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

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

On March 24, 2010, we announced a BEE transaction involving the issuance of 24.3 million Sappi shares (approximately 4.5% of Sappi Limited). The transaction empowers our South African employees, our strategic empowerment partner, Lereko Investments, and the South African communities in which

we operate. The transaction was approved by our shareholders on April 29, 2010. We recorded a charge of US\$ 23.4 million to the income statement in respect of this transaction.

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

During 2010, we restructured our southern African Paper and Paper Packaging business to become more efficient and to improve our focus and service delivery to our end customers.

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

## **BUSINESS OVERVIEW**

### **Our Business**

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

### **Business strategy**

We intend to maintain and further strengthen our leading positions in our core product and geographical markets through competitive positioning and by focusing on our core strengths, including efficient manufacturing and distribution, customer service, innovation and reliability. We have been a leader in the coated woodfree paper and chemical cellulose markets for over a decade, and we believe that our strengths position us well to further increase our customer base, expand our market share and achieve higher levels of service, reliability and profits.

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

Our focus is on improving the performance of our existing businesses and our balance sheet. Our capital investment has therefore been targeted in areas required to keep the core business healthy including cost reduction projects, particularly energy-related. In the year ahead we intend to continue to focus on improving the underlying business to create a platform for our future growth in the areas of low cost plantation fiber, chemical cellulose, and forward integration in select areas of the value chain.

In line with our strategy to secure fiber supply we acquired 14,500 hectares of developed softwood plantations close to Ngodwana mill during the year and have made progress in rehabilitating plantations lost to fire in 2007 and 2008, including at Usutu in Swaziland.

At the start of 2009 we acquired the M-real coated paper business to improve our market position and the supply/demand balance. The business has been successfully integrated with our European business and the target synergies have been achieved. With demand levels now closer to the levels achieved in 2008, before the unprecedented collapse in early 2009, we believe the business is well positioned to take full advantage of the acquisition. We continue to explore further strategic changes in order to ensure we rapidly achieve our targeted return levels.

How we do business is as important to us as what business we do. In Europe our Project Breakthrough is based on detailed input from our customers throughout the value chain, academics,

and our turnaround experience in North America. We have recently started the implementation of new service offerings, which are supported by our tailor-made support infrastructure and leading products. Throughout the Group we aim to be easier to do business with. Excellence, Integrity and Respect are the core values we apply to how we conduct our business.

## **Investment Highlights**

### ***Leading market positions***

We are currently one of the largest producers of coated woodfree paper in the world and in Europe and a leading producer in North America with an estimated market share of 13%, 30% and 25%, respectively (as measured by production capacity). We believe we are also a global leader in the chemical cellulose market through Sappi Saiccor, the world's largest single producer of chemical cellulose. We have achieved leading positions in our core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands. Our leading market positions place us in an advantageous position when global economic conditions improve further. We believe that the Acquisition has strengthened our position in the coated woodfree market and has significantly increased our presence in the coated mechanical paper market, making us one of the largest producers in Europe in that market (as measured by production capacity). The recent expansion of our chemical cellulose production capacity positions us well to benefit from the expected continued growth in this market.

### ***High level of economic pulp integration and expansion of pulpwood operations***

Our Group is approximately 95% integrated on a net basis in terms of pulp usage, meaning that, while some of our facilities are market buyers of pulp, such as Sappi Fine Paper Europe which is 51% integrated, and others market sellers such as Sappi Fine Paper North America which is 117% integrated and Sappi Southern Africa which is 175% integrated, in the aggregate we produce almost as much pulp as we use, making us less dependent on market supplies. In the chemical cellulose business we have recently completed an expansion project that has significantly increased production capacity at Sappi Saiccor, the world's largest single producer of chemical cellulose. We expect to maintain a high level of economic pulp integration.

### ***Efficient asset base***

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated woodfree paper, coated mechanical paper and chemical cellulose sectors in the world. A significant portion of our past capital expenditures were to increase production capacity at efficient facilities, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base, including by divesting or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. We have very strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio. Since 1995, we have closed 18 paper machines and pulp mills, including the closure of our Kangas mill in Finland and our Usutu mill in Swaziland in January 2010. We believe that the rationalization of manufacturing and synergies resulting from the integration of the Acquired Business and our expansion of chemical cellulose production capacity have further enhanced the efficiency of our operations.

### ***Global presence***

We believe that our 18 pulp and paper mills across Europe, North America and southern Africa enable us to take greater advantage of opportunities where markets are strong and reduce risk where they are weak. Our geographic diversity assists us in offsetting the effects of volatile movements of major

currencies as we can benefit from imbalances in demand and relative strengths of currencies. In 2010, our operations in North America, Europe and southern Africa accounted for 21%, 55% and 24% of our sales, respectively.

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

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

***Experienced management team and strong track record of integrating acquisitions***

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

**The Pulp and Paper Industry**

***Overview***

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

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

In recent years, the industry has experienced significant strategic changes. The high costs associated with building new paper mills and establishing and growing market share have led to companies focusing on acquisitions, rather than construction of new capacity. In particular, the cost of building a new paper mill ranges between approximately US\$ 1,300 and US\$ 1,600 per tonne of annual paper production capacity, as compared to approximately US\$ 580 per tonne of capacity, which Sappi paid for the Acquired Business. As a result, the regional market shares of leading producers have

increased significantly over the past decade. Another important trend has been for leading industry producers to focus on fewer paper grades as a result of divesting non-core assets that are not part of the industry or which have been considered not consistent with long-term strategies. Increased grade focus is most advanced in the North American paper industry. In Europe, the two largest producers, Stora Enso and UPM Kymmene still retain extensive operations across a broad range of grades.

Significant developments have also taken place in China, where rapid economic growth and government incentives have spurred investment in the pulp and paper industry. In recent years, China's paper and board as well as woodfree paper capacity increased considerably, allowing China to change from a net importer to a net exporter of coated woodfree paper, mainly to Asian markets and to the United States.

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

**Major Product Categories**

**Description and Typical Uses**

**Woodfree paper:**

Coated paper

Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines.

Uncoated paper

Uses include business forms, business stationery, tissue and photocopy paper as well as cutsize, preprint and office paper. Certain brands are used for books, brochures and magazines.

Speciality paper

Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (e.g. artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets.

**Packaging products:**

Packaging paper

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

**Mechanical paper:**

Newsprint

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

Uncoated mechanical paper

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

Coated mechanical / magazine paper

A coated mechanical fiber based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.

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

Paper pulp

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

Chemical cellulose

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

**Timber products:**

Sawn timber for construction and furniture manufacturing purposes.

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

	Year ended September					
	2010		2009		2008	
	High	Low	High	Low	High	Low
<b>Coated Woodfree Paper</b>						
100 gsm delivered Germany (euro per tonne) <sup>(1)</sup>	870	710	850	740	850	830
60 lb. delivered US (US\$ per short ton) <sup>(2)</sup>	1,000	880	1,105	905	1,105	965
<b>Uncoated Woodfree Paper</b>						
50 lb. delivered US (US\$ per short ton) <sup>(3)</sup>	950	845	975	805	975	855
<b>Paper Pulp</b>						
NBSK (US\$ per tonne) <sup>(4)</sup>	980	730	840	570	840	830
<b>Chemical cellulose</b>						
92 alpha (US\$ per tonne) <sup>(5)</sup>	1,460	780	860	590	1,200	820

(1) 100 gsm sheets, RISI.

(2) 60 lb. Coated Web, RISI.

(3) 50 lb. Offset, RISI.

(4) Northern Bleached Softwood Kraft Pulp CIF Western Europe, RISI.

(5) Selected indicative spot prices. However most of our product is sold at contract prices.

#### ***Woodfree Paper***

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

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

Our North American coated woodfree domestic paper sales volume for fiscal 2010 was 22% in sheet form and 78% in reel form. The sheet volume is largely influenced by brochure and general commercial printing activities using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal. Reels volume is heavily influenced by catalogue and magazine activity, which is strongest in the third and fourth calendar quarters, text book activity, which is strongest in the second and third calendar quarters, and publication printer activity, which is not particularly seasonal. These printers principally use heatset web offset printing processes.

Our European coated woodfree paper sales volume for fiscal 2010 was 74% in sheet form and 26% in reel form. Due to the diversity in languages in the European market, the print editions of brochure and general commercial printing activities are considerably smaller than in the US market. This translates into a significantly higher volume in sheets. The seasonal patterns of both sheets and reels are mostly influenced by the catalogue business. This business has its highest seasonal activity in the spring, when the fashion catalogues come out, and the autumn, when the Christmas catalogues and holiday brochures are printed. Commercial print and publishing business provide a more steady demand in this market.

*Uncoated Woodfree Paper.* Uncoated woodfree paper represents the largest industry woodfree paper grade in terms of both global capacity and consumption. Uncoated woodfree paper is used for bond / writing and offset printing papers, photocopy papers, writing tablets (e.g., legal pads), speciality lightweight printing paper (e.g., bibles) and thin paper.

The market for uncoated paper products generally follows cyclical trends, which do not necessarily coincide with cycles for coated paper but are impacted by capacity changes in uncoated woodfree paper output levels.

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

#### ***Mechanical Products***

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

for coated mechanical paper declined by 23% in fiscal 2009 and increased by 2.2% in fiscal 2010. Exports to overseas markets increased by 29.6% and total deliveries increased by 6.2% for fiscal 2010 as compared to fiscal 2009.

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

### ***Packaging Products***

Our range of forest products comprises a variety of packaging papers produced in southern Africa at the Tugela, Cape Kraft and Ngodwana mills. We are one of the major suppliers of packaging papers in South Africa.

*Packaging Paper.* As with woodfree paper, the market for packaging papers is affected by cyclical changes in the world economy, local economic growth, retail sales and by changes in production capacity and output levels. Demand for packaging paper is largely driven by the demand for cement, potatoes, sugar and milling products. During fiscal 2008 the southern African containerboard market was positively affected by a good citrus crop and corresponding demand from export markets, as well as strong demand from the industrial sector. Sappi's packaging paper market share increased in fiscal 2008 due to higher priced and therefore less attractive imports and significant improvements in production output. During fiscal 2009 global demand for packaging paper declined sharply as a result of the economic slowdown and in particular the resulting negative impact on demand for cement and other building products. Demand in the South African market for containerboard contracted due to the general economic downturn and high inventory levels throughout the supply chain. This resulted in significant downward pressure on pricing both in the South African and export markets. During fiscal 2010 global demand for packaging paper has recovered, and there has been an overall reduction in inventory levels throughout the supply chain. The southern African containerboard market has also benefited from a good citrus season which has resulted in a tight supply position in the fourth fiscal quarter of 2010 (the third calendar quarter). Containerboard pricing in the southern African market has improved in line with the increased demand, while export prices have also shown a positive upward trend.

### ***Pulp***

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

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

NBSK prices are cyclical and can change rapidly due to changing dynamics of supply and demand. For further information, see "Item 5 Operating and Financial Review and Prospects Markets". In fiscal 2010 pulp markets continued to recover, with prices increasing due to tight supply and increasing demand, reaching a peak in July 2010 of US\$ 979 per tonne. Prices have subsequently eased with the year end price being US\$ 973 per tonne in Europe.

*Chemical cellulose.* The viscose staple fiber (VSF) industry which manufactures textile and non-woven fibers is the largest market segment for chemical cellulose. Prices of VSF grade chemical cellulose have historically tended to follow those of European NBSK prices, but more recently the unique market drivers in the chemical cellulose market business have begun to cause a disconnect between market VSF grade chemical cellulose prices and the NBSK prices. Since 2002, the price of VSF grade



chemical cellulose has ranged from a high of approximately US\$ 1,400 per tonne in the third fiscal quarter of 2010 (second calendar quarter), to a low of US\$ 470 per tonne in the second quarter of 2002. During fiscal 2008, prices of VSF grade chemical cellulose strengthened in line with NBSK prices, but fell sharply in fiscal 2009 as a result of the weaker economic conditions, the falling NBSK prices and the decline in demand for chemical cellulose, declining to a low of US\$ 590 per tonne in March 2009. As from the third fiscal quarter of 2009, demand for chemical cellulose showed an improvement and continued to improve throughout both 2009 and 2010. In line with the improved demand and the rising NBSK prices, the VSF grade price of chemical cellulose increased during the second half of fiscal 2009 and into 2010, reaching highs of around US\$ 1,400 per tonne in some instances. Prices of the higher purity chemical cellulose used in applications other than for VSF products tend to be more stable and are largely unrelated to the price of NBSK. The market price for chemical cellulose in some of the other market businesses such as acetate flake, microcrystalline cellulose and ethers, is set by competitive forces within these specific markets, and have increased to levels of US\$ 1,500 per tonne and above in fiscal 2010.

### ***Timber Products***

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

### **Business Review**

The Group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Sappi Fine Paper which is comprised of the Group's Sappi Fine Paper North America and Sappi Fine Paper Europe reportable segments, is our largest operating business, accounting for approximately 76% of our sales volume in fiscal 2010 and approximately 78% of our sales volume in fiscal 2009. Sappi Fine Paper has an aggregate annual paper production capacity of 5.4 million tonnes at 12 paper and related paper pulp mills in North America and Europe.

Sappi Southern Africa is an integrated pulp, fine paper, packaging paper and timber products producer. In fiscal 2010 and fiscal 2009, Sappi Southern Africa accounted for approximately 24% and 22% respectively, of our sales volume. It has an aggregate annual production capacity of 1.1 million tonnes of paper and 1.8 million tonnes of pulp in southern Africa.

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

We also operate a trading network for the international marketing and distribution of our products outside our core operating regions of North America, Europe and southern Africa. Our trading operation, which we refer to as Sappi Trading, co-ordinates our shipping and other logistical functions for exports from North America, Europe and southern Africa. All sales and costs associated with Sappi Trading are allocated to the three reportable segments.

The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. For further information, see "Item 5 Operating and Financial Review and Prospects Principal Factors Impacting on our Group Results", "Item 5 Operating and Financial Review and Prospects Markets" and "Item 4 Business Overview".

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The chart below represents our operational rather than the legal or ownership structure as of September 2010. Units shown are not necessarily legal entities.

The following tables set forth certain information with respect to our operations for, or as of the end of, fiscal 2010.

	<b>Sappi Fine Paper</b>				
	<b>North America</b>	<b>Europe</b>	<b>Sappi Southern Africa</b>	<b>Unallocated and Eliminations</b>	<b>Total</b>
	<b>(US\$ million) (tonnes '000)</b>				
Sales volume (tonnes)	1,354	3,796	2,744		7,894
Sales	1,373	3,638	1,561		6,572
Operating profit	180	72	112	(23)	341
Operating profit excluding special items	124	76	134	5	339

**SAPPI FINE PAPER**

*Overview*

Sappi Fine Paper is our largest operating business and contributed approximately 76% and 78%, respectively, of our sales in fiscal 2010 and fiscal 2009. It has the capacity to produce approximately 5.5 million tonnes of paper per annum at its 12 paper and related paper pulp mills located on two continents. Sappi Fine Paper comprises two reportable segments: Sappi Fine Paper North America and Sappi Fine Paper Europe.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Fine Paper as of September 2010:

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(1)

As of fiscal 2010, Sappi Fine Paper South Africa has been integrated with our former Sappi Forest Products business to form our Sappi Southern Africa segment.

- (2) On March 12, 2009, we ceased production at our Muskegon mill.
- (3) We ceased production at our Kangas mill in January 2010.
- (4) We ceased production of PM 5 at the Maastricht mill in December 2008.

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The following table sets out the approximate annual production capacity of Sappi Fine Paper's products as of September 2010.

	<b>Annual Production Capacity</b>		
	<b>North America</b>	<b>Europe</b>	<b>Total</b>
Production capacity: ('000 tonnes)			
<b>Woodfree paper</b>			
Coated <sup>(1)(2)</sup>	1,160	3,925	5,085
Uncoated		285	285
Total <sup>(3)</sup>	1,160	4,210	5,370
<b>Paper pulp</b>	945	1,175	2,120

- (1) Includes coated woodfree paper, coated mechanical paper and speciality papers.
- (2) Excludes 210,000 tonnes for the Kangas mill which ceased production during January 2010.
- (3) Excludes Chinese joint venture tonnes.

### Facilities and Operations

#### *Sappi Fine Paper North America*

Sappi Fine Paper North America is a leading producer and supplier of coated woodfree paper in the United States. Sappi Fine Paper North America also produces coated speciality papers and, from time to time, uncoated woodfree papers.

Sappi Fine Paper North America is headquartered in Boston, Massachusetts, and operates three paper mills in the United States in Somerset, Maine; Westbrook, Maine; and Cloquet, Minnesota. These three mills have a total annual production capacity of approximately 1.2 million tonnes of paper and approximately 0.9 million tonnes of paper pulp, which represents approximately 117% of Sappi Fine Paper North America's pulp requirements. This significantly reduces Sappi Fine Paper North America's exposure to fluctuations in the price of market pulp that are not driven by fluctuations in wood or other major raw material prices. Coated paper accounted for approximately 79% and 75% of Sappi Fine Paper North America's sales in fiscal 2009 and fiscal 2010, respectively. Speciality paper and pulp accounted for 21% and 25% of our sales in fiscal 2009 and 2010, respectively.

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

	<b>Year ended September</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Sales: (US\$ million)			
Coated woodfree paper	1,024	1,021	1,273
Speciality paper and other <sup>(1)</sup>	349	274	391
<b>Total</b>	<b>1,373</b>	<b>1,295</b>	<b>1,664</b>

- (1) Other consists primarily of market pulp.



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For fiscal 2010, Sappi Fine Paper North America sold approximately 1.4 million tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products at each of our mills in North America:

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

*Cloquet.* The Cloquet mill has two paper machines and an offline coater, producing premium coated paper. The newest paper machine and coater were installed in 1988 and 1989, respectively. The pulp mill was started up by the previous owner in 2000 at a total cost of US\$ 525 million. The Cloquet paper machines have an annual production capacity of 330,000 tonnes of coated paper, and the state-of-the-art pulp mill has an annual production capacity of 455,000 tonnes.

*Somerset.* The Somerset mill is a low-cost producer and has an annual production capacity of approximately 795,000 tonnes of paper and approximately 490,000 tonnes of pulp. Each of the three paper machines at the Somerset facility employs Sappi Fine Paper North America's patented on-line finishing technology. This technology combines the three phases (paper making, coating and finishing) in the manufacture of coated paper into one continuous process. It is well suited for the lighter weight coated woodfree papers produced at Somerset as it allows for the production of high gloss, consistent quality products at high speeds.

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

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

### *Sappi Fine Paper Europe*

Sappi Fine Paper is a leading producer of coated woodfree paper in Europe and a producer of commercial printing paper, coated mechanical paper and speciality paper used in packaging, labeling and laminating. Sappi Fine Paper Europe's operations consist of nine mills with an aggregate annual production capacity of approximately 4.2 million tonnes of paper and 1.2 million tonnes of related paper pulp. Sappi Fine Paper Europe's headquarters are located in Brussels, Belgium.

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

	<b>Year ended September</b>		
	<b>2010</b>	<b>2009(2)</b>	<b>2008</b>
<b>Sales: (US\$ million)</b>			
Coated woodfree paper <sup>(1)</sup>	3,167	2,527	2,407
Uncoated woodfree paper	265	160	27
Speciality coated paper and other	206	208	286
<b>Total</b>	<b>3,638</b>	<b>2,895</b>	<b>2,720</b>

- (1) Includes coated mechanical paper produced at Lanaken, Kirksniemi and Kangas mill. We ceased production at the Kangas mill in January 2010.
- (2) Includes 9 months of sales relating to the Acquired Business.

For fiscal 2010, Sappi Fine Paper Europe sold approximately 3.8 million tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products for fiscal 2010 at each of Sappi Fine Paper Europe's mills in Europe.

<b>Mill</b>	<b>Mill Locations</b>	<b>Production capacity ('000 tonnes) Paper</b>	<b>Number of paper machines</b>	<b>Products</b>
Alfeld	Germany	330	5	Coated and Uncoated woodfree paper, coated speciality paper
Ehingen	Germany	250	1	Coated woodfree paper and uncoated woodfree paper
Stockstadt	Germany	430	2	Coated woodfree paper and uncoated woodfree paper
Gratkorn	Austria	950	2	Coated woodfree paper and uncoated woodfree paper
Maastricht	Netherlands	280	1	Coated woodfree paper
Nijmegen	Netherlands	240	1	Coated woodfree paper
Lanaken	Belgium	500	2	Coated mechanical paper and coated woodfree paper
Kangas <sup>(1)</sup>	Finland			
Kirksniemi	Finland	730	3	Coated mechanical paper
Biberist	Switzerland	500	3	Coated woodfree paper and uncoated woodfree paper

- (1) We ceased production at Kangas mill in January 2010.

*Alfeld.* The Alfeld mill is located to the south of Hannover, Germany, and its origins date back to 1706. It has a paper production capacity of approximately 330,000 tonnes and a pulp production capacity of approximately 125,000 tonnes per annum. It produces coated woodfree and speciality paper products, which are mainly coated and have a variety of finishes. In 1995, a major rebuild of Alfeld's PM 3 was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM 3 employs a fully integrated concept of on-line coating and calendaring. The Alfeld mill produces totally chlorine-free ("TCF") bleached sulphite pulp for its own use. In early 2002, a rebuild of Alfeld's PM 2 was completed. Alfeld spent approximately € 50 million on the rebuild of its PM 2.

*Ehingen.* The Ehingen mill is located to the southeast of Stuttgart, Germany and was acquired by Hannover Papier, predecessor entity to Sappi Alfeld, in 1987. A paper machine with a capacity of 180,000 tonnes per annum of coated woodfree paper was commissioned in July 1991,



expanding

Ehingen from a market pulp mill into an integrated pulp and paper mill. During 1994, the construction of a high-rack warehouse was completed. As a result of upgrades during 1994 and 1996, Ehingen's total paper capacity was increased to 235,000 tonnes per annum. During June and July 2006 the paper machine was rebuilt and started up, together with a new coater, allowing a significant quality upgrade from single coated to triple coated woodfree paper with capacity of approximately 250,000 tonnes per annum. The pulp mill's capacity is currently 135,000 tonnes per annum of TCF bleached sulphite pulp. The pulp is produced mainly for internal use, but is also sold to third party customers.

*Stockstadt.* As part of the Acquisition we acquired the shares of M-real Stockstadt GmbH, which holds the Stockstadt mill located in Stockstadt, Germany. The mill was established in 1898 and has an annual production capacity of approximately 430,000 tonnes of coated woodfree and uncoated woodfree paper as well as 150,000 tonnes of hardwood pulp. The mill produces EuroArt Plus (coated woodfree paper), Tauro (uncoated woodfree paper) and hardwood pulp.

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

*Maastricht.* Paper was first produced at the Maastricht mill in 1852. The mill is situated on the Maas River in Maastricht, the Netherlands. The mill has an annual production capacity of 280,000 tonnes of coated woodfree paper and board. PM 6, which was installed at Maastricht in 1962, was rebuilt during 1977. In 1996, PM 6 underwent an extensive NLG 224 million (€ 102 million) rebuild. Maastricht specializes in high basis-weight triple-coated woodfree paper and board for graphics applications. PM 6's production complements that of the Gratkorn mill, which produces lower weight coated woodfree paper. We ceased production at Maastricht's PM 5 in December 2008, having reached an agreement with the mill's works council in respect of such action. Due to this closure, the mill's total annual production capacity decreased by 60,000 tonnes. For further information, see "Item 5 Operating and Financial Review and Prospects Mill Closures, Acquisitions, Dispositions, Impairment and Joint Ventures".

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

*Lanaken.* The Lanaken mill, situated in Lanaken, Belgium, began commercial operations in 1966. It produces coated mechanical paper and lower weight wood-containing coated paper for offset printing. Coated mechanical paper for web offset presses is used primarily in the production of advertising materials and magazines. Lanaken's two paper machines have a total capacity of 500,000 tonnes per annum. One machine principally produces coated mechanical paper and was completely overhauled in 1992. An additional off-line coater was also installed during the upgrade to provide triple coating capability. The second paper machine produces lower-weight wood-containing paper. Its capacity was increased to 305,000 tonnes per annum as a result of an optimization process during the mid-1990s. The Lanaken mill also produces chemi-thermo-mechanical pulp (CTMP) in an integrated plant which has an annual production capacity of 180,000 tonnes. This enables the mill to supply approximately 63% of its own fiber requirements for paper production.

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*Kangas.* As a direct result of the global economic recession and apparent overcapacity in the European paper industry, demand for coated magazine paper reduced significantly during the latter half of fiscal 2008 and fiscal 2009. To counter the effects of the economic downturn, we decided to cease production at the Kangas mill in January 2010 after successful negotiations with labor representatives. The mill had a production capacity of 210,000 tonnes of coated mechanical paper per annum. The closure removed this capacity from the European market. The volumes produced at the mill were transferred to Sappi Lanaken and Sappi Kirkniemi; the Galerie Silk range is supplied to customers from the Sappi Lanaken mill in Belgium and a complementary grade, Galerie Fine Silk, was introduced from the Sappi Kirkniemi mill, thereby widening Sappi's coated magazine paper range.

*Kirkniemi.* As part of the Acquisition, we acquired the assets comprising the Kirkniemi mill, located 70 kilometers west of Helsinki, Finland. The mill was built in 1966 and has an annual production capacity of approximately 730,000 tonnes of paper and 330,000 tonnes of mechanical pulp. The products of the Kirkniemi mill are Galerie Lite (coated ultra-lightweight paper with high bulk and opacity), Galerie Brite (coated lightweight paper with high bulk, soft gloss and improved brightness) and Galerie Fine (coated mechanical paper with high brightness, smoothness and improved opacity).

*Biberist.* As part of the Acquisition we acquired the shares of M-real Biberist GmbH, which holds Biberist mill, located in Biberist, Switzerland. The mill was established in 1862 and has an annual production capacity of approximately 500,000 tonnes. The mill produces coated woodfree paper for the graphic arts and offset printing industry, as well as woodfree uncoated pre-printed paper for office, pre-printed and offset applications. The products of the Biberist mill are Cento (uncoated woodfree multi-purpose printing paper), Allegro (coated woodfree paper) and Furioso (coated woodfree paper).

### Marketing and Distribution

#### *Overview*

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

Our trading network, Sappi Trading, coordinates the international marketing and distribution of our woodfree and mechanical paper products outside our core regions. Sappi Trading operates in Hong Kong (China), Sydney (Australia), Sao Paulo (Brazil), Shanghai (China), Konstanz (Germany), Nairobi (Kenya), Mexico City (Mexico), Singapore, Johannesburg and Durban (South Africa), Zurich (Switzerland), Taipei (Taiwan) and New York (United States). It manages a network of agents around the world, handling exports to over 70 countries. Sappi Trading also manages the export logistics of the southern African operations.

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

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

***Sappi Fine Paper North America***

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

Approximately 7% and 8%, respectively, of Sappi Fine Paper North America's sales for fiscal 2009 and 2010 were outside North America. Sappi Fine Paper North America's sales outside North America are handled in southern Africa by Sappi Southern Africa, in Europe by Sappi Fine Paper Europe and outside those regions by Sappi Trading.

In fiscal 2009 and 2010, the Sappi Fine Paper North America sales force sold coated woodfree paper to approximately 364 and 360 merchant distribution locations, respectively. By selling exclusively through merchant channels, Sappi Fine Paper North America believes it has created a loyal group of merchant customers. Rather than competing with merchant distributors, the Sappi Fine Paper North America sales force focuses on generating demand with key printers, publishers and end users, which are then serviced by the merchant distributors.

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

***Sappi Fine Paper Europe***

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

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

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

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

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

*Äänekoski PM 2.* We entered into a distribution agreement in respect of PM 2 at M-real Corporation's Äänekoski mill in Finland. Äänekoski's PM 2 produces triple blade coated wood-free art paper on one paper machine that is marketed under the brand name Galerie Art. The machine has an annual production capacity of 200,000 tonnes.

## Customers

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

The most significant merchant customers, based on sales during fiscal 2010 include:

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

*Europe:* Igepa Group, PaperlinX, Papyrus, Antalis (owned by Sequana Capital), Inapa and Berberich. Two of these merchants, PaperlinX and IGEPA, represented individually approximately 23% of our total sales during fiscal 2010.

Sappi Fine Paper's converter customers include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2010 include: Novelis, Orafol, Mayr-Melnhof, Constantia, Vaassen and Amcor. These customers use our products in the production of pressure-sensitive products, flexible packaging as well as NWS labels. No converter customer, however, represented more than 10% of our total sales during fiscal 2010.

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

## Competition

### *Overview*

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

Historically pulp and paper are subject to relatively low tariff protection in major markets, with existing tariff protections being further reduced under the World Trade Organization ("WTO"). In South Africa, no tariffs are imposed on imports of pulp and newsprint as well as most uncoated and coated woodfree products, with the exception of A4 office paper.

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

In Western Europe and North America, annual industry production capacity closures of more than 800,000 tonnes of coated woodfree paper and 500,000 tonnes of coated mechanical paper have been implemented between 2005 and 2007, with further annual production capacity closures of approximately 2,100,000 tonnes of coated woodfree paper and approximately 1,800,000 tonnes of coated mechanical paper having occurred by the end of September 2010.

### *North America*

The major domestic coated woodfree paper producers which compete with Sappi Fine Paper in North America are NewPage (currently owned by Cerberus) and Verso Paper (formerly part of International Paper Company and currently owned by an affiliate of Apollo Management L.P.). In

addition, approximately 18% of United States consumption is supplied by foreign producers, primarily Asian and European.

***Europe***

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

**SAPPI SOUTHERN AFRICA**

**Overview**

Sappi Southern Africa, headquartered in Johannesburg, South Africa, is an integrated pulp, packaging paper, coated, uncoated and speciality paper, crepe tissue and timber products producer. Sappi Southern Africa operates seven pulp and paper mills and one sawmill. The segment is managed in three divisions: Sappi Paper and Paper Packaging, Sappi Chemical Cellulose and Sappi Forests.

Sappi Southern Africa is a major pulp and paper producer in Africa, with a production capacity of 830,000 tonnes of packaging paper products, 350,000 tonnes of woodfree paper products, 800,000 tonnes of chemical cellulose and 1,025,000 tonnes of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 555,000 hectares of forestland. Currently, we have access to approximately 404,000 hectares of plantable forestland; however, due to forest fires and timing differences between felling and planting activities, approximately 378,000 hectares is planted with primarily pine and eucalyptus. Approximately 67% of our southern African pulpwood and sawlog requirements are from our managed, owned and leased plantations. The term "directly manages" relates to plantations in southern Africa established on land that we either own or lease from a third party. The term "indirectly manages" relates to plantations in southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form of advice on the growing and tending of trees.

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The following chart sets forth certain information with respect to the mills and principal products of Sappi Southern Africa as of September 2010.

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(1)

Both the 60,000 tonne containerboard machine at Tugela mill and of parts of the Ngodwana pulp mill, from which production was temporarily suspended in October 2009, were restarted in the third fiscal quarter of 2010 (second calendar quarter).





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

	<b>Year ended September</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Sales (US\$ million):</b>			
Commodity paper products <sup>(1)</sup>	452	355	474
Chemical cellulose	604	366	453
Woodfree and speciality papers	380	321	385
Paper pulp <sup>(2)</sup>	59	77	93
Timber and timber products	676	50	74
<b>Total</b>	<b>1,561</b>	<b>1,169</b>	<b>1,479</b>

(1) Includes newsprint and packaging products.

(2) The Usutu Pulp mill was closed in January 2010.

For the years ended September 2010 and 2009, Sappi Southern Africa sold approximately 2,345,700 tonnes and 2,160,500 tonnes respectively, of paper, pulp and forest products.

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

Production capacity: ('000 tonnes)	
<b>Paper products</b>	
Packaging paper	690
Newsprint	140
Coated woodfree paper	80
Uncoated <sup>(1)</sup>	270
<b>Total</b>	<b>1,180</b>
<b>Pulp</b>	
Chemical cellulose	800
Paper pulp <sup>(3)</sup>	1,025
<b>Total</b>	<b>1,825</b>
<b>Timber products<sup>(2)</sup></b>	<b>43</b>

(1) Includes 30,000 tonnes of tissue manufactured at the Stanger mill and 14,000 tonnes of kraft paper manufactured at the Enstra and Adamas mills.

(2) Represents 85,000 cubic meters.

(3) Excludes 190,000 tonnes for the Usutu Pulp mill which ceased production in January 2010.

*Facilities and Operations*

*Sappi Chemical Cellulose*

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

Construction on the expansion project commenced in August 2006. 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 that was experienced in the first half of fiscal 2009, we did not utilize all of the additional capacity initially and curtailed production in certain elements of the old plant while utilizing the new plant to improve efficiencies. Demand came back strongly in the latter half of that fiscal year, and the plant was operating at close to full capacity by the end of September 2009. By the fourth quarter of fiscal 2010, the plant was running at full capacity.

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

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

### ***Sappi Paper and Paper Packaging***

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

<b>Mill Locations in South Africa</b>	<b>Production capacity ('000 tonnes) Paper</b>	<b>Number of paper machines</b>	<b>Products</b>
Adamas	40	2	Prestige stationery, branded printing paper and board, envelope paper and corrugated medium
Cape Kraft	60	1	Linerboard, corrugating medium and coated products
Enstra	200	3	Uncoated woodfree paper
Ngodwana	380	2	Kraft linerboard, white top linerboard, newsprint, plasterboard and bleached and unbleached market pulp
Stanger	110	2	Coated woodfree paper, coated label paper and tissue
Tugela	390	4	Kraft linerboard, corrugating medium, sackkraft and machine glazed kraft

*Adamas.* The Adamas mill is a small speciality mill. It produces high quality, uncoated prestige papers and boards in a variety of colors and embossing patterns. It also produces branded printing paper and board, previously produced at the Nash mill in the United Kingdom. The Adamas mill also produces packaging and industrial grades from waste paper. The mill has a capacity of 40,000 tonnes of paper per annum. This mill purchases waste paper and bleached pulp from our other mills.

*Cape Kraft.* The Cape Kraft mill was built during 1980, commissioned in 1981 and upgraded in 1995. The mill presently has a capacity of 60,000 tonnes of linerboard and corrugating medium per annum, which it sells principally to the corrugating industry in the Western Cape. The mill uses

approximately 67,000 tonnes per annum of waste paper to produce 60,000 tonnes per annum of paper. The fact that the mill's product is produced from 100% recycled paper, provides a competitive advantage in our markets, which are becoming increasingly environmentally aware.

*Enstra.* The Enstra mill is an integrated pulp and uncoated paper mill, with a capacity of approximately 200,000 tonnes of elemental chlorine-free uncoated woodfree paper products per annum. In 1996, the Enstra mill completed a US\$ 96 million capital expenditure program. This program increased capacity by 50,000 tonnes per annum and has resulted in improved production efficiency and product quality. The product range at the Enstra mill caters to the business forms, scholastic, office, envelope and general printing industries. The mill has a capacity of 105,000 tonnes per annum of bleached hardwood pulp. The mill uses an oxygen bleaching process, which is a process that was developed at the mill in the 1970s and has since become the industry standard.

*Ngodwana.* Ngodwana was expanded between 1981 and 1985 from an unbleached kraft mill with a capacity of 100,000 tonnes per annum to a modernized mill with a capacity of approximately 240,000 tonnes of linerboard and 140,000 tonnes of newsprint per annum. The linerboard machine also produces White Top Liner (included in total linerboard capacity). The mill produces nearly 410,000 tonnes of bleached and unbleached pulp and 100,000 tonnes of mechanical pulp annually. The mill markets paper and excess pulp locally and in the export market. The mill is a large consumer of waste paper, which is used in the production of packaging paper. In 1995, the mill commissioned the world's first ozone bleaching plant, thus eliminating the use of elemental chlorine and significantly reducing mill effluent. In October 2009, Sappi announced the temporary suspension of production from certain sections of the Ngodwana pulp mill. However, these sections were restarted in June 2010 with production at full capacity during the fourth fiscal quarter of 2010 (third calendar quarter).

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

*Tugela.* Tugela is Sappi Kraft's largest integrated unbleached kraft mill, with a capacity of approximately 390,000 tonnes of packaging paper per annum. The mill supplies kraft linerboard, corrugating medium and most of South Africa's requirements for sackkraft which is used in the production of multiwall sacks. Machine glazed packaging papers are also produced at the mill. The Kraft Linerboard machine was upgraded in 1996 at a cost of approximately US\$ 81 million and the sackkraft machine and components of the pulp plant were upgraded in 2003 and 2004 at a cost of approximately US\$ 50 million. It is the only mill in South Africa to offer high performance containerboard packaging and extensible sackkraft. In October 2009, Sappi announced the temporary suspension of production from the 60,000 ton containerboard machine at Tugela mill. However, the machine was restarted in April 2010 with production at full capacity during the fourth fiscal quarter of 2010 (third calendar quarter).

*Sappi ReFibre.* Sappi Paper and Paper Packaging also manages Sappi ReFibre (formerly Sappi Waste Paper). Sappi ReFibre collected approximately 210,000 and 185,000 tonnes of waste paper during fiscal 2010 and fiscal 2009 respectively. Most of the waste paper collected was supplied to our mills. Waste represents approximately 30% of the fiber requirements of our packaging grades.

*Usutu Pulp.* Usutu Pulp began production in 1961 and has been managed by us since 1989. The mill had a capacity of 190,000 tonnes of unbleached kraft pulp. The mill is situated in Swaziland and is surrounded by 66,000 hectares of forestlands, which it leases from the Swazi nation under a long-term

lease extendable to 2089. The location of these forestlands, combined with the very compact areas the trees are planted on, provides for low wood delivery costs. See " Supply Requirements Southern Africa Wood" for more information.

In August 2008, forest fires caused by severe weather conditions, resulted in the loss of approximately 28% of the mill's fiber supply and 40% of the plantations. The volume of trees lost by Usutu reduced the value of the mill, which was therefore impaired. An impairment loss of US\$ 37 million was recognized in fiscal 2008.

On October 30, 2009, we announced that, due to the cumulative severe impact of fire damage to the Usutu forestlands over the past few years as well as the adverse market conditions, it had become apparent that the Usutu Pulp mill was no longer sustainable. The Usutu Pulp mill was subsequently closed on January 31, 2010. With the closure of the mill, we also exited the unbleached kraft pulp market. However, we will continue to operate the forestry operations in Swaziland, and we are investigating the establishment of various timber processing operations at the Usutu mill site.

### *Sappi Forests*

Sappi Forests, together with Usutu Forests, supplies or procures all of Sappi Southern Africa's domestic pulpwood requirements of approximately 5.4 million tonnes per annum. 89% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 555,000 hectares of land situated in: Mpumalanga (47%), KwaZulu-Natal (41%) and Swaziland (12%).

	<b>Hectares</b>
Owned by us in South Africa	385,000
Leased by us or managed directly in South Africa	8,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	96,000
Leased by us in Swaziland	66,000
<b>Total</b>	<b>555,000</b>

Securing raw material for the future is a vital element in the long-term planning of Sappi Southern Africa's business. Sappi Forests has an extensive research operation which concentrates on programs to improve the yield per hectare of forestland used. Significant progress has been made in developing faster-growing trees with enhanced fiber yields. Sophisticated nurseries have been developed to accommodate the seedling requirements of Sappi Southern Africa's operations. Approximately 54 million seedlings are grown annually at Sappi Forests' and Usutu Forests' nurseries, and by contract growers in both South Africa and Swaziland.

Sappi Forests and Usutu Forests have spent approximately US\$ 185 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2007 to September 2010.

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

### **Marketing and Distribution**

#### *Overview*

Each of Sappi Southern Africa's divisions, with major South African markets, has its own marketing, sales and technical support teams based in three major centers in South Africa. Furthermore, Sappi Paper and Paper Packaging also has a marketing, sales and technical support team based in the United

Kingdom (Nash). Sappi Trading manages the exports of Sappi Southern Africa's divisions, in particular the marketing and distribution of chemical cellulose produced at the Saiccor mill.

### **Customers**

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

Sappi Paper and Paper Packaging's most significant packaging paper and newsprint customers, based on sales in fiscal 2009 and fiscal 2010, include The CTP Group and Media 24 which uses Sappi's newsprint; while the most significant converter customers include Nampak Limited; Mondipak; APL (Pty) Ltd and Houers Co-operative.

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

During fiscal 2010, approximately 46% of the total sales volume of Sappi Southern Africa was destined for the export market.

### **Competition**

Mondi Paper Company Limited is a significant competitor of Sappi Southern Africa in the southern African market, but more specifically in the uncoated woodfree paper sector.

Coated woodfree paper imports, primarily from Europe and Asia, have gained an increasing share of the southern African woodfree paper market as a direct result of declining import duties which were removed in 2006 and the strengthening Rand. However, a substantial part of the imports originate from Sappi Fine Paper's European mills.

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

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

## **SUPPLY REQUIREMENTS**

### **Overview**

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

For further information on regulation affecting our supplies, please see "Environmental and Safety Matters Environmental Matters South Africa".

## **North America**

### ***Wood***

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

### ***Pulp***

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

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

Sappi Fine Paper North America manufactures, in aggregate, pulp and fiber equivalent to approximately 117% of its own pulp requirements. This vertical integration reduces its exposure to fluctuations in the market price for pulp.

### ***Energy Requirements***

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

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

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

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The Cloquet mill is partly supplied with internally generated electricity. The facility includes a hydroelectric plant that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet mill has entered into a take-or-pay agreement to purchase a portion of its power from Minnesota Power. We may terminate this agreement at any time after December 31, 2008, subject to a four-year notice period.

### ***Alternative Fuel Mixture Tax Credits Black Liquor***

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

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

### ***Chemicals***

Major chemicals used by Sappi Fine Paper North America include clays, carbonates, latexes and plastic pigments, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the speciality business. Sappi Fine Paper North America purchases these chemicals from a variety of suppliers. Chemical supplies have tightened due to the rationalization of capacity over the last several years. Most of these chemicals are subject to price fluctuations based on a number of factors, including energy and crude oil prices, the availability of feedstocks, transportation costs and the specific market supply and demand dynamics.

### ***Europe***

#### ***Wood***

Sappi Fine Paper Europe purchases approximately 3,650,000 cubic meters of pulpwood per annum for its pulp mills (including the Acquired Business). The wood is purchased both on contract and in the open market. Wood supply contracts are fixed for one year in terms of volumes. Price agreements range from three months for wood chips to one year for logwood.

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

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

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



***Pulp***

Sappi Fine Paper Europe produces approximately 51% of its pulp requirements. The remainder is mostly supplied through open market contracts, the biggest supplier being M-real Corporation who supply up to 463,000 tonnes of pulp per annum, for contracted periods of between 2 and 8 years.

***Energy Requirements***

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

Since July 2007, Gratkorn has operated a combined heat and power plant ("CHP plant") on site and has become an exporter of about 10 megawatts of electricity.

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

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

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

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

About half of the electricity and steam requirements of the Biberist mill is satisfied by a medium size on site CHP plant which is owned and operated through a co-operation with a Swiss utility company. The balance of the mill's power requirements is purchased externally.

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

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

***Chemicals***

Major chemicals used by Sappi Fine Paper Europe include clays, carbonates, latexes, starches and chemicals for the speciality business. Sappi Fine Paper Europe purchases most of these chemicals from a portfolio of suppliers, and in only one case is Sappi Fine Paper Europe dependent on a sole source of

supply. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices, the availability of feedstocks, transportation costs and the specific market supply and demand dynamics.

## **Southern Africa**

### ***Wood***

Sappi Southern Africa manages directly or indirectly approximately 555,000 hectares of forestland in southern Africa. Approximately 378,000 hectares are forested, which produce approximately 67% of the timber required for this reporting segment's operations. Sappi Forests owns approximately 385,000 hectares and manages the majority of the remainder. Usutu Pulp cultivates 52,000 hectares of pine and eucalyptus on 66,000 hectares of land that is leased from the Swazi nation on a long-term lease agreement which is extendable to 2089. Sappi Forests presently has supply contracts for the timber from approximately 96,000 hectares of plantations planted by small growers with our technical and financial support. The remaining timber requirements are met through a number of significant medium-term contracts and open market purchases. During the 2007 and 2008 fire seasons, which were exacerbated by severe weather conditions, approximately 40,000 hectares of forests were affected by fire.

A feasibility study for the establishment of plantations in Mozambique is at an advanced stage. We are awaiting the Mozambique government's response clarifying certain issues identified during the feasibility study.

### ***Pulp***

Sappi Southern Africa, in aggregate, manufactures all of the pulp required in its papermaking operations, except minimal quantities of specialized pulps, and is a net seller of bleached and unbleached paper pulp. This vertical integration substantially reduces our exposure to fluctuations in the market price for pulp.

### ***Energy Requirements***

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

In February 2010 NERSA, the National Energy Regulator of South Africa, announced that it had approved substantial tariff increases for electricity in South Africa for the years 2010 to 2012, effective from April 1, each year. In fiscal 2010 electricity purchased from Eskom amounted to approximately 17% (fiscal 2009: 13%) of the variable costs in the southern African operations.

### ***Chemicals***

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

## ENVIRONMENTAL AND SAFETY MATTERS

### Environmental Matters

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate, and these laws and regulations have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide ("CO<sub>2</sub>") and other greenhouse gases ("GHG"), wastewater discharges and waste management. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. See note 32 to our Group Annual Financial Statements included elsewhere in this Annual Report for more information.

### *North America*

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations. On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. On May 12, 2010, the Commissioner accepted a conceptual design for the fish passage jointly proposed by the state, several non-governmental organizations and Sappi Fine Paper North America, and final detailed design drawings were submitted to the Commissioner on September 24, 2010. A final order approving the design was issued to Sappi Fine Paper North America on October 5, 2010. Pursuant to the order, construction of the fish passage must be completed by May 1, 2013. Costs associated with construction and relating engineering of this fish passage are estimated to be approximately US\$ 4 million to US\$ 5 million. Fish passage at the next dam upstream, the Saccarappa dam, must be operational two years after the Cumberland Mills dam fishway is completed, or during the spring of 2015. Installation of the Cumberland Mills dam fishway may also trigger, over a period of approximately ten years, the obligation to install fishways for at least some of Sappi Fine Paper North America's other four upstream dams as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US\$ 18 million to US\$ 28 million, which includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills and Saccarappa dams as well as estimated costs for upstream fishways which may be incurred in the future. Because construction of additional fishways depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

We closely monitor state, regional and Federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal program for regulating GHG emissions, Congress is considering comprehensive Federal legislation regarding climate change, and various regional initiatives regarding emissions associated with climate change are in effect or proposed. In addition, the U.S. Environmental Protection Agency has finalized or proposed several rules relating to emissions reporting and emissions reductions, including a proposed rule known as the "Boiler MACT" which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. Significant capital expenditures could be required for emissions control equipment at our mills in order to comply with the Boiler MACT and/or other proposed rules regulating GHGs. The nature, scope

and timing of any proposed legislation, including climate change legislation, is highly uncertain and, currently, we do not know what precise effect, if any, such legislation will have on our financial condition and operations.

### *Europe*

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. For example:

The Integrated Pollution Prevention and Control directive ("IPPC") regulates air emissions, water discharges and defines permit requirements and best available techniques ("BAT") for pollution control. The revised BAT reference documents ("BREFs") are expected to be finalized in 2011.

The national European laws regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany, Switzerland and The Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.

The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonize existing European and national regulations to provide a better protection of human health and our environment is not directly applicable to pulp and paper. It does however apply to a number of raw materials that we source. We will also register some intermediate substances in our pulp production processes. This registration was finalized in November 2010.

In The Netherlands we, together with other paper manufacturers, have signed an agreement with the national government to improve environmental management and further limit emissions.

The countries within which we operate in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

### *South Africa*

In southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and environmental considerations.

The Minister of Water and Environmental Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMIs) in her department. The EMIs prioritized various sectors of industry and inspected those sectors in the course of the past four years. In 2008, 2009 and 2010, the EMIs focused attention on the pulp and paper sector, signaling more stringent enforcement for Sappi mills.

In August 2008, the EMIs conducted a comprehensive inspection at our Ngodwana mill. No major findings were raised. The EMIs inspected our Enstra mill during October 2009 and carried out a subsequent follow up visit in August 2010. Following that visit there has been correspondence with the Department of Environmental Affairs regarding some aspects of Enstra's compliance with standards for atmospheric emissions; that communication is ongoing. The EMIs inspected our Tugela mill in October 2010. No oral findings were raised during the visit; a written report is expected within the next two months.

The primary South African environmental laws affecting our operations are:

The National Water Act. This law addresses the water shortages in South Africa and relates to both our manufacturing and our forestry operations. Abstraction of water, discharge of effluent

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and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.

The National Environmental Management Act. This law provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals.

The National Environmental Management Act: Air Quality Act was promulgated in the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations over a period of five to ten years.

The National Environmental Management Act: Waste Act was enacted on July 1, 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

The Kyoto Protocol. South Africa has also ratified the Kyoto Protocol. We are investigating Clean Development Mechanism projects, as defined in the Kyoto Protocol, at South African mills.

The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Our mills are in the process of obtaining air registration certificates from the authorities which will clarify the impact this will have on our business. The legislation is, however, expected to provide for a phase-in of the new standards; the impact on our mills is therefore expected to be distributed over the next five to ten years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

### **Safety Matters**

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

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

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

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

into the management systems and all mills of Sappi Fine Paper Europe comply with health and safety legislation and are OHSAS 18001 certified.

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

**ORGANIZATIONAL STRUCTURE**

Sappi Limited is the ultimate holding company of the Sappi Group. The following table sets forth significant subsidiaries and joint ventures owned directly or indirectly by Sappi Limited at September 2010.

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

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

\*

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

(1)

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



**PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

<b>Location</b>	<b>Use</b>	<b>Approximate Size(1)</b>	<b>Secured / Leased</b>
<b><i>Sappi Limited</i></b>			
Johannesburg, South Africa	Sappi Headquarters(2)	15,058 m2	Leased
<b><i>Sappi Fine Paper</i></b>			
<b>Sappi Fine Paper North America</b>			
Boston, Massachusetts	Headquarters(3)	3,245 m2	Leased
Skowhegan, Maine (Somerset mill)	Manufacturing facility: coated paper, softwood and hardwood pulp	1,076 ha	2014 Bond Collateral
Muskegon, Michigan	Former manufacturing facility and a warehouse(11)	49.8 ha	
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility	123.4 ha	
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp(4)	420.1 ha	2014 Bond Collateral Partly Leased
Allentown, Pennsylvania	Coated paper sheeting facility	12.1 ha	
Dayton, New Jersey	Distribution center(5)	3.3 ha	Leased
South Portland, Maine	Financial and customer service office(2)	4,500 m2	Leased
<b>Sappi Fine Paper Europe</b>			
Brussels, Belgium	Headquarters(6)	0.4 ha	Leased
Gratkorn, Austria	Manufacturing facility: coated paper and pulp(10)	99.9 ha	2014 Bond Collateral, Partly Leased
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha	2014 Bond Collateral
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha	2014 Bond Collateral
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	32.6 ha	
Alfeld, Germany	Manufacturing facility: coated paper, uncoated paper	33.3 ha	

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	and pulp		
Ehingen, Germany	Manufacturing facility: coated paper and pulp	35.7 ha	
Blackburn, England	Former manufacturing facility	36.0 ha	
Wesel, Germany	Distribution center(7)	62.1 ha	Partly Leased
Stockstadt, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	60.2 ha	
Biberist, Switzerland	Manufacturing facility: coated paper and uncoated paper	78.7 ha	
Kirkniemi, Finland	Manufacturing facility: coated paper and pulp	186.9 ha	2014 Bond Collateral
<b><i>Sappi Southern Africa</i></b>			
Johannesburg, South Africa	Headquarters(9)		
<b>Sappi Chemical Cellulose</b>			
Umkomaas, South Africa	Manufacturing facility: chemical cellulose(8)	159.4 ha	Partly Leased

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

- (1) The approximate size measurement relates to, in the case of manufacturing and distribution facilities, the perimeter of the property on which the principal manufacturing or distribution facilities are situated and, in the case of offices, the interior office space owned or leased.
- (2) Subject to a lease expiring in 2015.
- (3) Subject to a lease expiring in 2011. Sappi Fine Paper North America signed a new lease for 2,964 m2 at a different location in Boston which expires in 2021.
- (4) A portion of the equipment is subject to lease agreements.
- (5) Subject to a lease expiring in 2015.
- (6) Subject to leases expiring in 2016.

- (7) Of the total 62,140 m2, 8,800 m2 is subject to a lease that operates on a year-to-year basis. The remainder of the property is subject to a heritable building right ("Erbbaurecht").
- (8) Substantial assets are leased pursuant to capital lease agreements.
- (9) Included under Sappi Limited headquarters.
- (10) Part of the Gratkorn mill is built on land leased from the Gratkorn municipality.
- (11) Muskegon ceased production on March 12, 2009.

*Sappi Plantations*

	<b>Hectares</b>
Owned by us in South Africa	385,000
Leased by us or managed directly in South Africa	8,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	96,000
Leased by us in Swaziland	66,000
<b>Total</b>	<b>555,000</b>

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

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

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2010, 2009, and 2008 operated on a 52 accounting week cycle.

**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 fiscal 2010, fiscal 2009 and fiscal 2008 were as follows:

	<b>Sales by Source</b>			<b>Sales by destination</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
				%		
North America	21	24	28	22	24	29
Europe	55	54	46	48	48	40
Southern Africa	24	22	26	13	13	15
Far East and others				17	15	16
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Sappi Fine Paper has a total paper production capacity of approximately 6 million tonnes per annum. Our Group is one of the global market leaders in the coated paper business with a capacity of approximately 5.5 million tonnes 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 tonnes. 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.

### Beneficial Shareholding by Region

On November 5, 1998, our American Depositary Receipts commenced trading on the New York Stock Exchange. Based on available information, as of September 23, 2010 we believe beneficial shareholding by region is as follows:

	<b>September</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	%		
North America	16	12	17
Europe & elsewhere	13	13	14
Southern Africa	71	75	69
	<b>100</b>	<b>100</b>	<b>100</b>

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

### Principal Factors Impacting our Group Results

Our results of operations are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in sales 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) New acquisitions, expansions, restructuring, cost-reduction initiatives, our ability to maintain and continuously improve operational efficiencies and performance, and other significant factors impacting costs;
- (b) Cyclical nature of the industry and its impact on sales volume;
- (c) Movement in market prices for products and for raw materials and other input costs of manufacturing; and
- (d) Sensitivity to currency movements and inflation rates.

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.

### *Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives*

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



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

*Kangas closure.* On October 22, 2009 we announced it 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. See "Item 3 Key Information Risk Factors Risks Related to the Acquisition" and " Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture".

*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 tonnes per annum. The expansion has increased capacity to approximately 800,000 tonnes 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 since November 2008, 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 the fiscal year, 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 reduced by 180,000 tonnes. 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. See " Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture".

#### ***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 pulp increased significantly in fiscal 2010 due to higher operating rates of paper manufacturers and a major earthquake in February which disrupted market pulp supply from Chile.

#### *Sensitivity to Currency Movements*

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

#### *Sensitivity to Inflation Rates*

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

#### **Markets**

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.

#### *Coated Woodfree Paper*

Coated woodfree paper demand increased from fiscal 2006 to fiscal 2008 due to the upswing in world economic growth and resultant increase in advertising activities. The increase in coated woodfree paper demand continued during the first half of fiscal 2008, but global demand started to decline during the remainder of fiscal 2008, throughout fiscal 2009 and into fiscal 2010 due to a slowdown in the global economy. As certain world economies stabilized and returned to growth, so did demand for coated woodfree paper. In fiscal 2010, demand for coated woodfree paper was greater than in fiscal 2009, but still below fiscal 2008 levels.

**Global Coated Woodfree Paper Market Balance**

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Source: EMGE

The global demand to capacity ratio for coated woodfree paper increased to approximately 95% in fiscal 2006 and averaged 94% through fiscal 2008, but declined to approximately 82% in fiscal 2009 due to the slowdown in the global economy. The demand to capacity ratio rose to approximately 90% in 2010 as global economic conditions improved in our major markets. No increases in industry capacity in Europe and North America were discernible during this period, with companies reluctant to undertake major new capital projects in these regions due to the poor returns being achieved. Despite global overcapacity, high Asian demand growth rates and availability of funding led to significant coated woodfree paper capacity additions between fiscal 2000 and fiscal 2010 in Asia, particularly in China.

North American apparent consumption declined by 10% during fiscal 2008. Demand declined by a further 26% in fiscal 2009 compared to fiscal 2008 largely as a result of the global economic recession. In fiscal 2010, as economic conditions improved, demand for our products improved by 12% compared to fiscal 2009. Coated woodfree paper prices in North America decreased during fiscal 2010 compared to fiscal 2009, with a decrease of approximately 7% in the grade that represents the largest end use of coated woodfree paper, Number 3 60lb rolls.

In Europe, demand for coated woodfree paper grew by 1% in fiscal 2010 compared to fiscal 2009. Industry shipments however, which include export volumes, grew 7% in the same period. Demand grew 2% in fiscal 2007 and was flat in fiscal 2008. Deteriorating economic conditions in 2009 led to a severe reduction in demand for coated fine paper of approximately 17%. Due to global overcapacity and low demand for coated woodfree paper, manufacturers announced closures of approximately 1.7 million tonnes of coated woodfree paper capacity in 2008 and 2009. These closures positively affected the supply / demand relationship in Europe and around the world.

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

**US and European Apparent Consumption of Coated Woodfree Paper**

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Source: AF&PA & Cepifine  
United States short tons converted to tonnes.

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

**Benchmark Coated Woodfree Paper Prices for North America and Europe**

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Source: RISI (Resource Information System Inc)

Prices are list prices. Actual transaction prices could differ.

*Coated Woodfree Paper North America*

Sappi Fine Paper North America's average price realized in fiscal 2010 decreased by US\$ 2 per tonne, to US\$ 1,014, compared to fiscal 2009. Although realized prices were lower than last year, prices showed an improving trend over the course of the fiscal year as economic conditions improved and demand for our products grew.

In September 2009, Sappi, together with NewPage Corporation, Appleton Coated LLC and the United Steelworkers of America (USW) filed antidumping and countervailing duty petitions covering imports of certain coated papers from the People's Republic of China and Indonesia. In March 2010, the US Department of Commerce (US DOC) issued preliminary determinations finding Chinese and Indonesian producers had caused harm to US coated paper manufacturers. In October, 2010, the US International Trade Commission (US ITC) ruled in favor of the Commerce decision, finalizing the case. Starting in November 2010, the US DOC has been issuing duty orders on coated paper arriving in the US from China ranging from 27.1% to 338.7%. For Indonesian importers, duty orders are in place for 38% import duty.

*Coated Woodfree Paper Europe*

In fiscal 2010 the average prices realized for our European business decreased by € 15/tonne compared to fiscal 2009 but showed an improving trend over the course of the year. The average price for the whole of fiscal 2010 was € 702/tonne but reached € 753 in our fourth fiscal quarter. Prices for coated woodfree paper in Europe have been rising steadily throughout the year on firm local demand and rising export volumes. Sales prices in Europe are impacted by the movement in the US\$ / euro exchange rate as explained in more detail in the analysis of sales development by region contained in "Operating and Financial Results Sales".

*Coated Mechanical Paper Europe*

European deliveries of coated magazine paper increased 5.5% in fiscal 2010 compared to fiscal 2009 while average market prices declined by 10%. Demand for coated mechanical paper declined by 19.7% in fiscal 2009 compared to fiscal 2008. Demand in fiscal 2010 increased from last year based off the low levels experienced in the global economic recession in fiscal 2009. Prices fell for coated mechanical paper in Europe but showed an improving trend toward the end of the fiscal year. Sales prices in Europe are impacted by the movement in the US\$ / euro exchange rate as explained in more detail in the analysis of sales development by region contained in "Operating and Financial Results Sales".

***Pulp***

Average NBSK pulp prices increased by 36% in fiscal 2010 compared to fiscal 2009. An earthquake in Chile in February 2010 disrupted market pulp supply which pushed market prices upward. Worldwide producer inventory levels for market pulp remained at or near 10-year low levels throughout the fiscal year. The global economic recession in fiscal 2009 led to decreases in demand for paper and subsequently, market pulp. The NBSK pulp price fell 25% in fiscal 2009 compared to fiscal 2008.

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

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

**PIX Benchmark Pulp Prices**

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Source: PIX (Index from Foex Indexes Ltd)

Chemical cellulose accounts for the majority of our third-party pulp sales. The chemical cellulose produced at our Saiccor mill in South Africa is used principally as an input in the production of various textiles, microcrystalline cellulose for the food and pharmaceutical industries, and acetate flake used in the manufacturing of acetate tow for cigarette filter tips. The movement in price of certain chemical cellulose grades is linked to the price of NBSK. Higher technical specifications allow chemical cellulose to typically trade at a premium to NBSK. BHKP generally sells at a lower price than NBSK. While demand for chemical cellulose remained strong during fiscal 2008, sales during that period were at a lower level as compared to the prior year, primarily as a result of a shortfall in production volumes. Starting in November 2008 we experienced a rapid decline in demand for chemical cellulose which reversed in March 2009 and by the end of fiscal 2010 the Saiccor mill was operating at full capacity. Prices in US dollar steadily increased year on year from fiscal 2006 to fiscal 2008. NBSK prices have declined from an average price of US\$ 876 per metric tonne for fiscal 2008 to US\$ 577 per metric tonne in March 2009, and have subsequently increased to US\$ 971 per metric tonne by the end of September 2010.

During 2009 the full impact of the 365,000 tonnes per annum Bahia Chemical Cellulose plant expansion in Brazil and the 175,000 tonnes per annum AVNackawic expansion in Canada were felt in the market. Both plants were commissioned in the latter part of 2008. These capacity increases were balanced by the full effect of the reduction in capacity at the 90,000 tonnes per annum Baikalsk plant in Russia and the 100,000 tonnes per annum Kotlas plant in Russia. The Kotlas plant was permanently shut during 2008 while the Baikalsk plant was only temporarily shut. In 2009 Domsjo of Sweden added approximately 20,000 tonnes per annum to its capacity while Sovetsky in Russia shut its 80,000 tonnes per annum plant.

In 2010 the Baikalsk plant in Russia restarted production while the 180,000 tonnes per annum P.T. Toba plant in Indonesia, which had been switched to run on paper grade pulp, recommenced producing chemical cellulose at an estimated rate of around 140,000 tonnes per annum. Furthermore, China increased its chemical cellulose capacity by 40,000 tonnes per annum, mainly from an increase in pulp from Bamboo.

## 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\$, a significant portion of the Group's sales and purchases are made in currencies other than the US\$. In Europe and North America, sales and expenses are generally denominated in euro and US\$, respectively; however, pulp purchases in Europe are primarily denominated in US\$. 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 47% of net sales in fiscal 2010 (fiscal 2009: 44%; fiscal 2008: 43%), are denominated primarily in US\$.

The appreciation of the ZAR or the euro against the US\$ tends to diminish the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US\$ has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US\$ has a negative effect on gross margins on exports sales as well as those domestic sales which are priced relative to international US\$ prices. The appreciation of the US\$ has the opposite impact. In North America, the depreciation of the US\$ 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\$ 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\$ used in the preparation of our financial statements in fiscal 2010, fiscal 2009 and fiscal 2008:

Exchange rates	Average rates			Closing rates		
	2010	2009	2008	2010	2009	2008
ZAR / US\$	7.4917	9.0135	7.4294	7.0190	7.4112	8.0751
US\$ / EUR	1.3658	1.3657	1.5064	1.3491	1.4688	1.4615

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**Exchange Rate Trends**

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Source: Thomson Reuters  
US\$ 1 = ZAR, EUR 1 = US\$.

The profitability of certain of our South African operations is directly dependent on the ZAR proceeds of their US\$ 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. On average, the euro remained stable against the US\$ in fiscal 2010 and fiscal 2009, while the ZAR strengthened in fiscal 2010 returning approximately to fiscal 2008 average levels against the US\$ after having weakened to an average of ZAR 9.01 / US\$ in fiscal 2009. The impact of these currency movements increased reported sales in US\$ by US\$ 264 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).

**South African Inflation and Interest Rates**

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Source: Nedbank

In the United States and Europe inflation rates were relatively stable until 2008, and accordingly had a lesser impact on our North American and European businesses. In view of the global financial and economic crisis inflation rates declined sharply starting in late calendar 2008 and continued declining in the first half of calendar 2009 before rising again in late calendar 2009 and early 2010. Short term interest rates declined sharply in 2008 and early calendar 2009, as central banks reacted to the sharp decline in economic activity, and remained at their low levels during the second half of calendar 2009 and calendar 2010. The table below depicts the fiscal period average United States three month Libor.

**United States 3 Month Average Libor**



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The fiscal period average three-month Euribor interest rate in Europe is depicted below. The low short-term interest rates in the United States and Europe continue to represent a significant interest rate differential when compared to South Africa's 6% repurchase rate as determined by the South African Reserve Bank, and could result in further short-term strengthening of the ZAR.

With regard to interest rate and currency swaps, hedge accounting is permitted when the hedging relationship between the hedging instrument and the underlying debt meets the relevant requirements of IFRS. For example, the Group has entered into a hedging relationship to swap the fixed rate on one of its US\$ public bonds to a euro fixed rate, and to swap the US\$ portion of the bonds to euro.

### European 3 Month Average Euribor

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group monitors market conditions and may utilize approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimized by means of hedge accounting, fair value accounting or other means. As at September 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\$ results in foreign exchange translation differences as the ZAR and the euro exchange rates move against the US\$. These changes are booked to the foreign currency translation reserve via other comprehensive income. Borrowings taken up in a currency other than the functional currency of the borrowing entity are specifically hedged with financial instruments, such as currency swaps and forward exchange contracts.

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

### South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 24% of our net sales in fiscal 2010, 22% of our net sales in fiscal 2009 and 25% of our net sales in fiscal 2008. See "Operating Results" for the proportion of South African operating profit to total profit.

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South Africa features a highly developed, sophisticated "first world" infrastructure at the core of its economy. Econometrix, a provider of economic analysis and forecasting for the South African economy, forecasts the South African GDP to grow by 3.1% in calendar 2010 and by a further 3.7% in calendar 2011. South Africa's long-term foreign currency investment ratings have remained constant over the last year at Baa1 from Moody's Investor Services Inc. and at BBB+ from Standard & Poor's Rating Service (S&P). In October 2009, exchange control regulations were relaxed by increasing the offshore investment allowance for individuals from ZAR 2 million to ZAR 4 million and for businesses from ZAR 50 million to ZAR 500 million per company per annum. From November 2009, the limit on advance payments for committed imports was abolished and the 180 day rule regarding the compulsory conversion of foreign currency held in CFC (customer foreign currency) accounts into the local currency by businesses was abolished. See "Item 10 Additional Information Exchange Controls".

South Africa completed 16 years of democracy in calendar 2010; however, the country continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. Access to land, poverty, unemployment, crime and a growing prevalence of HIV / AIDS are some of the social and economic factors that affect businesses operating in this country.

The Restitution of Land Rights Act (Act 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Claims under the Act were required to be filed on or before December 31, 1998 and are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. The South African Government has previously set numerous cut-off dates to settle all land claims, but been unable to meet these dates, with the latest deadline being 2015. This process is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. To date we have been notified of 77 formal land claims against us, of which 40 are in Mpumalanga and 37 are in KwaZulu-Natal. Three of these claims are in the process of being settled in KwaZulu-Natal. The remaining claims have not been finalized and are still under investigation by the Regional Land Claims Commissioner.

The southern African region has one of the highest infection rates of HIV / AIDS in the world. In 1992, we started a program to address the effects of HIV / AIDS and its impact on our employees and our business. Our aim is to ensure that our program prevents new infections and to treat the HIV / AIDS positive employees. Each operating unit has an elected HIV / AIDS committee and a workplace HIV / AIDS prevention program which are adapted to suit the needs of each particular business unit and to ensure that they are active owners and managers of their programs. Each Sappi operation in southern Africa has also identified the relevant role players in their geographical area and is working with them on the implementation of a comprehensive HIV / AIDS program, eliminating duplication and making optimum use of relevant resources through private-public partnerships.

Following two previous anonymous, voluntary prevalence tests, a third comprehensive voluntary study was initiated in 2007 in all of our southern African operations. Based on a participation rate of greater than 80%, at the locations tested, we estimate that the overall infection rate in our southern African operations is approximately 14%, which is well below the national average. Similar studies conducted in 2008 confirmed an infection rate of approximately 14%.

Our HIV / AIDS response strategy places special emphasis on testing and counseling to ensure that staff is informed with regard to their HIV / AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent

employees from the beginning of 2003. We have also extended our voluntary counseling and testing (VCT) programs, and are offering an HIV test to every employee who visits the clinics for a medical examination. We estimate that approximately 58% of our employees that are HIV / AIDS positive participate in our HIV / AIDS managed care programs, which is an improvement on the prior year's participation rate (56%).

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

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

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

In June 2010, Sappi completed a BEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of Sappi Limited were issued to its strategic empowerment partners, and to various trusts for the benefit of its black managers, its employees and growers/communities in the geographic areas where Sappi's South African businesses have operations. The value of the BEE transaction (approximately ZAR 814 million, US\$ 115 million) corresponds to an effective 30% interest in Sappi Southern Africa, which meets the requirements of Forest Sector Charter and BEE legislation in general.

For further information on the BEE transaction, see "Item 7 Major Shareholders and Related Party Transactions"

In September 2010, Empowerdex verified the South African businesses' against the Forestry Sector's BEE scorecard for the first time, and we further improved our rating to a score of 75.2 points with an overall BEE status of a "level three contributor" (AA rating) and a preferential procurement recognition level of 110%. As a result, 110% of the value of all purchases from our South African businesses qualify as preferential procurement spend in a customer's BEE scorecard. Preferential procurement is used to drive transformation throughout the South African economy in that many customers will only buy from high BEE scorecard suppliers to boost their own BEE scorecard ratings.

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

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

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

### **Environmental Matters**

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

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

### **Operating Results**

#### **Financial Condition and Results of Operations**

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

Sappi Fine Paper North America

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.

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

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 Annual Financial Statements included elsewhere in this Annual Report.

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).

*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.

#### 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, included elsewhere in this Annual Report.

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 <sup>(1)</sup>	(2)	106	52
Operating profit excluding special items	339	33	366
Basic earnings / (loss) / per share (US cents)	13	(37)	28

(1)

Please see "Item 3 Key Information Selected Financial Data" for a discussion of our use of Operating profit (loss) excluding special items and its usefulness for investors.

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

	Year Ended September		
	2010	2009	2008
	(US\$ in million)		
<b>Net profit (loss)</b>	<b>66</b>	<b>(177)</b>	<b>102</b>
Taxation charge (benefit)	20	(41)	86
Net finance costs	255	145	126
<b>Operating profit (loss)</b>	<b>341</b>	<b>(73)</b>	<b>314</b>
Special items (gains) losses	(2)	106	52
<b>Operating profit (loss) excluding special items</b>	<b>339</b>	<b>33</b>	<b>366</b>
Plantation price fair value adjustment	(31)	67	(120)
Restructuring provisions raised (released)	46	34	41
(Profit) loss on disposal of property, plant & equipment	(5)	(1)	(5)
Asset (impairment reversals) impairments	(10)	79	119

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Alternative fuel mixture tax credits	(51)	(87)	
Integration costs		3	
Black Economic Empowerment transactions charge	23		
Fire, flood, storm and related events	26	11	17
<b>Total Special items</b>	<b>(2)</b>	<b>106</b>	<b>52</b>

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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	2010 vs.		2009 vs.		
		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	167	(55)	(334)	279	
Unallocated and eliminations <sup>(1)</sup>	(23)	(19)	(4)	(11)	7	
<b>Total</b>	<b>341</b>	<b>414</b>	<b>(73)</b>	<b>(387)</b>	<b>314</b>	

(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
Sappi Fine Paper North America	(56)	(55)	3
Sappi Fine Paper Europe	4	79	119
Sappi Southern Africa	22	72	(70)
Unallocated and eliminations <sup>(1)</sup>	28	10	
<b>Total</b>	<b>(2)</b>	<b>106</b>	<b>52</b>

(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	2010 vs.		2009 vs.		
		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	117	17	(192)	209	
Unallocated and eliminations <sup>(1)</sup>	5	(1)	6	(1)	7	
<b>Total</b>	<b>339</b>	<b>306</b>	<b>33</b>	<b>(333)</b>	<b>366</b>	

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

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

**Plantation price fair value:** This relates to an accounting fair value adjustment of the timber assets of Sappi Forests and Usutu Forests. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery,

and discount rates applied. The parameters applied are all market related. The impact was a positive US\$ 31 million in fiscal 2010 and a negative impact of US\$ 67 million in fiscal 2009. For further information see " Critical Accounting Policies and Estimates".

**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).

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

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

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

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

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

### *Group*

#### *Comparing fiscal 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\$ 120 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.

#### *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.

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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 (released)		31	
Fire, flood, storm and related events		1	
<b>Operating profit excluding special items</b>	<b>124</b>	<b>(2)</b>	<b>95</b>

#### *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 tonne 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.

*Sappi Fine Paper Europe***Key figures:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Operating (loss) profit	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 (released)	17	1	41
Fire, flood, storm and related events	21		1
Integration costs		3	
<b>Operating profit excluding special items</b>	<b>76</b>	<b>12</b>	<b>55</b>

*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).

The 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 tonne. The increase in sales volume and fixed costs were mainly due to the inclusion of the Acquired business in fiscal 2009.

*Sappi Southern Africa***Key figures:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Operating profit (loss)	112	(55)	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 (released)	23	2	
Fire, flood, storm and related events	5	10	16
BEE transaction charge	23		
<b>Operating profit excluding special items</b>	<b>134</b>	<b>17</b>	<b>209</b>

*Comparing fiscal 2010 with fiscal 2009*

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

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

Operating profit excluding special items improved to US\$ 134 million in fiscal 2010 from an operating profit excluding special items in fiscal 2009 of US\$ 17 million. This significant improvement was mainly due to increased sales volumes in our chemical cellulose business, increased average selling prices for our pulp and paper operations, a decrease in variable input cost per tonne 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\$ 55 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).

The 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 input costs per tonne and a slight increase in fixed costs.



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

*Sales*

*Group*

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

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

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

\*

Includes 9 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 and negatively by US\$ 547 million in fiscal 2009. An analysis of the drivers of sales movements is presented below:

<b>Sales Variance Analysis</b>	<b>2010 vs.</b>	<b>2009 vs.</b>
	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>	
Exchange rate effects	263	(547)
Volume change effects	951	(123)
Price and product mix effects	(11)	176
<b>Total</b>	<b>1,203</b>	<b>(494)</b>

*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 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/USD 1.37 compared to euro/USD 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/USD 9.01 in 2009 compared to ZAR/USD 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 "Item 5 Business Overview 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 tonnes) 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 / tonne were slightly lower than the US\$ 1,016 / tonne achieved in fiscal 2009.

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### *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 coated woodfree paper consumption). Average selling prices decreased from US\$ 1,071 / tonne in fiscal 2008 to US\$ 1,016 / tonne 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 /tonne compared to an average selling price of € 677 / tonne 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 / tonne in fiscal 2009 to € 702 / tonne in fiscal 2010. Average selling prices realized in US dollar terms in fiscal 2009 were US\$ 979 / tonne compared to US\$ 958 / tonne 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 tonne compared to US\$ 1,068 per tonne 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 tonne in 2008 to € 717 per tonne 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; ZAR 11,148 million) compared to fiscal 2009 (US\$ 1,124 million; ZAR 10,131 million). The increase in sales in US dollar terms was largely due to the difference in average exchange rates used to translate Rand sales to US dollar in fiscal 2009 (ZAR/USD 9.01) and 2010 (ZAR/USD 7.49).

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

This comparison includes the closure of the Usutu Mill in January 2010 and the resulting loss of sales volume. Excluding the fiscal 2009 sales volumes of the Usutu mill, sales volumes of the Sappi Paper and Paper Packaging business increased by 6% in fiscal 2010 compared to fiscal 2009.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. During fiscal 2010, the average NBSK pulp price increased by 36% from an average of US\$ 650 / tonne in fiscal 2009 to an average of US\$ 885 / tonne 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; ZAR 547 million) compared to fiscal 2009 (US\$ 55 million; ZAR 496 million). The sales volumes of the Sappi Forests business increased by 18% 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 tonne for fiscal 2008 to an average of US\$ 650 per tonne 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.

### Operating expenses

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

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

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		Change		2009		Change		2008		
	Costs	US\$ / Tonne	2010 vs.	2009	Costs	US\$ / Tonne	2009 vs.	2008	Costs	US\$ / Tonne	
			(US\$ million)								
Wood	706	89	43	663	99	(59)	722	105			
Energy	626	79	42	584	87	26	558	81			
Pulp <sup>(1)</sup>	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			
<b>Total</b>	<b>3,570</b>	<b>452</b>	<b>702</b>	<b>2,868</b>	<b>428</b>	<b>(205)</b>	<b>3,073</b>	<b>447</b>			

(1)

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

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

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

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

Regional Variable Manufacturing Costs(1)	2010 Change US\$ /2010 vs.			2009 Change US\$ /2009 vs.			2008 US\$ /	
	Costs	Tonne	2009	Costs	Tonne	2008	Costs	Tonne
	(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. The company has engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies 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 tonne 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 tonne. Variable manufacturing costs per tonne 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 tonne in euro terms increased by 7% compared to fiscal 2009, mainly due to a 44% increase in pulp input costs per tonne. 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*

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 target synergies from the Acquisition consist of variable cost reduction initiatives. Variable costs per tonne





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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 tonne 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 tonne in US dollar terms stems from the change in average exchange rates used for translation in fiscal 2010 (US\$/ZAR = 7.4917) and in fiscal 2009 (US\$/ZAR = 9.0135).

#### *Comparing fiscal 2009 with fiscal 2008*

Variable manufacturing input costs per tonne 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 vs.		
(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	23	278	2	276
<b>Total</b>	<b>2,164</b>	<b>193</b>	<b>1,970</b>	<b>51</b>	<b>1,919</b>

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 vs.		
(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
			78		

***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 was 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 ZAR 4,168 million to ZAR 4,324 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.

*Net Finance Costs*

Annual finance costs may be analyzed as follows:

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

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 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 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.

*Taxation*

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
<b>Profit / (loss) before taxation</b>	<b>86</b>	<b>(218)</b>	<b>188</b>
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
<b>Taxation charge / (benefit)</b>	<b>20</b>	<b>(41)</b>	<b>86</b>
<b>Effective tax rate</b>	<b>23%</b>	<b>19%</b>	<b>46%</b>

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. For further information see "Item 10 Additional Information Taxation".

*Net Profit*

The company 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.

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

**Earnings Per Share (US cents)**

In fiscal 2010 earnings per share was positively impacted by certain significant items, including alternative fuel mixture tax credits (US\$ 51 million), a plantation fair value price adjustment (US\$ 25 million) and asset impairment reversals (US\$ 10 million). These positive items were partly offset by adverse impacts from restructuring provisions (US\$ 46 million), BEE charges (US\$ 23 million) and fire, flood and storm related events (US\$ 21 million).

In fiscal 2009 earnings per share was adversely impacted by certain significant items, including asset impairments (US\$ 79 million), restructuring provisions (US\$ 34 million) and a plantation fair value



price adjustment (US\$ 67 million). These adverse items were partly offset by positive impacts from alternative fuel mixture tax credits (US\$ 87 million) and a discount on the early repayment of the vendor loan notes related to the Acquisition (US\$ 41 million).

### **Liquidity and Capital Resources**

Our principal sources of liquidity are cash generated from operations and availability under our revised credit facilities and other debt arrangements. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements, to service our debt and to make dividend payments. 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 we had substantial cash and cash equivalents of US\$ 792 million.

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. See "Item 8 Financial Information Dividends".

### ***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. Our focus on managing working capital remained strong, particularly in

relation to inventory levels and receivables, keeping our level of working capital in line with the level of trading activity.

<b>Cash Flow Summary</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
<b>Cash generated from operation before post employment benefits</b>	<b>810</b>	<b>494</b>	<b>711</b>
Post employment benefits	(73)	(62)	(88)
<b>Cash generated from operations<sup>(1)</sup></b>	<b>737</b>	<b>432</b>	<b>623</b>
Movement in working capital	(5)	152	1
Net finance costs paid	(194)	(81)	(126)
Taxation paid	(9)	(5)	(70)
Dividends paid		(37)	(73)
<b>Cash retained from operating activities</b>	<b>529</b>	<b>461</b>	<b>355</b>
Investing activities <sup>(2)</sup>	(188)	(762)	(494)
<b>Cash generated / (utilized)</b>	<b>341</b>	<b>(301)</b>	<b>(139)</b>

(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 included elsewhere in this Annual Report.

(2)

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

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

<b>Non-cash Items</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Depreciation	411	396	374
Fellings	71	69	80
Asset Impairments (reversals) & closures	(10)	79	119
Plantation fair value price	(31)	67	(120)
Plantation fair value volume	(67)	(73)	(70)
Other non-cash items <sup>(1)</sup>	95	29	14
<b>Total</b>	<b>469</b>	<b>567</b>	<b>397</b>

(1)

Other non-cash items consist mainly of restructuring provisions and in fiscal 2010 non-cash BEE charges.

*Cash generated from operations*

Cash generated from operations was US\$ 737 million in fiscal 2010 compared to US\$ 432 million in fiscal 2009. The increase was mainly due to an increase in profit of US\$ 243 million.



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Cash generated by operations was US\$ 432 million in fiscal 2009 compared to US\$ 623 million in fiscal 2008. The reduction was mainly due to a decrease in profit of US\$ 279 million.

*Working capital*

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

<b>Working capital movement</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Inventories	836	792	725
<i>% sales</i>	<i>12.7%</i>	<i>14.8%</i>	<i>12.4%</i>
Receivables	888	858	698
<i>% sales</i>	<i>13.5%</i>	<i>16.0%</i>	<i>11.9%</i>
Payables	(1,271)	(1,116)	(1,001)
<i>% Cost of goods sold</i>	<i>22.0%</i>	<i>22.2%</i>	<i>20.0%</i>
<b>Net working capital</b>	<b>453</b>	<b>534</b>	<b>422</b>
<i>Ratio of net working capital to sales</i>	<i>6.9%</i>	<i>9.9%</i>	<i>7.2%</i>

Optimizing the levels of our working capital remained a key management focus area during fiscal 2010. We regularly compare our ratio of working capital to annual sales to those of our peers, and we believe that our working capital management compares favorably in that regard, although we have identified opportunities to improve this further. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all our businesses.

We ended fiscal 2010 with net working capital expressed as a percentage of sales lower than at the end of fiscal 2009. We believe that a better indication of working capital management is to compare the average working capital balance over the fiscal year to the change in sales. On this basis and excluding currency impacts, the Group net average working capital was 6% lower than in fiscal 2009, while sales increased by 18%.

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

*Capital expenditure*

Cash utilized in investing activities for the period from fiscal 2008 to fiscal 2010 is as set out in the table below:

<b>Investing Activities</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Capital expenditure	211	176	505
Proceeds on disposals of non-current assets	(21)	(2)	(7)
Decrease in other non-current assets	(2)	(2)	(4)
Acquisition of businesses <sup>(1)</sup>		590	
<b>Total</b>	<b>188</b>	<b>762</b>	<b>494</b>

(1)

The Acquisition by the Group of M-real Corporation on December 31, 2008.

Capital expenditure by region is as follows:

<b>Capital Expenditure by Region</b>	<b>2010</b>	<b>2009*</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Sappi Fine Paper North America	42	28	130
Sappi Fine Paper Europe	95	83	91
Sappi Southern Africa	72	67	283
Other	2	(2)	1
<b>Total</b>	<b>211</b>	<b>176</b>	<b>505</b>

\*

Total capital expenditure in fiscal 2009 includes US\$ 1 million related to plantations.

Capital expenditure excludes capitalized interest.

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

During fiscal 2010, our capital expenditure, including US\$ 9 million of plantation land purchases, was US\$ 211 million, compared to US\$ 176 million during fiscal 2009, which included US\$ 1 million of plantation land purchases. As part of our cash management efforts we managed capital expenditure to a strategic target without compromising the maintenance of our asset base.

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

We operate in an industry that requires high capital expenditures and, as a result, we need to devote a significant part of our cash flow to capital expenditure programs, including investments relating to maintaining operations. Capital spending for investment relating to maintaining operations during fiscal 2010, fiscal 2009 and fiscal 2008 amounted to approximately US\$ 173 million, US\$ 147 million and US\$ 250 million, respectively. The capital spending relating to maintaining investments included US\$ 15 million, US\$ 7 million and US\$ 2 million in fiscal 2010, fiscal 2009 and fiscal 2008, respectively, spent in connection with reconfiguring the recovery circuit at the Somerset Mill to increase the utilization of black liquor, a renewable fuel generated as a byproduct of the pulping process. This increase in black liquor utilization is estimated to be equivalent to the energy contained in approximately 100,000 barrels of oil per year. We believe that, as a result, we will lower costs, improve energy efficiency and further reduce our carbon footprint. The capital expenditure program for these periods was funded primarily through internally generated funds.

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Cash capital expenditure to expand operations by region was as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>Rationale</b>
	<b>(US\$ million)</b>			
Sappi Fine Paper North America				
Sappi Fine Paper Europe	2	1	12	Relates mainly to energy supply project at Gratkorn mill and the upgrade of a paper machine at Ehingen mill.
Sappi Southern Africa Saiccor	5	18	236	Relating to the capacity increase project at Saiccor.
Sappi Southern Africa Other	31	10	7	Relating mainly to process improvement and plantation land purchases in fiscal 2010.
<b>Total</b>	<b>38</b>	<b>29</b>	<b>255</b>	

Capital expenditure to expand operations in fiscal 2010 consisted mainly of process improvement and plantation land purchases in southern Africa.

Capital expenditure to expand operations in the fiscal years 2009 and 2008 primarily consisted of investments to increase the capacity of and improve our Saiccor mill in South Africa. In August 2006, we announced the expansion of the existing capacity at Saiccor mill, where Chemical Cellulose products are produced. The previous production capacity of the mill was approximately 600,000 metric tonnes per annum. The expansion has increased capacity to a maximum of 800,000 tonnes per annum. The increased capacity came on-line in September 2008 and became fully operational in April 2009. The investment at Sappi Fine Paper Europe during fiscal 2008 was part of a project for a new energy supply at our Gratkorn mill. We are planning for capital expenditure to be approximately US\$ 250 million in 2011.

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

Over the past three years the relationship between capital expenditure and depreciation was as follows:

**Investment in fixed asset versus depreciation**

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\*

Excludes US\$ 1 million (2009) and US\$ 9 million (2010) expenditure relating to plantations.

*Cash generated / (utilized)*

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

***Financing cash flows***

Gross finance inflows and outflows for fiscal 2010 and fiscal 2009 represent the continuous nature of our various revolving securitization programs, revolving credit facilities and other interest bearing borrowings in the respective years. In fiscal 2010, cash resources were used to repay approximately US\$ 316 million of long term interest bearing liabilities.

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

**Financing****General**

Debt is a major source of funding for the Group.

<b>Gross Debt</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Long term interest bearing liabilities	2,317	2,726	1,832
Short term interest bearing liabilities	691	601	821
Bank overdraft	5	19	26
<b>Gross interest bearing liabilities</b>	<b>3,013</b>	<b>3,346</b>	<b>2,679</b>

<b>Cash Position</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Cash and cash equivalents	792	770	274
<b>Cash position</b>	<b>792</b>	<b>770</b>	<b>274</b>

Approximately 46% of total assets are funded by gross debt as is shown in the table below:

<b>Total Assets Excluding Cash Equivalents</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Gross interest bearing liabilities	3,013	3,346	2,679
Shareholder's equity	1,896	1,794	1,605
Other liabilities	2,275	2,157	1,825
Cash equivalents	(792)	(770)	(274)
<b>Total assets excluding cash equivalents</b>	<b>6,392</b>	<b>6,527</b>	<b>5,835</b>

	<b>%</b>	<b>%</b>	<b>%</b>
Gross interest bearing liabilities	46	52	46
Shareholder's equity	30	27	28
Other liabilities	36	33	31
Cash equivalents	(12)	(12)	(5)
<b>Total assets excluding cash equivalents</b>	<b>100</b>	<b>100</b>	<b>100</b>

The movement in gross debt from the end of fiscal 2008 to the end of fiscal 2010 is explained below:

<b>Gross Debt Movement Analysis</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
<b>Gross debt beginning of period</b>	<b>3,346</b>	<b>2,679</b>	<b>2,621</b>
Debt raised	69	1,274	190
Debt repaid	(316)	(634)	(131)
Currency & fair value impact	(86)	27	(1)
<b>Gross debt end of period</b>	<b>3,013</b>	<b>3,346</b>	<b>2,679</b>

We have increased our focus on managing the level of our debt and have repaid US\$ 316 million of gross debt during fiscal 2010. The debt raised in fiscal 2010 consists mainly of increased funding under our securitization programs. Of the US\$ 333 million decrease in gross debt in

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fiscal 2010, US\$ 86 million was due to the impact of translating our European and South African debt into US\$ and other fair value adjustments. The debt raised during fiscal 2009 includes the Senior Secured Notes due 2014, Notes issued under the Domestic Medium Term Note Program in South Africa, increased funding under the

Group's securitization programs, the € 220 million vendor loan notes issued to M-real in connection with the Acquisition as well as the debt assumed as part of the Acquisition. The vendor loan notes were also settled in fiscal 2009 and are therefore also included in the amount of debt repaid. Other debt repayments in 2009 relate to the settlement of certain facilities with the funds received from the offering of the Senior Secured Notes due 2014.

*Debt profile*

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

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

<b>Debt Profile</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(US\$ million)</b>		
Long-term debt	2,317	2,726	1,832
Short-term debt	691	601	821
Bank overdraft	5	19	26
<b>Gross interest bearing liabilities</b>	<b>3,013</b>	<b>3,346</b>	<b>2,679</b>

Short-term debt of US\$ 691 million in fiscal 2010 includes an amount of US\$ 447 million (fiscal 2009: US\$ 400 million and US\$ 360 million in fiscal 2008) of securitized receivables funding under various revolving securitization programs.

The average maturity of our debt as at September 2010 is 4.1 years with the profile as shown below:

**Gross debt maturity profile (US\$ millions)**

We believe we follow a prudent approach in regard to liquidity risk. As at the fiscal 2010 year end, short-term debt and overdraft funding was US\$ 696 million and cash and cash equivalents were US\$ 792 million. US\$ 447 million of the short-term debt at the fiscal 2010 year end was in the form of various revolving securitized trade receivables funding which in the normal course we expect to continue to be available. For further information on Group borrowing facilities secured by trade receivables, refer to note 20 to our Group Annual Financial Statements.

At September 2010 the Group had unutilized uncommitted borrowing facilities of approximately US\$ 417 million and available cash and cash equivalents of US\$ 792 million. At September 2009 the unutilized uncommitted borrowing facilities were approximately US\$ 499 million and the available cash





and cash equivalents were US\$ 770 million. The committed facility is the € 209 million Revolving Credit Facility which was entirely undrawn at the end of fiscal 2010 and fiscal 2009.

In 2010, our financing activities concentrated on reducing gross debt by utilizing our cash resources to repay certain long term debt. In 2009, our financing activities concentrated on arranging longer term debt to refinance a portion of our existing short-term debt and repurchase the vendor loan notes issued to M-real in connection with the Acquisition. This was achieved by the issuance of US\$ 300 million and € 350 million Senior Secured Notes due 2014, the refinancing of a bank syndicated loan of € 400 million and the extension of its maturity from 2010 to 2014, and the refinancing of our existing € 600 million revolving credit facility maturing in 2010 which was replaced by a € 209 million Revolving Credit Facility maturing in 2012. See "Item 10 Additional Information Material Contracts".

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

<b>Debt by currency ratio</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
USD	24.5%	28.9%	38.1%
EUR	57.7%	55.1%	42.6%
CHF	0.0%	0.0%	5.6%
ZAR	17.8%	16.0%	13.7%

Included in the euro denominated debt is the US\$ 300 million Senior Secured Note due in 2014 which has been swapped into euro.

#### *Interest on Borrowings*

Raising new debt and refinancing existing debt in the last quarter of fiscal 2009 resulted in substantially higher margins than we were previously paying, mainly because of prevailing market conditions and our credit ratings during that period. Our interest payable on borrowings has therefore increased in fiscal 2010 compared to fiscal 2009.

#### *Interest Rate Risk*

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

At the end of fiscal 2008 approximately US\$ 856 million of fixed rate debt was subject to interest rate swaps, i.e. swapping fixed to floating interest rates. In June 2009 these swaps were unwound and the underlying debt now carries the original fixed interest rates. Upon issuing the US\$ 300 million Senior Secured Notes due in 2014, they were, in August 2009, swapped from fixed USD interest rates into fixed euro interest rates using an interest rate and currency swap. The ratio of gross debt at fixed and floating interest rates at the end of fiscal 2010 is 80:20 compared to 85:15 at the end of fiscal 2009.

#### *Summary of Certain Debt Arrangements*

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

*Revolving Credit Facility.* On August 27, 2009, we replaced our existing revolving credit facility with a new revolving credit facility providing for up to € 209 million of borrowing availability in euro, US dollars and certain other currencies (the "Revolving Credit Facility"). The commitments under the Revolving

Credit Facility terminate on May 31, 2012 and the annual interest rate on borrowings is calculated based on Libor or Euribor plus a funding margin varying between 3.0% and 6.5% depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, Sappi Papier Holding GmbH ("SPH") and certain other subsidiaries of Sappi Limited, as well as secured by first-priority security interests over certain assets of Sappi Limited, SPH and the other subsidiary guarantors. The Revolving Credit Facility contains an interest coverage covenant and a leverage covenant, in each case measured at the Sappi Limited consolidated level and set at various levels in line with the long term forecast of Sappi's results. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on dividend distributions, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals. As of September 2010, we were in compliance with these covenants. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

*OeKB Term Loan Facility.* On August 27, 2009, Sappi refinanced its existing € 500 million term loan facility with Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB") arranged in May 2003 and previously due in 2010 by entering into a € 400 million term loan facility maturing on April 30, 2014 (the "OeKB Term Loan Facility"). The annual interest rate on borrowings is calculated based on the OeKB financing rate plus a margin varying between 4.00% and 7.50%, depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. The margin at the date of filing this Annual Report was 5.5% per annum. The OeKB Term Loan Facility is guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than SPH) under the Revolving Credit Facility. The obligations under the OeKB Term Loan Facility are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility and the 2014 Bonds. The other material terms of the new OeKB term loan facility, including the financial covenants, the undertakings and the events of default are substantially the same as the terms of the Revolving Credit Facility. The € 80 million (US\$ 109 million) first installment of the OeKB facility due in December 2010, was repaid early in June 2010. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

*2009 Secured Notes.* On July 29, 2009, PE Paper Escrow GmbH (the "Issuer"), a special purpose limited liability company wholly owned by SPH, issued € 350 million 11.75% Senior Secured Notes due 2014 and US\$ 300 million 12.00% Senior Secured Notes due 2014 (together, the "2014 Bonds"). Interest on the 2014 Bonds is payable semi-annually, commencing on February 1, 2010, and the 2014 Bonds mature on August 1, 2014. The 2014 Bonds are jointly and severally guaranteed on a senior basis by Sappi Limited, SPH and certain other subsidiaries of Sappi Limited, and are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility and the OeKB Term Loan Facility. The Issuer has agreed to observe certain covenants with respect to the 2014 Bonds including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

*Domestic Medium Term Note Program.* In June 2009, Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing (Pty) Ltd) combined its ZAR 3 billion (US\$ 437 million) Domestic Medium Term Note Program established in June 2006 (the "Initial Program") with its commercial paper program established in November 2003 ("Initial CP Program"), into a new ZAR 5 billion Domestic Medium Term Note Program (the "DMTN Program") which supersedes and replaces the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP

Program. On June 27, 2006, Sappi Southern Africa issued ZAR 1 billion (US\$ 146 million) senior unsecured fixed rate notes (the "First Tranche") under its Initial Program at a fixed interest rate of 9.34% payable semi-annually on December 27, and June 27, of each year, commencing on June 27, 2006. The securities issued under the First Tranche mature on June 27, 2013. On September 25, 2007, Sappi Southern Africa issued a second tranche of ZAR 1 billion (US\$ 146 million) senior unsecured fixed rate notes (the "Second Tranche") under the Initial Program at a fixed interest rate of 10.64%. The interest on the securities issued under the Second Tranche is payable semi-annually on April 14 and October 14 of each year, commencing on April 14, 2008. The securities issued under the Second Tranche mature on October 14, 2011. On June 30, 2009, Sappi Southern Africa issued ZAR 325 million (US\$ 41 million) and on July 13, 2009, issued ZAR 175 million (US\$ 21 million) senior unsecured fixed rate notes (collectively the "Third Tranche") under the DMTN Program at a fixed interest rate of 12.13%, payable semi-annually on June 30 and December 30 of each year, commencing on June 30, 2009. The securities issued under the Third Tranche mature on June 30, 2012. Sappi Southern Africa has agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

*2002 Guaranteed Notes.* In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US\$ 500 million 6.75% unsecured guaranteed notes due 2012 and US\$ 250 million 7.50% unsecured guaranteed notes due 2032 (together, the "2002 Notes"), guaranteed by Sappi Limited and Sappi International S.A. Interest on the 2002 Notes is payable semi-annually. The indentures governing the 2002 Notes provide for an optional redemption of the 2002 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indentures, together with, in each case, accrued interest. The indentures governing the 2002 Notes contain events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and certain bankruptcy events. The indentures also contain certain customary covenants, which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations. US\$ 29 million of the US\$ 250 million 2002 Notes became available for repurchase during fiscal 2010 and were repurchased by the Group at a discount. For further information, see "Item 19 Exhibits" and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

*US Municipal Bonds.* During fiscal 2010, US Municipal Bonds with an average interest rate of 6.75% and an average time to maturity of 7 years were redeemed at their par value of US\$ 106 million.

#### *Covenants*

Financial covenants apply to approximately US\$ 912 million of our non-South African debt and our unutilized € 209 million Revolving Credit Facility. This debt is supported by among others a Sappi Limited guarantee. For this reason the first two of the three covenants mentioned below are measured on a consolidated Group level. The covenants also differ from measurement period to period, as they are set in line with the long term forecast of Group results. Our financial covenants require that:

- (i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 2.00 to 1 for all quarters ending to July 2011, 2.25 to 1 for all quarters ending from October 2011 to April 2012 and 2.50 to 1 for the quarters ending July 2012 and September 2012;
- (ii) The ratio of net debt to EBITDA be not greater than 5.00 to 1 for all quarters ending from September 2010 to July 2011, 4.50 to 1 for the quarter ending October 2011, 4.25 to 1 for all

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quarters ending from January 2012 to July 2012 and 4.00 to 1 for the quarter ending September 2012, and

(iii)

With regard to Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing (Pty) Ltd) and its subsidiaries only, at the end of any fiscal year, the ratio of net debt to equity must not exceed 0.65:1, and the ratio of EBITDA (before special items) to net interest paid must not be less than 3.00:1.

The table below shows that as at September 2010 we were in compliance with these covenants. With regards to our financial covenants, EBITDA is defined under the relevant agreements and net debt is calculated using average exchange rates for fiscal 2010.

	<b>Fiscal 2010</b>	<b>Covenants</b>
	<b>(US\$ millions)</b>	
<i>Group Covenants</i>		
Net Debt to EBITDA	2.70	<5
EBITDA to Net Interest	2.85	>2.0
<i>Sappi Southern Africa Covenants</i>		
Net Debt to Equity	36.61%	<65%
EBITDA to Net Interest	5.07	>3.0

The Group financial covenants also apply to our securitization programs, included in the US\$ 912 million amount mentioned above, with outstanding balances of US\$ 447 million at the end of September 2010. No Sappi Limited guarantee has been provided for these facilities.

### *Credit ratings*

At the date of this Annual Report, our credit ratings were as follows:

<i>Fitch South African national rating</i>	
Sappi Southern Africa (Pty) Limited	A / F1 / Stable (March 2010)
<i>Moody's international rating</i>	
Sappi Papier Holding GmbH (Supported by Sappi Limited guarantee)	Ba3 / NP / Stable (September 2009)
Secured Debt Rating	Ba2 (September 2009)
Unsecured Debt Rating	B2 (September 2009)
<i>Standard &amp; Poor's (S&amp;P) international rating</i>	
Corporate Credit Rating	BB- / B / Stable (September 2009)
Secured Debt Rating	BB (September 2009)
Unsecured Debt Rating	B+ (September 2009)

In May 2009 S&P revised its rating for the Group from BB to BB-, while moving the outlook from negative to stable. This change was mainly the result of an industry-wide re-rating of the European Forest Products sector, sustained cost inflation, and an uncertain outlook for paper pricing and demand in the light of an expected softening of economic growth. One of the key requirements of this rating was the successful refinancing of material 2010 debt maturities. This refinancing took place in August 2009 and S&P subsequently confirmed the rating.

In June 2009 Moody's revised their rating from Ba2 to Ba3, with a stable outlook. The main reasons for this revision were the difficult market conditions in the European paper industry, and the slower than

expected improvement in the key rating metrics. In September 2009 this rating and outlook were confirmed after the successful refinancing of material 2010 debt maturities.

In March 2010 Fitch confirmed their Sappi Southern Africa local South African rating of A+/F1, but changed their outlook from negative to stable, commenting on the expected recovery of the chemical cellulose and pulp markets in which Sappi Southern Africa is a key player.

A security rating is not a recommendation to buy, sell or hold securities and it may be revised or withdrawn at any time by the rating agencies without prior notice to us. Each rating should be evaluated independently of any other rating.

#### Gearing

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

	2010	2009	2008
	(US\$ millions)		
Gross debt	3,013	3,346	2,679
Gross debt & equity	4,909	5,140	4,284
<b>Gross debt to capitalization ratio</b>	<b>61%</b>	<b>65%</b>	<b>63%</b>

In December 2008, the Group issued vendor loan notes in an amount of € 220 million and approximately 11 million new shares to M-real Corporation, and had a rights issue to shareholders raising ZAR 5.8 billion (approximately US\$ 575 million), which resulted in substantial strengthening of the Group's equity.

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

#### Off-Balance Sheet Arrangements

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

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

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

- (i) The amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and
- (ii) The amount initially recognized less any cumulative amortization.

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As no default event has occurred, no provision is set up and the fair value at the end of fiscal 2010 remains zero. However, according to IAS 37 a contingent liability of US\$ 29 million (2009: US\$ 25 million) has been disclosed in this respect.

*Sappi Trading, Sappi Fine Paper Europe and Sappi Fine Paper North America trade receivables securitization.* To improve their cash flows in a cost-effective manner, Sappi Trading, Sappi Fine Paper Europe and Sappi Fine Paper North America sell all eligible trade receivables on a non-recourse basis to special purpose entities (SPEs) that are owned and controlled by third party financial institutions. These SPEs are funded transactions with us but securitize assets on behalf of their sponsors for a diverse range of unrelated parties. We have a servicing agreement with the entities acquiring our receivables, acting as servicers for the collection of cash and administration of the trade receivables sold.

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

The total amount of trade receivables sold at the end of September 2010 amounted to US\$ 215 million (September 2009: US\$ 171 million). Details of the securitization program at the end of fiscal 2010 and 2009 are disclosed in the tables below.

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

Details of the securitization facility at September 2010 and 2009 are set out below:

<b>Bank</b>	<b>Currency</b>	<b>Value</b>	<b>Facility</b>	<b>Discount charges</b>
<b>September 2010</b>				
Rand Merchant Bank	ZAR	ZAR 1,510 million	Unlimited*	Linked to 3 month JIBAR
<b>September 2009</b>				
Rand Merchant Bank	ZAR	ZAR 1,268 million	Unlimited*	Linked to 3 month JIBAR

\*

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

Details of the on-balance sheet securitization facilities that are applicable to Sappi Fine Paper are described in note 20 of our Group Annual Financial Statements contained elsewhere in this Annual Report.

### Contractual Obligations

We have various obligations and commitments to make future cash payments under contracts, such as debt instruments, lease arrangements, supply agreements and other contracts. The following table includes information contained within the Group Annual Financial Statements included elsewhere

in this Annual Report, as well as information regarding purchase obligations. The tables reflect those contractual obligations at the end of fiscal 2010 that could be quantified.

	Total	Payments Due by Period			More than 5 years	
		Less than 1 year	1 3 years	3 5 years		
			(US\$ millions)			
Long-Term Debt Obligations <sup>(1)</sup>	3,577	907	905	1,260	505	
Capital Lease Obligations <sup>(1)</sup>	61	16	17	21	7	
Operating Lease Obligations <sup>(2)</sup>	130	40	39	14	37	
Purchase Obligations <sup>(3)</sup>	35	23	9	3		
Other Long-term Liabilities reflected on the Balance Sheet <sup>(4)</sup>	546					
Capital Commitments <sup>(5)</sup>	62	54	6	2		
<b>Group Total</b>	<b>4,411</b>	<b>1,040</b>	<b>976</b>	<b>1,300</b>	<b>549</b>	

(1) Includes interest obligations to maturity to service the debt using variable interest rates prevailing at September 2010. The principal debt is US\$ 3,008 million.

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

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

(4) The Other Long-Term Liabilities of US\$ 546 million (fiscal 2009 US\$ 557 million) on balance sheet, relate mainly to post-employment benefits, post-retirement benefits other than pensions obligations, workmen's compensation, and other items which do not have a payment profile. Refer to note 21 of our Group Annual Financial Statements included elsewhere in this Annual Report.

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

#### Research and Development, Patents and Licenses, etc.

Research and development at Sappi focuses broadly in two areas. The first targets the improvement of current products and processes thereby serving our current markets through differentiation on cost and/or quality. The second area concentrates on the development of breakthrough products and processes intended to produce distinctly new products or processes that put Sappi ahead in current markets or open up new markets and products.



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Research and development is managed at a number of regional technology centers. These "centers of excellence" provide the basis to leverage unique sets of skills and provide customer focused product development. In fiscal 2010 our research and development expenditure was approximately US\$ 35 million, increased from approximately US\$ 31 million in fiscal 2009, a year in which research expenditure was curtailed due to the difficult global economic situation which also impacted the pulp and paper industry. Research expenditure has now returned to previous levels (2008 spend: US\$ 34 million) with an increased emphasis on developing products for new business and markets.

### *Sappi Fine Paper North America*

Sappi Fine Paper North America's research and development activities are centered at Westbrook. This centre has a proud history of product and process innovation; for example, it developed the first machine coated and calendared one-sided and two-sided coated paper as well as the 1<sup>st</sup> high bulk coated paper.

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

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

### ***Sappi Fine Paper Europe***

Research and development at Sappi Fine Paper Europe focuses predominantly on the development of digital grades, alternative raw materials and on innovative ways to substantially lower manufacturing costs.

A new multi-functional toner-based grade, Digital Top, was launched in December 2010. Moreover, to cover the quickly developing inkjet market, an uncoated grade, produced at Biberist mill, was launched at Ipex (UK) while a coated grade for that market-segment is expected to be ready for launch in the first calendar quarter of 2011.

In today's paper manufacturing process, many raw materials used are either mineral-oil based or obtained from mining operations. Sappi Fine Paper Europe is developing processes intended to enable use of raw materials that result from primary processes as a waste or byproduct in order to further boost the level of sustainability of coated paper.

Using adapted coating application technology, Sappi Fine Paper Europe has been able to significantly reduce manufacturing costs. In addition the further adaptation of the paper-architecture of coated paper, allows the use of cheaper raw materials thus lowering manufacturing costs significantly at various mills. In close co-operation with Tech Centre Westbrook, a Global Workshop addressing these technologies has been organized.

### ***Sappi Southern Africa***

Building on the proud history of development in South Africa, which includes the development of the Sapoxal oxygen bleaching process, applied research is conducted over the full value chain of papermaking from fiber to pulping, bleaching, stock preparation as well as product development and the environment. Highlights for the year include the successful use of enzymes to reduce the energy consumption during refining while also improving pulp properties, the successful pilot scale production of dissolving pulp from several wood sources using the pre-hydrolysis kraft process, a comprehensive review of refining performance at three of our European mills along with the identification of opportunities to significantly reduce refining energy use as well as the production of new paper grades at our Stanger mill in the form of crepe paper and greaseproof labels.

At our forest research centre in KwaZulu-Natal, we focus on the genetic improvement of trees planted at our plantation forests to maximize the yield of high quality pulp obtained per hectare. This includes breeding and selecting trees with fiber properties that enhance the characteristics of our end products, as well as breeding for pest and disease resistance to ensure a sustainable supply of timber. Investigating new molecular genetic breeding tools which can increase the speed and efficiency of the

current tree improvement processes forms part of the research. The recent adoption of DNA fingerprinting tools to ensure the correct identity of individuals in the breeding populations and production seed orchards marks the first operational adoption of the molecular genetic tools.

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

### **Share Buy Backs**

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. No shares were acquired during fiscals 2010 and 2009, other than the take up of the rights issue in December 2008. Some of these treasury shares have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. See notes 17 and 28 to our Group Annual Financial Statements included elsewhere in this Annual Report for additional details relating to treasury shares.

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

On November 15, 2010, the closing price for our shares on the JSE was 3,920 SA cents per share and the closing price of the ADSs on the NYSE was US\$ 5.59 per ADS. See "Item 9 The Offer and Listing" for an explanation of share prices.

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

### **Dividends**

Our policy is to consider dividends on an annual basis and to declare cash dividends in US dollars. Taking into account the macro economic and global financial market conditions, our performance in fiscal 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.

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

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

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

In June 2010, we completed a BEE transaction whereby ordinary and "A" ordinary shares equivalent to 4.5% of Sappi Limited were issued to our strategic empowerment partners, and to various trusts for the benefit of our black managers, our employees and growers/communities in the geographic

areas where our South African business has operations. The value of the BEE transaction (approximately ZAR 814 million, US\$ 115 million) corresponds to an effective 30% interest in Sappi Southern Africa, which meets the requirements of Forest Sector Charter and BEE legislation in general. For further information on the BEE transaction, see "Item 7 Major Shareholders and Related Party Transactions" and "South African Economic and Political Environment", and note 28 of our Group Annual Financial Statements contained elsewhere in this Annual Report.

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

*Kangas mill closure.* On October 22, 2009 we announced it 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.

*Muskegon mill impairment and closure.* In light of significantly lower global demand for coated woodfree paper products, operations at Muskegon mill were temporarily suspended on April 1, 2009. We announced the permanent closure of the Muskegon mill on August 26, 2009.

*Acquisition of coated paper business of M-real Corporation.* On December 31, 2008, we acquired four paper mills from M-real Corporation: the Kirkniemi mill and the Kangas mill in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland and other specified assets, as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated woodfree and coated mechanical paper business of M-real Corporation. The four acquired mills have now become part of Sappi Fine Paper Europe.

As part of the Acquisition, we entered into long term supply agreements under which M-real Corporation and its parent company will supply wood and pulp to us. In addition, we entered into marketing agreements under which M-real Corporation will produce products at certain paper machines at the Husum mill (Sweden) and the Äänekoski mill (Finland) and we will market and distribute those products.

Sappi acquired M-real's coated graphic paper business for an enterprise value of € 750 million (approximately US\$ 1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital) amounting to € 102 million (US\$ 189 million) in total. This transaction has been accounted for by the purchase method of accounting.

The Acquisition was mainly financed through a combination of the issuance to M-real Corporation of € 32 million (US\$ 45 million) Sappi Limited shares, vendor loan notes of € 220 million (US\$ 307 million), which has been fully repaid, and a cash consideration of € 401 million (US\$ 565 million) obtained mainly from a ZAR 5.8 billion (US\$ 575 million) rights offering of Sappi Limited shares.

The Acquired Business contributed sales of US\$ 890 million, net operating profit of US\$ 33 million and net profit of US\$ 38 million (including US\$ 41 million discount on the early repayment of the M-real vendor loan notes) to the Group results for the period from Acquisition to end of fiscal 2009.

*Blackburn mill closure and cessation of production from PM 5 at Maastricht mill.* In August 2008, we announced that we had undertaken a review of our European production activities in response to overcapacity and significant input cost pressure.

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On September 22, 2008 we reached an agreement with labor representatives at our Blackburn mill, pursuant to which the mill was permanently closed on November 12, 2008. On October 17, 2008, production had ceased at the mill. We informed customers of the mill about the closure of the production facility in order to find alternatives within our Group to meet the needs of these customers. The sales office for coated woodfree paper in the UK and the specialties sales and marketing organization have remained in operation.

As a result of our review, we also ceased production at PM 5 at our Maastricht mill on December 19, 2008, having reached an agreement with the mill's works council regarding such action.

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

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

*Impairment of assets.* The Group has reviewed the carrying value of all its non-current assets in fiscal 2010 and has determined that the impairment provision, as provided in the Group Annual Financial Statements, was sufficient to record all necessary impairment of non-current assets.

### **Pensions and Post-retirement Benefits Other than Pensions**

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

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

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

We have seen continued recovery in equity markets since last year. We expect to see more growth but also higher levels of volatility in the next one to two years. We believe western governments will continue to stimulate mature economies using unorthodox methods where the consequential capital flows will lead to currency volatility and trading patterns in bond markets that will steepen bond yield curves and depress yields at the shorter-medium terms. We expect the combined effects will keep liabilities in our schemes at or around current levels. Further, if markets factor in concerns over increasing inflation in the long term, this will have adverse effects on the cost of funding our schemes that provide benefits linked to inflation indices.

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

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

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

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

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

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

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

The balance sheet liability of the company's pension schemes increased by US\$ 5 million from a deficit of US\$ 256 million as of September 2009 to a deficit of US\$ 261 million as of September 2010. However, US\$ 144 million of this liability relates to unfunded schemes (mainly in Europe). With these unfunded liabilities stripped out, the Group has a deficit of US\$ 117 million in our funded schemes. Post-retirement benefit liabilities (other than pensions) increased by US\$ 6 million from a deficit of US\$ 179 million as of September 2009 to a deficit of US\$ 185 million as at September 2010.

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

	<b>September 2010</b>		<b>September 2009</b>		<b>September 2008</b>	
	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>	<b>Fair</b>
	<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>
	<b>Benefit of plan</b>	<b>Benefit of plan</b>	<b>Benefit of plan</b>	<b>Benefit of plan</b>	<b>Benefit of plan</b>	<b>Benefit of plan</b>
	<b>Obligation</b>	<b>Obligation</b>	<b>Obligation</b>	<b>Obligation</b>	<b>Obligation</b>	<b>Obligation</b>
	<b>Assets</b>	<b>Assets</b>	<b>Assets</b>	<b>Assets</b>	<b>Assets</b>	<b>Assets</b>
	<b>(US\$ millions)</b>					
<b>Pensions</b>	2,069	1,808	1,945	1,695	1,414	1,387
<b>Post-retirement benefits other than pensions</b>	185		179		148	

Actual investment returns from the assets of the various regional funded pension schemes during 2010 were higher than actuarial projections in all regions, which contributed to increased asset values as at September 2010. Overall, investment returns were +10.9% or US\$ 184 million over the fiscal year and includes an actuarial gain of US\$ 70 million.

Discount rates decreased in all regions, reflecting lower average yields on bonds of similar duration to the liabilities. For the pension schemes this contributed to an increase in liabilities shown as actuarial losses of US\$ 122 million. Experience adjustments (i.e. changes in membership or benefits) were also unfavorable, contributing to an actuarial loss of US\$ 21 million. Contributions paid to the schemes were a major beneficial factor, leading to a reduction in liabilities of US\$ 66 million.

The main factor in the increase in balance sheet liability was from actuarial losses due to falling discount rates of US\$ 122 million.

Currency effects were minimal but favorable contributing to a decrease in the US\$-value cut of US\$ 17 million in the balance sheet liability.

Several minor factors contributed to a small net rise in liabilities in the post-retirement benefits (other than pensions): a fall in discount rates increased liabilities by US\$ 7 million while favorable demographic

changes in membership reduced liabilities by US\$ 9 million. Currency effects increased liabilities in US\$ terms by US\$ 5 million.

Defined benefit schemes remain open to members, with notable exceptions being Austria and the UK. Schemes in southern Africa and one in North America are in a closed phase where the active membership is a closed Group that will gradually reduce over time.

For further information see note 27 in our Group Annual Financial Statements included elsewhere in this Annual Report.

## **Insurance**

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

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

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

Sappi has successfully negotiated the renewal of its 2011 insurance cover at more favorable rates to those of 2010. Self-insured retention for any one property damage occurrence has remained at US\$ 25 million, with an unchanged annual aggregate of US\$ 40 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, we believe that the loss limit cover of US\$ 1 billion should be adequate for what we have determined as the reasonably foreseeable loss for any single claim. From fiscal 2011 our property damage insurance policy will be euro denominated as most of our assets are based in euro denominated jurisdictions.

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

Sappi has placed the insurance for its plantations on a stand-alone basis through Sappisure Försäkrings AB into international insurance markets. Cover was purchased from May 1, 2010 to April 30, 2011.

## **Critical Accounting Policies and Estimates**

Management of the Group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results.

The Group believes that the following accounting policies are critical due to the degree of management judgment and estimation required and/or the potential material impact they may have on the Group's financial position and performance.

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

Intangible assets not yet available for use are tested at least annually for impairment.

In assessing assets for impairment, the Group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation.

Where an impairment exists, the losses are recognized in profit or loss for the period. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

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

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

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

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

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

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

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

Depreciation which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Management judgment and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.



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

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

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

### Current taxation

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

The Group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

Secondary Tax on Companies (STC) is a South African income tax, that arises from the distribution of dividends and is recognized in profit or loss at the same time as the liability to pay the related dividend.

### Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred taxation is charged to profit or loss for the period, except to the extent that it relates to a transaction that is recognized directly in equity, or a business combination that is an acquisition.

Before recognizing a deferred tax asset the Group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognized. In recognizing deferred tax assets, the Group considers profit forecasts including the effect of exchange rate fluctuations on sales and external market conditions.

### *Derivatives and hedge accounting*

#### Fair value hedges

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognized in profit or loss. The changes in the fair value of the hedging instrument and the hedged item is recognized in profit or loss.

#### Cash flow hedges

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in profit or loss.

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The gains or losses, which are recognized directly in shareholders' equity, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecasted transaction results in the recognition on a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from equity to the underlying asset or liability on the transaction date.

### Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in equity is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognized immediately in profit or loss.

Refer to note 29 to the Group Annual Financial Statements for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

*Plantations.* Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognized in the period in which they arise.

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations are disclosed in note 10 to the Group Annual Financial Statements.

### Estimated prices less cost of delivery

In periods prior to the third quarter of fiscal 2010 the Group used unadjusted current market prices to estimate the fair value of timber.

In the third quarter of fiscal 2010 the Group revised this methodology for all immature timber and mature timber that is to be felled in more than 12 months from the reporting period to consider a 12 quarter rolling historical average price. This is considered a reasonable period of time taking into consideration the length of the growth cycle of the plantations. The new methodology also takes into consideration expected future price trends and recent market transactions involving comparable plantations.

The Group considers the new methodology to be preferable. Current market prices for timber that is expected to be felled in more than 12 months from the end of the reporting period are highly volatile. Therefore, the Group considers the use of a rolling historical average price coupled with consideration of expected future price trends and recent market transactions involving comparable plantations to be a preferable methodology.

Mature timber that is expected be felled within 12 months from the end of the reporting period continues to be valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

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The fair value is derived by using the prices as explained above reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

### Discount rate

The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

### Volume and growth estimations and cost assumptions

The Group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies from between eight to eighteen years. In the southern African region softwood less than eight years and hardwood less than five years is classified as immature timber.

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled it is taken out of plantations and accounted for under inventory and reported as depletion cost (fellings).

Depletion costs include the fair value of timber felled, which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per tonnes allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight line basis.

Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, being harvesting, loading, transport and allocated fixed overheads.

The Group has projected growth estimation over a period of eight to eighteen years per rotation. In deriving this estimate, the Group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the Group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The Group directly manages plantations established on its own land that are either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognized as silviculture costs in cost of sales (see note 4.1 to the Group Annual Financial Statements included elsewhere in this Annual Report).

*Pension plans and other post-retirement benefits.* Defined-benefit and defined-contribution plans have been established for eligible employees of the Group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligation and related current service cost are calculated annually by independent actuaries using the projected unit method.

These actuarial models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of "events" are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, health care cost trends, longevity and service lives of employees.

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The Group's policy is to recognize actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to operating profit.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in profit or loss when the Group is demonstrably committed to the curtailment or settlement. Past service costs are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the vesting period of those benefits.

The net liability recognized in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized past service costs, reduced by the fair value of the plan assets. Where the calculation results in a benefit to the Group, the recognized asset is limited to the net total of past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 27 to the Group Annual Financial Statements, included elsewhere in this Annual Report for the key estimates, assumptions and other information on post employment benefits applicable as at the end of September 2010.

*Provisions.* Provisions are recognized when the Group has a legal or constructive obligation arising from past events that will probably be settled. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgment by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

### **Adoption of accounting standards in Fiscal 2010**

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the Group in the current year:

#### *IFRS 8 Operating segments*

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance.

The adoption of IFRS 8 "Operating Segments" did not have an impact on the Group's reported results or financial position.

#### *Amendment to IFRS 7 Financial Instruments: disclosures*

IFRS 7 was amended to require enhanced disclosures about fair value measurements. In note 29 to the Group Annual Financial Statements, the Group has, disclosed the level in the fair value hierarchy into which the fair value measurements are categorized for financial instruments that are measured at fair value in the statement of financial position.

The adoption of this amendment did not have an impact on the Group's reported results or financial position.

*Other amendments to IFRS*

The Group adopted IFRIC 15, IFRIC 17, IFRIC 18, revision to IFRS 3, amendments to IAS 27, IAS 28, IAS 31, IFRS 2, IAS 39, IFRIC 9 and various improvements to IFRSs in fiscal 2010.

The adoption of these new or revised standards, interpretations, amendments and improvements to standards did not have a material impact on the Group's reported results or financial position.

*Presentation of comparative information on adoption of IFRS on a retrospective basis*

With the adoption of IFRS 8, the Group made retrospective adjustments to segment reporting as described in note 3 to the Group Annual Financial Statements. The Group also had adjustments to notes 20, 24 and 25 to the financial statements. These adjustments only impacted the notes to the financial statements and therefore the Group has disclosed two comparative periods for the affected notes. Due to the fact that no changes were made to the fiscal 2008 and 2009 balance sheets, only one comparative period has been disclosed for the balance sheet.

*Accounting Standards, interpretations and amendments to existing standards that are not yet effective*

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2010 or later periods. These new standards, and their effective dates for the Group's annual accounting periods are listed below:

IFRS 9 Financial Instruments IFRS 9 introduces new requirements for classifying and measuring financial assets. The Group is currently evaluating the impact that the adoption of this IFRS will have on its consolidated financial statements.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the Group's consolidated financial statements on the dates indicated are not expected to have a material impact on the Group's results or financial position:

IFRS 2 Share-based Payment Amendments relating to Group cash-settled share-based payment transactions (September 2011)

IFRS 7 Financial Instruments: Disclosures. Transfers of financial assets (September 2012)

IAS 24 Related Party Disclosures Revised definition of related parties (September 2012)

IAS 32 Financial Instruments: Presentation Amendments relating to classification of rights issues (September 2011)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (September 2011)

Various improvements to IFRSs

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Directors and Senior Management**

The Articles of Association of Sappi Limited provide that the Board of Directors (the "Board") must consist of not less than four nor more than twenty Directors at any time. The Board currently consists of fourteen Directors.

The business address for all of the Directors is 48 Ameshoff Street, Braamfontein, Johannesburg 2001, Republic of South Africa. The Directors are South African citizens except for Prof. Meyer Feldberg, James Healey and Karen Osar (United States citizens), Helmut Mamsch (a German citizen), Sir Nigel Rudd (a British citizen) and Dr Rudolf Thummer (an Austrian citizen).

Following the retirement of David Charles Brink and Dr Franklin Abraham Sonn effective on December 31, 2009, we appointed Nkateko Peter Mageza and Dr Rudolf Thummer as non-executive directors of the Board of Sappi Limited effective January 1, 2010 and February 1, 2010 respectively. Mohammed Valli Moosa was appointed as a non-executive director of the Sappi Limited board during August 2010, while Helmut Claus-Jürgen Mamsch will be retiring on December 31, 2010.

**Non-executive directors**

**Daniël (Danie) Christiaan Cronjé**

*(Chairman)*

**Age:** 64

**Qualifications:**

B Com (Hons), MCom, DCom

**Nationality:** South African

**Appointed:** January 2008

**Sappi board committee memberships**

Human Resources and Transformation Committee (Chairman)

Nomination and Governance Committee (Chairman)

(Attends Audit Committee meetings and Compensation Committee meetings Ex Officio)

**Other board and organization memberships**

Die Dagbreek Trust (Chairman)

Eqstra Holdings Limited (Chairman)

**Skills, expertise and experience**

Dr. Cronjé retired in July 2007 as chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African Banking organization in which Barclays plc obtained a majority share in 2005). Dr. Cronjé had been with ABSA Group since 1975 and held various executive positions including group chief executive for 4 years and chairman for 10 years. Prior to that Dr. Cronjé was lecturer in Money and Banking at Potchefstroom University.

**Professor Meyer Feldberg**

*(Lead Independent Director)*

**Age:** 68

**Qualifications:** BA, MBA, PhD

**Nationality:** American

**Appointed:** March 2002

**Sappi board committee memberships**

Compensation Committee (Chairman)  
Nomination and Governance Committee

**Other board and organization memberships**

British American Business Council (Advisory Board member) Columbia University  
Business School  
Macy's, Inc  
Morgan Stanley (Senior Adviser)  
New York City Ballet  
New York City Global Partners (President)  
PRIMEDIA, Inc  
Revlon, Inc  
UBS Global Asset Management  
University of Cape Town Graduate School of Business

**Skills, expertise and experience**

Professor Feldberg is currently serving as a Senior Advisor to Morgan Stanley. His career has included teaching and leadership positions in the Business Schools of the University of Cape Town, Northwestern and Tulane. He served as president of Illinois Institute of Technology for three years and as dean of Columbia Business School for 15 years. He is currently dean emeritus and professor of leadership at Columbia Business School. He has served on the Council of Competitiveness in Washington, DC. In 2001, the International Centre in New York honored Professor Feldberg as a distinguished foreign-born American who has made a significant contribution to American life.

**James (Jim) Edward Healey**

*(Independent)*

**Age:** 69

**Qualifications:** BSc (Public Accounting),  
Honorary Doctor (Commercial Science),  
Certified Public Accountant (USA)

**Nationality:** American

**Appointed:** July 2004

**Sappi board committee memberships**

Audit Committee  
Human Resources and Transformation  
Sappi Fine Paper North America Audit Committee (Chairman)

**Skills, expertise and experience**

He has held various senior financial positions in a career spanning 37 years. In 1995 Mr Healey became vice president and treasurer of Bestfoods, formerly CPC International Inc. In 1997 he became executive vice president and chief financial officer of Nabisco Holdings Inc, one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

**Deenadayalen (Len) Konar**

*(Independent)*

**Age:** 56

**Qualifications:** BCom, MAS, DCom, CA (SA)

**Nationality:** South African

**Appointed:** March 2002

**Sappi board committee memberships**

Audit Committee (Chairman)  
Nomination and Governance Committee

**Other board and organization memberships**

Exxaro Resources Limited (Chairman)  
Illovo Sugar Limited  
Lonmin plc  
JD Group Limited  
Mustek Limited (Chairman)  
South African Reserve Bank  
Steinhoff International Holdings Limited (Chairman)

**Skills, expertise and experience**

Previously professor and head of the department of Accountancy at the University of Durban Westville, Dr. Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (Co-Chairman).

**Nkateko Peter Mageza**

*(Independent)*

**Age:** 55

**Qualifications:** FCCA (UK)

**Nationality:** South African

**Appointed:** January 2010

**Sappi board committee memberships**

Audit Committee  
Human Resources and Transformation Committee

**Other board and organization memberships**

Bidvest Group Limited  
Ethos Private Equity Fund  
Rainbow Chickens Limited  
Remgro Limited  
MTN Group Limited

**Skills, expertise and experience**

Mr Mageza joined the Sappi Board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and executive director of ABSA Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.



**Helmut Claus-Jürgen Mamsch\***

*(Independent)*

**Age:** 66

**Nationality:** German

**Appointed:** January 2004

\* Retiring at the end of December 2010

**Sappi board committee memberships**

Audit Committee

Compensation Committee

Sappi Fine Paper Europe Audit Committee (Chairman)

**Other board and organization memberships**

Anita-Thyssen-Stiftung

GKN plc.

**Skills, expertise and experience**

Mr Mamsch studied economics at Deutsche Aussen-handels-und Verkehrs-Akademie, Bremen and also received training in business administration and shipping in Germany, the UK and Belgium. He worked for 20 years in international trade and shipping. In 1989 he joined VEBA AG (now E ON AG), Germany's largest utility-based conglomerate. From 1993 to 2000 he was a VEBA AG management board member and, as from 1998, responsible for their US electronic businesses and their corporate strategy and development. In 1997 he joined Logica as a non-executive director and until 2007 was their deputy chairman. Until July 2010 he was non-executive Chairman of Electrocomponents plc.

**John (Jock) David McKenzie**

*(Independent)*

**Age:** 63

**Qualifications:** BSc Chemical Engineering (cum laude), MA

**Nationality:** South African

**Appointed:** September 2007

**Sappi board committee memberships**

Compensation Committee

Sustainability Committee (Chairman)

**Other board and organization Directorships**

Accelerate Cape Town (Chairman)

Coronation Fund Managers

University of Cape Town Foundation (Chairman)

WESGRO

Save the Children (Cape)

**Skills, expertise and experience**

Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation. He was a Member of the Singapore Economic Development Board from 2000-2003.

**Mohammed Valli (Valli) Moosa**

**Age:** 53

**Qualifications:**

BSc (Mathematics)

**Nationality:** South African

**Appointed:** August 2010\*

\* Mr Moosa's appointment was subsequent to the BEE transaction implemented by Sappi in June 2010

**Other Board and Organization memberships**

Auditor General's Advisory Committee (South Africa)

Anglo Platinum Limited (deputy chairperson and lead Independent director)

Imperial Holdings Limited

Lereko Investments Pty Ltd and various other associate companies of Lereko

Investments (Pty) Ltd

Real Africa Holdings Limited (Chairman)

Sanlam Limited

Sun International Limited (Chairman)

**Skills, expertise and experience**

Mr Moosa is currently the Deputy Chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, Government, politics and civil society in South Africa. To name but a few, he was South African Minister of Environmental Affairs and Tourism; the President of the IUCN (International Union for the Conservation of Nature); Chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress (ANC).

**Karen Rohn Osar**

*(Independent)*

**Age:** 61

**Qualifications:** MBA, Finance

**Nationality:** American

**Appointed:** May 2007

**Sappi board committee memberships**

Audit Committee

**Other board and organization memberships**

Innophos Holdings, Inc. (also Chairperson of Audit Committee)

Reader's Digest Association

Webster Financial Corporation

**Skills, expertise and experience**

Ms Osar was executive vice president and chief financial officer of speciality chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice president and treasurer for Tenneco, Inc and also served as chief financial officer of Westvaco Corporation and as senior vice president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She has chaired several board audit committees.

**Bridgette Radebe**

*(Independent)*

**Age:** 50

**Qualifications:** BA (Pol Sc and Socio)

**Nationality:** South African

**Appointed:** May 2004

**Sappi board committee memberships**

Human Resources and Transformation Committee

**Other board and organization memberships**

Mmakau Mining (Pty) Ltd (Executive Chairperson)

South African Mining Development Association (President)

Mineral and Mining Development Board (Former Vice Chairman)

New Africa Mining Fund (founder and Board Trustee)

**Skills, expertise and experience**

Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines as well as shaft sinkers. She participated in the design of the South African Mining Charter and present mining legislation.

**Sir Anthony Nigel Russell Rudd**

*(Independent)*

**Age:** 63

**Qualifications:** DL, Chartered Accountant

**Nationality:** British

**Appointed:** April 2006

**Sappi board committee memberships**

Compensation Committee

Nomination and Governance Committee

**Other board and organization memberships**

BAA Limited (Chairman)

Invensys plc (Chairman)

**Skills, expertise and experience**

Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates at both the Loughborough and Derby Universities. In 1995 he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

**Rudolf Thummer**

**Age:** 63

**Qualifications:** Dr. Techn, Dipl-Ing

**Nationality:** Austrian

**Appointed:** February 2010

**Sappi board committee memberships**

Sustainability Committee

**Skills, expertise and experience**

Dr. Thummer joined the Sappi Board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld mill. In 1990 he was appointed Technical Director of Alfeld mill. In 1992, Dr. Thummer became an Executive Board Member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen mills. In 1998 he moved to Sappi Fine Paper Europe based in Brussels as Technical Director and Executive Board Member. He served as Group Head Technology of Sappi Limited from January 1, 2006 up to his retirement at the end of December 2007.

*Executive directors*

**Roeloff (Ralph) Jacobus Boëttger**

**Chief Executive Officer**

**Age:** 49

**Qualifications:** BAcc Hons, CA (SA)

**Nationality:** South African

**Appointed:** July 2007

**Sappi board committee memberships**

Attends meetings of all board committees by invitation

**Skills, expertise and experience**

At the age of 34 he was appointed chief executive officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007 he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an executive director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed businesses operating in southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.

**Mark Richard Thompson**

**Chief Financial Officer**

**Age:** 58

**Qualifications:** BCom, BAcc, LLB, CA (SA)

**Nationality:** South African

**Appointed:** August 2006

**Sappi board committee memberships**

Attends Audit Committee meetings by invitation

**Skills, expertise and experience**

Mr Thompson joined Sappi in 1999 as group corporate counsel and was appointed to his present position in August 2006. Prior to joining Sappi, he was group treasurer at Anglo American, managing director of Discount House Merchant Bank and prior to that head of the corporate finance division of Central Merchant Bank.

*Senior Management*

*Mark Gardner (55) BSc, President and Chief Executive Officer of Sappi Fine Paper North America*

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Mr Gardner joined Sappi in 1981. Prior to accepting the position of President and Chief Executive Officer, Mr Gardner held the roles of Vice President Manufacturing and Vice President, Supply Chain. He has also worked in a variety of production management roles, including Production Manager at the Westbrook mill, Paper Mill Manager at the Somerset mill, Managing Director at the Muskegon mill and Director of Engineering and Manufacturing Technology position at the regional head office in Boston. He holds a B.Sc. degree in Industrial Technology from the University of Southern Maine. Mr Gardner has received the TAPPI (Technical Association of the Pulp and Paper Industry)/PIMA (Paper Industry Management Association) 2009 Executive of the year award. The award is the highest recognition for leadership and management given by PIMA. He currently also serves on the board of directors of the American Forest & Paper Association and the NPTA Alliance.

*Robert Darsie Hope (57), BA (Hons) Economics, MRICS, Group Head Strategic Development*

Since joining Sappi in 1976, Mr. Hope has held a number of management roles including General Manager of Sappi Sawmills, Managing Director of Sappi Trading and is currently Group Head Strategic Development.

*Andrea Rossi (57) BSc Eng. (Hons), C.Eng, Group Head Technology*

Mr Rossi joined Sappi in 1989. Prior to accepting the position of Group Head Technology, Andrea held the roles of Project Director of the Sappi Saiccor Amakhulu Expansion project, Strategic Projects Director of Sappi Forest Products, Sappi Kraft Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra mill, Project Director Enstra mill expansion, Project Manager for the Sappi Saiccor Mkomazi Expansion and Engineering Services Manager for Sappi Management Services.

*Lucia Adele Swartz (53) BA, Dip HR., Group Head Human Resources*

Ms Swartz joined Sappi in May 2002. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as Human Resources Director, Global Functions based in New York. She holds a BA in Psychology and Geography from the University of the Western Cape and a Diploma in Human Resources from the Peninsula Technikon.

*Alexander van Collier Thiel (49) BSc Mech Eng, MBA, Chief Executive Officer of Sappi Southern Africa*

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003 he became the Director Logistics for Sappi Fine Paper Europe, reporting to the Chief Executive Officer of Sappi Fine Paper Europe. He was appointed as Group Head Procurement at Sappi Limited in January 2008 and Integration Executive, in charge of the integration of the Acquired Business into Sappi operations, in September 2008. He led a project to redefine and implement Sappi's go-to-market strategy in Europe from October 2009. Mr Thiel was appointed Chief Executive Officer of Sappi Southern Africa with effect from December 1, 2010.

*Berend (Berry) John Wiersum (55) MA, Chief Executive Officer of Sappi Fine Paper Europe*

Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Fine Paper Europe. Prior to joining Sappi, Berry was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Mid East and North Africa. He holds a master's degree in medieval & modern history from St. Andrews University Scotland. Mr Wiersum is currently and until end 2011 Chairman of Cepi (Confederation of European Paper Industries).

**Executive Officers**

The Executive Directors and the people listed as senior management above are the Executive Officers of Sappi.

**Compensation**

The non-executive directors' fees are proposed by the Executive Committee and agreed by the Compensation Committee and approved by the Board, subject to final approval by shareholders.

See notes 34 to 36 to our Group Annual Financial Statements contained elsewhere in this Annual Report for details, by director, on Directors' remuneration, Directors' service contracts, Directors' interests and Directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Plan.

See note 30 to our Group Annual Financial Statements included elsewhere in this Annual Report for details of payments to senior management which is reflected under related party interests.

**Board Practices**

At every annual general meeting, as near as possible to, but not less than, one third of the directors (excluding any Executive director appointed after the conclusion of the preceding annual general meeting, the Executive Chairman, the Chief Executive Officer and the Managing Director) are required to retire from office but are eligible for re-election. The directors to retire are those who have been longest in office since their last election, or as between directors who have been in office for an equal length of time since their last election, in the absence of agreement, determined by lot. In addition, the appointment of any director appointed since the last annual general meeting will be required to be confirmed. Any director so appointed will also retire at the meeting and be eligible for re-election.

The following table sets forth the terms of office of the Directors.

<b>Name</b>	<b>Start of term</b>	<b>Latest date of end of term</b>
Roeloff Jacobus Boöttger	2008	2013
Daniël Christiaan Cronjé	2008	2011
Meyer Feldberg	2009	2011
James Edward Healey	2009	2012
Deenadayalen Konar	2010	2013
Nkateko Peter Mageza	2010	2013
Helmut Claus-Jürgen Mamsch	2009	2010
John David McKenzie	2010	2013
Mohammed Valli Moosa	2010	2011
Karen Rohn Osar	2008	2010
Bridgette Radebe	2008	2010
Sir Nigel Anthony Russell Rudd	2010	2013
Mark Richard Thompson	2010	2013
Rudolf Thummer	2010	2013

No retirement or other benefits arise from the retirement of Directors by rotation or on termination for any other reason.

***Audit Committee***

An Audit Committee of the Board was established in 1984 and assists the Board in discharging its responsibilities to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, Group policies, legal requirements and internal controls within the Group. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the Group's code of ethics.

The Audit Committee consists of five independent non-executive directors of the Board (James Edward Healey, Deenadayalen Konar (Chairman), Nkateko Peter Mageza, Helmut Claus Jürgen Mamsch and Karen Rohn Osar) and is directed by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The Chairman of the Group attends Committee meetings ex-officio. The Audit Committee meets with senior management, which includes the Chief Executive Officer and the Chief Financial Officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the Committee and its Chairman. The Audit Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit Committee Chairman on a regular basis. The Audit Committee Chairman attends the annual general meeting. Deenadayalen Konar has been designated as the Audit Committee's financial expert.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis, and they meet at least four times per year.

***Nomination and Governance Committee***

The Nomination and Governance Committee of the Board consists of four independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group and of the Committee, Meyer Feldberg, Deenadayalen Konar and Sir Anthony Nigel Russell Rudd). The Committee considers the composition of the Board, retirements and appointments of additional and replacement non-executive directors and makes appropriate recommendations to the Board. The Chief Executive Officer attends meetings by invitation.

***Human Resources and Transformation Committee***

The Human Resources and Transformation Committee of the Board consists of four independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group and of the Committee, James Edward Healey, Nkateko Peter Mageza and Bridgette Radebe). The responsibilities of the Committee are, among other things, to determine human resource policy and strategy. In addition the Committee oversees Transformation issues in South Africa.

***Compensation Committee***

The Compensation Committee of the Board consists of four independent non-executive directors (Meyer Feldberg (Chairman), Helmut Claus-Jürgen Mamsch, John "Jock" David McKenzie and Sir Nigel Rudd). The responsibilities of the Committee are mainly to determine the remuneration and incentives in respect of the Chief Executive Officer and those executives reporting directly to the Chief Executive Officer. The Chairman of the Group attends meetings of the Committee ex-officio.

**Corporate Governance**

The New York Stock Exchange (NYSE) requires compliance with its corporate governance rules. The application of these NYSE rules is restricted for foreign companies, recognizing that such

companies have to comply with domestic requirements. As a foreign private issuer, Sappi must comply with four NYSE corporate governance rules:

Satisfy the audit committee requirements of the Securities and Exchange Commission (SEC);

Chief Executive Officer must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of Section 303(A) of the Sarbanes-Oxley Act of 2002;

Provide a brief description of any significant difference between its corporate governance practices and those followed by United States companies under the NYSE listing standards; and

Maintain a publicly accessible website that includes a printable version of its audit committee charter and the description of significant differences in corporate governance practices mentioned above. In accordance with new NYSE rules, Sappi continues to make available on its website its Annual Reports on Form 20-F.

As Sappi is listed on the JSE Limited in Johannesburg, Sappi is required to comply with the King Report on Corporate Governance for South Africa. Although there are differences between the King Report and the NYSE corporate governance rules, Sappi applies the principles of the King Report and has voluntarily adopted corporate governance practices that do not differ in any significant ways from the requirements of the NYSE corporate governance rules. A revised King Report (III) was issued with effect from March 2010 and Sappi is in the process of implementing various additional requirements from the revised report. This work will continue through fiscal 2011.

## Employees

The following table sets forth the number of employees as at the close of each fiscal year ended September.

	2010	2009	2008
Sappi Fine Paper North America	2,247	2,336	2,571
Sappi Fine Paper Europe	6,659	6,710 <sup>(1)</sup>	4,896
Sappi Southern Africa	6,446	7,142	7,445
Sappi Trading	148	154	153
Unallocated and eliminations	86	85	91
<b>Total</b>	<b>15,586</b>	<b>16,427</b>	<b>15,156</b>

(1)

Includes employees transferred from M-real as part of the Acquisition.

### *Sappi Fine Paper North America*

Approximately 64% of employees are represented by twelve collective bargaining agreements with seven different unions. The majority of Sappi Fine Paper North America's hourly employees are represented by the United Steelworkers (USW) union. The labor contracts with the USW expire in May 2012, August 2013, and August 2011, respectively for the Cloquet, Somerset and Westbrook mills.

Sappi Fine Paper North America has experienced no work stoppage in the past nineteen years and believes that its relationship with its employees is satisfactory. In maintaining this relationship, we hope to reach agreements with our unions as contracts expire. In the event that an agreement cannot be reached with any of the unions and a prolonged work stoppage ensues, curtailment of output could negatively impact our business.





***Sappi Fine Paper Europe***

A substantial number of Sappi Fine Paper Europe employees are represented by trade unions.

Sappi Fine Paper Europe is subject to industry-wide collective agreements that are in place with trade unions in Germany, Finland, Switzerland, Austria and Belgium and which relate to its employees in each of the relevant mills. At our mills in The Netherlands, Sappi Fine Paper Europe has entered into shop-floor agreements with the respective trade unions. Although we have in the past and may in the future experience work stoppages and other labor conflicts (such as work stoppages at our Dutch mills in November 2009 during collective labor agreement (CLA) negotiations), overall labor relations have been stable in Europe.

In addition to trade unions, Sappi Fine Paper Europe also consults with various local, national and European works councils. These works councils primarily serve in an advisory role. Sappi Fine Paper Europe is required, under certain circumstances, to keep the works councils informed of activities that affect the workforce and to consult with one or more of the works councils before proceeding with a course of action. This is especially relevant for any major reorganization.

During fiscal 2010, we finalized the previously announced reduction of workforce at Kirkniemi in Finland (63 employees), Stockstadt in Germany (20 employees) and at Biberist in Switzerland (49 employees). In November 2009, we announced the permanent closure of the Kangas mill which was implemented by the end of June 2010. The Kangas mill employed approximately 150 employees.

There were no work stoppages across our European organization except for the combined five-day work stoppage at our Dutch mills in Nijmegen and Maastricht in the context of the November 2009 CLA negotiations.

***Southern Africa***

In southern Africa, we operate within a unionized environment. There are three recognized unions, namely: Chemical, Energy, Paper, Printing, Wood Allied Workers' Union (CEPPWAWU); United Association of South Africa (UASA); Solidarity and South African Agricultural & Plantations Allied Workers Union (SAAPAWU). The unions act jointly in most instances to leverage their collective power. Unions in South Africa represent approximately 65% of all employees falling within the bargaining unit, and 51% of all employees employed in Sappi.

The South African industrial relations climate during fiscal 2009 was characterized by industrial actions (strikes) across all industries, particularly in the public and para-statal sectors. A three week public sector strike largely influenced the wage negotiations environment in the Pulp and Paper sector. These negotiations were concluded on August 5, 2010. A significant achievement this year was a wage settlement of 8% across the board, without any strike in the Pulp and Paper sector.

The consultation process regarding the closure of the Usutu mill in Swaziland and the consequent retrenchment of staff was concluded during January 2010. The union has declared two disputes, regarding the retrenchments that took place during 2005 and 2010. The matter relating to the 2005 retrenchments is currently at the high court with the outcome expected in December 2010, whereas the dispute regarding the 2010 retrenchments is still ongoing.

The major achievement in the area of the employee wellbeing is that 58% of the predicted HIV positive Sappi employees are registered in managed care programs. The Department of Health (DoH) has launched Counseling and Testing (C&T) campaigns and aims to encourage people to know their HIV status with links to treatment, care and support, as well as through key HIV prevention messages, encourage people to take proactive steps towards leading a healthy lifestyle, irrespective of their HIV (or TB) status. Sappi has participated in the campaign and partnerships were formed with the DoH to encourage employees, contractors and partners to ensure that they know their HIV status. At Sappi on

average more than 45% of the employees participated in the campaigns with the participation at one Mill being more than 90% for the third year in a row.

Partnership is extremely important in changing the scope and shape of the HIV/AIDS epidemic. Awareness campaigns, training programs for health personnel and peer educators, men-to-men training, home-based care and the treatment of sexually transmitted tuberculosis and other opportunistic infections are a few examples of initiatives where Sappi has been involved with Government and Non Governmental Organizations in 2010.

The employee wellbeing program includes initiatives and awareness programs with the objective of ensuring the maintenance of a healthy workforce, to establish support functions that aim to improve employee safety and productivity, and to implement systems that ensure compliance with relevant legislation and which has been achieved during 2010.

The Employment Equity Act (No. 55 of 1998) requires employers who employ 50 or more employees to implement affirmative action measures designed to ensure that suitably qualified persons from previously disadvantaged groups have equal opportunities and are equitably represented in the workforce. The provisions of the Employment Equity Act which pertain to the prohibition of unfair discrimination, the monitoring by employees and trade union representatives of compliance with the Act, the institution of legal proceedings concerning contraventions of the Act, the protection of employee rights and the formulation of codes of good practice and regulations pertaining to the Act were implemented on August 9, 1999. The implementation of the balance of the Act, dealing primarily with affirmative action measures, commenced on December 1, 1999. As required by the Act, we drafted employment equity plans after consultation with representative employee forums and have submitted the prescribed reports to the Department of Labor. A latest annual employment equity report has been submitted during October 2010 as required by law.

The Skills Development Act (No. 97 of 1998), which came into force on September 10, 1999, provides an institutional framework to devise and implement workplace strategies in order to develop and improve the skills of the South African workforce. The financing of skills development is provided for under the Skills Development Levies Act by means of a levy / grant system.

The Skills Development Act, Skills Development Levies Act and the South African Qualifications Authorities Act (No. 58 of 1995), including amendments to the latter, have continued to receive significant attention during the past year. Equity forums established under the Employment Equity Act are mandated to serve as Learning Forums, and their constitutions, roles and responsibilities continue to be encouraged. The forums played a major role in preparing the Skills Plans submitted to the Forest Industries Education and Training Authority ("FIETA"). A skills levy of 1%, specified in accordance with the Skills Development Levies Act, was paid via Internal Revenue to the FIETA. The National Skills strategy for 2005 to 2010 has been extended to remain in force for the skills year 2010 - 2011 while the National Skills Strategy 3 is being finalized and the Sectoral Authorities are being reconfigured. These new Skills legislation requirements will affect all industries from April 2011 onwards.

PAMSA (Paper Manufacturers Association of South Africa) has reviewed the training material for the pulp and paper industry and updated these with Forests Industry Skills Education Training Authorities and National Skills Authority participation. The training material is integrated with the 144 NQF Unit Standards for Pulp and Paper. Assessment guides and facilitation material is provided to facilitate assessment against the Unit Standards to assist training personnel to carry out knowledge transfer. The material is aimed at facilitating uniform assessment of the recognition of prior learning across the industry. This initiative will benefit the industry in South Africa as candidates who successfully complete their training and development will receive a nationally recognized qualification in terms of the National Qualification Framework.

Together with the relevant Quality assurance agencies, PAMSA and the Chemical industry have successfully designed and accredited a new National Vocational Certificate which is aimed at school leavers from compulsory schooling level at grade 8 onwards to enter a tertiary technically focused qualification program, enhancing the students employability across both the pulp and paper and chemical industries. This program is being launched at two Further Education Colleges in February 2011 and will be extended thereafter.

## **Share Ownership**

### ***The Sappi Limited Share Incentive Trust ("Scheme")***

We have offered a share purchase scheme to eligible officers and employees since 1979. During March 1997, The Sappi Limited Share Incentive Trust, as amended from time to time (the "Share Incentive Scheme"), was adopted at the Annual General Meeting of Sappi Limited. Under the Share Incentive Scheme, Officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered the opportunity to acquire shares ("Scheme Shares"), options to acquire shares ("Share Options") or rights and options to enter into agreements with the Sappi Limited Share Incentive Trust to acquire shares ("Allocation Shares"). Participants may also be given the opportunity to acquire a combination of Scheme Shares, Share Options and Allocation Shares.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result the Sappi Limited Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Scheme is the limitation of Trustees and Sappi Limited Board of Directors discretionary powers relating to prospective Scheme share issues to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Share Incentive Trust rules. The revised rules are effective in January 2011. See "Item 19 Exhibits Exhibit 4.1" for the Sappi Limited Share Incentive Trust rules as approved by the Company and the JSE.

### ***The Sappi Limited Performance Share Incentive Trust ("Plan")***

From the 2005 fiscal year we have also offered a performance share incentive plan to eligible officers and employees. Under the Sappi Limited Performance Share Incentive Trust (the "Performance Share Incentive Plan"), officers or other employees of Sappi, its subsidiaries and other entities controlled or jointly controlled by Sappi selected by the Sappi Board of Directors are offered Conditional Contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the Human Resources Committee or Compensation Committee of the Board ("Performance Criteria") applicable to each Conditional Contract are met or exceeded, then Participants are entitled to receive such number of shares as specified in the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria entails a benchmarking of the company's performance against an appropriate peer group of companies.

The JSE Limited (Johannesburg Stock Exchange) amended Schedule 14 of its Listings Requirements in its entirety. As a result the Sappi Limited Performance Share Incentive Trust revised its rules in fiscal 2009 to comply with the new Schedule 14. The main change for the Plan is the limitation of Trustees and Sappi Limited Board of Directors discretionary powers relating to prospective plan conditional share awards to its participants. Other minor amendments to the rules were also made to comply with the new requirements. The JSE has approved the revised Sappi Limited Performance Share Incentive Trust rules. The revised rules are effective in January 2011. See "Item 19 Exhibits Exhibit 4.14" for the Sappi Limited Performance Share Incentive Trust rules as approved by the Company and the JSE.

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For a detailed description of the Share Incentive Scheme and the Performance Share Incentive Plan see Note 28 to our Group Annual Financial Statements included elsewhere in this Annual Report.

### ***Black Economic Empowerment Trusts ("BEE Trusts")***

In June 2010, Sappi completed a BEE deal to comply with South African legislation to increase the participation of Historically Disadvantaged South Africans in the South African economy. The BEE deal resulted in the BEE Trusts and certain strategic partners holding, collectively, Ordinary and "A" Ordinary Shares equivalent to 4.5% of Sappi Limited, which corresponded to an effective 30% interest in Sappi's South African business post the deal. The 30% is in terms of the Forestry Charter and BEE legislation in general.

Under the deal "A" ordinary shares were issued to the BEE Trusts. These "A" ordinary shares were financed by notional loans from Sappi Limited to the BEE Trusts. The loans are repayable on August 30, 2019 when the shares convert to ordinary shares based on a conversion formula. The BEE Trusts consist of three trusts, the ESOP Trust for the benefit of certain employees of Sappi's South African business, the MSOP Trust for the benefit of Black Managers of Sappi's South African business and the Sappi Foundation for the benefit of certain local communities in South Africa.

For a detailed description of the BEE Trusts see Note 28 to our Group Annual Financial Statements included elsewhere in this Annual Report and see "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions".

### ***Directors and Senior Management***

At the end of fiscal 2010, certain Directors and Senior Management of Sappi had been granted an aggregate of 260,700 Share Options, 242,000 Allocation Shares and 3,048,800 Performance Shares. None of the Directors and Senior Management of Sappi holds more than 1% of our issued share capital. See notes 34 to 36 to our Group Annual Financial Statements contained elsewhere in this Annual Report for details individually by director and for senior management, of participation in the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust.

The director Mr M V Moosa is the Deputy Chairman of Lereko Investments (Pty) Ltd and holds 31.8% of Lereko Investments. Lereko Investments holds 1,971,693 Sappi Limited shares as part of the BEE transaction.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

The following table sets forth certain information with respect to the ownership of the ordinary shares, R1.00 par value, of Sappi Limited by the shareholders of record of Sappi Limited as of September 23, 2010, holding 5% or more of the outstanding ordinary shares.

Name of Registered Holder	Number of Shares	Percentage
Nedcor Bank Nominees Limited <sup>(1)</sup>	152,568,172	29.4
First National Nominees (Proprietary) Limited <sup>(1)</sup>	139,689,163	26.9
Standard Bank Nominees (Transvaal) (Proprietary) Limited <sup>(1)(2)</sup>	128,492,212	24.7
ABSA Nominees (Proprietary) Limited <sup>(1)</sup>	47,557,621	9.2
Public Investment Commissioner (PIC)	61,609,689	11.9
All Directors and Executive Officers as a Group	954,284	0.18

(1)

The registered holders have advised us that they hold shares for numerous clients.

(2)

Includes all the ADS shares which are held through the Standard Bank Nominees (Transvaal) (Proprietary) Limited.

The authorized share capital of Sappi Limited consisted of 325,000,000 Ordinary Shares as of September 28, 2008, was increased to 1,325,000,000 on November 4, 2008, and was subsequently reduced to 725,000,000 on March 2, 2009. On April 29, 2010, the authorized share capital was increased by 19,961,476 "A" Ordinary Shares with a par value of ZAR 1.00 per "A" Ordinary Shares. The "A" Ordinary Shares rank pari passu with the ordinary shares in all respects except for dividend entitlements where the "A" Ordinary Shares are entitled to 50% of the dividends payable on the ordinary shares.

On June 11, 2010 Sappi issued 4,328,359 Ordinary Shares and 19,961,476 "A" Ordinary Shares, as part of the BEE transaction. See " Related Party Transactions" and Notes 17 and 28 of our Group Annual Financial Statements contained elsewhere in this Annual Report for details relating to the BEE transaction.

As of September 23, 2010, the issued Ordinary Share capital consisted of 541,446,223 Ordinary Shares, of which 21,935,119 Ordinary Shares are held in treasury. The remaining 519,511,104 issued Ordinary Shares have full voting rights. The issued "A" Ordinary Share capital consisted of 19,961,476 "A" Ordinary Shares, issued as part of the BEE transaction. The issued "A" Ordinary Shares are treated as treasury shares as the share trusts owning such shares are considered special purpose entities under of IFRS. The "A" Ordinary treasury shares differ from the 21,935,119 Ordinary Shares held in treasury, in that the "A" Ordinary treasury shares have full voting rights. The Ordinary Shares are listed shares, whilst the "A" ordinary shares are unlisted shares. The "A" Ordinary Shares have the potential to convert into Ordinary Shares in 2019. See " Related Party Transactions" for a summary of the conversion into Ordinary Shares.

It is common in South Africa for shares to be held through nominees. As of September 23, 2010, the four largest ordinary share shareholders of record (all of which are nominees) owned approximately 90.1% of the shares. We believe that, as of October 1, 2010, based on registered addresses and disclosure by nominee companies, 14% of our shares were held beneficially in North America, 69% of our shares were held beneficially in South Africa and 17% of our shares were held beneficially in Europe and elsewhere, excluding the shares owned by our subsidiaries.

On September 30, 2010, there were 37 registered holders of ADSs holding 9,092,834 ADSs, representing 1.7% of our issued share capital.

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Pursuant to the Companies Amendment Act Number 37 of 1999, where securities of an issuer are registered in the name of a person and that person is not the holder of the beneficial interest in all of the securities held by the registered shareholder, the registered shareholder is obliged, at the end of every three-month period to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and price of securities issued by that issuer held on behalf of each such person. We have authorized JP Morgan Cazenove to conduct a monthly investigation into the beneficial ownership of Sappi Limited shares including those in nominee holdings. All beneficial holdings are investigated to determine whether there are any shareholders who hold 5% or more of our shares and these investigations have as of October 1, 2010, revealed the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Percentage</b>
Public Investment Commissioner (South Africa)	61,609,689	11.9

Further, as a result of these investigations, we have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of October 1, 2010, the following fund managers were responsible for 5% or more of the issued share capital of Sappi Limited.

<b>Name of Fund Manager</b>	<b>Number of Shares Managed</b>	<b>Percentage</b>
Allan Gray Investment Council (South Africa)	116,798,521	22.5
Investec Asset Management (South Africa)	66,968,541	12.9
Capital Group Companies Inc.	43,837,075	8.5
Old Mutual Investment Group (South Africa)	40,244,164	7.7

Under South African law, there is no obligation on the part of our shareholders to disclose to us arrangements or understandings that may exist between or amongst them with respect to the holding or voting of shares unless such arrangement or understanding constitutes an affected transaction under the Securities Regulation Code on Takeovers and Mergers. An "affected transaction" means, among other things, any transaction which has or will have the effect of vesting control of any company in any person or two or more persons acting in concert in whom control did not vest prior to such transaction or scheme. Control is defined with reference to a specified percentage, which is currently 35% of the entire issued share capital of a company. The major shareholders have no different voting rights.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 (approximately US\$ 575 million) which was used to partially finance the Acquisition and related costs.

On December 31, 2008, a € 32 million equivalent in ZAR portion of the Acquisition consideration was funded through the issue of 11,159,702 ordinary shares of Sappi Limited to M-real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights offering and other anti-dilutive protections. See Note 33 of the Group Annual Financial Statements contained elsewhere in this Annual Report.

## Related Party Transactions

For information on related party transactions, see note 30 to our Group Annual Financial Statements contained elsewhere in this Annual Report.

In June 2010, Sappi completed a Broad Based Black Economic Empowerment ("BEE") transaction (the "BEE Transaction"). The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans ("HDSAs") in the South African economy and, through BEE legislation, formalised the country's approach in this regard. See "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment".

In April 2006 Sappi announced a BEE transaction (the "Plantation BEE Transaction") with Lereko Property Company (Proprietary) Limited ("LPC"), a BEE company set up to house a consortium consisting of Lereko Investments (Proprietary) Limited, AMB Capital Limited and Malibongwe Women Development Trust (collectively, the "Strategic Partners"), pursuant to which LPC acquired a 25% undivided share in Sappi's South African plantation land, excluding the value of the plantations, owned by Sappi and/or Sappi Southern Africa (Pty) Ltd (previously Sappi Manufacturing), coupled with the right to develop the land not utilised for forestry operations. Sappi Southern Africa retained the right of use over all the land under the underlying arrangements. As part of the Plantation BEE Transaction, 30% of LPC was set aside for the benefit of certain categories of Sappi's South African employees, who did not participate in any Sappi share incentive scheme. The balance of the shareholding in LPC was held by Lereko Investments (46.19%), Malibongwe (10.14%) and AMB Capital (13.67%).

However, the Plantation BEE Transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BEE in the forestry industry and includes the BEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BEE targets). Accordingly, Sappi decided to unwind the Plantation BEE Transaction, which resided at a South African subsidiary level and to implement the BEE Transaction, a new sustainable transaction of equivalent value at the holding company level using its listed securities.

Sappi views BEE as a key requirement for sustainable growth and social development in South Africa. The BEE Transaction enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The BEE Transaction, comprised two distinct parts. The first part entailed the issue of ordinary shares to the Strategic Partners and the Sappi employees who were to be participants in the Plantation BEE Transaction, as part of the unwinding of the rights from that transaction. The second part consisted of the creation and issuance of a new class of unlisted equity shares referred to as "A" ordinary shares. The "A" ordinary shares were issued at their par value of ZAR1 to a trust for the benefit of certain Sappi employees including HDSAs (the "ESOP Trust"), a trust for the benefit of certain Sappi managers that are HDSAs (the "MSOP Trust") and a trust for the benefit of tree growers and communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the "Sappi Foundation Trust", and together with the ESOP Trust and the MSOP Trust, the "BEE Trusts"). The issuance of the "A" ordinary shares was financed through notional non-interest bearing loans extended by Sappi to the BEE Trusts. The BEE Transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and "A" ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.



The total value of the BEE Transaction, based on the 30 day volume weighted average price (VWAP) of Sappi's ordinary shares as at Friday February 5, 2010 of ZAR 33.50 amounted to approximately ZAR 814 million (US\$ 115 million). As part of the BEE transaction, Sappi issued an aggregate of approximately 24.3 million shares, comprising approximately 4.3 million ordinary shares and approximately 20 million "A" ordinary shares. The value of their shareholding in LPC attributable to the Strategic Partners is ZAR 102.1 million and the value of the South African employees' 30% entitlement in LPC, which will be held through the ESOP Trust, is ZAR 42.9 million.

The "A" ordinary shares rank *pari passu* with and have the same rights and obligations attached as the ordinary shares in all respects except for dividend entitlements where the "A" ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The "A" ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE.

Sappi will have the option to repurchase a number of "A" Ordinary Shares at the end of the Transaction in August 2019. The number of "A" Ordinary Shares Sappi may be entitled to repurchase will be calculated according to a repurchase formula set forth in Article No. 38 of Sappi's Articles of Association. The number of any "A" Ordinary Shares that Sappi may elect to buy back in August 2019 will depend on the price performance of the Ordinary Shares over the period of the Transaction with the remaining "A" Ordinary Shares being distributed to the beneficiaries of the BEE Trusts (or, in the case of the Sappi Foundation Trust, continued to be held by such trust) and converted into Ordinary Shares. See "Item 10 Additional Information Share Capital" for a description of the "A" ordinary shares.

For financial reporting purposes the "A" Ordinary Shares are treated as treasury shares, as the BEE Trusts owning such shares are considered special purpose entities under IFRS.

The BEE deal involved the specific issue for cash of Ordinary Shares at full market value and "A" Ordinary Shares at par value. For further information on the resolution authorizing the change in the Company's Articles of Association relating to the "A" Ordinary Shares and the repurchase formula for the "A" Ordinary Shares, see "Item 19 Exhibits 1.1 and 1.3".

#### **Interests of Experts and Counsel**

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### Consolidated Statements and Other Financial Information

See the Group Annual Financial Statements contained in this Annual Report for the Report of the Independent Auditors.

### Legal Proceedings

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

### *North America*

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. On May 12, 2010, the Commissioner accepted a conceptual design for the fish passage jointly proposed by the state, several non-governmental organizations and Sappi Fine Paper North America, and final detailed design drawings were submitted to the Commissioner on September 24, 2010. A final order approving the design was issued to Sappi Fine Paper North America on October 5, 2010. Pursuant to the order, construction of the fish passage must be completed by May 1, 2013. Costs associated with construction and relating engineering of this fish passage are estimated to be approximately US\$ 4 million to US\$ 5 million. Fish passage at the next dam upstream, the Saccarappa dam, must be operational two years after the Cumberland Mills dam fishway is completed, or during the spring of 2015. Installation of the Cumberland Mills dam fishway may also trigger, over a period of approximately ten years, the obligation to install fishways for at least some of Sappi Fine Paper North America's other four upstream dams as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US\$ 18 million to US\$ 28 million, which includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills and Saccarappa dams as well as estimated costs for upstream fishways which may be incurred in the future. Because construction of additional fishways depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

### *South Africa*

The Restitution of Land Rights Act (Act 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Claims under the Act were required to be filed on or before December 31, 1998 and are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. This process is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. To date, we have been notified of 77 formal land claims against us, of which 40 are in Mpumalanga, and 37 are in KwaZulu-Natal. Three of the claims in KwaZulu-Natal are in the process of being settled. The remaining claims have not been finalized and are still under investigation by the Regional Land Claims Commissioner.

## Dividends

We consider dividends on an annual basis. Taking into account factors at the time, including the rights offer to shareholders and the macro economic and global financial market conditions, the Sappi Board decided in November 2008 to rebase the dividend which for fiscal 2007 had been 32 US cents per ordinary share. On November 6, 2008, we announced a dividend in respect of ordinary shares of 16 US cents per share for fiscal 2008. The dividend was paid on all ordinary shares in issue on November 28, 2008 and paid on December 2, 2008, which was prior to the completion of the rights offer to shareholders. South African shareholders were paid the Rand equivalent of the US dollar denominated declaration. Taking into account the macro economic and global financial market conditions, our performance in fiscal 2010 as well as our priority to reduce indebtedness and preserve liquidity, the Board of Directors decided on November 6, 2009 and November 8, 2010 not to declare a dividend for fiscals 2009 and 2010 respectively.

Our ability to pay dividends is restricted by the terms of the Revolving Credit Facility, the OeKB Term Loan Facility and the 2014 Bonds. Under the Revolving Credit Facility and the OeKB Term Loan Facility, we cannot declare or pay any cash dividends in, among others, the following circumstances:

- (a) an event of default has occurred and is continuing;
- (b) the aggregate amount of such dividends would exceed 50% of the net aggregate profits of the Group (after adjusting for the tax effect of special items);
- (c) the ratio of net debt to EBITDA calculated on a pro-forma basis exceeds 4.00:1.

Under the 2014 Bonds, we are restricted from making restricted payments (which term includes cash dividend payments) except if:

- (a) no event of default has occurred and is continuing (or would occur as a result of such payment); and
- (b) after giving *pro forma* effect to the payment and certain other transactions, the ratio of consolidated EBITDA to fixed charges (net finance costs) is greater than 2.00:1; and
- (c) the aggregate amount of restricted payments (including the contemplated restricted payment) since the issue date of the 2014 Bonds is less than the sum of 50% of consolidated net income (or if a deficit, 100% of such deficit) from the issue date of the 2014 Bonds to the end of the most recent quarterly reporting period, 100% of cash equity contributions and certain other amounts since the issue date of the 2014 Bonds.

The restrictions summarized above are subject to various exceptions, certain of which are significant. Terms used above have the meaning ascribed to them in the relevant agreements. For the full terms of the restrictions on dividend distributions and exceptions thereto, see "Item 19 Exhibits Exhibit 4.10, Exhibit 4.13, and Exhibit 4.18".

In accordance with South African common law, dividends may be declared only out of distributable profits. Under the South African Companies Act the payment of dividends (or any other distribution) is subject to the Company meeting the solvency and liquidity requirements of the Act. Holders of American Depositary Receipts (ADRs) on the relevant record date will be entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the Deposit Agreement among us, The Bank of New York Mellon and the ADR holders (the "Deposit Agreement"). There is no restriction under South African exchange control regulations on the free transferability of cash dividends to non-resident shareholders or ADS holders (provided the necessary endorsements are obtained). See "Item 10 Additional Information Exchange Controls".

We are not currently obliged to withhold any form of tax on dividends paid to non-residents of South Africa. South African companies pay Secondary Tax on Companies ("STC") at the flat rate of 10% in

respect of the amount of dividends declared by the company less certain dividends which accrue to the company during its relevant "dividend cycle". STC is to be replaced with a dividend withholding tax ("DWT") possibly during the latter half of 2011 (date to be announced). The DWT will be imposed on the shareholder and not on the company and it will be levied on the shareholder at a rate of 10%, subject to a reduction in terms of an applicable Double Taxation Agreement. In contrast to STC, the new DWT is a tax on the shareholder, although it will be collected as a withholding tax by the company paying a dividend, which implies that Sappi Limited will incur the obligation to withhold the DWT.

**Significant Changes**

Except as otherwise disclosed in this Annual Report, no significant change has occurred in our financial position since September 26, 2010.

**ITEM 9. THE OFFER AND LISTING****Offer and Listing Details**

The table below sets forth, for the periods indicated, the high and low prices of trading activity in the shares on the JSE, as reported by the JSE and adjusted for the dilution effects of the rights issue discussed below; and the high and low prices of trading activity in the ADSs on the New York Stock Exchange ("NYSE"), as reported by the NYSE and adjusted for the dilution effects of the rights issue discussed below.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR 1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday November 21, 2008, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on December 15, 2008. The rights offer raised ZAR 5,815,184,693 (approximately US\$ 575 million) which was used to partly finance the Acquisition and related costs.

	Shares		ADSs	
	High(1)	Low(1)	High(1)	Low(1)
	(SA cents per share)		(US\$ per ADS)	
<b>Annual highs and lows</b>				
Fiscal 2010	3,792	2,539	5.14	3.27
Fiscal 2009	5,403	1,290	6.41	1.24
Fiscal 2008	7,661	4,700	9.98	5.72
Fiscal 2007	8,824	6,263	12.24	7.88
Fiscal 2006	6,389	3,948	9.62	5.98
<b>Quarterly highs and lows</b>				
<b>2010</b>				
Fourth quarter	3,685	2,877	5.14	3.70
Third quarter	3,275	2,633	4.54	3.27
Second quarter	3,792	2,875	5.08	3.74
First quarter	3,700	2,539	4.91	3.40
<b>2009</b>				
Fourth quarter	3,179	2,052	3.96	2.48
Third quarter	3,029	1,620	3.77	1.80
Second quarter	4,550	1,290	4.76	1.24
First quarter	5,403	2,668	6.41	2.18
<b>Monthly highs and lows</b>				
<b>2010</b>				
October	3,631	3,406	5.23	4.91
September	3,644	3,432	5.22	4.71
August	3,685	3,234	5.13	4.34
July	3,585	2,877	4.87	3.70
June	3,143	2,800	4.10	3.60
May	3,275	2,633	4.38	3.27

(1)

Historical share prices shown in the table above have been adjusted where applicable by 1.58 (an adjustment factor) for the effect of the issuance of 286,886,270 new ordinary shares of ZAR 1.00 each, at a subscription price of ZAR 20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The adjustment factor applied to historical share prices was based on the theoretical ex-rights price ("TERP") calculation explained below.

TERP is the [(Number of new shares multiplied by the Subscription price) plus the (Number of shares held multiplied by the Ex-dividend share price)] all divided by the (Number of new shares plus the number of shares held prior to the rights offer).

The adjustment factor of 1.58 is calculated using the Pre-announcement price divided by the TERP.

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On December 6, 2010, the closing price for our shares on the JSE was 3,590 SA cents per share and the closing price of the ADSs on the NYSE was US\$ 5.31 per ADS.

### Markets

The principal market for the ordinary shares of Sappi Limited is the JSE. The ordinary shares of Sappi Limited were also listed on the London Stock Exchange until November 2, 2009, at which time the shares were delisted from the London Stock Exchange. On November 5, 1998, ADRs evidencing ADSs of Sappi Limited commenced trading on the NYSE under the symbol "SPP". The Bank of New York serves as depositary ("the Depositary") with respect to the ADSs. Prior to the commencement of trading of the ADSs on the NYSE, our ordinary shares were traded in the United States in the over-the-counter market pursuant to a sponsored unrestricted American Depositary Receipt facility established in 1994. Price data relating to that trading is not considered meaningful and has not been included in this Annual Report.

On October 26, 1999, Sappi and The Bank of New York amended the Deposit Agreement to change, with effect from October 27, 1999, the number of ordinary shares represented by each ADS from 10 ordinary shares per ADS to one ordinary share per ADS.

### *The JSE Limited*

The JSE Limited (JSE) was formed in 1887 and provides facilities for the buying and selling of a wide range of securities, including equity, corporate debt securities, warrants in respect of securities, as well as Krugerrands. The JSE is a self-regulatory organization operating under the supervision of the South African Ministry of Finance, through the Financial Services Board and its representative, the Registrar of Stock Exchanges.

The market capitalization of South African equity securities was R6,318.7 billion as at September 30, 2010. The actual float available for public trading is significantly smaller than the aggregate market capitalization because of the large number of long-term holdings by listed holding companies in listed subsidiaries and associates, the existence of listed pyramid companies and cross holdings between listed companies. Liquidity on the JSE (measured by reference to the total market value of securities traded as a percentage of the total market capitalization at the end of the period) was 40.90% for the 12 months ended September 30, 2010. As of the end of September 2010, there were 407 listed companies on the JSE.

Following the introduction of the FTSE/JSE free float indices, the FTSE/JSE All Share Index includes those companies that make up the top 99% of the total market capitalization of all eligible companies (as defined by FTSE/JSE) listed on the JSE. The three main sectors in the market are Resources, Financials and Industrials. As of September 30, 2010, the All Share Index included 166 companies. The Resources Index, Industrials Index and Financials Index included 21, 102 and 43 companies respectively, and accounted for approximately 24%, 28% and 13% respectively, of the total market capitalization of the JSE.

The JSE settles securities trades electronically through STRATE (Share Transactions Totally Electronic). All trades are downloaded from the JSE SETS automated trading system to the JSE's Broker Deal Accounting (BDA) system, which manages the settlement status of every trade. The BDA system interfaces with STRATE's system which in turn interfaces with those of the custodian banks. The JSE's Settlement Authority monitors all trades from time of execution to settlement to ensure performance.

Shares may not be traded on the JSE unless they have been dematerialized through STRATE. Contractual, rolling settlement has been introduced by the JSE in order to increase the speed, certainty and efficiency of the settlement mechanism and to fall into line with international practices. While settlement on the JSE is currently made five days after each trade (T+5), the JSE in conjunction with STRATE is exploring with the industry how best to reduce the settlement period further (to T+3) without introducing undue risk.

**ITEM 10. ADDITIONAL INFORMATION**

**Memorandum and Articles of Association**

The following description is a summary of various provisions of the Memorandum ("Memorandum") and Articles of Association ("Articles") of Sappi Limited, the South African Companies Act (the "Companies Act") and the listings requirements of the JSE, which does not purport to be complete and is qualified in its entirety by reference to all of the provisions of those sources.

Sappi Limited is a public company incorporated in South Africa with registration number 1936/008963/06.

***Purpose of the Company***

Paragraph 3 of the Memorandum states that Sappi Limited is established, among other things, to manufacture, produce, buy, sell and deal in pulp, timber, paper, cardboard and other stated products.

***Directors***

In terms of the articles:

At every annual general meeting of Sappi Limited, as near as possible to, but not less than one third of the Directors (excluding any Director appointed after the conclusion of the preceding annual general meeting, the Executive Chairman, the Chief Executive Officer and the Managing Director) are required to retire from office but are eligible for re-election. The Directors to retire are those who have been longest in office since their last election or, as between Directors who have been in office for an equal length of time since their last election and, in the absence of agreement, those determined by lot. Any Director who has held office for three years since his last election is also required to retire at such annual general meeting. In addition, the appointment of any Director appointed after the conclusion of the preceding annual general meeting will require to be confirmed at the next annual general meeting, failing which the appointment will cease.

Except as set out in the following paragraph, a Director may not vote in respect of any contract or arrangement or any other proposal in which he has any material interest other than by virtue of his interest in ordinary shares or debentures or other securities of or otherwise in or through Sappi Limited. A Director will not be counted in the quorum at a meeting in relation to any resolution on which he is barred from voting.

A Director shall be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of Sappi Limited or any of its subsidiaries;

the giving of any security or indemnity to a third party in respect of a debt or obligation of Sappi Limited or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

any proposal concerning an offer of shares or debentures or other securities of or by Sappi Limited or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting of these securities;

any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer, shareholder or otherwise; provided that he is not the holder of or beneficially interested in 1% or more of any class of the equity share capital of that company or of the voting rights available to shareholders of that company; and



any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval of the Commissioner of Inland Revenue for taxation purposes.

The remuneration of the Directors for their services as such shall be determined from time to time by a general meeting, save that in the discretion of the Board, there may in each year be paid out of the funds of Sappi Limited to, and divided among, the Directors who have held office during the year in respect of which the remuneration is to be paid, a sum, by way of remuneration for their services as Directors, not exceeding US\$ 500,000, which remuneration shall be paid in such proportions as shall be determined by the Directors or a majority of them. If any Director is required to perform extra services or reside abroad or is otherwise specially occupied about Sappi Limited's business, he is entitled to receive remuneration to be fixed by the Directors (either in addition to, or in substitution for, the aforementioned remuneration). The Directors shall be paid all their traveling and other expenses properly and necessarily expended by them in and about the business of Sappi Limited.

The Directors may exercise all the powers of Sappi Limited to borrow money and to mortgage or charge its undertaking and property or any part thereof and to issue debentures, which may be issued at par, at a discount or at a premium, and other securities. The borrowings will be restricted so that, except with the previous sanction of an ordinary resolution of Sappi Limited in general meeting, the aggregate principal amount outstanding of all moneys borrowed by Sappi Limited and / or any of its subsidiaries will not at any time exceed an amount equal to 2.5 times the aggregate of the nominal amount of the issued share capital of Sappi Limited and the total of the amounts standing to the credit of the combined capital and revenue reserve accounts of Sappi Limited and its subsidiaries (including any share premium account, capital redemption reserve fund and retained surplus after deducting the amounts of any debit balance in the income statement but excluding sums set aside for taxation and amounts attributable to outside shareholders in subsidiaries), as shown in the latest consolidated balance sheet, adjusted as may be necessary in respect of any variation in the share premium account of Sappi Limited since the date of the latest audited balance sheet.

The Articles do not stipulate a retirement age for the directors but the Board has set a rule that Non-Executive Directors should retire at the end of the calendar year in which they turn 70. The retirement age of Executive Directors would depend on the terms of their particular conditions of employment.

The Articles do not require that Directors need to hold any shares in Sappi Limited to qualify as Directors of Sappi Limited.

#### ***Secretary***

The Companies Act requires the directors of each public company to appoint a secretary who is permanently resident in South Africa, and who, in the opinion of the directors, has the requisite knowledge and experience to carry out the duties of a secretary of a public company.

The company secretary of Sappi is Sappi Southern Africa (Pty) Limited. (In accordance with rule 3.59 of the Listings Requirements of the JSE Limited, on November 8, 2010 Sappi Southern Africa (Pty) Limited, a wholly owned subsidiary of Sappi Limited, has been appointed Company Secretary of Sappi Limited replacing Sappi Management Services (Pty) Limited which has become a dormant company).

#### ***Disclosure of Interest in Shares***

The Companies Act requires the disclosure of beneficial interests in the outstanding shares of a company. Where securities of an issuer are registered in the name of a person and that person is not the

holder of the beneficial interest in all of the securities held by the registered shareholder, the registered shareholder is obliged, at the end of every calendar quarter, to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and class of securities issued by that issuer held on behalf of each such person. However, the Companies Act, 2008 ("the New Act") (which is expected to come into effect in the year 2011) obliges the registered shareholder to make such a disclosure within 5 (five) business days of the end of every month. Moreover, an issuer of securities may, by notice in writing, require a person who is a registered shareholder of, or whom the issuer knows or has reasonable cause to believe to have a beneficial interest in, a security issued by the issuer, to confirm or deny whether or not such person holds that beneficial interest and, if the security is held for another person, the person to whom the request is made is obliged to disclose to the issuer the identity of the person on whose behalf a security is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of securities are obliged to establish and maintain a register of the disclosures described above and to publish in their annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of securities of that class issued by the issuer together with the extent of those beneficial interests.

### ***Register of Members***

Sappi Limited keeps a register of Shareholders in South Africa. Sappi Limited may keep a branch share register in any foreign country, subject to the approval of the South African Reserve Bank.

### ***Share Capital***

As at September 2010 the authorized and issued share capital of Sappi was as follows:

Authorized:

725,000,000 ordinary shares of ZAR 1.00 each and 19,961,476 "A" ordinary shares of ZAR 1.00 each for an authorized share capital of ZAR 744,961,476 million

Issued:

541,446,223 ordinary shares of ZAR 1.00 each and 19,961,476 "A" ordinary shares for an issued share capital of US\$ 80 million

Share premium US\$ 1,564 million

The authorized ordinary share capital was increased during the year by 19,961,476 "A" ordinary shares with a par value of ZAR 1.00 per share as part of Sappi's 2010 BEE Transaction. The issued ordinary share capital increased during the year to its current numbers with the issue of 4,328,359 ordinary shares and 19,961,476 "A" ordinary shares as part of Sappi's 2010 BEE Transaction.

All our ordinary shares in issue rank *pari passu* with each other and are fully paid and not subject to calls for additional payments of any kind. Trading in our ordinary shares has been dematerialized under the terms of the STRATE initiative of the JSE, and the provisions of section 91A of the Companies Act relating to uncertificated securities apply in respect of those shares which have been dematerialized.

The "A" Ordinary Shares rank *pari passu* with the Ordinary Shares in all respects except for dividend entitlements where the "A" Ordinary Shares are entitled to and will receive 50% of the dividends payable on the Ordinary Shares. The "A" Ordinary Shares have the same voting rights as