SAPPI LTD
Form 6-K
June 20, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the month of June 2012

Commission file number: 1-14872

SAPPI LIMITED

(Translation of registrant s name into English)

48 Ameshoff Street

Braamfontein

Johannesburg 2001

REPUBLIC OF SOUTH AFRICA

(Address of principal executive offices)

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

Form 20-F x Form 40-F o

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

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

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

Yes o No x

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

INCORPORATION BY REFERENCE

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

FORWARD-LOOKING STATEMENTS

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

USE OF TERMS AND CONVENTIONS

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

- References to Sappi , Sappi Group , Sappi group , Group , we , us and our are to Sappi Limited together with its subsidiaries i 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 certain debt securities and the use of proceeds therefrom together with cash on hand to refinance US$300 million equivalent in aggregate principal amount of our 2014 Notes;

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

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

- References to the 2012 Notes are to our US$500 million 6.75% unsecured guaranteed notes due 2012, the remaining amount of which were redeemed in connection with the 2011 Refinancing;

- References to the 2014 Dollar Notes are to our US$300 million 12.00% senior secured notes due 2014, issued in connection with the 2009 Refinancing;

- References to the 2014 Euro Notes are to our 350 million 11.75% senior secured notes due 2014, issued in connection with the 2009 Refinancing;

- References to the 2014 Notes are to the 2014 Dollar Notes and the 2014 Euro Notes;

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

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

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

- References to the Revolving Credit Facility , Bank Austria Facility and Intercreditor Agreement are to the facilities and agreements described in the section entitled Description of Other Financing Arrangements included elsewhere herein;

- References to the OeKB Term Loan Facility are to the 400 million term loan facility entered into in connection with the 2009 Refinancing, for which the remaining outstanding amount was repaid in fiscal 2011;

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

- References to IFRS are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), when used in relation to the Group financial statements of Sappi Limited, or to the International Financial Reporting Standards, as issued by the IASB and as adopted by the European Union, when used in relation to the consolidated financial statements of Sappi Papier Holding GmbH;

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

- 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 State

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

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

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

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

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

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

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

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

- References to PM are to individual paper machines.

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

The words believe , anticipate , expect , intend , estimate , plan , assume , positioned , will , may , should , risk and other simil 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 cyclicality, 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;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

These factors are fully discussed elsewhere herein. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this document and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

PRESENTATION OF FINANCIAL INFORMATION

With regard to Sappi, unless otherwise specified, all references in this document to a fiscal year and year ended of Sappi Limited refer to a twelve-month financial period. All references in this document to fiscal 2011, fiscal 2010 or fiscal 2009, or the years ended September 2011, 2010 or 2009 refer to Sappi Limited s twelve-month financial periods ended on October 2, 2011, September 26, 2010 and September 27, 2009, respectively. References to the six months ended March 2012 and 2011 refer to the periods from October 3, 2011 to April 1, 2012 and September 27, 2010 to April 3, 2011, respectively. References to March 2012 and March 2011 represent amounts as at, respectively, April 1, 2012 and April 3, 2011.

Certain numerical figures set out in this document, including financial data presented in millions or thousands, have been subject to rounding adjustments and, as a result, the

totals of the data in this document may vary slightly from the actual arithmetic totals of such information.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

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

	Average rates					Closing rates				
Exchange rates	**March 2012**	**March 2011**	**2011**	**2010**	**2009**	**March 2012**	**March 2011**	**2011**	**2010**	**2009**
ZAR to one US$	7.9237	6.9476	6.9578	7.4917	9.0135	7.6725	6.6978	8.0963	7.0190	7.4112
EUR to one US$	0.7519	0.7329	0.7170	0.7322	0.7322	0.7494	0.7027	0.7470	0.7412	0.6809
US$ to one EUR	1.3299	1.3645	1.3947	1.3658	1.3657	1.3344	1.4231	1.3386	1.3491	1.4688

The Bloomberg Composite Rate of the Rand against the US dollar on June 18, 2012 was US$1.00 = ZAR8.29. The Bloomberg Composite Rate of the US dollar against the euro on June 18, 2012 was 1.00 = US$1.26. The Bloomberg Composite Rate is a best market calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications. The ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

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

RISK FACTORS

Risks Related to Our Industry

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

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

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

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

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

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

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

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 produce pulp and paper products at lower cost than our mills, or are government subsidized. Some of our competitors have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased

competition, including a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs which could lead to a loss in market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

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

During the latter half of fiscal 2008 and during fiscal 2009, demand for our paper products declined and pulp prices and demand decreased due to the effects of a global economic recession. This recession was due to the subprime mortgage crisis, which originated in the US, and led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence. These trends 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. Certain countries have fallen back into recession and a significant risk remains that the measures taken may not prevent the global economy from falling back into recession or even a depression. In addition, the current turmoil in the sovereign debt markets as a result of the European debt crisis has resulted in market uncertainty generally and in worsening economic conditions particularly in Europe.

Even though our operational results improved during fiscal 2010 and continued to improve during fiscal 2011 and the six months ended March 2012, we are still negatively impacted by the slow recovery of the world economies, and the results our European business have been adversely affected by the worsening economic conditions in Europe in the last two quarters of fiscal 2011 and the first two quarters of 2012. Furthermore, we are unable to predict the timing or rate of any recovery. Finally, we cannot predict the timing or duration of any other downturn in the economy that may occur in the future.

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

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

We have successfully negotiated the renewal of our 2012 asset and business interruption insurance cover at more favorable rates to those of 2011. Maximum self-insured retention for any one property damage occurrence is EUR 20.5 million, with an annual aggregate of EUR 33 million. We are unable to predict whether past or future events will result in more or less favorable terms for 2013. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value.

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

We place the insurance for our plantations on a stand-alone basis into international insurance markets. While the impact of fires on our plantations in fiscal 2011 and the six months ended March 2012 was substantially less than that in fiscal years 2007 through 2010, we are unable to assure you that this will remain so for the foreseeable future.

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

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

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

Consumer preferences may change as a result of the availability of alternative products or of services including less expensive product grades, or as a result of environmental activist pressure from consumers. In addition, trends in advertising, electronic data transmission and storage and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. During the latter half of calendar 2011 and continuing into calendar 2012, competition from electronic media adversely affected demand for many of our products in Europe. While neither the exact timing nor the extent of those trends can be predicted with certainty, competition from electronic media, for example, has led to weaker demand for certain of our products in some of our markets. Any such changes in consumer preferences or other trends could negatively impact the consumption of our products and consequently, could have a material and adverse impact on our results of operations.

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

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

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

We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade pollution control equipment at our mills and to meet new regulatory requirements, including those in the United States, southern Africa and Europe. For example, under new benchmarks for the allocation of emissions rights pursuant to European Union regulations governing the reduction of greenhouse gas emissions we expect to fall short of emission rights during the trading period beginning in 2013. Our current estimated cost to purchase extra emission rights is EUR 11.8 million for 2013 and up to EUR 12.5 million in subsequent years.

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 March 2012, on a pro forma basis after giving effect to the Refinancing, our net interest bearing debt (long-term and short-term interest-bearing debt plus overdraft, less cash on hand) would have been US$2,167 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 may have significant consequences for our business, including:

- limiting our ability to obtain additional financing, which could restrict, among other things, our ability to exploit growth opportunities;
- diverting a substantial portion of our cash flow from operations to meet debt service obligations;
- exposing us to increases in interest rates because a portion of our debt bears interest at variable rates;
- placing us at a competitive disadvantage to certain of our competitors with lower levels of indebtedness;
- increasing our vulnerability to economic downturns and adverse changes in our business;
- limiting our ability to withstand competitive pressure; and
- restricting the activities of certain Group companies under the covenants and conditions contained in certain of our financing arrangements.

As a result of the Refinancing, assuming that it is completed, we will refinance our 2014 Notes.

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 conditions improved somewhat during the 2010 and 2011 fiscal years and the six months ended March 2012, there is no assurance that conditions will not deteriorate in the future, including as a result of continued or renewed turmoil in the European sovereign debt markets, which could result in tight credit restrictions and credit being available only at premium.

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 our credit rating and financial markets, including as a result of turmoil in the European sovereign debt markets and renewed deterioration 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. We may also need to agree to stricter 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 Management s Discussion and Analysis of Financial Condition and Results of Operations South African Exchange Controls . We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on debt will depend on financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realized from any such disposition would depend upon circumstances at the time.

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

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

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

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

As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including mill closures and other cost saving projects, measures to enhance productivity and an expansion of our chemical cellulose capacity. Any future growth, cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates, or we may not be able to successfully implement part or all of our initiatives. The benefit of cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for chemical cellulose may decline. We cannot assure you that these initiatives will be completed as anticipated or that the benefits we expect will be achieved on a timely basis or at all.

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

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

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

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. Although recent statutory easements in the pace of funding on these bases have provided some contribution

relief to us, as long as yields on these asset classes remain low, we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

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

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

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

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

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$1.33, US$1.34, US$1.35 and US$1.47 per euro at the end of the six months ended March 2012 and fiscal 2011, 2010 and 2009, respectively. On June 18, 2012, it was trading at approximately US$1.26 per euro.

In recent years, the value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R7.67, R8.10, R7.02 and R7.41 per US dollar at the end of the six months ended March 2012 and fiscal 2011, 2010 and 2009, respectively. The Rand was trading at approximately R8.29 per US dollar on June 18, 2012.

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

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

We own manufacturing operations in five countries in Europe, two states in the United States and in South Africa, have an investment in a joint venture in China and own plantations in South Africa and Swaziland. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and

potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

For further information, see Management s Discussion and Analysis of Financial Condition and Results of Operations 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 we manufacture and the purchase prices of many of the raw materials we use, generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control.

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

As occurred in previous years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices resulting in reduced operating profit, and negatively impacts business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, other than maintaining a high level of pulp integration, the hedging techniques we apply on our raw materials and products are on a small scale and short-term in nature. Moreover, in the event of significant increases in the prices of pulp, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

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

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

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

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

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

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

major customers could have an adverse effect on our credit risk profile, our business and results of operations. In February 2012, our credit insurer withdrew credit insurance for a major customer of Sappi Fine Paper Europe due to concerns over the customer s lower than expected profitability. Our average monthly exposure to this customer for the 2012 calendar year has been approximately 40 million and our exposure to this customer at the end of April 2012 was 39 million. Approximately half of our exposure to this customer was credit insured prior to the withdrawal of credit insurance by the insurer. While this customer has continued to meet its payment obligations to us, further deterioration of this customer s financial condition may result in its inability to make payments to us which will increase our bad debt provision and reduce our revenues in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our share capital, including purchases or sales of shares between our greater than 5% shareholders, our ability to use our net operating tax loss carry forwards generated by our United

States operations would be subject to the limitations of Section 382. Depending on the resulting limitations, a portion of our United States net operating tax loss carry forwards could expire before we would be able to use them. Our inability to utilize our United States net operating tax loss carry forwards could have an adverse effect on our financial condition and results of operations.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization at April 1, 2012, on an actual basis and as adjusted to give effect to the Refinancing.

	As at March 2012	
	Actual	As adjusted
	(US$ million)	
Cash and cash equivalents	453	424
Short-term debt:		
Other public debt(1)	65	65
Revolving Credit Facility(2)	133	133
Other short-term debt	168	168
Total short-term debt	366	366
Long-term debt:(3)		
Certain debt securities		300
12.00% Senior Secured Notes due 2014(4)	300	
11.75% Senior Secured Notes due 2014(4)	467	467
65/8% Senior Secured Notes due 2018	334	334
65/8% Senior Secured Notes due 2021	350	350
7.50% Guaranteed Notes Due 2032	221	221
Other public debt(1)	195	195
Other long-term debt	56	56
Securitisation debt	345	345
Adjustment to long-term debt(5)	(48)	(43)
Total long-term debt	2,220	2,225
Total debt	2,586	2,591
Total shareholders equity(6)	1,642	1,608
Total capitalization(7)	3,775	3,775

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(1) Represents debt under the South African medium term note program. In April 2012, Sappi Southern Africa (Pty) Ltd issued a three-year ZAR750 million (US$98 million) floating rate bond at a 144 basis points spread over the government reference rate. The floating rate of the new bond was swapped into a fixed rate of 7.78%. The proceeds of the bond will be used to refinance the ZAR500 million (US$65 million) bond maturing on June 30, 2012 and to repay other debt.

(2) Represents indebtedness under our Revolving Credit Facility. As of March 2012, we had drawn 100 million under the Revolving Credit Facility and had 250 million of undrawn capacity.

(3) We are currently in discussions with UniCredit Bank Austria AG and other potential lenders regarding a new OeKB Facility that we may enter into in the fourth quarter of fiscal 2012 to finance the expansion of our pulp production facilities at the Cloquet Mill. The new OeKB Facility is expected to be for an amount that is equal to the lower of 142 million and the euro-equivalent of US$170 million at the time of funding. As of the date of this document, Oesterreichische Kontrollbank Aktiengesellschaft (OeKB) has not approved the new OeKB Facility and the definitive facility documentation for the new OeKB Facility has not been agreed to or executed by the potential lenders, borrowers, guarantors and other parties expected to be parties thereto. We summarize below certain proposed terms in respect of the new OeKB Facility based on our discussions to date, however there is no assurance that the potential lenders will agree to enter into a new OeKB Facility on the terms described below or at all. Based on discussions to date, the obligations under the new OeKB Facility will be initially unsecured,

however the terms of the new OeKB Facility will require that upon the occurrence of certain events, including a downgrade to specified ratings to be agreed or an event of default under that facility, the borrower will be required to secure the obligations thereunder with substantially the same collateral that secures certain debt securities, the remaining 2014 Notes, the 2018 Notes, the 2021 Notes, the Revolving Credit Facility and the Bank Austria Facility. For further information, see Description of Other Financing Arrangements New OekB Facility .

(4) We intend to use a portion of the proceeds of certain debt securities together with cash on hand to refinance US$300 million equivalent aggregate principal amount of the 2014 Notes. The adjustment assumes all of the 2014 Dollar Notes will be refinanced.

(5) Adjustment to reduce principal amount of long-term debt outstanding to amounts shown on our consolidated balance sheet after taking into account aggregate discounts paid up-front, fair value adjustments relating to hedge accounting and capitalized transaction costs relating to long-term debt. The adjustment comprises the accelerated write-off of upfront fees and discounts related to the 2014 Notes of US$14 million which is offset by the capitalization of upfront fees related to the Refinancing.

(6) Total shareholders equity is adjusted for repurchase premium of US$20 million and the accelerated write-off of upfront fees and discounts of US$14 million to be incurred assuming all of our outstanding 2014 Dollar Notes are purchased in a tender offer for US$1,070.00 per US$1,000.00 principal amount.

(7) Total capitalization is calculated as net debt plus shareholders equity.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2010 and 2009 operated on a 52 accounting week cycle, compared to 53 accounting weeks in fiscal 2011. The six months ended March 2012 consisted of 26 weeks, compared to 27 weeks in the six months ended March 2011. See Principal Factors Impacting our Group Results Additional week in first quarter of fiscal 2011 .

Company and Business Overview

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

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

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

Sales by source and destination for the six months ended March 2012 and each of fiscal 2011, fiscal 2010 and fiscal 2009 were as follows:

	Sales by Source			Sales by Destination		
	2011	2010	2009	2011	2010	2009

	Six Months Ended March 2012				Six Months Ended March 2012			
				%				
North America	22	21	21	24	27	22	22	24
Europe	54	54	55	54	46	46	48	48
Southern Africa	24	25	24	22	13	13	13	13
Far East and others					14	19	17	15
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Principal Factors Impacting our Group Results

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

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

(a) Cyclical nature of the industry and movement in market prices, raw materials and input costs;

(b) Sensitivity to currency movements and inflation rates;

(c) The additional week in the first quarter of fiscal 2011; and

(d) New acquisitions, expansions, restructurings, cost-reduction initiatives, capacity closures, our ability to maintain and continuously improve operational efficiencies and performance and other significant factors impacting costs.

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

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

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business, and other factors such as increasing consumer preferences for digital media over print media. 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 the latter half of 2008, continuing in 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 and continued to do so during fiscal

2011 due to higher worldwide-demand, specifically demand from Asia. However, with the emergence of the sovereign debt crises in the European Union during the latter half of calendar 2011 and continuing into calendar 2012, the global economic recovery slowed which, together with competition from electronic media, caused pulp prices and demand for many of our major products to decline. Sales prices consequently decreased.

Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US$), the euro ( ) and the South African Rand (ZAR). Although our reporting currency is the US dollar, a significant portion of the Group s sales and purchases are made in currencies other than the US dollar. In Europe and North America, sales and expenses are generally denominated in euro and US dollars, respectively; however, pulp purchases in Europe are primarily denominated in US dollars. In South Africa, costs incurred are generally denominated in Rand, as are local sales. Exports from the South African businesses to other regions, which in local currency represented approximately 48% of net sales for Sappi Southern Africa in both the six months ended March 2012

and 2011 and 49% and 47%, respectively, of net sales of Sappi Southern Africa in fiscal 2011 and fiscal 2010, are denominated primarily in US dollar.

The appreciation of the Rand or the euro against the US dollar diminishes the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins of exports sales as well as those domestic sales which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group s consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which subsidiaries are exposed. The principal currencies in which subsidiaries conduct business that are subject to the risks described in this paragraph are the euro and Rand. The following table depicts the average and year end exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements in the six months ended March 2012 and 2011 and in fiscal 2011, fiscal 2010 and fiscal 2009:

	Average rates					Closing rates				
Exchange rates	**March 2012**	**March 2011**	**2011**	**2010**	**2009**	**March 2012**	**March 2011**	**2011**	**2010**	**2009**
ZAR to one US$	7.9237	6.9476	6.9578	7.4917	9.0135	7.6725	6.6978	8.0963	7.0190	7.4112
US$ to one EUR	1.3299	1.3645	1.3947	1.3658	1.3657	1.3344	1.4231	1.3386	1.3491	1.4688

The profitability of certain of our South African operations is directly dependent on the Rand proceeds of their US dollar exports. Selling prices in the local South African market are significantly influenced by the pricing of competing imported products. The appreciation of the Rand against the US dollar leads to increased pressure from imports. This factor was evident in our 2011 fiscal year.

The translation of our annual results into our reporting currency (US dollar) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. In the six months ended March 2012, the euro was weaker against the US dollar with an average exchange rate of US$1.33/euro as compared to an average of US$1.36/euro in the six months ended March 2011, and the Rand was weaker against the US dollar with an average exchange rate of ZAR7.92/US$ as compared to an average of ZAR6.95/US$ in the six months ended March 2011. The impact of these currency movements decreased reported sales in US dollars by US$156 million for the six months ended March 2012 compared to the six months ended March 2011.

On average, the euro strengthened 2% against the US dollar in fiscal 2011 compared to fiscal 2010, but weakened towards the end of fiscal 2011 to close below its 2010 fiscal closing levels. The Rand strengthened in fiscal 2011 to an average level against the US dollar of ZAR6.96, 7% stronger than fiscal 2010 average levels, but weakened to a closing rate of ZAR8.10/US$ at the end of fiscal 2011, approximately 14% weaker than the closing rate of fiscal 2010. The impact of these currency movements increased reported sales in US dollars by US$210 million for fiscal 2011 and by US$263 million in fiscal 2010 and decreased reported sales by US$547 million in fiscal 2009.

The impact of currency translation effects on our results of operations is described below in Operating Results Sales and Operating Results Operating Expenses .

Inflation and Interest Rates

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

South African Inflation and Interest Rates

Source: Bloomberg

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. As at March 2012, one fixed to floating interest rate swap was in place which swaps the fixed interest rate on the US$350 million 2021 Notes issued in April 2011 into a floating interest rate. In April 2012, Sappi Southern Africa entered into a new interest rate swap converting the floating rate on the new three-year ZAR750 million (US$98 million) bond into a fixed rate of 7.78%.

The Group has a current policy of not hedging translation risks. The South African and European operations use the Rand and the euro as their respective functional currencies. Any translation of the value of these operations into US dollars results in foreign exchange translation differences as the Rand and the euro exchange rates move against the US dollar. These changes are booked to the foreign currency translation reserve via other comprehensive income. Borrowings taken up in a currency other than the functional currency of the borrowing entity are specifically hedged with financial instruments, such as currency swaps and forward exchange contracts. The Group has one interest rate and currency swap which swaps the principal of the US$300 million 2014 Notes into euros and the fixed USD interest rate on these Notes into a fixed euro interest rate.

Additional week in first quarter of fiscal 2011

Our normal reporting cycle comprises four quarters, each consisting of 13 seven-day weeks, which is equal to 364 days per year. As a result, after six years we have effectively lost a week (including the leap year). Accordingly, every six years we add an additional week to one of our

quarters, which we did in the first quarter of fiscal 2011 thus fiscal 2011 consists of 53 weeks of operations instead of the usual 52 weeks and the six months ended March 2011 consists of 27 weeks of operations instead of the usual 26 weeks.

The main impacts of the additional week in the first quarter of fiscal 2011 are:

- an increase in Operating Profit excluding Special Items for fiscal 2011 and the six months ended March 2011 of approximately US$8 million and US$10 million, respectively (assuming a pro-rata accumulation of operating profit over the relevant period); and

- our accounting cut-off in all four quarters of fiscal 2011 and the two quarters in the six months ended March 2011 falling after the calendar month-end. Since most of our suppliers (particularly in Europe and South Africa) are paid on the calendar month-end, this resulted in a substantial cash outflow of between US$150 million and US$200 million just before our quarterly accounting cut-offs, which was not the case in fiscal 2010. Thus, when comparing our Net Cash Generated (cash retained from (utilized in) operating activities less cash utilized

in investing activities) in fiscal 2011 to 2010, we believe it would be appropriate to add approximately US$150 million to Net Cash Generated in fiscal 2011 or to deduct the same amount in fiscal 2010. This impact was reflected through Working Capital and impacted Net Debt.

Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives

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

Blackburn mill closure and cessation of production from PM 5 at Maastricht mill. During August 2008, we announced the possible closure of Blackburn mill in the United Kingdom and the possible cessation of production from our PM 5 at Maastricht mill in The Netherlands. We reached an agreement with labor representatives at our Blackburn mill during September 2008 and finally closed the facility on November 12, 2008. On December 19, 2008, we also ceased production from PM 5 at our Maastricht mill. As a result of the closure of our Blackburn mill and the cessation of production from PM 5 at our Maastricht mill, our coated woodfree paper capacity was reduced by 180,000 tons. Profitable products were moved to our other facilities in Europe.

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

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

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

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

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

affected customers are now served from our other European operations.

Adamas mill closure. We announced the possible closure of our Adamas mill in South Africa on May 23, 2011 and entered into a consultation process with employee representatives soon thereafter. Unable to find a viable alternative for the mill, we announced the final closure of the mill on August 3, 2011. We ceased operations at the mill later in August 2011 and transferred all products produced at the facility to other Sappi mills in South Africa to ensure an uninterrupted supply of products to our customers.

Expansion of chemical cellulose capacity. On May 19, 2011, we announced the approximately US$350 million expansion of our Ngodwana mill in South Africa. The expansion is expected to change the product portfolio of the mill to include the annual production of 210,000 tons of chemical cellulose. During November 2011, we also announced an additional investment of approximately US$170 million in our Cloquet mill in the United States, which is expected to enable the facility to produce 330,000 tons of chemical cellulose per annum. Together with our Saiccor mill in South Africa, these investments will increase our total annual chemical cellulose production capacity to approximately 1.3 million tons. Both projects have been initiated, are progressing well and we plan to commission both projects during 2013.

Forestry investment. In line with our strategy to secure a stable fiber supply for our southern African operations, we acquired 14,500 hectares of developed softwood plantations near Ngodwana mill during 2010. During fiscal 2011, we announced a joint proposal with AsgiSA (Accelerated and Shared Growth Initiative for South Africa) to accelerate the establishment and management of 30,000 hectares of commercial tree plantations by 2020 in the Eastern Cape province of South Africa.

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

South African Operations

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 both the six months ended March 2012 and 2011, respectively, and 25%, 24% and 22% of our net sales in fiscal 2011, 2010 and 2009, respectively. See Operating Results for the proportion of South African operating profit to total profit and South African Economic and Political Environment for a description of the South African economic and political environment.

Environmental Matters

We operate in an industry subject to extensive environmental regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters. We do separately account for environmental capital expenditures. See note 32 to our Group annual financial statements for a discussion of these matters.

Operating Results

Financial Condition and Results of Operations

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

- Sappi Fine Paper North America;
- Sappi Fine Paper Europe; and
- Sappi Southern Africa.

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

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

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

The analysis and discussion which follows should be read in conjunction with our Group annual financial statements.

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

Cost of sales is comprised of:

- variable costs, which include raw materials and other direct input costs, including:
- wood (which includes growth and felling adjustments);
- 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; and
- administrative and general expenses.

Other operating expenses (income) are comprised of:

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

- restructuring provisions raised (released) and closure costs; and
- alternative fuel mixture tax credits in the United States.

Comparison of the Six Months ended March 2012 and 2011

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 key indicators of the Group s operating performance are:

Key figures	Six Months Ended March 2012	2011
	(US$ million)	
Sales	3,218	3,697
Operating profit	227	120
Special items (gains) losses	(2)	144
Operating profit excluding special items	225	264

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

	Six Months Ended March 2012	2011
	(US$ million)	
Profit (loss) for the period	103	(37)
Taxation charge	19	18
Net finance costs	105	139
Operating profit	227	120
Special items (gains) losses	(2)	144
Operating profit excluding special items	225	264
Plantation price fair value adjustment loss	4	14
Restructuring provisions raised	1	66
Profit on disposal of property, plant & equipment	(9)	
Asset impairments		69
BEE transaction charge	2	2
Insurance recoveries		(11)
Fire, flood, storm and related events		4
Total special items:	**(2)**	**144**

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

Segment contributions to operating profit were as follows:

Operating Profit (Loss)	Six Months Ended March 2012	March 2012 vs. March 2011 (US$ million)	Six Months Ended March 2011
Sappi Fine Paper North America	34	(30)	64
Sappi Fine Paper Europe	87	136	(49)
Sappi Southern Africa	107	2	105
Unallocated and eliminations	(1)	(1)	
Total	**227**	**107**	**120**

Special items (Gain) Loss	Six Months Ended March 2012	2011
Sappi Fine Paper North America		(1)
Sappi Fine Paper Europe	(9)	114
Sappi Southern Africa	7	27
Unallocated and eliminations		4
Total	**(2)**	**144**

Operating Profit (Loss) excluding special items	Six Months Ended March 2012	March 2012 vs. March 2011 (US$ million)	Six Months Ended March 2011
Sappi Fine Paper North America	34	(29)	63
Sappi Fine Paper Europe	78	13	65
Sappi Southern Africa	114	(18)	132
Unallocated and eliminations	(1)	(5)	4
Total	**225**	**(39)**	**264**

Special items for the Group in the six months ended March 2012 and the six months ended March 2011 are generally summarized below:

Plantation price fair value: This relates to an accounting fair value adjustment of the timber assets of Sappi Forests and Usutu Forests. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, and discount rates applied. The parameters applied are all market related. The impact was a negative US$4 million in the six-month period ended March 2012 and a negative impact of US$14 million in the six-month period ended March 2011.

Impairment and restructuring charges: In the six-month period ended March 2011 operating profit was negatively impacted by asset impairments of US$69 million, which primarily related to the closure of our Biberist mill.

In the six-month period ended March 2011 operating profit was negatively impacted by restructuring charges of US$66 million which related mostly to the closure of our Biberist mill.

Sale of property, plant and equipment: In the six-month period ended March 2012 operating profit was positively impacted by profit on the sale of assets of US$9 million, mainly related to the sale of assets in Europe.

Fire, Flood and Storm damage: In the six-month period ended March 2011 operating profit was positively impacted by insurance recoveries of US$11 million related to the fire in the Stockstadt mill in Europe which occurred during fiscal 2010. The insurance recoveries were offset by costs incurred in the six-month period ended March 2011 related to the same fire.

BEE charges: Charges related to a BEE transaction completed during fiscal 2010 amounted to US$2 million in both the six months ended March 2012 and 2011.

Group

The operating profit of US$120 million in the six months ended March 2011 increased to operating profit of US$227 million in the six-month period ended March 2012. The six-month period ended March 2011 included an additional accounting week, which occurs every six years in our Group s accounting calendar.

Operating profit in the six months ended March 2012 was positively affected by net special items of US$2 million compared to a negative impact of net special items of US$144 million in the six months ended March 2011. Special items in the six months ended March 2011 included a negative plantation fair value price adjustment of US$14 million, restructuring charges of US$66 million and asset impairments of US$69 million.

Operating profit excluding special items decreased in the six months ended March 2012 to US$225 million from US$264 million in the six months ended March 2011. This significant decline was mainly due to decreased demand and sales volumes in the Group s major markets, a reduction in pulp prices and the inclusion of the additional accounting week in the six months ended March 2011.

Sappi Fine Paper North America

Key figures	**Six Months Ended March 2012**	**2011**
	(US$ million)	
Operating profit	34	64
Restructuring provisions released		(1)
Operating profit excluding special items	**34**	**63**

Operating profit in the six months ended March 2012 decreased to US$34 million as compared to US$64 million for the corresponding period in 2011. The six-month period ended March 2011 included an additional accounting week.

There were no special items impacting operating profit in the six months ended March 2012.

Operating profit excluding special items in the six months ended March 2012 decreased to US$34 million as compared to US$63 million for the corresponding period in 2011. The decrease was mainly due to pulp production interruptions at Somerset mill, lower sales volumes, lower average selling prices and higher manufacturing costs.

Sappi Fine Paper Europe

Key figures	**Six Months Ended March 2012**	**2011**
	(US$ million)	
Operating profit (loss)	87	(49)
Restructuring provisions raised		62
Profit on disposal of property, plant and equipment	(9)	
Asset impairments		59
Insurance recoveries		(11)
Fire, flood, storm and related events		4
Operating profit excluding special items	**78**	**65**

Operating profit in the six months ended March 2012 was US$87 million as compared to an operating loss of US$49 million for the comparative period in 2011.

The operating profit in the six months ended March 2012 included favorable net special items of US$9 million, relating to the profit on the sale of assets.

Operating profit excluding special items improved to US$78 million in the six months ended March 2012 from an operating profit excluding special items in the six months ended March 2011 of US$65 million. The improvement was due to the fixed and variable cost reduction actions and lower pulp prices compared to the same period in 2011.

Sappi Southern Africa

Key figures	Six Months Ended March 2012	2011
	(US$ million)	
Operating profit	107	105
Plantation price fair value adjustment loss	4	14
Restructuring provisions raised	1	1
Asset impairments		10
Black Economic Empowerment charge	2	2
Operating profit excluding special items	**114**	**132**

Operating profit for the six months ended March 2012 was US$107 million as compared to US$105 million for the comparative period in 2011.

The operating profit in the six months ended March 2012 included unfavorable net special items of US$7 million which mainly consisted of an unfavorable plantation price fair value adjustment (US$4 million) and BEE charges (US$2 million).

Operating profit excluding special items decreased to US$114 million in the six months ended March 2012 compared to an operating profit excluding special items in the six-month period ended March 2011 of US$132 million. The decrease was due to a decrease in pulp and paper sales volumes and increased variable input cost per ton in our pulp and paper operations, partly offset by a decrease in fixed costs for the Southern African business as a whole.

Sales

Group

An analysis of sales movements in the six months ended March 2012 and in the six months ended March 2011 is presented below:

Sales Volume	Six Months Ended March 2012	March 2012 vs. March 2011	Six Months Ended March 2011
		(000 tons)	
Sappi Fine Paper North America	680	(33)	713
Sappi Fine Paper Europe	1,768	(226)	1,994
Sappi Southern Africa			
Pulp & Paper	818	(48)	866
Forestry	536	100	436
Total Sappi Southern Africa	**1,354**	**52**	**1,302**

Total	**3,802**	**(207)**	**4,009**

Sales Value	Six Months Ended March 2012	March 2012 vs. March 2011 (US$ million)	Six Months Ended March 2011
Sappi Fine Paper North America	701	(53)	754
Sappi Fine Paper Europe	1,729	(315)	2,044
Sappi Southern Africa			
Pulp & Paper	747	(114)	861
Forestry	41	3	38
Total Sappi Southern Africa	**788**	**(111)**	**899**
Total	**3,218**	**(479)**	**3,697**

The main factors impacting sales are volume, price, product sales mix and currency exchange rate movements. The South African and European businesses transact in Rand and euro,

respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rates between local currency and the US dollar during periods of high volatility significantly impacts results reported in US dollars from one period to the next. Movements in exchange rates impacted sales negatively by US$156 million in the six months ended March 2012. An analysis of the drivers of sales movements is presented below:

Sales Variance Analysis	**Six Months Ended March 2012 vs. Six Months Ended March 2011 (US$ million)**
Exchange rate effects	(156)
Volume change effects	(191)
Price and product mix effects	(132)
Total	**(479)**

Sales for the six months ended March 2012 were US$3,218 million, a decrease of approximately 13% compared to the six months ended March 2011 (a decrease of approximately 8% excluding our Biberist mill). This decrease was driven by decreased sales volumes, driven partly by the closure of our Biberist mill, decreased average selling prices for some of our products and a less favorable product sales mix in the paper and pulp business. Sales in the six months ended March 2012 also included a negative currency translation impact of US$156 million.

Average selling prices realized by the Group in the six months ended March 2012 were approximately 8% lower in US dollar terms than the average selling prices realized in the six months ended March 2011, mainly as a result of a decrease in pulp selling prices. The average world benchmark NBSK pulp price was 10% lower in the six months ended March 2012 compared to the six-month period ended March 2011.

In the six months ended March 2012, sales volume for the Group was approximately 5% lower than in the six-month period ended March 2011.

Sappi Fine Paper North America

Sales decreased by approximately 7% from US$754 million in the six months ended March 2011 to US$701 million in the six months ended March 2012. Sappi Fine Paper North America s sales volumes decreased by 5% when compared to the six months ended March 2011. Average selling prices realized in the six months ended March 2012 of US$1,031/ton were lower than average selling prices of US$1,058/ton achieved in the corresponding period in 2011.

Sappi Fine Paper Europe

Uncertain market conditions experienced by Sappi Fine Paper Europe negatively impacted sales during the six months ended March 2012. In the six months ended March 2012, sales volumes were 11% lower than the sales volume in the corresponding period for 2011. Excluding the sales volume of our Biberist mill included in the six months ended 2011, the sales volume in the six months ended March 2012 declined by 2% compared to the sales volume in the six months ended March 2011.

Overall, average selling prices during the six months ended March 2012, in both euro and US dollar terms were lower than those achieved in the six months ended March 2011. Average realized prices in euro terms decreased from 751/ton in the six-month period ended March 2011 to 735/ton in the corresponding period for 2012. Average selling prices realized in US dollar terms in the six-month period ended March 2012 were US$978/ton compared to US$1,025/ton in the corresponding period for 2011.

Sappi Southern Africa

Sales from the southern African pulp and paper operations (Sappi Chemical Cellulose and Sappi Paper and Paper Packaging) decreased by approximately 13% in US dollar terms or 1% in Rand terms in the six months ended March 2012 (US$747 million; ZAR5,919 million) compared to the corresponding period in 2011 (US$861 million; ZAR5,982 million). Sales in US dollar terms decreased more than sales in Rand terms due to the difference in average exchange rates used to

translate Rand sales to US dollar in the six months ended March 2011 (ZAR to one US$: 6.95) and the six months ended March 2012 (ZAR to one US$: 7.92).

Sales volumes for the southern African pulp and paper operations decreased by approximately 6% in the six months ended March 2012 compared to the six-month period ended March 2011. Demand for chemical cellulose products was slightly weaker in the six months ended March 2012 than during the corresponding period in 2011 and sales volume for the Sappi Chemical Cellulose business decreased by 5% compared to the six months ended March 2011. The sales volumes for the Sappi Paper and Paper Packaging business decreased by 5% compared to the six-month period ended March 2011 due to weak market conditions and strong competition from imported products.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. During the six months ended March 2012, the average NBSK pulp price decreased by 10% from an average of US$957/ton in the comparable period in 2011 to an average of US$860/ton in the six months ended March 2012. During the six months ended March 2012, our average chemical cellulose selling prices in US dollar terms decreased by 8% compared to the six months ended March 2011, but increased by 5% in Rand terms due to the weakening of the Rand to the US dollar during the same period.

Average selling prices realized in the Sappi Paper and Paper Packaging business decreased by 10% in US dollar terms and increased by 3% in Rand terms compared to the six-month period ended March 2011.

Sales of our Sappi Forests business increased by 8% in US dollar terms or 23% in Rand terms in the six months ended March 2012 (US$41 million; ZAR325 million) compared to the six months ended March 2011 (US$38 million; ZAR264 million). The sales volumes of the Sappi Forests business increased by 23% compared to the six-month period ended March 2011. Average selling prices of timber in Rand terms in the six-month period ended March 2012 were at the same levels as the corresponding period in 2011.

Operating expenses

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

Operating Costs	**Six Months Ended March 2012**	**March 2012 vs. March 2011 (US$ million)**	**Six Months Ended March 2011**
Variable Costs			
Delivery	267	(32)	299
Manufacturing	1,705	(286)	1,991
Total Variable Costs	**1,972**	**(318)**	**2,290**
Fixed costs	1,001	(128)	1,129
Plantation price fair value plantation loss (gain)	4	(10)	14
Impairment		(69)	69
Restructuring	1	(65)	66
Profit on disposal of property, plant and equipment	(9)	(9)	
Fire, flood, storm and related events		(4)	4
BEE charge	2		2

Insurance recoveries		11	(11)
Other operating costs	20	6	14
Total	**2,991**	**(586)**	**3,577**

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	Six Months Ended March 2012 Costs (US$ million)	Six Months Ended March 2012 US$/Ton	Change 2012 vs. 2011 (US$ million)	Six Months Ended March 2011 Costs (US$ million)	Six Months Ended March 2011 US$/Ton
Wood	388	102	13	375	94
Energy	291	77	(42)	333	83
Pulp(1)	360	95	(188)	548	137
Chemicals	510	134	(25)	535	133
Other costs	156	41	(44)	200	50
Total	**1,705**	**449**	**(286)**	**1,991**	**497**

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

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

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

Regional Variable Manufacturing Costs(1)	Six Months Ended March 2012 Costs (US$ million)	Six Months Ended March 2012 US$/Ton	Change 2012 vs. 2011 (US$ million)	Six Months Ended March 2011 Costs (US$ million)	Six Months Ended March 2011 US$/Ton
Sappi Fine Paper North America	364	535	(11)	375	526
Sappi Fine Paper Europe	995	563	(243)	1,238	621
Sappi Southern Africa	346	256	(32)	378	290

(1) Regional variable manufacturing costs are pre-consolidation adjustments.

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

Sappi Fine Paper North America

During the six months ended March 2012, variable manufacturing costs per ton increased by 2% compared to the six-month period in 2011, due to increases in purchase prices of wood and chemicals, offset to some extent by decreases in the purchase prices of pulp.

Sappi Fine Paper Europe

As a result of cost reduction actions, Sappi Fine Paper Europe experienced a significant decrease in variable manufacturing costs during the six-month period ended March 2012. Variable manufacturing cost per ton in euro terms decreased by 7% compared to the six-month period ended March 2011, mainly due to a significant decrease in pulp and consumables input costs per ton. This decrease was offset by an increase in purchased wood and chemical prices. The decrease of 9% in variable manufacturing costs per ton in US dollar terms compared to the six-month period ended March 2011 reflects the different exchange rates used for translation in the

six months ended March 2012 (US$ to one EUR: 1.3299) and in the six months ended March 2011 (US$ to one EUR: 1.3645).

Sappi Southern Africa

During the six months ended March 2012, variable manufacturing input costs per ton in Rand terms slightly increased by 1% compared to the six-month period ended March 2011 due to increased chemicals and wood input costs per ton, partly offset by a decrease in energy, pulp and consumables input costs per ton. The decrease in input costs per ton in US dollar terms stems from the change in average exchange rates used for translation in the six-month period ended March 2012 (ZAR to one US$: 7.9237) and in the six-month period ended March 2011 (ZAR to one US$: 6.9476).

Fixed costs

Group

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

Fixed Costs	**Six Months Ended March 2012 Costs**	**Variance Value**	**Six Months Ended March 2011 Costs**
		(US$ million)	
Personnel	563	(58)	621
Maintenance	126	(24)	150
Depreciation	185	(23)	208
Other	127	(23)	150
Total	**1,001**	**(128)**	**1,129**

The regional analysis which follows excludes corporate fixed costs and consolidation adjustments, the sum of which is not material.

Fixed Costs	**Six Months Ended March 2012 Costs**	**Variance Value**	**Six Months Ended March 2011 Costs**
		(US$ million)	
Sappi Fine Paper North America	229	(11)	240
Sappi Fine Paper Europe	509	(74)	583
Sappi Southern Africa	263	(43)	306

Sappi Fine Paper North America

Fixed costs decreased by US$11 million or 5% in the six months ended March 2012 compared to the six months ended March 2011. This decrease was mainly due to a decrease in inventory during the six months ended March 2011 compared to an increase in inventory during the six months ended March 2012.

Sappi Fine Paper Europe

Fixed costs decreased by 45 million or 10% in the six months ended March 2012 compared to the six months ended March 2011. This decrease was the result of cost reduction and restructuring actions implemented in the European business, including the closure of our Biberist mill. In US Dollar terms fixed costs decreased by 13% in the six months ended March 2012 compared to the same period in 2011.

Sappi Southern Africa

Fixed costs decreased in Rand terms by 2% from ZAR2,126 million to ZAR2,084 million, in the six months ended March 2012 compared to the six months ended March 2011. This decrease reflects some of the benefits from the restructuring of the Southern African paper business announced in fiscal 2011. The restructuring includes streamlining sales and marketing and other

central administration functions and services. The 14% decrease in fixed costs in US Dollar terms also reflects the different average exchange rates used for translation in the six-month period ended March 2012 (ZAR to one US$: 7.9237) and in the six-month period ended March 2011 (ZAR to one US$: 6.9476).

Net Finance Costs

Finance costs for the six-month periods ended March 2012 and March 2011 may be analyzed as follows:

Finance Costs	**Six Months Ended March 2012**	**2011**
	(US$ million)	
Finance costs	117	161
Finance revenue	(6)	(6)
Net interest	**111**	**155**
Finance cost capitalized	(2)	
Net foreign exchange gains	(2)	(7)
Net fair value gain on financial instruments	(2)	(9)
Net finance costs	**105**	**139**

Net interest (finance costs less finance revenue) in the six months ended March 2012 of US$111 million was significantly lower compared to US$155 million in the six months ended March 2011 following the refinancing concluded in fiscal 2011 and the use of cash to repay higher cost debt.

Finance cost capitalized relates to our chemical cellulose expansion project in South Africa.

The US$2 million net foreign exchange gain in the six-month period ended March 2012 and the US$7 million net foreign exchange gain in the corresponding period in 2011 were mainly due to the unwinding or Rand/US dollar foreign exchange positions to cover exports from the South African business denominated in US dollars. The Group s policy is to identify foreign exchange risks immediately when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group s foreign exchange exposures are covered centrally by the Group Treasury which nets the internal exposures and hedges the residual exposure with third party banks.

The US$2 million net fair value gain on financial instruments in the six-month period ended March 2012 and the US$9 million net fair value gain on financial instruments in the corresponding period in 2011 were mainly due 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.

Taxation

	Six Months Ended March	
	2012	2011
	(US$ million)	
Profit (loss) before taxation	122	(19)
Taxation at the average statutory tax rates	37	4
Net exempt income and non-tax deductible expenditure	(16)	(14)
Deferred tax asset not recognized	17	55
Utilization of previously unrecognized tax assets	(18)	(25)
Prior year adjustments	(1)	(3)
Other taxes		1