

SAPPI LTD

Form 6-K

August 05, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of August, 2010

Commission file number: 1-14872

SAPPI LIMITED

(Translation of registrant's name into English)

48 Ameshoff Street

Braamfontein

Johannesburg 2001

REPUBLIC OF SOUTH AFRICA

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

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

Yes

No

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

FORWARD-LOOKING STATEMENTS

In order to utilize the “Safe Harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 (the “Reform Act”), Sappi Limited (the “Company”) is providing the following cautionary statement. Except for historical information contained herein, statements contained in this Report on Form 6-K may constitute “forward-looking statements” within the meaning of the Reform Act. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. In addition, this Report on Form 6-K may include forward-looking statements relating to the Company’s potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond the control of the Company, together with its subsidiaries (the “Group”), and may cause the actual results, performance or achievements of the Group to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to: the impact of the global economic downturn, the risk that the European Acquisition (“Acquisition”) will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, expected revenue synergies and cost savings from the Acquisition may not be fully realized or realized within the expected time frame, revenues following the Acquisition may be lower than expected, any anticipated benefits from the consolidation of the European paper business may not be achieved, the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing), adverse changes in the markets for the group’s products, consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed, changing regulatory requirements, possible early termination of alternative fuel tax credits, unanticipated production disruptions (including as a result of planned or unexpected power outages), economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions and achieving expected savings and synergies and currency fluctuations. These and other risks, uncertainties and factors are discussed in the Company’s Annual Report on Form 20-F and other filings with and submissions to the Securities and Exchange Commission, including this Report on Form 6-K. Shareholders and prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the submission of this Report on Form 6-K and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise. We have included in this announcement an estimate of total synergies from the Acquisition and the integration of the acquired business into our existing business. The estimate of synergies is based on assumptions which in the view of our management were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of our management’s knowledge and belief, the expected course of action and the expected future financial impact on our performance due to the Acquisition. However, the assumptions about these expected synergies are inherently uncertain and, though considered reasonable by management as of the date of preparation, are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this estimate of synergies. There can be no assurance that we will be able to successfully implement the strategic or operational initiatives that are intended, or realize the estimated synergies. This synergy estimate is not a profit forecast or a profit estimate and should not be treated as such or relied on by shareholders or prospective investors to calculate the likely level of profits or losses for Sappi for the fiscal 2010 or beyond.

3rd Quarter
results for the period
ended June 2010

sappi

* for the period ended June 2010

** as at June 2010

Coated fine paper

64%

Uncoated fine paper

7%

Coated specialities

7%

Commodity paper

7%

Pulp

13%

Other

2%

North America

21%

Europe

56%

Southern Africa

23%

Sales by product group*

Sales by source*

North America

21%

Europe

49%

Southern Africa

12%

Asia and other

18%

Fine paper

63%

37%

Forest and paper

products

Sales by destination*

Net operating assets**

third quarter

third quarter results

1

•

EPS of 12 US cents (favourably impacted by 10 US cents special items); Q3 2009: loss of 12 US cents per share (unfavourably impacted by 2 US cents special items)

•

Operating profit excluding special items US\$75 million; Q3 2009: US\$13 million loss

•

Demand continued to improve

•

Prices for coated woodfree paper increased

•

Prices of raw material inputs increased

•

Liquidity strong

Financial summary for the quarter

3rd Quarter results

Quarter ended

Nine months ended

Jun 2010

Mar 2010

Jun 2009

Jun 2010

Jun 2009

Key figures: (US\$ million)

Sales

1,602

1,576 1,316

4,798

3,816

Operating profit (loss)

154

28 (7)

183

56

Special items – (gains) losses

1

(79)

26 (6)

27

(61)

Operating profit (loss) excluding special items

2

75

54 (13)

210

(5)

EBITDA excluding special items		
3		
176		
156	93	
525		
281		
Basic earnings (loss) per share		
(US cents)		
12		
(6)	(12)	
(3)		
(16)		
Net debt		
4		
2,337		
2,429	2,770	
2,337		
2,770		
Key ratios: (%)		
Operating profit (loss) to sales		
9.6		
1.8	(0.5)	
3.8		
1.5		
Operating profit (loss) excluding		
special items to sales		
4.7		
3.4	(1.0)	
4.4		
(0.1)		
Operating profit (loss) excluding		
special items to		
Capital Employed (ROCE)		
7.3		
5.1	(1.1)	
6.6		
(0.2)		
EBITDA excluding special		
items to sales		
11.0		
9.9	7.1	
10.9		
7.4		
Return on average equity (ROE)		
5		
15.0		
(7.3)	(12.7)	
(1.4)		
(5.4)		
Net debt to total capitalisation		
5		

57.6

59.1 57.5

57.6

57.5

1

Refer to page 16 for details on special items.

2

Refer to page 16, note 9 to the group results for the reconciliation of operating profit excluding special items to operating profit (loss).

3

Refer to page 16, note 9 to the group results for the reconciliation of EBITDA excluding special items to profit (loss) before taxation.

4

Refer to page 18, Supplemental Information for the reconciliation of net debt to interest-bearing borrowings.

5

Refer to page 17, Supplemental Information for the definition of the term.

The table above has not been audited or reviewed.

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Commentary on the quarter

Demand for our products continued to grow during the quarter and the financial performance of the group improved significantly compared to a year ago and also improved compared to the previous quarter. The North American business performed strongly during the quarter and there was a significant improvement in the southern African results. Despite increasing prices for coated fine paper, the performance of our European business has been constrained by an 18% increase in variable costs compared to a year ago, largely due to pulp price increases.

Sales increased to US\$1.6 billion, up 22% compared to a year earlier and up 2% compared to the March quarter.

Average prices realised by the group were 4% higher than a year ago in US dollar terms. Coated woodfree paper prices increased in Europe during the quarter. In addition, the southern African and North American businesses were favourably impacted by higher pulp prices. As an example, the NBSK pulp price increased to US\$976 per ton at the end of June, an increase of US\$87 per ton since March.

Variable costs for the group increased as a result of higher input prices, particularly pulp and wood costs in both Europe and North America. Fixed costs, however, were 5% lower than the prior quarter.

The synergies achieved from the European Acquisition have reached our announced level of m120 million of synergies per annum, ahead of the target date of 2011.

Special items for the quarter amounted to a gain of US\$79 million, which mainly comprised a plantation fair value gain of US\$108 million and a charge of US\$23 million in respect of the Black Economic Empowerment transaction approved by shareholders in April. Although the plantation fair value adjustment is large for the quarter, it is only US\$2 million for the year to date. With effect from this quarter we have applied a refined estimate of fair value which we expect to more accurately reflect the long-term value of the plantations (see Note 3).

Operating profit excluding special items was US\$75 million for the quarter, a substantial improvement compared to the US\$13 million loss a year ago and an improvement on the March quarter. Including special items, operating profit was US\$154 million, compared to a loss of US\$7 million in the equivalent quarter last year.

Net finance costs of US\$57 million were US\$5 million lower than in the prior quarter as a result of foreign currency exchange movements and the repayment of US\$235 million of long-term debt out of cash in the last two quarters.

Earnings per share for the quarter were 12 US cents (including a gain of 10 US cents in respect of special items), compared to a loss of 12 US cents (including a loss of 2 US cents in respect of special items) a year ago.

third quarter
 third quarter results
 3

Cash flow and debt

Cash generated from operations was US\$188 million for the quarter, which was higher than the US\$77 million a year ago largely due to improved profitability. Net cash generated (after investing activities) for the quarter was US\$24 million, which was lower than the US\$106 million a year ago, primarily as a result of the working capital movements reflecting sales growth and finance costs paid, which had been much lower in the equivalent period last year. Finance costs paid in the equivalent period last year were reduced by the US\$55 million benefit of unwinding fixed-to-floating interest rate swaps. Capital expenditure for the quarter was US\$41 million and year to date was US\$130 million. This is in line with our aim to limit capital expenditure for the full year to approximately US\$200 million.

Net debt decreased to US\$2.3 billion for the quarter as a result of cash generated and currency movements. An early repayment of m80 million (US\$99 million), comprising the December 2010 instalment of the m400 million OekB loan was made during the quarter. Liquidity remains strong and cash and cash equivalents were US\$534 million at the end of the quarter. The m209 million (US\$259 million) revolving credit facility remains undrawn.

Operating Review for the Quarter

Sappi Fine Paper

Quarter

Quarter

Quarter

ended

ended

ended

June 2010

June 2009

%

March 2010

US\$ million

US\$ million

change

US\$ million

Sales

1,220

1,020 20

1,208

Operating profit

36

24 50

50

Operating profit to sales (%)

3.0

2.4 25

4.1

Special items – losses (gains)

1

(33) –

(7)

Operating profit (loss) excluding
 special items

37

(9)	–
43	
Operating profit (loss) excluding special items to sales (%)	
3.0	
(0.9)	–
3.6	
EBITDA excluding special items	
110	
75	47
120	
EBITDA excluding special items to sales (%)	
9.0	
7.4	23
9.9	
RONOA pa (%)	
4.8	
(1.0)	–
5.3	

The Fine Paper business achieved an operating profit excluding special items of US\$37 million for the quarter compared to a loss of US\$9 million a year ago, due to a continued good performance from North America and a gradual improvement of the European business as a result of higher sales volumes and prices, largely offset, however, by the increase in pulp and other input costs.

4 Europe Quarter Quarter ended ended ended June 2010 June 2009 change March 2010 US\$ million US\$ million (US\$) (Euro) US\$ million Sales			Quarter
	%	%	
873			
729	20	26	
866			
Operating profit			
11			
–	–	–	
9			
Operating profit to sales (%)			
1.3			
–	–	–	
1.0			
Special items – losses (gains)			
2			
4	–	–	
(5)			
Operating profit excluding special items			
13			
4	225	241	
4			
Operating profit excluding special items to sales (%)			
1.5			
0.5	171		
170			
0.5			
EBITDA excluding special items			
68			
62	10		
17			
64			
EBITDA excluding special items to sales (%)			
7.8			

8.5	–	–
7.4		
RONOA pa (%)		
2.5		
0.7	276	272
0.7		

The European business' coated paper shipments continued to grow during the quarter. European industry coated woodfree paper shipments increased by 18%, comprising a 10% increase in shipments to Europe and a 55% increase in exports from Europe compared to a year ago.

Our prices for coated woodfree paper were increased in April, and again in June, but to date these increases have only partly offset the effect of the increase in pulp prices and other input cost increases on our margins. Prices for coated mechanical paper did not increase during the quarter. Further selling price increases are required in order to achieve reasonable margins.

Average prices realised in Euro for the quarter were flat compared to the equivalent quarter last year and 6% up compared to the prior quarter in Euro terms.

third quarter		
third quarter results		
5		
North America		
Quarter		Quarter
Quarter		
ended		ended
ended		
June 2010		
June 2009		
%		
March 2010		
US\$ million		
US\$ million		
change		
US\$ million		
Sales		
347		
291	19	
342		
Operating profit		
25		
24	4	
41		
Operating profit to sales (%)		
7.2		
8.2	–	
12.0		
Special items – (gains)		
(1)		
(37)	–	
(2)		
Operating profit (loss) excluding special items		
24		
(13)	–	
39		
Operating profit (loss) excluding special items to sales (%)		
6.9		
(4.5)	–	
11.4		
EBITDA excluding special items		
42		
13		
223		
56		
EBITDA excluding special items to sales (%)		
12.1		
4.5		

171
16.4
RONOA pa (%)
10.0
(4.9) —
16.0

The North American business continued to improve its performance as a result of strengthening demand, good operating rates and improving pulp prices. Demand levels continued to improve and US industry shipments of coated woodfree paper for the quarter increased by 31% compared to a year ago.

After more than a year of declining coated paper prices in the North American market, prices started to rise during the quarter. Prices realised for coated paper were 7% below a year ago, and were flat compared to the prior quarter. We announced price increases on coated woodfree paper reels and certain sheet grades during the quarter. Pulp prices continued to increase during the quarter.

Well controlled cost levels, a strong performance in the speciality business and strong market pulp results continued in the quarter. The decline in operating profit compared to the March quarter was driven by the timing of major planned maintenance.

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Southern Africa – Forest and Paper Products

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2010

June 2009

change

change

March 2010

US\$ million

US\$ million

(US\$)

(Rand)

US\$ million

Sales

382

296

29

14

368

Operating profit (loss)

118

(31)

–

–

(4)

Operating profit (loss)

to sales (%)

30.9

(10.5)

–

–

(1.1)

Special items – (gains) losses

(83)

20

–

–

16

Operating profit (loss) excluding

special items

35

(11)

–

–

12

Operating profit (loss) excluding

special items to sales (%)

9.2

(3.7)

–

–

3.3

EBITDA excluding special items

62

11	
464	
396	
37	
EBITDA excluding special items	
to sales (%)	
16.2	
3.7	
337	
337	
10.1	
RONOA pa (%)	
7.9	
(2.4)	–
–	
2.7	

The performance of the southern African business improved significantly in the quarter compared to the equivalent quarter last year and the prior quarter driven partly by improved pulp prices. Average NBSK pulp prices in the quarter were 60% higher than the equivalent quarter last year and 12% higher than the prior quarter. An eighteen day harbours and railways strike during the quarter resulted in delayed shipments, unfavourably impacting sales volumes by 15,000 tons.

The chemical cellulose business achieved higher output from the Saiccor Mill and benefited from increased product prices. In the domestic market demand for packaging paper was strong, as it was in the international markets where prices were also increasing. However, although demand for coated paper improved, demand for other fine paper and newsprint was weak.

Directorate

Mr Valli Moosa, a Director of Sappi's Broad Based Black Economic Empowerment Partner, Lereko Limited, has been appointed a non-executive director of Sappi Limited with effect from 1 August 2010.

third quarter

third quarter results

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Outlook

Although demand in most of our markets has continued growing, our outlook remains cautious in light of ongoing uncertainty in global economies and demand levels.

In Europe, prices for coated woodfree paper have risen twice since April 2010 and we have announced further increases of at least 7% from September 2010, which we believe are necessary to start restoring margins. Prices for coated mechanical paper started to rise in July 2010 but remain low. North American prices for coated paper are also increasing gradually.

The rate of increase of pulp prices started flattening in the latter part of the quarter and we expect a period of softer pulp prices over the next few months.

Demand for our products in Europe is expected to further accelerate in the fourth financial quarter, and our European order books are firm. Order books in our other businesses have lengthened.

The costs of our non-pulp raw material inputs have started increasing and we are actively managing our processes to minimise the impact of such increases. We expect that pulp input costs will continue to affect the performance of our European business.

Under current market conditions, we expect operating profit (excluding special items) as well as net cash generation to continue to improve in our fourth financial quarter.

On behalf of the board

R J Boöttger

M R Thompson

Director

Director

2 August 2010

sappi limited

(Registration number 1936/008963/06)

Issuer Code: SAVVI

JSE Code: SAP

ISIN: ZAE000006284

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Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to, the impact of the global economic downturn, the risk that the European Acquisition ("Acquisition") will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, expected revenue synergies and cost savings from the Acquisition may not be fully realised or realised within the expected time-frame, revenues following the Acquisition may be lower than expected, any anticipated benefits from the consolidation of the European paper business may not be achieved, the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclical nature, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing), adverse changes in the markets for the group's products, consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed, changing regulatory requirements, possible early termination of alternative fuel tax credits, unanticipated production disruptions (including as a result of planned or unexpected power outages), economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions and achieving expected savings and synergies and currency fluctuations. 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.

We have included in this announcement an estimate of total synergies from the Acquisition and the integration of the acquired business into our existing business. The estimate of synergies is based on assumptions which in the view of our management were prepared on a reasonable basis, reflect the best currently available estimates and judgements, and present, to the best of our management's knowledge and belief, the expected course of action and the expected future financial impact on our performance due to the Acquisition. However, the assumptions about these expected synergies are inherently uncertain and, though considered reasonable by management as of the date of preparation, are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this estimate of synergies. There can be no assurance that we will be able to successfully implement the strategic or operational initiatives that are intended, or realise the estimated synergies. This synergy estimate is not a profit forecast or a profit estimate and should not be treated as such or relied on by shareholders or prospective investors to calculate the likely level of profits or losses for Sappi.

third quarter
third quarter results
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Group income statement
Reviewed
Reviewed
Quarter
Quarter
Nine months
Nine months
ended
ended
ended
ended
Jun 2010
Jun 2009
Jun 2010
Jun 2009
Note
US\$ million
US\$ million
US\$ million
US\$ million
Sales
1,602
1,316
4,798
3,816
Cost of sales
1,314
1,272
4,288
3,510
Gross profit
288
44
510
306
Selling, general and administrative
expenses
108
90
329
273
Other operating expense (income)
29
(31)
9
(17)
Share of profit from
associates and joint ventures

(3)
(8)
(11)
(6)
Operating profit (loss)
3
154
(7)
183
56
Net finance costs
57
70
192
131
Net interest
68
44
226
116
Net foreign exchange gains
(7)
(1)
(16)
(12)
Net fair value (gain) loss on
financial instruments
(4)
27
(18)
27
Profit (loss) before taxation
97
(77)
(9)
(75)
Taxation
33
(15)
9
(1)
Current
(2)
3
1
7
Deferred
35
(18)
8
(8)

Profit (loss) for the period

64

(62)

(18)

(74)

Basic earnings (loss) per share

(US cents)

12

(12)

(3)

(16)

Weighted average number of
shares in issue (millions)

516.0

515.8

515.7

471.5

Diluted basic earnings (loss)
per share (US cents)

12

(12)

(3)

(16)

Weighted average number
of shares on fully
diluted basis (millions)

529.4

515.8

515.7

471.5

Group statement of comprehensive income

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

Jun 2010

Jun 2009

Jun 2010

Jun 2009

US\$ million

US\$ million

US\$ million

US\$ million

Profit (loss) for the period

64

(62)
(18)
(74)
Other comprehensive (loss) income,
net of tax
(54)
244
(78)
(43)
Exchange differences on translation
of foreign operations
(43)
243
(69)
(44)
Movements in hedging reserves
(11)
—
(9)
—
Movement on available for
sale financial assets
—
1
—
1
Deferred tax effects on above
—
—
—
—
Total comprehensive income (loss)
for the period
10
182
(96)
(117)

10	
Group balance sheet	
Reviewed	
Jun 2010	
Sept 2009	
US\$ million	
US\$ million	
ASSETS	
Non-current assets	
4,310	
4,867	
Property, plant and equipment	
3,424	
3,934	
Plantations	
550	
611	
Deferred taxation	
49	
56	
Other non-current assets	
287	
266	
Current assets	
2,250	
2,430	
Inventories	
795	
792	
Trade and other receivables	
846	
868	
Cash and cash equivalents	
534	
770	
Assets held for sale	
75	
–	
Total assets	
6,560	
7,297	
EQUITY AND LIABILITIES	
Shareholders' equity	
Ordinary shareholders' interest	
1,719	
1,794	
Non-current liabilities	
3,099	
3,662	
Interest-bearing borrowings	
2,253	

2,726
Deferred taxation
348
355
Other non-current liabilities
498
581
Current liabilities
1,742
1,841
Interest-bearing borrowings
597
601
Bank overdraft
21
19
Other current liabilities
1,062
1,165
Taxation payable
43
56
Liabilities associated with assets held for sale
19
—
Total equity and liabilities
6,560
7,297
Number of shares in issue at balance sheet date (millions)
519.5
515.7

third quarter
third quarter results
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Group cash flow statement
Reviewed
Reviewed
Quarter
Quarter
Nine months
Nine months
ended
ended
ended
ended
Jun 2010
Jun 2009
Jun 2010
Jun 2009
US\$ million
US\$ million
US\$ million
US\$ million
Profit (loss) for the period
64
(62)
(18)
(74)
Adjustment for:
Depreciation, fellings and amortisation
116
125
365
336
Taxation
33
(15)
9
(1)
Net finance costs
57
70
192
131
Post-employment benefits
(15)
(13)
(48)
(32)
Plantation fair value adjustment
(108)
25

(2)
(44)
Other non-cash items
41
(53)
57
(45)
Cash generated from operations
188
77
555
271
Movement in working capital
(84)
93
(186)
25
Net finance costs
(35)
–
(128)
(54)
Taxation paid
(4)
(3)
(8)
(5)
Dividends paid
–
–
–
(37)
Cash retained from operating activities
65
167
233
200
Cash utilised in investing activities
(41)
(61)
(130)
(726)
Capital expenditure and other
non-current assets
(41)
(59)
(130)
(138)
Acquisition
–
(2)

–
 (588)
 Net cash generated (utilised)
 24
 106
 103
 (526)
 Cash effects of financing activities
 (179)
 (57)
 (244)
 979
 Net movement in cash and cash
 equivalents
 (155)
 49
 (141)
 453
 Group statement of changes in equity
 Reviewed
 Nine months
 Nine months
 ended
 ended
 Jun 2010
 Jun 2009
 US\$ million
 US\$ million
 Balance – beginning of period
 1,794
 1,605
 Total comprehensive loss for the period
 (96)
 (117)
 Dividends paid
 –
 (37)
 Rights offer
 –
 575
 Costs directly attributable to the rights offer
 (5)
 (31)
 Issue of new shares
 19
 45
 Transfers (to) from the share purchase trust
 (6)
 2
 Share-based payment reserve
 13

7

Balance – end of period

1,719

2,049

12

Notes to the group results

1. Basis of preparation

The condensed financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and the AC 500 standards as issued by the Accounting Practices Board in South Africa. Apart from the adoption of IFRS 8 “Operating Segments”, the accounting policies and methods of computation used in the preparation of the results are consistent, in all material respects, with those used in the annual financial statements for September 2009 which are compliant with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The results are unaudited.

2. Adoption of IFRS 8 “Operating Segments”

The adoption of IFRS 8 “Operating Segments” did not have an impact on the group’s reported results or financial position.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and assessing performance. Prior year segment disclosure has been restated as reflected in note 9.

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

Jun 2010

Jun 2009

Jun 2010

Jun 2009

US\$ million

US\$ million

US\$ million

US\$ million

3. Operating profit

Included in operating profit are the following non-cash items:

Depreciation and amortisation

101

106

315

286

Fair value adjustment on plantations

(included in cost of sales)

Changes in volume

Fellings

15

19

50

50

Growth

(15)

(20)

(48)

(52)

—

(1)

2

(2)

Plantation price fair value

adjustment

(1)

(108)

25

(2)

(44)

(108)

24

—

(46)

Included in other operating expense (income)

are the following:

Asset impairments (impairment reversals)

1

1

(12)

6

Loss (profit) on disposal of property,

plant and equipment

—

—

1

(1)

Profit on disposal of investment

—

—

(1)

—

Restructuring provisions raised

5

2

46

10

Integration costs

—

3

—

3

BEE charge

23

—

23

—

Fuel tax credit

—

(37)

(51)

(37)

(1)

In the third quarter of fiscal 2010 the group changed the estimates used to derive the prices of timber that are used to calculate the fair value of its plantations. The change impacts the estimate of the expected future cash flows that are used in calculating the present value of mature and immature timber except for the timber that is expected to be felled in the next 12 months from balance sheet date. Before the change, Sappi used period end spot prices to estimate the fair value of the above timber; the group now uses a 12 quarter rolling average price, as this reflects the fair value of the plantations more accurately. This change has increased the value of plantations by US\$28 million.

third quarter
third quarter results

13

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

Jun 2010

Jun 2009

Jun 2010

Jun 2009

US\$ million

US\$ million

US\$ million

US\$ million

4. Headline earnings (loss) per share *

Headline earnings (loss) per share

(US cents)

13

(12)

(6)

(15)

Weighted average number of shares

in issue (millions)

516.0

515.8

515.7

471.5

Diluted headline earnings (loss) per share

(US cents)

12

(12)

(6)

(15)

Weighted average number of shares

on fully diluted basis (millions)

529.4

515.8

515.7

471.5

Calculation of headline earnings (loss) *

Profit (loss) for the period

64

(62)

(18)

(74)	
Asset impairments (impairment reversals)	
1	
1	
(12)	
6	
Loss (profit) on disposal of property, plant and equipment	
-	
-	
1	
(1)	
Profit on disposal of investment	
-	
-	
(1)	
-	
Tax effect of above items	
-	
-	
-	
-	
Headline earnings (loss)	
65	
(61)	
(30)	
(69)	
*Headline earnings disclosure is required by the JSE Limited.	
5. Capital expenditure	
Property, plant and equipment	
42	
54	
120	
147	
Jun 2010	
Sept 2009	
US\$ million	
US\$ million	
6. Capital commitments	
Contracted	
62	
62	
Approved but not contracted	
135	
126	
197	
188	
7. Contingent liabilities	
Guarantees and suretyships	
43	
44	

Other contingent liabilities

8

8

51

52

With the cessation of production at the Usutu Pulp Mill, Sappi is undertaking an environmental assessment to determine whether there are any potential environmental obligations at the site. The nature and amount of any such obligations cannot be measured reliably until the assessments have been completed.

8. Material balance sheet movements year on year

Transfers to assets held for sale and liabilities associated with assets held for sale

With the cessation of production at the Usutu Pulp Mill, the assets and the liabilities forming part of this disposal group, consisting mainly of plantations, have been classified as held for sale.

Early repayment of interest-bearing borrowings

An early repayment of the first instalment on a syndicated loan with Österreichische Kontrollbank of m80 million (US\$99 million), due in December 2010, was made in June 2010.

An amount of US\$29 million of our 7.5% Guaranteed Notes due 2032 was repurchased in the open market during the quarter for US\$24 million.

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9. Segment information

Restatement of prior year disclosures

Sappi Fine Paper South Africa is now reported as part of the Forest and Paper Products segment in accordance with the geographical management of our business. The table below shows the effect of this change for the quarter and nine months ended June 2009:

Restated

Quarter ended

Jun 2009

US\$ million

As previously

reported	Adjustment	Restated
----------	------------	----------

Fine Paper

Sales 1,098

(78)

1,020

Operating profit

19

5

24

Net operating assets

3,715

(205)

3,510

Forest and Paper Products – Pulp and paper operations

Sales 204

78

282

Operating profit

(26)

(5)

(31)

Net operating assets

1,790

205

1,995

Restated

Nine months ended

Jun 2009

US\$ million

As previously

reported	Adjustment	Restated
----------	------------	----------

Fine Paper

Sales 3,208

(226)

2,982

Operating profit

(16)

1

(15)

Net operating assets

3,715

(205)

3,510

Forest and Paper Products – Pulp and paper operations

Sales 567

226

793

Operating profit

71

(1)

70

Net operating assets

1,790

205

1,995

The information below is presented in the way that it is reviewed by the chief operating decision-maker as required by IFRS 8 “Operating Segments”.

third quarter
third quarter results
15
Restated
Restated
Reviewed
Reviewed
Quarter
Quarter
Nine months
Nine months
ended
ended
ended
ended
Jun 2010
Jun 2009
Jun 2010
Jun 2009
Metric tons
Metric tons
Metric tons
Metric tons
(000's)
(000's)
(000's)
(000's)
Sales volume
Fine Paper –
North America
335
300
1,002
919
Europe
939
746
2,802
2,061
Total
1,274
1,046
3,804
2,980
Forest and Paper Products – Pulp and paper
operations
416
425
1,291
1,190
Forestry operations

292
 218
 704
 649
 Total
 1,982
 1,689
 5,799
 4,819
 US\$ million
 US\$ million
 US\$ million
 US\$ million
 Sales
 Fine Paper –
 North America
 347
 291
 1,009
 955
 Europe
 873
 729
 2,675
 2,027
Total
 1,220
 1,020
 3,684
 2,982
 Forest and Paper Products – Pulp and paper
 operations
 361
 282
 1,062
 793
 Forestry operations
 21
 14
 52
 41
 Total
 1,602
 1,316
 4,798
 3,816
 Operating profit (loss) excluding special items
 Fine Paper –
 North America
 24
 (13)

82
(36)
Europe
13
4
42
(4)
Total
37
(9)
124
(40)
Forest and Paper Products
35
(11)
76
27
Corporate and other
3
7
10
8
Total
75
(13)
210
(5)
Special items – (gains) losses
Fine Paper –
North America
(1)
(37)
(51)
(29)
Europe
2
4
10
4
Total
1
(33)
(41)
(25)
Forest and Paper Products
(83)
20
48
(43)
Corporate and other
3

7
 20
 7
 Total
 (79)
 (6)
 27
 (61)
 Operating profit (loss)
 Fine Paper –
 North America
 25
 24
 133
 (7)
 Europe
 11
 –
 32
 (8)
Total
 36
 24
 165
 (15)
 Forest and Paper Products
 118
 (31)
 28
 70
 Corporate and other
 –
 –
 (10)
 1
 Total
 154
 (7)
 183
 56
 EBITDA excluding special items
 Fine Paper –
 North America
 42
 13
 140
 40
 Europe
 68
 62
 220

146
Total
110
75
360
186
Forest and Paper Products
62
11
154
86
Corporate and other
4
7
11
9
Total
176
93
525
281

16
Restated
Restated
Reviewed
Reviewed
Quarter
Quarter
Nine months
Nine months
ended
ended
ended
ended
Jun 2010
Jun 2009
Jun 2010
Jun 2009
US\$ million
US\$ million
US\$ million
US\$ million
Net operating assets
Fine Paper –
North America
949
1,035
949
1,035
Europe
2,070
2,475
2,070
2,475
Total
3,019
3,510
3,019
3,510
Forest and Paper Products
1,785
1,995
1,785
1,995
Corporate and other
49
72
49
72
Total
4,853
5,577

4,853

5,577

Reconciliation of operating profit (loss) excluding special items to operating profit (loss)

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

Operating profit (loss) excluding special items

75

(13)

210

(5)

Special items

79

6

(27)

61

Plantation price fair value adjustment

108

(25)

2

44

Restructuring provisions raised

(5)

(2)

(46)

(10)

(Loss) profit on disposal of property,
plant and equipment

–

–

(1)

1

Profit on disposal of investment

–

–

1

–

Asset (impairments) impairment reversals

(1)

(1)

12

(6)

Fuel tax credit

–

37

51

37

Integration costs

–

(3)	
–	
(3)	
BEE charge	
(23)	
–	
(23)	
–	
Insurance proceeds	
1	
–	
1	
–	
Fire, flood, storm and related events	
(1)	
–	
(24)	
(2)	
Operating profit (loss)	
154	
(7)	
183	
56	
Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation	
EBITDA excluding special items	
176	
93	
525	
281	
Depreciation and amortisation	
(101)	
(106)	
(315)	
(286)	
Operating profit (loss) excluding special items	
75	
(13)	
210	
(5)	
Special items – gains (losses)	
79	
6	
(27)	
61	
Net finance costs	
(57)	
(70)	
(192)	
(131)	
Profit (loss) before taxation	

97	
(77)	
(9)	
(75)	
Reconciliation of net operating assets to total assets	
Net operating assets	
4,853	
5,577	
4,853	
5,577	
Deferred tax	
49	
38	
49	
38	
Cash and cash equivalents	
534	
796	
534	
796	
Other current liabilities	
1,062	
1,017	
1,062	
1,017	
Taxation payable	
43	
58	
43	
58	
Liabilities associated with assets held for sale	
19	
—	
19	
—	
Total assets	
6,560	
7,486	
6,560	
7,486	

third quarter

third quarter results

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Supplemental Information (this information has not been reviewed)

General definitions

Average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

BEE charge – Represents the IFRS 2 non-cash charge associated with the Black Economic Empowerment (BEE) transaction implemented as envisaged in the BEE legislation in South Africa

Fellings – the amount charged against the income statement representing the standing value of the plantations harvested

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (i.e. spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

SG&A – selling, general and administrative expenses

Non-GAAP measures

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

Capital employed – shareholders' equity plus net debt

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

Headline earnings – as defined in circular 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a listing requirement of the JSE Limited to disclose headline earnings per share

Net assets – total assets less total liabilities

Net asset value per share – net assets divided by the number of shares in issue at balance sheet date

Net debt – current and non-current interest-bearing borrowings and bank overdraft (net of cash, cash equivalents and short-term deposits)

Net debt to total capitalisation – net debt divided by capital employed

Net operating assets – total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and bank overdraft)

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

ROE – return on average equity. Profit for the period divided by average shareholders' equity

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

Special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

The above financial measures are presented to assist our shareholders and the investment community in interpreting our financial results.

These financial measures are regularly used and compared between companies in our industry.

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Supplemental Information (this information has not been reviewed)

Summary rand convenience translation

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

Jun 2010

Jun 2009

Jun 2010

Jun 2009

Key figures: (ZAR million)

Sales

12,147

11,344

36,278

35,949

Operating profit (loss)

1,168

(60)

1,384

528

Special items – (gains) losses *

(599)

(52)

204

(575)

Operating profit (loss) excluding
special items *

569

(112)

1,588

(47)

EBITDA excluding special items *

1,334

802

3,970

2,647

Basic earnings (loss) per share (SA cents)

91

(103)

(23)

(151)

Net debt *

17,820

21,880

17,820

21,880

Key ratios: (%)

Operating profit (loss) to sales

9.6

(0.5)

3.8

1.5

Operating profit (loss) excluding
special items to sales

4.7

(1.0)

4.4

(0.1)

Operating profit (loss) excluding
special items to

Capital Employed (ROCE) *

7.4

(1.1)

6.7

(0.2)

EBITDA excluding special items to sales

11.0

7.1

10.9

7.4

Return on average equity (ROE)

15.1

(12.5)

(1.4)

(6.4)

Net debt to total capitalisation *

57.6

57.5

57.6

57.5

* Refer to page 17, Supplemental Information for the definition of the term.

The above financial results have been translated into ZAR from US Dollars as follows:

- Assets and liabilities at rates of exchange ruling at period end; and
- Income, expenditure and cash flow items at average exchange rates.

Reconciliation of net debt to interest-bearing borrowings

Jun 2010

Sept 2009

US\$ million

US\$ million

Interest-bearing borrowings

2,871

3,346

Non-current interest-bearing borrowings

2,253

2,726

Current interest-bearing borrowings

597
 601
 Bank overdraft
 21
 19
 Cash and cash equivalents
 (534)
 (770)
 Net debt
 2,337
 2,576
 Exchange rates
 Jun
 Mar Dec
 Sept Jun
 2010
 2010 2009 2009
 2009

Exchange rates:
 Period end rate: US\$1 = ZAR
 7.6250
 7.4298 7.5315 7.4112
 7.8990

Average rate for the Quarter: US\$1 = ZAR
 7.5821
 7.5597 7.5009 7.7174
 8.6197

Average rate for the YTD: US\$1 = ZAR
 7.5610
 7.5302 7.5009 9.0135
 9.4205

Period end rate: EUR 1 = US\$
 1.2377
 1.3413 1.4397 1.4688
 1.4054

Average rate for the Quarter: EUR 1 = US\$
 1.2937
 1.3891 1.4737 1.4317
 1.3651

Average rate for the YTD: EUR 1 = US\$
 1.3845
 1.4302 1.4737 1.3657
 1.3432

The financial results of entities with reporting currencies other than the US Dollar are translated into US Dollars as follows:

- Assets and liabilities at rates of exchange ruling at period end; and
- Income, expenditure and cash flow items at average exchange rates.

third quarter
third quarter results

19

ZAR

0

10

20

30

40

50

60

70

80

90

Jul 06

Oct 06

Jan 08

Apr 08

Jul 08

Oct 08

Jan 09

Apr 09

Jul 09

Oct 09

Jan 10

Jan 07

Apr 07

Jul 07

Oct 07

Apr 10

Jun 10

Sappi ordinary shares* (JSE: SAP)

US\$

0

2

4

6

8

10

12

14

Jul 06

Oct 06

Jan 08

Apr 08

Jul 08

Oct 08

Jan 09

Apr 09

Jul 09

Oct 09

Jan 10

Jan 07

Apr 07

Jul 07

Oct 07

Apr 10

Jun 10

US Dollar share price conversion*

* Historic share prices revised to reflect rights offer

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Other interested parties can obtain printed copies of this report from:

South Africa:

United States:

Computershare Investor

ADR Depositary:

Services (Proprietary) Limited

The Bank of New York Mellon

70 Marshall Street

Investor Relations

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Church Street Station

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Sappi has a primary listing on the JSE Limited and a secondary listing on the New York Stock Exchange

this report is available on the Sappi website
www.sappi.com

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www.sappi.com

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 02, 2010

SAPPI LIMITED,

Name:

M. R. Thompson

Title:

Chief Financial Officer

M. R. Thompson

By:

/s/