

SAPPI LTD
Form 6-K
August 03, 2009

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
July, 2009

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 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. 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 proposed acquisition of M-real’s coated graphic paper business and the integration of the acquired business into our existing business. The estimate of synergies that we expect to achieve following the completion of the proposed acquisition 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 proposed 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 for the fiscal 2009 or beyond.

quarter results for
the period ended
June 2009
3rd

** for the period ended June 2009*

*** as at June 2009*

Coated fine paper 67%

Uncoated fine paper 7%

Coated specialities 7%

Commodity paper 7%

Pulp 11%

Other 1%

North America 25%

Europe 53%

Southern Africa 22%

Sales by product group *

Sales by source *

North America

25%

Europe

48%

Southern Africa

13%

Asia and Other

14%

Fine paper

67%

Forest products

33%

Sales by destination *

Net operating assets **

sappi

// third quarter results

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Net cash generated US\$106 million

Good progress on debt refinancing

Global economy remains weak

Production curtailed in all regions to match supply to demand

Stronger Rand impacts SA margins unfavourably

Basic loss per share 12 US cents

Acquisition synergies on track

Financial summary

Quarter ended

Nine months ended

June 2009

Mar 2009 June 2008

June 2009

June 2008

Key figures: (US\$ million)

Sales

1,316

1,313 1,494 3,816

4,344

Operating (loss) profit

(7)

6 (23)

56

289

Special items – (gains) losses *

(6)

(23)

111

(61)

(12)

Operating (loss) profit excluding special items

(13)

(17)

88

(5)

277

EBITDA excluding special items **

93

82 182 281

560

Basic (loss) earnings per share

(US cents) ***

(12)

(7)

(17)

(16)

37

Net debt ****

2,770

2,735 2,667 2,770

2,667

Key ratios: (%)

Operating (loss) profit to sales

(0.5)

0.5 (1.5)

1.5

6.7

Operating (loss) profit excluding

special items to sales

(1.0)

(1.3)

5.9

(0.1)

6.4

Operating (loss) profit excluding

special items to Capital Employed

(ROCE) **

(1.1)

(1.6)

8.1

(0.2)

8.8

EBITDA excluding special items to sales

7.1

6.2 12.2

7.4

12.9

Return on average equity (ROE) ****

(12.7)

(7.5)

(15.1)

(5.4)

10.3

Net debt to total capitalisation ****

57.5

59.4 61.5 57.5

61.5

* Refer to page 10 for details on special items.

** Refer to page 22, Supplemental Information for the reconciliation of EBITDA excluding special items to (loss) profit for the period.

*** Comparative figures have been revised in accordance with IAS 33 to reflect the impact of the rights offer.

***** Refer to page 21, Supplemental Information for the definition of the term.
The table above has not been audited or reviewed.*

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Commentary

Strong cash generation was a feature of our results for the quarter and benefited from management's actions to reduce working capital and limit capital expenditure to essential items. Net cash generated of US\$106 million for the quarter included cash of US\$55 million from unwinding fixed-to-floating interest rate swaps.

Global economic conditions remained depressed in the quarter resulting in continued weak conditions in most of our coated paper markets. There are indications that the reduction of inventories in the customer supply chain has run its course, resulting in improved order inflows in many markets towards the end of the quarter.

Conditions in pulp markets, including the chemical cellulose markets, improved significantly in terms of both demand and US Dollar prices, late in the quarter.

Sales volumes for the quarter were slightly up on the prior quarter but 3% down on the equivalent quarter last year despite the additional capacity from our European acquisition earlier in the year.

Average prices realised by the group for the quarter were approximately 9% lower than average prices realised a year ago.

We continued to match our supply to demand and manage our inventory levels by curtailing production during the quarter. Our finished goods inventories declined a further 5% in volume terms compared to March 2009.

Prices of our inputs continued to reduce and had a favourable effect on variable costs during the quarter, in most regions. Our actions to manage raw material usage had a further favourable effect.

Management of fixed costs remains a focus area in all our businesses. During the quarter we announced that we were entering discussions with labour representatives on the permanent reduction of 90 positions at Kirknemi Mill and 49 positions at Biberist Mill.

The integration of the coated graphics paper business from M-real continued to progress well. During the quarter M-real ceased production of coated graphic paper at Hallein and Gohrsmühle mills, reducing industry capacity by 640,000 tons or approximately 7%. We have proceeded to transfer the order books from these mills to our own mills which we expect to improve our volumes and margins going forward. Achievement of the synergies from the acquisition are on track and we expect to achieve approximately €60 million of synergies in the nine months to September 2009 and to achieve the previously announced level of synergies of €120 million per annum within three years.

During the quarter we initiated alternative fuel tax credit claims in North America and reported a benefit of US\$37 million for the period, which is treated as a special item and included in operating profit. We expect to receive the cash proceeds during the fourth financial quarter. Under current US legislation these credits expire on 31 December 2009. There can be no assurance that they will not expire sooner. In connection with the refinancings currently in progress, it has been agreed that the alternative fuel tax credit will be added to EBITDA excluding special items for covenant purposes.

Operating loss excluding special items was US\$13 million for the quarter, an improvement on the loss of US\$17 million in the prior quarter and compares with a profit of US\$88 million a year ago. Our European business returned to profitability, excluding special items, as a result of the ramp up of synergy achievement and cost reduction, despite poor operating levels. The North American business improved its performance and its run rate by the end of the quarter had returned to operating profitability excluding special items. The Southern African business was impacted by the strengthening of the Rand relative to the US Dollar, weak domestic demand and low pulp prices in the quarter, resulting in an operating loss excluding special items.

// third quarter results

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Special items for the quarter largely comprise an unfavourable fair value adjustment on plantations of US\$25 million and the favourable alternative fuel tax credit of US\$37 million. The operating loss of US\$7 million for the quarter compares with a profit of US\$6 million in the prior quarter and a loss of US\$23 million a year ago.

Net finance costs for the quarter were US\$70 million, up from US\$40 million in the prior quarter, largely as a result of an unfavourable non-cash change in the value of financial instruments of US\$27 million. This includes an upfront unfavourable non-cash change in the fair value of the previously mentioned interest rate swaps which were unwound in the quarter of US\$20 million. This will be more than offset by the positive amortisation of the underlying borrowings over the next three years in the amount of US\$46 million.

The effective tax rate for the quarter was 19%. The group did not benefit from the tax relief on reported losses as a result of the losses in certain regions where a deferred tax asset has not been raised.

The basic loss per share for the quarter was 12 US cents compared to a loss of 17 US cents in the equivalent quarter a year ago.

Cash flow and debt

Net cash generated of US\$106 million for the quarter largely comprised cash generated by operations of US\$77 million and cash released from working capital reduction of US\$93 million less capital expenditure of US\$54 million. Net finance costs in terms of cash flow were negligible in the quarter as a result of the US\$55 million benefit of unwinding fixed-to-floating interest rate swaps which offset the cash finance costs. Net debt was unfavourably impacted by currency movements of US\$142 million as a result of the strengthening of the Euro and Rand relative to the US Dollar, our reporting currency, and therefore increased by US\$35 million to US\$2.8 billion during the quarter, although in local currency debt reduced by the equivalent of US\$106 million.

For the nine months to June, net cash generated (excluding cash invested in the acquisition from M-real) was US\$62 million.

Refinancing update

Sappi has made good progress with its refinancing, which is aimed to extend the maturity of its debt. We have raised approximately US\$800 million of senior secured notes due in 2014 in two tranches: €350 million (US\$497 million) and US\$300 million, with coupons of 11.75% and 12% and yields of 13.125% and 13.375% respectively. The proceeds have been paid into escrow pending the finalisation of the replacement revolving credit facility (RCF) of approximately €200 million and OeKB term loan of €400 million as well as documentation of security for the respective lenders, all of which we expect to have completed by the end of the September quarter.

We intend to use the net proceeds from this offering to repay debt. We expect to repay a portion of our short term debt and may elect to repay other debt. We also intend to repay all or part of the €220 million vendor loan notes issued to M-real at a discount.

US\$60 million was also raised in the South African bond market and will be used to repay short term debt. The successful completion of our refinancing will take care of our liquidity and significant debt maturities for at least the next three years; however as a result of interest rates available in current financial market conditions, our refinancings will lead to a substantial increase in finance costs.

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 Operating Review for the Quarter
Sappi Fine Paper
 Quarter
 Quarter
 Quarter
 ended
 ended
 ended
 June 2009
 June 2008
 %
 March 2009
 US\$ million
 US\$ million
 change
 US\$ million
 Sales
 1,098
 1,224
 (10.3)
 1,112
 Operating profit (loss)
 19
 36
 (47.2)
 (43)
 Operating profit (loss) to sales (%)
 1.7
 2.9
 –
 (3.9)
 Special items – (gains) losses
 (32)
 –
 –
 8
 Operating (loss) profit excluding
 special items
 (13)
 36
 –
 (35)
 Operating (loss) profit excluding special
 items to sales (%)
 (1.2)
 2.9
 –
 (3.1)
 EBITDA excluding special items
 74

113
(34.5)
48
EBITDA excluding special items
to sales (%)
6.7
9.2
—
4.3
RONOA pa (%)
(1.4)
4.4
—
(4.3)

There was a US\$22 million improvement in the operating result excluding special items of the fine paper business compared to the prior quarter as a result of the favourable turnaround in the European business and improvement in the result of the North American business. However, the much lower operating rates in Europe and North America resulting from weak global market conditions resulted in a substantial decline in operating profit excluding special items, compared to a year earlier

// third quarter results
 5
Europe
 Quarter
 Quarter
 Quarter
 ended
 ended
 %
 %
 ended
 June 2009
 June 2008
 change
 change
 March 2009
 US\$ million
 US\$ million
 (US\$)
 (Euro)
 US\$ million
 Sales
 729
 705
 3.4
 19.3
 737
 Operating profit (loss)
 0
 10
 –
 –
 (21)
 Operating profit (loss) to sales (%)
 0
 1.4
 –
 –
 (2.8)
 Special items – losses
 4
 0
 –
 –
 0
 Operating profit (loss) excluding
 special items
 4
 10
 (60.0)
 (52.8)

(21)

Operating profit (loss) excluding
special items to sales (%)

0.5

1.4

-

-

(2.8)

EBITDA excluding special items

62

55

12.7

28.8

34

EBITDA excluding special items

to sales (%)

8.5

7.8

-

-

4.6

RONOA pa (%)

0.7

1.9

-

-

(4.2)

The European business returned to operating profit excluding special items in the quarter as a result of synergy achievement, lower input prices and fixed cost reductions. Operating rates were approximately 75% as we continued to curtail production to match demand.

Sales volumes were similar to the prior quarter.

Average prices achieved within Europe were stable in the quarter. There were some improvements in export prices. The average prices achieved for the business in Euro terms were slightly lower compared to the prior quarter as a result of an increased proportion of exports and reels in the overall sales mix for the period.

The achievement of synergies progressed well and in the six months we have owned the business we have achieved approximately €38 million of synergies. We expect to achieve approximately €60 million in the nine months to September 2009 and the previously announced level of €120 million per annum within three years. The rate of synergy realisation will accelerate following the cessation of coated graphic paper production at M-real's Hallein and Gohrsmühle mills and the transfer of their order books to our mills.

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North America

Quarter

Quarter

Quarter

ended

ended

ended

June 2009

June 2008

%

March 2009

US\$ million

US\$ million

change

US\$ million

Sales

291

424

(31.4)

301

Operating profit (loss)

24

25

(4.0)

(24)

Operating profit (loss) to sales (%)

8.2

5.9

–

(8.0)

Special items – (gains) losses

(37)

–

–

8

Operating (loss) profit excluding

special items

(13)

25

–

(16)

Operating (loss) profit excluding

special items to sales (%)

(4.5)

5.9

–

(5.3)

EBITDA excluding special items

13

53

(75.5)

8

EBITDA excluding special
items to sales (%)

4.5

12.5

—

2.7

RONOA pa (%)

(4.9)

9.2

—

(5.9)

Sales volumes improved slightly in the quarter compared to the prior quarter but were 23% lower than a year ago. Average prices realised declined in the quarter compared to the prior quarter and were 11% down compared to a year ago. Prices achieved for pulp started improving during the quarter after sharp declines in the previous two quarters.

Action taken by management to reduce costs including suspending operations at Muskegon Mill, reducing the sales and administrative overheads and reducing unit consumption of raw materials, has helped offset poor market conditions and improve the result of the business to an operating profit excluding special items in the month of June.

The alternative fuel tax credit of US\$37 million for the quarter is included in operating profit and treated as a special item.

// third quarter results

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Fine Paper South Africa

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2009

June 2008

change

change

March 2009

US\$ million

US\$ million

(US\$)

(Rand)

US\$ million

Sales

78

95

(17.9)

(9.8)

74

Operating (loss) profit

(5)

1

–

–

2

Operating (loss) profit to sales (%)

(6.4)

1.1

–

–

2.7

Special items – losses

1

–

–

–

–

Operating (loss) profit excluding

special items

(4)

1

–

–

2

Operating (loss) profit excluding
special items to sales (%)

(5.1)

1.1

–

–

2.7

EBITDA excluding special items

(1)

5

–

–

6

EBITDA excluding special
items to sales (%)

(1.3)

5.3

–

–

8.1

RONOA pa (%)

(8.3)

3.2

–

–

4.6

Demand levels were weak in the quarter and prices were under downward pressure as a result of the strength of the Rand compared to the US Dollar.

The business recorded an operating loss for the quarter despite reducing operating costs.

8

Forest Products

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2009

June 2008

change

change

March 2009

US\$ million

US\$ million

(US\$)

(Rand)

US\$ million

Sales

218

270

(19.3)

(11.2)

201

Operating (loss) profit

(26)

(60)

–

–

48

Operating (loss) profit to sales (%)

(11.9)

(22.2)

–

–

23.9

Special items – losses (gains)

19

111

–

–

(31)

Operating (loss) profit excluding

special items

(7)

51

–

–

17

Operating (loss) profit excluding
special items to sales (%)

(3.2)

18.9

–

–

8.5

EBITDA excluding special items

12

68

(84.4)

(80.7)

32

EBITDA excluding special

items to sales (%)

5.5

25.2

–

–

15.9

RONOA pa (%)

(1.7)

12.0

–

–

4.6

The Forest Products business was impacted by weak domestic volumes and downward pressure on local prices in the quarter, which was partly offset by lower costs. Demand for chemical cellulose strengthened in the quarter, allowing us to recommence the ramp up of the Saiccor expanded capacity. Utilisation of the additional capacity remained low in the quarter resulting in unabsorbed fixed costs and depreciation related to the expansion, which will be eliminated as the mill approaches full capacity by the end of September 2009. Prices for chemical cellulose started to recover during the quarter, in line with NBSK pulp which increased from a low of US\$577 per ton in March 2009 to US\$644 per ton in July, still US\$260 per ton below the peak in 2008.

The sharp strengthening of the Rand relative to the US Dollar had a severe direct impact on export revenue received in Rand and on domestic prices as a result of import competition.

The unfavourable special items of US\$19 million for the region in the quarter relate to an unfavourable plantation fair value adjustment partly offset by an insurance payout from our captive insurance company to Forest Products.

The insurance payment has no net effect on group special items.

// third quarter results

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Outlook

Although global economic conditions remain weak we have seen improvement in pulp markets and some of our coated graphic paper export markets. In addition, inventory reduction in the coated graphic paper supply chain has largely run its course and we have started seeing order levels closer to end use demand levels. We also expect demand, particularly for reels, to strengthen during the next quarter which is historically the seasonally strongest quarter, and for our operating rates to improve in Europe and North America.

The chemical cellulose market improved markedly during our third financial quarter in terms of both demand and pricing. Sappi Saiccor Mill is responding by ramping up its production following the 30% capacity expansion commissioned last September, and expects to achieve close to full capacity by our financial year end and improve sales volumes during the next quarter as production increases.

Other factors which are expected to improve results are the achievement of further alternative fuel tax credits in North America of approximately US\$40 million which will be reported as a special item, subject to continued availability under US law, accelerated synergy achievement in respect of the European acquisition integration, the benefits of fixed and variable cost reduction action and potential for some further input price reduction realisation.

Against this background, we expect to return to operating profitability excluding special items during the next quarter. Cash generation is expected to be positive for the quarter.

We will continue to focus on cash generation and debt reduction. We expect capital expenditure for the full year to be less than US\$200 million and to continue to carefully manage capex at that level in order to prioritise debt reduction.

The successful completion of our refinancing will take care of our liquidity and significant debt maturities for at least the next three years. With our well structured business and decisive management action, we are strongly placed to ride out the current economic downturn and take full advantage of our leading market positions and efficient asset base when conditions improve.

On behalf of the board

R J Boëttger

M R Thompson

Director

Director

30 July 2009

sappi limited

(Registration number 1936/008963/06)

Issuer Code: SAVVI

JSE Code: SAP

ISIN: ZAE000006284

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Other information

(this information has not been reviewed)

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.

Special items, excluding interest and tax effects, for the relevant periods are:

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

June 2009

June 2008

US\$ million

US\$ million

US\$ million

US\$ million

Plantation price fair value adjustment

25

105

(44)

(12)

Restructuring provisions raised (released)

2

–

10

(3)

Profit on disposal of property,
plant and equipment

–

(1)

(1)

(5)

Asset impairments

1

1

6

3

Fuel tax credit

(37)

–

(37)

–
Integration costs
3
–
3
–
Fire, flood, storm and related events
–
6
2
5
(6)
111
(61)
(12)
key regional figures
Quarter
Quarter
Nine months
Nine months
ended
ended
ended
ended
June 2009
June 2008
June 2009
June 2008
Metric tons
Metric tons
Metric tons
Metric tons
(000's)
(000's)
(000's)
(000's)
Sales volume
Fine Paper –
North America
300
389
919
1,164
Europe
746
637
2,061
1,918
Southern Africa
70
87

222
246
Total
1,116
1,113
3,202
3,328
Forest Products – Pulp and paper operations
355
347
968
1,039
Forestry operations
218
279
649
726
Total
1,689
1,739
4,819
5,093
US\$ million
US\$ million
US\$ million
US\$ million
Sales
Fine Paper –
North America
291
424
955
1,231
Europe
729
705
2,027
2,040
Southern Africa
78
95
226
271
Total
1,098
1,224
3,208
3,542
Forest Products – Pulp and paper operations
204
249

567
747
Forestry operations
14
21
41
55
Total
1,316
1,494
3,816
4,344

// third quarter results

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Other information

(this information has not been reviewed)

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

June 2009

June 2008

US\$ million

US\$ million

US\$ million

US\$ million

Operating (loss) profit

Fine Paper –

North America

24

25

(7)

62

Europe

–

10

(8)

47

Southern Africa

(5)

1

(1)

5

Total

19

36

(16)

114

Forest Products

(26)

(60)

71

167

Corporate and other

–

1

1

8
Total
 (7)
 (23)
 56
 289
 Special items – (gains) losses
 Fine Paper –
 North America
 (37)
 –
 (29)
 2
 Europe
 4
 –
 4
 (4)
 Southern Africa
 1
 –
 1
 –
Total
 (32)
 –
 (24)
 (2)
 Forest Products
 19
 111
 (44)
 (10)
 Corporate and other
 7
 –
 7
 –
Total
 (6)
 111
 (61)
 (12)
 Operating (loss) profit excluding
 special items
 Fine Paper –
 North America
 (13)
 25
 (36)
 64

Europe

4

10

(4)

43

Southern Africa

(4)

1

–

5

Total

(13)

36

(40)

112

Forest Products

(7)

51

27

157

Corporate and other

7

1

8

8

Total

(13)

88

(5)

277

EBITDA excluding special items

Fine Paper –

North America

13

53

40

144

Europe

62

55

146

178

Southern Africa

(1)

5

10

17

Total

74

113

196

339
Forest Products
12
68
76
212
Corporate and other
7
1
9
9
<i>Total</i>
93
182
281
560

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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. 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 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. 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 of M-real's coated graphic paper business and the integration of the acquired business into our existing business. The estimate of synergies that we expect to achieve following the completion of the acquisition 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 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 for fiscal 2009 or beyond.

// third quarter results
 13
 Group income statement
 Reviewed
 Reviewed
 Reviewed
 Reviewed
 Quarter
 Quarter
 Nine months
 Nine months
 ended
 ended
 ended
 ended
 June 2009
 June 2008
 %
 June 2009
 June 2008
 %
 Notes
 US\$ million
 US\$ million
 change
 US\$ million
 US\$ million change
 Sales
 1,316
 1,494 (12)
 3,816
 4,344 (12)
 Cost of sales
 1,272
 1,428
 3,510
 3,782
 Gross profit
 44
 66 (33)
 306
 562 (46)
 Selling, general and
 administrative expenses
 90
 95
 273
 294
 Other operating income
 (31)
 -

(17)
(6)
Share of profit from
associates and joint ventures
(8)
(6)
(6)
(15)
Operating (loss) profit
3
(7)
(23)
—
56
289 (81)
Net finance costs
70
45
131
100
Net interest
44
43
116
106
Finance cost capitalised
—
(1)
—
(16)
Net foreign exchange
(gains) losses
(1)
2
(12)
(3)
Net fair value loss on
financial instruments
27
1
27
13
(Loss) profit before taxation
(77)
(68)
—
(75)
189 —
Taxation
(15)
(5)

(1)
55
Current
3
7
7
11
Deferred
(18)
(12)
(8)
44
(Loss) profit for the period
(62)
(63)
—
(74)
134 —
Basic (loss) earnings per
share (US cents)
1
(12)
(17)
(16)
37
Weighted average number of
shares in issue (millions)
1
515.8
362.2
471.5
362.0
Diluted basic (loss) earnings
per share (US cents)
1
(12)
(17)
(16)
37
Weighted average number
of shares on fully diluted
basis (millions)
1
517.9
366.0
473.7
365.5

14

Group balance sheet

Reviewed

Reviewed

June 2009

Sept 2008

US\$ million

US\$ million

ASSETS

Non-current assets

5,004

4,408

Property, plant and equipment

3,927

3,361

Plantations

702

631

Deferred taxation

38

41

Other non-current assets

337

375

Current assets

2,482

1,701

Inventories

831

725

Trade and other receivables

855

702

Cash and cash equivalents

796

274

Total assets

7,486

6,109

EQUITY AND LIABILITIES

Shareholders' equity

Ordinary shareholders' interest

2,049

1,605

Non-current liabilities

3,050

2,578

Interest-bearing borrowings

2,254

1,832

Deferred taxation

392
399
Other non-current liabilities
404
347
Current liabilities
2,387
1,926
Interest-bearing borrowings
1,293
821
Bank overdraft
19
26
Other current liabilities
1,017
1,025
Taxation payable
58
54
Total equity and liabilities
7,486
6,109
Number of shares in issue at balance sheet date (millions)
515.8
229.2

// third quarter results

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Group cash flow statement

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

June 2009

June 2008

US\$ million

US\$ million

US\$ million

US\$ million

(Loss) profit for the period

(62)

(63)

(74)

134

Adjustment for:

Depreciation, fellings and amortisation

125

115

336

344

Taxation

(15)

(5)

(1)

55

Net finance costs

70

45

131

100

Post employment benefits

(13)

(12)

(32)

(65)

Other non-cash items

(28)

76
 (89)
 (81)
 Cash generated from operations
 77
 156
 271
 487
 Movement in working capital
 93
 29
 25
 (134)
 Net finance costs
 –
 (83)
 (54)
 (150)
 Taxation paid
 (3)
 (40)
 (5)
 (56)
 Dividends paid *
 –
 –
 (37)
 (73)
 Cash retained from operating activities
 167
 62
 200
 74
 Cash utilised in investing activities
 (61)
 (98)
 (726)
 (351)
 Capital expenditure and other
 non-current assets
 (59)
 (98)
 (138)
 (351)
 Acquisition of M-real
 (2)
 –
 (588)
 –
 106
 (36)

(526)
 (277)
 Cash effects of financing activities
 (57)
 56
 979
 161
 Net movement in cash and
 cash equivalents
 49
 20
 453
 (116)
 * *Dividend no 85: 16 US cents per share paid on 28 November 2008*
 Group statement of recognised income and expense
 Reviewed
 Reviewed
 Reviewed
 Reviewed
 Quarter
 Quarter
 Nine months
 Nine months
 ended
 ended
 ended
 ended
 June 2009
 June 2008
 June 2009
 June 2008
 US\$ million
 US\$ million
 US\$ million
 US\$ million
 Exchange differences on translation of
 foreign operations
 243
 50
 (44)
 (222)
 Sundry other movements in equity
 1
 (1)
 1
 1
 Net income (expense) recorded directly
 in equity
 244
 49
 (43)

(221)

(Loss) profit for the period

(62)

(63)

(74)

134

Total recognised profit (expense) for
the period

182

(14)

(117)

(87)

16

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. 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 2008 which are compliant with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The preliminary results for the nine month period and quarter ended June 2009 as set out on pages 13 to 20 have been reviewed in terms of the International Standard on Review Engagements 2410 by the group's auditors, Deloitte & Touche. Their unmodified review report is available for inspection at the company's registered offices.

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders recorded in the shareholders register at the close of business on Friday 21 November 2008, at a subscription price of ZAR20.27 per rights offer share in the ratio of 6 rights offer shares for every 5 Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on 15 December 2008. The rights offer raised ZAR5,8 billion which was used to partly finance the acquisition of the coated graphic paper business of M-real and the related costs. In accordance with IAS 33, prior period basic, headline and diluted earnings per share have been restated to take into account the bonus element of the rights offer. The prior period weighted average number of shares has been adjusted by a factor of 1.58 (the adjustment factor). Please refer to page 21, Supplemental Information for a summary of this calculation.

2.

Reconciliation of movement in shareholders' equity

Reviewed

Reviewed

Nine months

Nine months

ended

ended

June 2009

June 2008

US\$ million

US\$ million

Balance – beginning of period

1,605

1,816

Total recognised expense for the period

(117)

(87)

Dividends paid

(37)

(73)

Rights offer

575

–

Costs directly attributable to the rights offer

(31)

–

Issue of new shares to M-real

45

–

Transfers to participants of the share purchase trust

2

6

Share based payment reserve

7

7

Balance – end of period

2,049

1,669

// third quarter results

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3.

Operating (loss) profit

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

June 2009

June 2008

US\$ million

US\$ million

US\$ million

US\$ million

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

Depreciation and amortisation

106

94

286

283

Fair value adjustment on plantations

(included in cost of sales)

Changes in volume

Fellings

19

21

50

61

Growth

(20)

(20)

(52)

(55)

(1)

1

(2)

6

Plantation price fair value adjustment

25

105
 (44)
 (12)
 24
 106
 (46)
 (6)
 Included in other operating income
 are the following:
 Asset impairments
 1
 1
 6
 3
 Profit on disposal of property,
 plant and equipment
 –
 (1)
 (1)
 (5)
 Restructuring provisions
 raised (released)
 2
 –
 10
 (3)
 Integration costs
 3
 –
 3
 –
 Fuel tax credit
 (37)
 –
 (37)
 –
 4.
 Headline earnings per share *
 Headline earnings per share (US cents) **
 (12)
 (17)
 (15)
 37
 Weighted average number of shares in
 issue (millions) **
 515.8
 362.2
 471.5
 362.0
 Diluted headline earnings per
 share (US cents) **

(12)
 (17)
 (15)
 36
 Weighted average number of shares on
 fully diluted basis (millions) **

517.9

366.0

473.7

365.5

Calculation of Headline earnings *

(Loss) profit for the period

(62)

(63)

(74)

134

Asset impairments

1

1

6

3

Profit on disposal of property,
 plant and equipment

—

(1)

(1)

(5)

Tax effect of above items

—

1

—

1

Headline (loss) earnings

(61)

(62)

(69)

133

* *Headline earnings disclosure is required by the JSE Limited.*

** *Prior period headline earnings per share has been restated for the bonus element of the rights offer in accordance with IAS 33.*

Please refer to page 21, Supplemental Information for a summary of this calculation.

5.

Capital expenditure

Property, plant and equipment

54

103

147

377

June 2009

Sept 2008

US\$ million

US\$ million

6.

Capital commitments

Contracted

71

76

Approved but not contracted

157

130

228

206

18

Notes to the group results

June 2009

Sept 2008

US\$ million

US\$ million

7.

Contingent liabilities

Guarantees and suretyships

45

38

Other contingent liabilities

7

7

52

45

8.

Material balance sheet movements

Acquisition of M-real's coated graphic paper business

See note 9 for details of how the acquisition is recorded in the balance sheet.

Interest-bearing borrowings and cash and cash equivalents

Included in long term borrowings is the EUR220 million (US\$309 million) vendor loan note and the assumed interest-bearing debt both used to partly finance the acquisition of M-real's coated graphic paper business.

During the nine months ended June 2009, the group also drew down EUR200 million (US\$281 million) of its committed facilities and raised a further US\$63 million in long-term bank loans. All of this is currently held in cash.

9.

Acquisition

On 31 December 2008, Sappi acquired M-real's coated graphic paper business for EUR750 million (US\$1.1 billion). The transaction includes M-real's coated graphic paper business (excluding M-real's South African business), including brands and company knowledge, as well as four coated graphic mills.

The acquisition was financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor loan note.

The acquired business contributed revenues of US\$522 million, a net operating profit of US\$8 million and a net loss of US\$4 million to the group for the period from acquisition to 28 June 2009.

Details of net assets acquired and goodwill are as follows:

EURO

US\$

Purchase consideration:

Cash consideration

400

563

Shares issued *

32

45

Vendor loan note

220

308

Adjustments to working capital

(4)

(6)

Gain on forward exchange contract covering purchase consideration	
(24)	
(32)	
Direct costs relating to the acquisition	
23	
32	
Total purchase consideration	
647	
910	
Provisional fair value of net identifiable assets acquired (see below)	
647	
910	
Provisional goodwill **	
—	
—	
The assets and liabilities arising from the acquisition are as follows:	
EURO	
EURO	
US\$	
US\$	
Acquiree's	
Provisional	
Acquiree's	
Provisional	
carrying	
fair	
carrying	
fair	
amount	
value	
amount	
value	
Property, plant and equipment	
634	
531	
892	
747	
Information technology related intangibles	
2	
2	
3	
3	
Brand names	
—	
18	
—	
25	
Inventories	
118	
115	
166	

162
Trade receivables
200
193
281
272
Prepayments and other debit balances
15
18
21
25
Cash and cash equivalents
5
5
7
7
Trade payables
(85)
(85)
(120)
(120)
Pension liabilities
(37)
(40)
(52)
(56)
Borrowings
(46)
(42)
(65)
(59)
Provisions
(4)
(4)
(6)
(6)
Other payables and accruals
(60)
(65)
(84)
(91)
Net deferred tax (liabilities) assets
(11)
1
(15)
1
Net identifiable assets acquired
731
647
1,028
910

// third quarter results

19
 Outflow of cash to acquire business, net of cash acquired:
 EURO
 US\$
 Cash consideration
 400
 563
 Direct costs relating to acquisition
 23
 32
 Cash and cash equivalents in subsidiary acquired
 (5)
 (7)
 Net cash outflow on acquisition
 418
 588
 The provisional values determined as at March 2009 have been adjusted as follows to arrive at the provisional values as at June 2009
 EURO
 US\$
 Provisional fair values **
 March 2009
 June 2009
 March 2009
 June 2009
 Property, plant and equipment
 494
 531
 695
 747
 Information technology related intangibles
 2
 2
 3
 3
 Brand names
 18
 18
 25
 25
 Inventories
 116
 115
 163
 162
 Trade receivables
 200
 193
 281
 272

Prepayments and other debit balances

21

18

30

25

Cash and cash equivalents

5

5

7

7

Trade payables

(86)

(85)

(121)

(120)

Pension liabilities

(40)

(40)

(56)

(56)

Borrowings

(47)

(42)

(66)

(59)

Provisions

(4)

(4)

(6)

(6)

Other payables and accruals

(64)

(65)

(89)

(91)

Net deferred tax (liabilities) assets

13

1

18

1

Net identifiable assets acquired

628

647

884

910

EURO

US\$

Provisional goodwill at March 2009 **

27

38

Increase in fair values of net identifiable assets

(19)

(26)

Change in adjustments to working capital

(10)

(14)

Increase in direct costs relating to acquisition

2

2

Provisional goodwill at June 2009 **

0

0

** 11,159,702 Sappi shares were issued to M-real as partial payment of the acquisition price. The fair value of US\$45 million*

(EUR32 million) was determined using Sappi's published market price at the date of exchange.

*** The initial accounting for the business combination has been determined provisionally as at the end of the third quarter ended June*

2009 because the group is still in the process of finalising the fair values of the identifiable assets and liabilities of the acquired business

of M-real. The changes in provisional values from March 2009 to June 2009 are due to the group having access to more information

that enabled us to update our initial determination of fair values and the purchase consideration.

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Notes to the group results

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

%

June 2009

June 2008

%

US\$ million

US\$ million change

US\$ million

US\$ million change

10. Regional information

Sales

Fine Paper –

North America

291

424

(31)

955

1,231

(22)

Europe

729

705

3

2,027

2,040

(1)

Southern Africa

78

95

(18)

226

271

(17)

Total

1,098

1,224

(10)
3,208
3,542
(9)
Forest Products – Pulp and paper
operations
204
249
(18)
567
747
(24)
Forestry operations
14
21
(33)
41
55
(25)
Total
1,316
1,494
(12)
3,816
4,344
(12)
Operating profit
Fine Paper –
North America
24
25
(4)
(7)
62
–
Europe
–
10
(100)
(8)
47
–
Southern Africa
(5)
1
–
(1)
5
–
Total
19

36
(47)
(16)
114
—
Forest Products
(26)
(60)
—
71
167
(57)
Corporate and other
—
1
(100)
1
8
100
Total
(7)
(23)
—
56
289
(81)
Net operating assets
Fine Paper —
North America
1,035
1,064
(3)
1,035
1,064
(3)
Europe
2,475
2,098
18
2,475
2,098
18
Southern Africa
205
124
65
205
124
65
Total
3,715

3,286
13
3,715
3,286
13
Forest Products
1,790
1,714
4
1,790
1,714
4
Corporate and other
72
27
167
72
27
167
Total
5,577
5,027
11
5,577
5,027
11

// 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

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, mainly produced from spruce trees in Scandinavia, Canada and north eastern USA. The 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

Acquisition – the acquisition of M-real's coated graphic paper business on 31 December 2008

Adjustment factor – this is calculated using the pre-announcement share price divided by the theoretical ex-rights price (TERP). TERP is the [(Number of new shares multiplied by the Subscription price) plus the (Number of shares held multiplied by the Ex-dividend share price)] all divided by the (Number of new shares plus the number of shares held prior to the rights offer)

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 8/2007 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 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)

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

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)*

EBITDA excluding special items

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2009

June 2008

June 2009

June 2008

US\$ million

US\$ million

US\$ million

US\$ million

Reconciliation of (loss) profit for the period to

EBITDA excluding special items

(1)

(Loss) profit for the period

(62)

(63)

(74)

134

Net finance costs

70

45

131

100

Taxation

(15)

(5)

(1)

55

Special items – (gains) losses

(6)

111

(61)

(12)

Operating (loss) profit excluding special items

(13)

88

(5)

277

Depreciation and amortisation

106

94

286

283
 EBITDA excluding special items
 (1)
 93
 182
 281
 560
 June 2009
 Sept 2008
 US\$ million
 US\$ million
 Net debt (US\$ million)
 (2)
 2,770
 2,405
 Net debt to total capitalisation (%)
 (2)
 57.5
 60.0
 Net asset value per share (US\$)
 (2)
 3.97
 7.00
 (1)

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 excluding special items to net profit rather than operating profit. As a result our definition retains minority interest as part of EBITDA excluding special items. Operating profit excluding special items represents earnings before interest (net finance costs), taxation and special items. Net finance costs includes: gross interest paid; interest received; interest capitalised; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the group income statement for an explanation of the computation of net finance costs. 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 and 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. EBITDA excluding special items represents operating profit before depreciation, amortisation and special items. We use both operating profit excluding special items and EBITDA excluding special items as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. Operating profit excluding special items and EBITDA excluding special items are measures used by the group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We

believe they are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe both operating profit excluding special items and EBITDA excluding special items can provide a useful additional basis for comparing the current performance of the operations being evaluated. For these reasons, we believe operating profit excluding special items and EBITDA excluding special items and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate operating profit excluding special items and EBITDA excluding special items differently, so making comparisons among companies on this basis should be done very carefully. Operating profit excluding special items and EBITDA excluding special items are not measures of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as indicators of the company's operations in accordance with IFRS.

(2)

Refer to page 21, Supplemental Information for the definition of the term.

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