Risk Factors

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

Risks Related to Our Industry

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

The markets for our pulp and paper products are commodity markets to a significant extent and are 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, turmoil in the capital and credit markets, coupled with 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 economic 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 primarily for packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5% of consolidated sales during fiscal 2012.

Most of our dissolving wood pulp 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 dissolving wood pulp pricing arrangements, we are subject to cyclical decreases in market prices for these products. A downturn in paper or dissolving wood pulp prices could have a material adverse effect on our business, results of operations and financial condition.

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

The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.

We compete against a large number of pulp and paper producers located around the world. A recent trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that produce pulp and paper products at a 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 United States of America, and led to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or cancelled 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 2011 and continued to improve during fiscal 2012, we are still negatively impacted by the slow recovery of the world economies, and the results of our European business have been adversely affected by the worsening economic conditions in Europe in the last two quarters of fiscal 2011 and fiscal 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 appropriate levels or types of insurance.

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 €20.5 million, with an annual aggregate of €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 fiscal 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. Over the last ten to fifteen years, the pulp and paper industry has encountered a growing transformation in consumer preference. During this time, readership and circulation of newspapers and magazines has been declining, and accessibility to, and use of, the internet has increased. As a result, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising, on the internet, mobile phones and other electronic devices, which tend to be less expensive. During the latter half of calendar 2011 and continuing into calendar 2012, competition from electronic media adversely affected demand for many of our products. 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. We currently estimate the cost to purchase extra emission rights to be €4 million for 2013.

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

Risks Related to Our Business

Our significant indebtedness may impair our financial and operating flexibility.

Our significant level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2012, our net interest bearing debt (long-term and short-term interest bearing debt plus overdraft, less cash on hand) was US$1,979 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.

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, 2011 and 2012 fiscal years, 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 "Item 10—Additional Information—Exchange Controls". We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were typically financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on 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 dissolving wood pulp capacity in South Africa and North America through internally generated funds and our OeKB facility. 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. 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 dissolving wood pulp capacity and other higher margin speciality businesses. 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 dissolving wood pulp may decline. With respect to our investments in additional dissolving wood pulp capacity, a number of our competitors have also recently announced additional production capacities, and total announced supply capacity currently significantly outstrips announced demand capacity for dissolving wood pulp, which may adversely affect the price of dissolving wood pulp. 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 markets will deteriorate and bond yields will remain low in North America and Europe 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, *inter alia,* our earnings, the competitiveness of our exports, the prices of imported competitors' products, and the costs of our raw materials.

Since the adoption of the euro by the European Union on January 01, 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$1.29, US$1.34 and US$1.35 per euro at the end of fiscal 2012, 2011 and 2010, respectively.

In recent years, the value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R8.31, R8.10 and R7.02 per US dollar at the end of fiscal 2012, 2011 and 2010, respectively.

For further information, see notes 2 and 29.2 to our group Annual Financial Statements included elsewhere in this Annual Report and "Item 5—Operating and Financial Review and Prospects—Principal Factors Impacting our Group Results".

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 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 "Item 5—Operating and Financial Review and Prospects—South African Economic and Political Environment" and "Item 10—Additional Information—Exchange Controls".

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

The selling prices of the majority of the products we manufacture and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control.

Electricity generation companies are competing for the same raw 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. 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 impacting business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, other than maintaining a high level of economic 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 significant customers, including Antalis, Birla, Igepa, Lenzing, Lindenmeyr, PaperlinX and Xpedx . During fiscal 2012 and 2011, no single customer individually represented more than 10% of our total sales. As a significant portion of our sales revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such 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 September 2012 was €24 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 and has embarked on a significant restructuring program, 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.

For further information see "Item 4—Information on the Company—Sappi Fine Paper—Marketing and Distribution—Customers" and "Item 4—Information on the Company—Sappi Southern Africa—Marketing and Distribution—Customers".

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

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

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

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

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

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

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

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

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

For further information, see "Item 5—Operating and Financial Review and Prospects—South African Economic and Political Environment".

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

The southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. In 2007 and 2008, southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa and Swaziland affecting 14,000 hectares and 26,000 hectares, respectively, of our plantations. 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.

Risks Related to Our Shares

Your ability to trade a substantial number of ordinary shares may be restricted by the limited liquidity of shares traded on the JSE Limited and our ADSs traded on the New York Stock Exchange.

The principal trading market for our ordinary shares is on the exchange operated by the JSE Limited ("JSE") (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2012, 365 million of our ordinary shares were traded on the JSE and 3 million ADSs were traded on the New York Stock Exchange. The relatively low liquidity of shares traded on the JSE Limited and the New York Stock Exchange could affect your ability to sell ordinary shares.

For further information, see "Item 7—Major Shareholders and Related Party Transactions—Major Shareholders", "Item 9—The Offer and Listing—Offer and Listing Details" and "Item 9—The Offer and Listing—Markets".

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

Although our investigation of beneficial ownership of our shares identified only one beneficial owner of more than 5% of our ordinary shares, holding approximately 12.06%, as shown in our shareholders' register on September 28, 2012, the four largest shareholders of record, all of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 83.9% of our ordinary shares as of September 28, 2012. These significant potential voting blocks of nominee registered shareholders may have the power to influence voting decisions for the shares they hold.

See "Item 7—Major Shareholders and Related Party Transactions—Major Shareholders".

Risks Related to Our Indebtedness

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

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

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

If we default under our debt covenants, we may not be able to meet our payment obligations.

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

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;
- merge or consolidate with other companies; and
- make a substantial change to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain covenants and specified financial covenants and ratios. Our ability to comply with these covenants and restrictions may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit the lending banks under our credit facilities or our bondholders to take certain actions, including declaring all amounts that we have borrowed under the credit facilities and other indebtedness to be due and payable, together with accrued and unpaid interest. Any acceleration of our credit facilities would cause a cross-acceleration of our 2018 Notes and 2021 Notes. This would also result in an event of default under some of our debt instruments. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks and or the bondholders, they could proceed against any collateral that secures the debt under the credit facilities and our bonds. If we are unable to make payments on time or refinance our indebtedness, or if our debt or any other material financing arrangement that we enter into were to be accelerated, this could have a material adverse effect on our business and financial condition.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Sappi Limited is a public company incorporated in the Republic of South Africa. Our principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa, our telephone number is +27-11-407-8111 and our web address is www.sappi.com. We currently have our primary listing on the JSE Limited ("JSE"), formerly the Johannesburg Stock Exchange, and have a secondary listing on the New York Stock Exchange. Sappi Limited was founded and incorporated in 1936 in South Africa and is a corporation organized under the Companies Act No.71 of 2008, as amended, of the Republic of South Africa.

Until 1990, we primarily expanded our operations within southern Africa. Since 1990, we have grown through acquisitions outside of southern Africa. In the mid 1990's we acquired S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other speciality paper products. It now conducts business as Sappi Fine Paper North America. In the late 1990's we acquired KNP Leykam, a leading European producer of coated woodfree paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. In 2002 we acquired Potlatch Corporation's coated woodfree paper business and have integrated it in Sappi Fine Paper North America. In 2008 we acquired the coated graphic paper business of M-real Corporation (now known as Metsä Board) and have integrated it in Sappi Fine Paper Europe.

On January 31, 2010 we closed our production facilities at the Usutu Mill in Swaziland due to market conditions and forest fire damage. Forestry operations will however continue at Usutu.

During January 2010 we permanently ceased operations at the Kangas Mill in Finland. Products produced at the Kangas Mill were moved to and supplied from the Lanaken Mill in Belgium and our Kirkniemi Mill in Finland. On March 24, 2010, we announced a BEE transaction involving the issuance of 24.3 million Sappi shares (approximately 4.5% of Sappi Limited). The transaction empowers our South African employees, our strategic empowerment partner, Lereko Investments (Pty) Ltd, and the South African communities in which we operate. On April 19, 2010, we announced the acquisition of 14,500 ha of forestry land in Mpumalanga, South Africa.

During the second half of fiscal 2011, we ceased operations at our Adamas Mill in South Africa and Biberist Mill in Switzerland. We also announced significant restructuring and cost reduction programs in the European and southern African paper businesses.

To address a long-term declining trend in coated graphic paper demand in our major markets, we are in the process of repositioning the group in an effort to generate 60% or more of operating profit from higher margin products such as dissolving wood pulp and speciality casting release paper. As part of this plan we announced in fiscal 2011, an investment to convert Ngodwana Mill's bleached pulp production facility to produce 210,000 tons of dissolving wood pulp and the conversion of our Cloquet Mill's bleached pulp production facility to produce 330,000 tons of dissolving wood pulp. These conversions are planned to be completed in our 2013 fiscal year.

In fiscal 2012 we sold our 34% shareholding in Jiangxi Chenming Paper Company Limited, situated in the People's Republic of China, to the majority shareholder and co-founding joint venture partner for US$42 million. The proceeds for the sale were received on November 06, 2012.

On October 12, 2012 we announced the decision to mothball the 80,000 ton per annum sackkraft machine, at the Tugela Mill. During fiscal 2012 we also announced the closure of the 10,000 ton per annum paper machine at the Tugela Mill. During fiscal 2012 we announced the closure of the pulp line at our Enstra Mill as well as the closure of the Kraft Continuous Digester ("KCD") at our Tugela Mill.