

SAPPI LTD  
Form 6-K  
August 05, 2004





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, 2004

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

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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

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If "Yes" is marked, indicated 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 highly cyclical nature of the pulp and paper industry; pulp and paper production, production capacity and pricing levels in North America, Europe, Asia and southern Africa; any major disruption in production at the Group's key facilities; changes in environmental, tax and other laws and regulations; adverse changes in the markets for the Group's products; any delays, unexpected costs or other problems experienced with any business acquired or to be acquired; consequences of the Group's leverage; adverse changes in the South African political situation and economy or the effect of governmental efforts to address present or future economic or social problems; and the impact of future investments, acquisitions and dispositions (including the financing of investments and acquisitions) and any delays, unexpected costs or other problems experienced in connection with dispositions. 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.







**results for the quarter ended June 2004**

**third quarter 2004**

The word for fine paper

**sappi**





Coated fine paper  
63%  
Uncoated fine paper  
5%  
Coated specialities  
9%  
Commodity paper  
9%  
Pulp  
13%  
Other  
1%

Europe  
42%  
Southern Africa  
15%  
Asia and other  
12%  
North America  
31%

Europe  
45%  
Southern Africa  
25%  
North America  
30%

Europe & ROW\*\*\*  
13%  
Southern Africa  
50%  
North America  
37%

Sappi is the world's leading  
producer of coated fine paper

\* *for the nine months ended June 2004*

\*\* *as at 30 June 2004*

\*\*\* *Rest of the world*

**Sales by product group \***

**Sales: where the product is sold \***

**Sales: where the product is manufactured \***

**Geographic ownership \*\***





EPS 18 US cents  
 Results enhanced by plantation fair value and  
 taxation credits  
 Cash flow improves  
 Southern African businesses' margins squeezed by  
 Rand strength  
 Global demand for coated paper recovering  
 Quarter ended  
 Nine months ended

**June**

March

June \*\*

**June**

June \*\*

**2004**

2004

2003

**2004**

2003

Sales (US\$ million)

**1,188**

1,185

1,062

**3,493**

3,176

Operating profit (US\$ million)

**60**

56

52

**116**

255

EBITDA (US\$ million) \*

**175**

173

146

**462**

529

Operating profit to sales (%)

**5.1**

4.7

4.9

**3.3**

8.0

EBITDA to sales (%) \*

**14.7**

14.6

13.7

**13.2**

16.7

Operating profit to average net  
 assets (%) \*



**5.3**

4.9

4.9

**3.4**

8.3

Headline EPS (US cents) \*

**18**

10

11

**19**

58

EPS (US cents)

**18**

10

11

**19**

58

Return on average equity

(ROE) (%) \*

**7.9**

4.7

5.3

**2.8**

10.1

Net debt (US\$ million) \*

**1,649**

1,753

1,571

**1,649**

1,571

Net debt to total capitalisation (%)\*

**33.0**

35.6

33.3

**33.0**

33.3

*\* Refer to page 17, Supplemental Information for the definition of the term \*\* Restated for AC 137*

financial&nbsphighlights

summary

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During the quarter we have seen continued demand growth in our major markets. Coated fine paper demand in North America and Europe grew strongly with apparent consumption up approximately 12% and 11% respectively compared to the equivalent quarter last year.

Prices for coated paper, however, remained low. In Europe the price increases announced for April were largely unrealised although the Euro price of our graphics paper did increase slightly compared to the prior quarter. The June price increases for coated paper in North America have been successful for non-contract business and are being phased in as price agreements expire.

Demand for pulp, particularly chemical cellulose pulp (dissolving pulp), was strong and NBSK pulp prices strengthened in the quarter to US\$655 per ton. The average US dollar price for the quarter was approximately 17% above the equivalent quarter last year and 10% above the March quarter.

Sappi's earnings and headline earnings per share for the quarter were 18 US cents compared to 11 US cents for the equivalent quarter last year.

The quarter's results were enhanced by the favourable impact of applying the Agriculture Accounting Standard - AC 137 (IAS41) to our plantations, which added approximately US\$21 million to net profit compared to applying our previous accounting standard.

Although costs were generally well managed, we continue to experience input cost inflation. In particular, higher prices of wood and energy in North America had an unfavourable impact on operating income of approximately US\$9 million compared to the equivalent quarter last year. Selling, General and Administrative costs were US\$8 million below the prior quarter but US\$14 million above the equivalent quarter last year.

Net finance costs of US\$30 million were slightly above the equivalent quarter last year; net interest paid was US\$13 million lower but was offset by a swing from a foreign exchange gain to a small loss and a change in the fair value of financial instruments.

Taxation in the quarter reflects net tax credits of US\$8 million resulting mainly from the net release of provisions as the result of the finalisation of tax audits and the reduction in Austrian deferred tax liabilities following the announced reduction in the Austrian tax rate from 34% to 25%.

comment

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Strong cash generation was again a feature of our results. Cash generated by operations increased to US\$154 million in the quarter compared to US\$122 million in the equivalent quarter last year. There was a US\$15 million reduction in working capital mainly as a result of increased payables.

Capital expenditure for the quarter was US\$57 million and for the nine months was US\$224 million, approximately 73% of depreciation.

Net debt decreased by US\$104 million in the quarter to US\$1,649 million as a result of positive cash flow and the effect of marking our bonds to market.

cash&nbsp;flow and debt

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***Sappi Fine Paper***

**Quarter**

Quarter

**ended**

ended

**June**

June

**2004**

2003

%

**US\$ million**

US\$ million

change

Sales

**957**

874

9.5

Operating profit

**4**

33

(87.9)

Operating profit to sales (%)

**0.4**

3.8

-

EBITDA

**90**

110

(18.2)

EBITDA to sales (%)

**9.4**

12.6

-

RONOA p.a. (%)

**0.5**

4.1

-

Although there has been a strong improvement in demand, price levels in the quarter remained at cyclical lows.

The results of our fine paper division continued to be unfavourably impacted by our North American operations, which reported a loss for the quarter. The North American operating results returned to break-even in June.

***Europe***

**Quarter**

Quarter

**ended**

ended

**June**

June

%

%

**2004**

2003

change	
change	
<b>US\$ million</b>	
US\$ million	
(US\$)	
(Euro)	
Sales	
<b>512</b>	
481	
6.4	
(0.8)	
Operating profit	
<b>18</b>	
14	
28.6	
19.9	
Operating profit to sales (%)	
<b>3.5</b>	
2.9	
-	
-	
EBITDA	
<b>67</b>	
58	
15.5	
7.7	
EBITDA to sales (%)	
<b>13.1</b>	
12.1	
-	
-	
RONOA p.a. (%)	
<b>4.2</b>	
3.5	
-	
-	

Our total sales volume was 6% above the equivalent quarter last year. For coated fine paper our sales volume in Europe was approximately 14% higher, reflecting the strong apparent consumption growth but it was lower than the March quarter due to seasonal effects.

Although average prices for graphics paper showed some increase in the quarter we did not achieve the price increase which we announced for April. Compared to the equivalent quarter last year average prices realised in Euros were down 7%.

operating review for the quarter

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*North America***Quarter**

Quarter

**ended**

ended

**June**

June

**2004**

2003

%

**US\$ million**

US\$ million

change

Sales

**363**

319

13.8

Operating (loss) profit

**(17)**

9

-

Operating profit to sales (%)

-

2.8

-

EBITDA

**16**

40

(60.0)

EBITDA to sales (%)

**4.4**

12.5

-

RONOA p.a. (%)

-

2.5

-

The performance of our North American business was disappointing for the quarter, but operating results reached break-even in June supported by strong shipments and increasing prices. Our North American inventories declined by approximately 13% compared to March.

Our sales volumes were 27% higher than the equivalent quarter last year compared to a growth in US coated fine paper producers' shipments of approximately 19% but average prices realised were 10% lower notwithstanding the June price increase.

Higher wood and energy prices had unfavourable impacts of US\$7 million and US\$2 million respectively on operating profit compared to the equivalent quarter last year. However, compared to the March quarter the unfavourable impacts on operating profit were approximately US\$3 million and US\$1 million respectively. Wood costs have now largely stabilised.

We expect demand for our web products to remain strong in the final quarter and prices to improve further as the effect of the June increase is phased in. On 28 July 2004 we announced a further increase of US\$60 per ton on web products effective immediately on new orders.

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**South Africa**

**Quarter**

Quarter

**ended**

ended

**June**

June

%

%

**2004**

2003

change

change

**US\$ million**

US\$ million

(US\$)

(Rand)

Sales

**82**

74

10.8

(4.2)

Operating profit

**3**

10

(70.0)

(74.1)

Operating profit to sales (%)

**3.7**

13.5

-

-

EBITDA

**7**

12

(41.7)

(49.6)

EBITDA to sales (%)

**8.5**

16.2

-

-

RONOA p.a. (%)

**7.0**

30.8

-

-

Our sales volume remained strong in the quarter. The Rand prices in the domestic market and Rand realisations from exports have, however, reduced as a result of the strong currency. This has resulted in a sharp reduction in margins and returns.

**Sappi Forest Products**

<b>Quarter</b>	
Quarter	
<b>ended</b>	
ended	
<b>June</b>	
June	
%	
%	
<b>2004</b>	
2003	
change	
change	
<b>US\$ million</b>	
US\$ million	
(US\$)	
(Rand)	
Sales	
<b>231</b>	
188	
22.9	
(6.2)	
Operating profit	
<b>62</b>	
21	
195.2	
155.2	
Operating profit to sales (%)	
<b>26.8</b>	
11.2	
-	
-	
EBITDA	
<b>90</b>	
37	
143.2	
110.2	
EBITDA to sales (%)	
<b>39.0</b>	
19.7	
-	
-	
RONOA p.a. (%)	
<b>18.7</b>	
8.6	
-	
-	

We experienced strong domestic demand for our packaging paper and newsprint in the quarter. Pulp prices continued to increase in Dollar terms, reflecting strong demand growth. Our chemical cellulose pulp (dissolving pulp) business continued to perform strongly.

The strong Rand has continued to squeeze our margins, particularly by reducing the rand realisation from exports.

The fair value adjustment to the value of our plantations in terms of accounting standard AC 137 had a significant impact on operating results in the quarter as a result of increased pulpwood prices.

operating review for the quarter (continued)

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We are experiencing increased demand for coated paper worldwide and particularly in our major markets of Europe and North America.

As price levels for coated paper remain at low levels, achieving higher prices remains key to improving our profitability. We will realise further increases from the June announcement in North America during the fourth financial quarter. We have announced further price increases in North America and Europe.

Demand for chemical cellulose pulp (dissolving pulp) is also strong and prices have increased in line with NBSK pulp prices. Along with our other Southern African businesses the margins of this business continue to be squeezed by the strength of the Rand relative to the US Dollar.

We are clearly seeing an overall improvement in our business environment and expect some improvement in earnings per share in the fourth financial quarter; however, we will not achieve the full effect of the turnaround in our North American business until next year.

On behalf of the Board

**J C A Leslie**

**D G Wilson**

Director

Director

29 July 2004

sappi limited

(Registration number 1936/008963/06)

**Issuer Code:** SAVVI

**JSE Code:** SAP

**ISIN Code:** ZAE 000006284

group outlook

**sappi**

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**sappi**







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. 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 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 and pricing), adverse changes in the markets for the group's products, consequences of substantial leverage, changing regulatory requirements, unanticipated production disruptions, 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. 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.

forward - looking&nbsp;statements

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financial&nbsp;results

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for the third quarter ended June 2004





**Reviewed**

Reviewed

**Reviewed**

Reviewed

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**US\$ million**

US\$ million

% change

**US\$ million**

US\$ million

% change

**Sales**

**1,188**

1,062 11.9

**3,493**

3,176 10.0

Cost of sales

**1,037**

936

**3,062**

2,696

Gross profit

**151**

126 19.8

**431**

480 (10.2)

Selling, general &

administrative

expenses

**91**

77

**315**

229

**60**

49

**116**

251

Other income

-

3



-		
4		
<b>Operating profit</b>		
<b>60</b>		
52	15.4	<b>116</b>
255	(54.5)	
Net finance costs		
<b>30</b>		
29		
<b>84</b>		
90		
Net paid		
<b>26</b>		
39		
<b>78</b>		
93		
Capitalised		
<b>(1)</b>		
(1)		
<b>(2)</b>		
(2)		
Net foreign exchange losses (gains)		
<b>1</b>		
(6)		
<b>(5)</b>		
2		
Change in fair value of financial instruments		
<b>4</b>		
(3)		
<b>13</b>		
(3)		
<b>Profit before tax</b>		
<b>30</b>		
23	30.4	
<b>32</b>		
165	(80.6)	
Taxation - current		
<b>2</b>		
5		
<b>20</b>		
36		
Taxation - deferred		
<b>(12)</b>		
(7)		
<b>(30)</b>		
(5)		
<b>Net profit</b>		
<b>40</b>		

25	60.0
<b>42</b>	
134	(68.7)
<b>Earnings per share</b>	
<b>(US cents)</b>	
<b>18</b>	
11	
<b>19</b>	
58	
<b>Headline earnings per</b>	
<b>share (US cents) *</b>	
<b>18</b>	
11	
<b>19</b>	
58	
Weighted average	
number of shares	
in issue (millions)	
<b>226.3</b>	
229.1	
<b>226.3</b>	
229.5	
Diluted earnings per	
share (US cents)	
<b>17</b>	
11	
<b>18</b>	
58	
Diluted headline	
earnings per share	
(US cents) *	
<b>17</b>	
10	
<b>18</b>	
57	
Weighted average	
number of shares on	
fully diluted basis	
(millions)	
<b>228.3</b>	
231.5	
<b>228.3</b>	
232.1	
<b>Calculation of Headline</b>	
<b>earnings *</b>	
Net profit	
<b>40</b>	
25	
<b>42</b>	
134	
Profit on disposal of	

business and property, plant & equipment

-

(2)

-

(3)

Mill closure costs

-

-

-

1

Headline earnings

**40**

23

**42**

132

*\* Headline earnings disclosure is required by the JSE Securities Exchange South Africa.*

group income statement

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**Reviewed**

Audited

**June 2004**

Sept 2003

**US\$ million**

US\$ million

**ASSETS**

**Non-current assets**

**4,516**

4,242

Property, plant and equipment

**3,666**

3,554

Plantations

**544**

432

Deferred taxation

**36**

41

Other non-current assets

**270**

215

**Current assets**

**1,441**

1,575

Cash and cash equivalents

**387**

584

Trade and other receivables

**274**

290

Inventories

**780**

701

**Total assets**

**5,957**

5,817

**EQUITY AND LIABILITIES**

**Shareholders' equity**

Ordinary shareholders' interest

**2,083**

1,945

**Non-current liabilities**

**2,469**

2,541

Interest-bearing borrowings

**1,590**

1,742

Deferred taxation

**522**

517

Other non-current liabilities

**357**

282

**Current liabilities**

**1,405**

1,331

Interest-bearing borrowings

**382**

170

Bank overdraft

**64**

163

Taxation payable

**74**

82

Other current liabilities

**885**

916

**Total equity and liabilities**

**5,957**

5,817

Number of shares in issue at  
balance sheet date (millions)

**226.4**

226.9

group balance sheet

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**Reviewed**

Reviewed

**Reviewed**

Reviewed

**Quarter**

Quarter

**Nine months**

Nine months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**US\$ million**

US\$ million

**US\$ million**

US\$ million

**Cash generated by  
operations**

**154**

122

**444**

495

Movement in working  
capital

**15**

(18)

**(129)**

(183)

Net finance costs

**(29)**

(31)

**(81)**

(92)

Taxation (paid) recovered

**(11)**

6

**(30)**

31

Dividend paid

-

-

**(66)**

(65)

**Cash retained from  
operating activities**

**129**

79

<b>138</b>
186
Cash effects of investing activities
<b>(62)</b>
(87)
<b>(247)</b>
(179)
<b>67</b>
(8)
<b>(109)</b>
7
Cash effects of financing activities
<b>(13)</b>
138
<b>(112)</b>
141
<b>Net movement in cash and cash equivalents</b>
<b>54</b>
130
<b>(221)</b>
148
group cash flow statement
12





**Reviewed**

Reviewed

**Nine months**

Nine months

**ended**

ended

**June 2004**

June 2003

**US\$ million**

US\$ million

Balance - beginning of year as reported

**1,958**

1,601

Change in accounting policy

**(13)**

(4)

Balance - beginning of year restated

**1,945**

1,597

Net profit

**42**

134

Foreign currency translation reserve

**169**

313

Revaluation of derivative instruments

**3**

(17)

Dividends declared - US\$ 0.29

(2003: US\$ 0.28) per share

**(66)**

(65)

Share buybacks net of transfers to participants  
of the share purchase trust

**(10)**

(24)

Balance - end of period

**2,083**

1,938

group statement of changes in shareholders' equity

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## **1. Basis of preparation**

The annual financial statements are prepared in conformity with South African Statements of Generally Accepted Accounting Practice (SA GAAP). These quarterly results have been prepared in compliance with AC 127 (Interim financial reporting) and are based on accounting policies which are consistent with those used in the annual financial statements. The same accounting policies have been followed as in the annual financial statements for September 2003, except for the new agriculture accounting standard - Agriculture - AC 137 (IAS 41) which became effective from the beginning of the current financial year.

The effect on equity for the above change is reflected in the Group statement of changes in shareholders' equity. The effect on net profit for the current quarter is an increase of US\$21 million, net of US\$11 million tax (March 2003 quarter: minimal impact; June 2003 quarter: decrease of US\$4 million, net of US\$1 million tax) and an increase of US\$35 million, net of US\$17 million tax for the nine months ended (June 2003: a decrease of US\$5 million, net of US\$2 million tax). Where appropriate, comparative figures have been restated. The restatement has decreased the basic and headline earnings per share by 2 US cents and 1 US cent for the June 2003 quarter, respectively and 3 US cents and 2 US cents for the nine months ended June 2003, respectively.

The preliminary results for the quarter have been reviewed by the group's auditors, Deloitte & Touche. Their unqualified review report is available for inspection at the company's registered offices.

## **2. Comparative figures**

Comparative figures have been restated to take into account the effects of the new agriculture accounting standard which became effective from the beginning of the current financial year. The effect on operating profit is the inclusion of the fair value changes in the value of plantations and the expensing of the costs incurred to establish and maintain plantations (silviculture costs) and the amortisation of interest which had been previously capitalised. Net finance costs have increased. In terms of the new accounting standard, interest is no longer capitalised to the carrying value of plantations.

The effect on the cash flow statement is a reclassification of investments in plantations from cash utilised in investing activities to cash generated by operations. Net cash flows remain the same.

Operating profit has been restated to take into account the requirements of circular 3/2004 issued by the South African Institute of Chartered Accountants. Previously non-trading (profit) loss items were excluded from operating profit.

The impact of the inclusion is an increase in operating profit of US\$3 million for the quarter and US\$4 million for the nine months ended June 2003.

In September 2003, cash and overdraft were restated to gross up amounts previously set-off. The June 2003 cash flow statement has been restated to take the effects of this into account.

notes to the group results





**Reviewed**

Reviewed

**Reviewed**

Reviewed

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**US\$ million**

US\$ million **US\$ million**

US\$ million

**3. Operating profit**

Included in operating profit

are the following non-cash

items:

Depreciation and

amortisation

Depreciation of

property, plant and

equipment

**102**

89

**305**

259

Fellings

**12**

5

**39**

14

Other amortisation

**1**

-

**2**

1

**115**

94

**346**

274

Fair value adjustment

(gains) on plantations

(included in cost of sales)

Changes in volume

**(16)**

(12)

**(44)**

(32)

Changes in fair value

**(29)**

1

**(53)**

-

**(45)**

(11)

**(97)**

(32)

The above fair value adjustment (gains) have been partially offset by planting costs relating to plantations replenished

**10**

8

**28**

21

**4. Capital expenditure**

Property, plant and equipment

**57**

70

**224**

170

**sappi**

15

**sappi**





**Reviewed**

Audited

**June 2004**

Sept 2003

**US\$ million**

US\$ million

**5.**

**Capital commitments**

Contracted but not provided

**94**

86

Approved but not contracted

**130**

193

**224**

279

**6.**

**Contingent liabilities**

Guarantees and suretyships

**49**

47

Other contingent liabilities

**3**

24

The reduction in other contingent liabilities reflects management's revised estimate of reasonably possible losses which could arise from taxation queries to which certain group companies are subject. These could give rise to additional taxation costs. However, management currently believes, based on legal counsel opinion, that no further material costs will arise.

notes to the group results (continued)

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sappi

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sappi

*definitions*

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

\* **EBITDA** - earnings before interest (net finance costs), tax, depreciation and amortisation

\* **EBITDA to sales** - EBITDA divided by sales

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

**Headline earnings** - as defined in circular 7/2002 issued by the South African Institute of Chartered Accountants, separates from earnings all items of a capital nature. It is not necessarily a measure of sustainable earnings. It is a listing requirement of the JSE Securities Exchange South Africa to disclose headline earnings per share.

\* **Net assets** - total assets less current liabilities

\* **Net asset value** - shareholders' equity plus net deferred tax

\* **Net asset value per share** - net asset value divided by the number of shares in issue at balance sheet date.

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

\* **Net debt to total capitalisation** - Net debt divided by shareholders' equity plus minority interest, non-current liabilities, current interest-bearing borrowings and overdraft

\* **ROE** - return on average equity. Net profit divided by average shareholders' equity

\* **RONA** - operating profit divided by average net assets

\* **RONOA** - operating profit divided by average net operating assets. Net operating assets are total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and bank overdraft)

\* *The above financial measures, other than headline earnings per share, 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.*

supplemental information





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*additional information*

**Reviewed**

Reviewed

**Reviewed**

Reviewed

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**US\$ million**

US\$ million **US\$ million**

US\$ million

**Net profit to EBITDA \***

**reconciliation**

Net profit

**40**

25

**42**

134

Net finance costs

**30**

29

**84**

90

Taxation - current

**2**

5

**20**

36

Taxation

- deferred

**(12)**

(7)

**(30)**

(5)

Depreciation

**102**

89

**305**

259

Amortisation (including  
fellings)

**13**

5

**41**

15

EBITDA \*

**175**

146

**462**

529

**Reviewed**

Audited

**June 2004**

Sept 2003

**US\$ million**

US\$ million

Net debt (US\$ million) \*\*

**1,649**

1,491

Net debt to total capitalisation (%) \*\*

**33.0**

30.9

Net asset value per share (US\$) \*\*

**11.35**

10.67

*\* In connection with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled EBITDA to net profit rather than operating profit and recalculated EBITDA to exclude interest (net finance costs), taxes, depreciation and amortisation (including fellings). As a result our definition has been amended to retain other income/expenses (previously non-trading profit/loss) as part of EBITDA. The comparative information has been restated to take this into account. The effect on EBITDA for the amended definition is an increase of US\$3 million for the quarter and US\$4 million for the nine months ended June 2003. There was no impact on the current quarter and nine months ended June 2004. We use EBITDA as an internal measure of performance and believe it is a useful and commonly used measure of financial performance in addition to operating profit and other profitability measures under SA GAAP. EBITDA is not a measure of performance under SA GAAP. EBITDA should not be construed as an alternative to operating profit as an indicator of the company's operations in accordance with SA GAAP. EBITDA is also presented to assist our shareholders and the investment community in interpreting our financial results. This financial measure is regularly used as a means of comparison of companies in our industry by removing certain differences between companies such as depreciation methods, financing structures and taxation regimes. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully.*

*\*\* Refer to page 17, supplemental information for the definition of the term.*

supplemental information







**sappi**

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**sappi**

*regional information*

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**Metric tons**

Metric tons

**Metric tons**

Metric tons

**(000's)**

(000's)

% change

**(000's)**

(000's)

% change

**Sales**

Fine Paper - North America

**381**

301	26.6	<b>1,080</b>
-----	------	--------------

1,012	6.7	
-------	-----	--

Europe

**580**

546	6.2	
-----	-----	--

**1,779**

1,663	7.0	
-------	-----	--

Southern Africa

**85**

78	9.0	<b>231</b>
----	-----	------------

221	4.5	
-----	-----	--

*Total*

**1,046**

925	13.1	<b>3,090</b>
-----	------	--------------

2,896	6.7	
-------	-----	--

Forest Products - Pulp and

paper

operations

**369**

348	6.0	
-----	-----	--

<b>1,126</b>		
1,080	4.3	
Forestry operations		
<b>416</b>		
323	28.8	<b>1,074</b>
930	15.5	
<i>Total</i>		
<b>1,831</b>		
1,596	14.7	<b>5,290</b>
4,906	7.8	
<b>Reviewed</b>		
Reviewed		
<b>Reviewed</b>		
Reviewed		
<b>Nine</b>		
Nine		
<b>Quarter</b>		
Quarter		
<b>months</b>		
months		
<b>ended</b>		
ended		
<b>ended</b>		
ended		
<b>June 2004</b>		
June 2003		
<b>June 2004</b>		
June 2003		
<b>US\$ million</b>		
US\$ million		
% change		
<b>US\$ million</b>		
US\$ million		
% change		
<b>Sales</b>		
Fine Paper - North America		
<b>363</b>		
319	13.8	<b>1,018</b>
1,026	(0.8)	
Europe		
<b>512</b>		
481	6.4	
<b>1,586</b>		
1,418	11.8	
Southern Africa		
<b>82</b>		
74	10.8	<b>225</b>
196	14.8	
<i>Total</i>		
<b>957</b>		

874	9.5	
<b>2,829</b>		
2,640	7.2	
Forest Products - Pulp and paper operations		
<b>212</b>		
174	21.8	<b>616</b>
497	23.9	
Forestry operations		
<b>19</b>		
14	35.7	
<b>48</b>		
39	23.1	
<i>Total</i>		
<b>1,188</b>		
1,062	11.9	<b>3,493</b>
3,176	10.0	
<b>Operating profit</b>		
Fine Paper - North America		
<b>(17)</b>		
9	-	
<b>(91)</b>		
38	-	
Europe		
<b>18</b>		
14	28.6	
<b>60</b>		
95	(36.8)	
Southern Africa		
<b>3</b>		
10	(70.0)	
<b>11</b>		
29	(62.1)	
<i>Total</i>		
<b>4</b>		
33	(87.9)	
<b>(20)</b>		
162	-	
Forest Products		
<b>62</b>		
21	195.2	
<b>145</b>		
91	59.3	
Corporate		
<b>(6)</b>		
(2)		
200.0		
<b>(9)</b>		
2	-	

*Total*

**60**

52      15.4      **116**

255    (54.5)

supplemental information





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*regional information (continued)***Reviewed**

Reviewed

**Reviewed**

Reviewed

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

**June 2004**

June 2003

**US\$ million**

US\$ million

% change

**US\$ million**

US\$ million

% change

**Earnings before interest,  
tax, depreciation and  
amortisation charges**

Fine Paper - North America

**16**

40 (60.0)

**11**

131

(91.6)

Europe

**67**

58 15.5 207

223 (7.2)

Southern Africa

**7**

12 (41.7)

**21**

36 (41.7)

*Total***90**

110 (18.2)

**239**

390 (38.7)

Forest Products

**90**



37	143.2	
<b>231</b>		
136	69.9	
Corporate		
<b>(5)</b>		
(1)		
400.0		
<b>(8)</b>		
3	-	
<i>Total</i>		
<b>175</b>		
146	19.9	<b>462</b>
529	(12.7)	
<b>Net operating assets</b>		
Fine Paper - North America		
<b>1,343</b>		
1,472	(8.8)	
<b>1,343</b>		
1,472	(8.8)	
Europe		
<b>1,724</b>		
1,665	3.5	
<b>1,724</b>		
1,665	3.5	
Southern Africa		
<b>178</b>		
130	36.9	<b>178</b>
130	36.9	
<i>Total</i>		
<b>3,245</b>		
3,267	(0.7)	
<b>3,245</b>		
3,267	(0.7)	
Forest Products		
<b>1,374</b>		
1,010	36.0	<b>1,374</b>
1,010	36.0	
Corporate		
<b>(44)</b>		
(21)		
(109.5)		
<b>(44)</b>		
(21)		
(109.5)		
<i>Total</i>		
<b>4,575</b>		
4,256	7.5	
<b>4,575</b>		
4,256	7.5	
supplemental information		





*summary rand convenience translation***Reviewed**

Reviewed

**Reviewed**

Reviewed

**Nine**

Nine

**Quarter**

Quarter

**months**

months

**ended**

ended

**ended**

ended

**June 2004**

June 2003

% change

**June 2004**

June 2003

% change

Sales (ZAR million)

**7,835**

8,104 (3.3)

**23,634**

27,369 (13.6)

Operating profit (ZAR million)

**396**

397 (0.3)

**785**

2,197 (64.3)

Net profit (ZAR million)

**264**191 38.2 **284**

1,155 (75.4)

EBITDA \* (ZAR million)

**1,154**

1,114 3.6

**3,126**

4,559 (31.4)

Operating profit to sales (%)

**5.1**

4.9

**3.3**

8.0

EBITDA \* to sales (%)

**14.7**

13.7

**13.2**

16.7

Operating profit to average

net assets (%)

**5.4**

4.9

**3.4**

8.1

EPS (SA cents)

**119**

84 41.7 **129**

500 (74.2)

Headline EPS (SA cents) \*

**119**

84 41.7 **129**

500 (74.2)

Net debt (ZAR million) \*

**10,426**

11,673 (10.7)

Net debt to total

capitalisation (%) \*

**33.0**

33.3

Cash generated by operations

(ZAR million)

**1,016**

931 9.1

**3,004**

4,266 (29.6)

Cash retained from operating

activities (ZAR million)

**851**

603 41.1 **934**

1,603 (41.7)

Net movement in cash and

cash equivalents

(ZAR million)

**356**

992 (64.1)

**(1,495)**

1,275 -

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

**exchange rates**

**June**

March

Dec

Sept

June

**2004**

2004

2003

2003

2003

Exchange rates:

Period end rate: US \$1 = ZAR

**6.3224**

6.5738

6.7951 7.1288 7.4300

Average rate for the Quarter: US \$1 = ZAR

**6.5953**

6.8054

6.8569 7.3866 7.6305

Average rate for the YTD: US \$1 = ZAR

**6.7661**

6.8363

6.8569 8.3300 8.6173

Period end rate: EUR 1 = US\$

**1.2138**

1.2150

1.2410 1.1475 1.1417

Average rate for the Quarter: EUR 1 = US\$

**1.2051**

1.2497

1.1887 1.1328 1.1236

Average rate for the YTD : EUR 1 = US\$

**1.2118**

1.2161

1.1887 1.0804 1.0655

*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.*

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sappi ordinary shares

ADR price (NYSE TICKER: SPP)

note: (1 ADR = 1 sappi share)







this report is available on the Sappi website

**www.sappi.com**

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

*South Africa:*

*United States*

*United Kingdom:*

Computershare Investor

*ADR Depository:*

Capita Registrars

Services 2004 (Pty) Limited

The Bank of New York

The Registry

70 Marshall Street

Investor Relations

34 Beckenham Road

Johannesburg 2001

PO Box 11258

Beckenham, Kent

PO Box 61051

Church Street Station

BR3 4TU, DX 91750

Marshalltown 2107

New York, NY 10286-1258

Beckenham West

Tel +27 (0)11 370 5000

Tel +1 610 382 7836

Tel +44 (0)208 639 2157











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 05, 2004

SAPPI LIMITED,

by /s/ D. G. Wilson

Name: D. G. Wilson

Title: Executive Director: Finance