

SAPPI LTD

Form 6-K

August 04, 2008

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, 2008

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, 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, input costs including raw material, energy and employee costs, 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 (including as a result of adverse changes in credit markets that affect our ability to raise capital when needed); 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.

sappi
quarter results
ended June
Quarter 3
2008

** for the nine months ended June 2008*

*** as at June 2008*

† *Rest of World*

Sales by product group

Sales by source

Sales by destination

Geographic ownership **

Coated fine paper

64%

Uncoated fine paper

4%

Coated specialities

9%

Commodity paper

8%

Pulp

14%

Other

1%

North America

29%

Europe

40%

Southern Africa

15%

Asia and other

16%

South African

71%

North America

17%

Europe and ROW †

12%

North America

28%

Europe

47%

Southern Africa

25%

sappi

Flo

sappi limited

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third quarter

Operating profit excluding special items US\$88 million
(Q3 2007: US\$81 million)

Special items an unfavourable pre-tax adjustment
of US\$111 million – mainly plantation price fair value

Basic EPS a loss of 28 US cents (unfavourably impacted
by special items)

Selling price increases in North America and South Africa

Severe input cost increases

Saiccor expansion commissioning in the fourth quarter

Financial summary

Quarter ended

Nine months ended

Restated *****

Restated *****

June 2008

March 2008

June 2007

June 2008

June 2007

Key figures: (US\$ million)

Sales

1,494

1,473

1,297

4,344

3,882

Operating (loss) profit

(23)

221

87

289

296

Special items – losses (gains) *

111

(124) (6)

(12)

(79)

Operating profit excluding
special items

88

97

81

277
 217
 EBITDA excluding special
 items ***
 182
 190
 176
 560
 501
 Basic EPS (US cents)
 (28)
 68 17
 59
 56
 Net debt **
 2,667
 2,661 2,313
 2,667
 2,313
 Key ratios: (%)
 Operating (loss) profit to sales
 (1.5)
 15.0
 6.7
 6.7
 7.6
 Operating profit excluding
 special items to sales
 5.9
 6.6
 6.2
 6.4
 5.6
 EBITDA excluding special items
 to sales
 12.2
 12.9
 13.6
 12.9
 12.9
 Operating profit excluding
 special items to average
 net assets **
 8.1
 8.9
 8.0
 8.5
 7.2
 Return on average equity (ROE) **
 (15.1)
 35.9

10.0

10.3

11.2

Net debt to total capitalisation **

50.2

50.3

46.1

50.2

46.1

** Refer to page 9 for more details on special items.*

*** Refer to page 18, Supplemental Information for the definition of the term.*

**** Refer to page 19, Supplemental Information for the reconciliation of EBITDA excluding special items to (loss) profit for the period.*

***** Refer to note 2 page 15.*

The results presented above have not been audited or reviewed.

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third quarter

Comment

In a seasonally slower quarter, operating performance improved compared to last year. The quarter was marked by severe input cost increases, offset to some extent by our cost savings efforts across the group and successful price increases in North America and South Africa. Selling prices in Europe were flat quarter-on-quarter, but declined from last year. The unfavourable impact of wood, energy and chemical price increases on the group results was US\$19 million compared to the prior quarter and US\$45 million compared to a year earlier.

Pulp prices continued to increase with NBSK increasing to an average of US\$900 per ton from an average of US\$880 per ton in the previous quarter. The increase in pulp prices was beneficial to the group as we sell slightly more pulp than we purchase.

Operating profit excluding special items improved to US\$88 million from US\$81 million last year, but the group operating profit margin excluding special items declined from 6.2% last year to 5.9% this quarter. Special items of US\$111 million include an unfavourable plantation price fair value revaluation adjustment of US\$105 million and a loss of contribution resulting from a flood at Saiccor amounting to US\$6 million. The negative plantation price fair value adjustment was mainly due to a sharp increase in fuel prices.

More details of special items are set out on page 9.

An operating loss of US\$23 million (including special items) was recorded, compared to an operating profit of US\$87 million a year ago.

Group sales for the quarter were US\$1.5 billion, a 15.2% increase compared to the third quarter last year, mainly as a result of higher sales volumes in our fine paper businesses together with improved selling prices in North America and Southern Africa.

Net finance costs of US\$45 million for the quarter increased by US\$8 million from last year due to discontinuing capitalisation of interest on the Saiccor expansion project during the quarter, higher debt levels and higher interest rates.

Tax relief on the reported loss before taxation of US\$68 million was limited due to tax losses in certain regions that could not be brought to account.

Basic earnings per share (unfavourably impacted by special items) for the quarter was a loss of 28 US cents, compared to earnings of 23 US cents a year ago.

Cash flow and debt

Cash generated from operations for the quarter was US\$156 million compared to US\$142 million a year ago. Working capital decreased by US\$29 million during the quarter compared to an increase of US\$36 million during the third quarter last year. We expect a further significant reduction in working capital in our fourth quarter.

Included in our cash flow for the quarter were post employment benefit payments of US\$12 million compared to US\$35 million in the equivalent quarter last year. Post employment benefit payments are expected to be US\$90 million for the year, compared to US\$101 million last year, and are expected to decline in 2009.

Net finance costs paid increased to US\$83 million compared to US\$42 million a year ago, mainly as a result of the settlement of forward exchange contracts related to long term debt and higher debt levels.

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third quarter

Taxation paid of US\$40 million, was US\$25 million higher than a year ago mainly due to a provisional tax payment made by our South African business.

Capital expenditure of US\$103 million included US\$52 million for the Saiccor expansion project. We expect to make the final capital expenditure payments on the Saiccor expansion project of approximately US\$50 million over the next two quarters.

Net debt was US\$2,667 million at quarter end, a net increase of US\$6 million from the prior quarter. This increase was the net effect of cash utilised offset by a positive currency movement for the quarter.

Current interest-bearing borrowings of US\$990 million include US\$393 million of securitised trade debtors under a facility, which in the normal course of business is expected to run until 2012. The group has access to US\$620 million as part of a committed revolving loan facility as at the end of June 2008 and cash resources of US\$227 million.

Net debt to total capitalisation was 50.2% at the end of the quarter compared to 50.3% for the prior quarter.

Operating review for the quarter

Sappi Fine Paper

Quarter

Quarter

Quarter

ended

ended

ended

June 2008

June 2007

%

March 2008

US\$ million

US\$ million

change

US\$ million

Sales

1,224

1,037

18.0

1,209

Operating profit

36

25

44.0

47

Operating profit to sales (%)

2.9

2.4

–

3.9

Special items * (gains)

–

–

–

(2)

Operating profit excluding
special items

36

25

44.0

45

Operating profit excluding
special items to sales (%)

2.9

2.4

—

3.7

EBITDA excluding special items

113

100

13.0

120

EBITDA excluding special items
to sales (%)

9.2

9.6

—

9.9

RONOA pa (%)

4.4

3.2

—

5.5

** See page 9 for more details on special items*

Sales volumes for our Fine Paper business increased by 6.5% from last year, while average prices in Dollar terms improved 11%, partly due to currency movements. Pricing and margins improved in our North American business, but worsened in our European business.

Cost pressure, particularly in raw materials and energy, increased in all regions.

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third quarter
Europe
Quarter
Quarter
ended
ended

Quarter