

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)

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

Form 20-F

Form 40-F

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

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

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

Yes

No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 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 of future events and future trends, which do not relate to historical matters, identify forward-looking statements. In addition, this Report on Form 6-K may include forward-looking statements relating to the Company's potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond the control of the Company, together with its subsidiaries (the Group), and may cause the actual results, performance or achievements of the Group to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to: the impact of the global economic downturn, the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing), adverse changes in the markets for the group's products, 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 in 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;

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- 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;

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- 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;

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- References to US dollar(s) , dollar(s) , US\$, \$ and US cents are to United States dollars and cents, the currency of the United States;
- References to euro , EUR and € are to the currency of those countries in the European Union that form part of the common currency of the euro;
- References to UK pounds sterling , GBP and £ are to United Kingdom pounds sterling, the currency of the United Kingdom;
- References to m² are to square meters and references to hectares or ha are to a land area of 10,000 square meters or approximately 2.47 acres;
- References to tons are to metric tons (approximately 2,204.6 pounds or 1.1 short tons);
- References to market share are based upon sales volumes in a specified geographic region during the fiscal year ended October 2, 2011;
- References to NBSK are to northern bleached softwood kraft pulp frequently used as a pricing benchmark for pulp;
- References to groundwood or to mechanical are to pulp manufactured using a mechanical process, or where applicable to paper, made using a high proportion of such pulp;
- References to woodfree paper are to paper made from chemical pulp, which is pulp made from wood fiber that has been produced in a chemical process; and
- References to PM are to individual paper machines.

Except as otherwise indicated, in this 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.

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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 similar 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

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forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of the global economic downturn;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- 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:

Exchange rates	Average rates					Closing 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.

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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.

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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 betwe