

SAPPI LTD

Form 6-K

February 07, 2013

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 February, 2013

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 there by 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, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

## 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:

- o 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);
- o the impact on the business of the global economic downturn;
- o unanticipated production disruptions (including as a result of planned or unexpected power outages);
- o changes in environmental, tax and other laws and regulations;
- o adverse changes in the markets for the Group’s products;
- o the emergence of new technologies and changes in consumer trends increase preferences for digital media;
- o consequences of the Group’s leverage, including as a result of adverse changes in credit markets that affect the Group’s ability to raise capital when needed;
- o adverse changes in the political situation and economy in the countries in which the Group operates or the effect of governmental efforts to address present or future economic or social problems;
- o the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or strategic initiatives (including dissolving wood pulp conversion projects), and achieving expected savings and synergies; and
- o 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.

**results**  
period ended  
December 2012  
First Quarter  
for  
the

1st quarter results

Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in our Southern African region, newsprint, uncoated graphic and business papers, premium-quality packaging papers, paper-grade pulp and dissolving wood pulp.

Our dissolving wood pulp products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

The pulp needed for our products is either produced within Sappi or bought from accredited suppliers.

Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sales by source\*

24%

22%

54%

Sales by product group\*

66%

1%

3%  
10%  
8%  
6%  
6%  
Sales by destination\*

24%  
17%  
12%  
47%  
Net operating assets\*\*

41%  
21%  
38%  
Cover picture

*The picture depicts viscose clothing. Viscose clothing is made from one of our specialised cellulose products. Viscose staple fibre is a biodegradable product, with breathability and moisture absorbency properties, ideal for use in clothing.*

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sappi 1st quarter results

Profit for the period US\$17 million (Q1 2012 US\$45 million)

EPS 3 US cents (Q1 2012 9 US cents)

Operating profit excluding special items US\$73 million  
(Q1 2012 US\$100 million)

Net finance costs of US\$42 million (Q1 2012 US\$54 million)

Net debt US\$2,095 million (Q1 2012 US\$2,175 million)

**Financial summary for the quarter**

**Quarter ended**

**Dec 2012**

Dec 2011

Sept 2012

**Key figures: (US\$ million)**

**Sales**

**1,475**

1,585

1,585

**Operating profit**

**70**

107

160

Special items – losses (gains)

(1)

**3**

(7)

(42)

Operating profit excluding special items

(2)

**73**

100

118

EBITDA excluding special items

(2)

**162**

194

211

Profit for the period

**17**

45

107

**Basic earnings per share (US cents)**

**3**

9

21

Net debt

(3)

**2,095**

2,175

1,979

**Key ratios: (%)**

**Operating profit to sales**

**4.8**

6.8

10.1

Operating profit excluding special items to sales

**5.0**

6.3

7.4

Operating profit excluding special items to  
capital employed (ROCE)

**8.2**

11.0

13.0

EBITDA excluding special items to sales

**11.0**

12.2

13.3

Return on average equity (ROE)

(4)

**4.5**

12.0

27.8

Net debt to total capitalisation

(4)

**58.1**

58.9

56.5

Net asset value per share (US cents)

**290**

291

293

(

*1) Refer to page 13 for details on special items.*

*(2) Refer to page 13, note 9 to the group results for the reconciliation of EBITDA excluding special items and operating profit excluding*

*special items to segment operating profit, and profit for the period.*

*(3) Refer to page 15, supplemental information for the reconciliation of net debt to interest-bearing borrowings.*

*(4) Refer to page 14, supplemental information for the definition of the term.*



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#### Commentary on the quarter

The group operating profit excluding special items of US\$73 million for the quarter was impacted by generally lower selling prices for pulp and paper.

The North American business achieved a good result, with slightly weaker than expected performance in our Southern African and European businesses. In Europe, the operating and sales achievements were ahead of the market, which remains challenging and where conditions worsened during the quarter.

Lower pricing across all graphic paper grades led to lower profitability for the European paper business.

In South Africa, the impact of lower dissolving wood pulp prices compared to the equivalent quarter in the prior year combined with the three-week road transport strike negatively affected the result. However, volume and pricing momentum picked up towards the end of the quarter.

NBSK pulp prices, to which most of our paper pulp and dissolving wood pulp sales are linked, increased during the quarter from the recent lows reached at the end of September 2012. Average NBSK prices were essentially flat compared to the prior quarter and were approximately US\$90 per ton lower than in the equivalent quarter last year. Hardwood pulp prices were significantly higher than the equivalent quarter last year, which negatively affected our European operations as they are significant buyers of hardwood pulp. The prices of other major inputs such as energy, wood and chemicals were generally lower than in the equivalent quarter last year with the exception of the Southern African business.

There were no major special items for the quarter. The charge to special items of US\$3 million included a positive plantation fair value price adjustment of US\$8 million and a restructuring provision of US\$7 million primarily related to the mothballing of PM4 at Tugela.

Finance costs of US\$42 million were lower than the equivalent quarter last year of US\$54 million following the refinancing completed over the past year and the reduction in gross debt.

Earnings per share for the quarter was 3 US cents (including a charge of 1 US cent in respect of special items) compared with 9 US cents (including a gain of 2 US cents in respect of special items) in the equivalent quarter last year.

#### Cash flow and debt

Net cash utilised for the quarter was US\$102 million, an improvement compared with net cash utilised of US\$111 million in the equivalent quarter last year. This cash outflow for the quarter was mainly as a result of a seasonal increase in working capital, which typically increases at the end of the first financial quarter as a result of the seasonal slowdown in deliveries in the second half of December. Capital expenditure in the quarter increased to US\$97 million compared to US\$75 million a year ago, reflecting the continued expenditure on the dissolving wood pulp projects.

Net debt of US\$2,095 million is down from US\$2,175 million in December 2011, but up from US\$1,979 million in the quarter ended September 2012 as a result of the seasonal increase in cash utilisation.

Liquidity remains strong with cash on hand of US\$504 million and the €350 million (US\$463 million) available from the undrawn committed revolving credit facility at quarter-end. During December 2012, we finalised a committed revolving credit facility in South Africa of US\$118 million, of which US\$65 million was undrawn at the end of December 2012.

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sappi
1st quarter results
Operating Review for the Quarter
Europe
<b>Quarter ended</b>
<b>Dec 2012</b>
<b>€ million</b>
Quarter ended
Sept 2012
€ million
Quarter ended
Jun 2012
€ million
Quarter ended
Mar 2012
€ million
Quarter ended
Dec 2011
€ million
<b>Sales</b>
<b>616</b>
659
620
672
<b>628</b>
<b>Operating profit excluding special items</b>
<b>16</b>
35
8
37
<b>22</b>
<b>Operating profit excluding special items to sales (%)</b>
<b>2.6</b>
5.3
1.3
5.5
<b>3.5</b>
EBITDA excluding special items
<b>54</b>
73
47
73

**60**

EBITDA excluding special items to sales (%)

**8.8**

11.1

7.6

10.9

**9.6**

RONOA pa (%)

**4.6**

9.8

2.2

10.2

**6.1**

Market conditions in the European paper business continued to be challenging, and deteriorated during the quarter. The business achieved sales volumes for the quarter equal to the equivalent quarter in the prior year, despite industry volumes that were depressed year-on-year, in the case of mechanical coated paper by as much as 7%. During the quarter we experienced strong downward pressure on pricing for all graphic paper grades, and average graphic paper sales prices were 2% lower than in the equivalent quarter last year.

Our European business maintained a strong focus on cost containment and variable costs remain 2% below those of the equivalent quarter last year.

The coated specialties business continues to perform well, with increased sales volumes and stable to increasing price movements compared with the equivalent quarter last year.

North America

**Quarter ended**

**Dec 2012**

**US\$ million**

Quarter ended

ended

Sept 2012

US\$ million

Quarter ended

ended

Jun 2012

US\$ million

Quarter ended

ended

Mar 2012

US\$ million

Quarter ended

ended

Dec 2011

US\$ million

**Sales**

**346**

377

360

349

**352**

**Operating profit excluding special items**

**18**

42

18

24

**10**

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

**5.2**

11.1

5.0

6.9

**2.8**

**EBITDA excluding special items**

**37**

63

38

43

**29**

**EBITDA excluding special items to sales (%)**

**10.7**

16.7

10.6

12.3

**8.2**

**RONOA pa (%)**

**7.9**

18.2

7.7

10.4

**4.4**

The performance of our North American coated paper business was good, with increased sales volumes partially offset by 3% lower average sales prices when compared to the equivalent quarter last year.

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The pulp business continued to be negatively impacted by pulp prices that are 5% lower than the equivalent quarter last year, and 3% lower than the prior quarter. Sales volumes were also lower than in both comparative periods, due in part to a planned increase in pulp inventories at the Cloquet mill ahead of the conversion to dissolving wood pulp. The conversion of the Cloquet pulp mill from hardwood kraft pulp to dissolving wood pulp continues on schedule for an expected start-up in the third financial quarter of 2013.

Release paper sales volumes were markedly higher than in both the equivalent quarter last year, and the prior quarter. Average sales prices, whilst stable compared to the prior quarter were below those of the equivalent quarter last year.

Variable costs remained well controlled, with nearly all categories of input costs lower than in the equivalent quarter last year, resulting in total variable costs per ton being 4% lower than in the equivalent quarter last year.

Sappi Southern Africa

**Quarter**

**ended**

**Dec 2012**

**ZAR million**

Quarter

ended

Sept 2012

ZAR million

Quarter

ended

Jun 2012

ZAR million

Quarter

ended

Mar 2012

ZAR million

Quarter

ended

Dec 2011

ZAR million

**Sales**

**2,870**

3,152

3,159

3,113

**3,131**

**Operating profit excluding  
special items**

**270**

276

255

409

**494**

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

**9.4**

8.8

8.1
13.1
<b>15.8</b>
EBITDA excluding special items
<b>452</b>
473
426
604
<b>680</b>
EBITDA excluding special items to sales (%)
<b>15.7</b>
15.0
13.5
19.4
<b>21.7</b>
RONOA pa (%)
<b>7.8</b>
8.2
7.6
12.2
<b>15.1</b>

The Southern African business showed a similar result compared to the prior quarter despite the impact of the three-week road transport strike which spilled over into this quarter. Compared with the equivalent quarter last year however, the operating result was weaker due to lower sales volumes, lower average prices in the Specialised Cellulose business and higher variable costs.

The Specialised Cellulose business sold 175kt of dissolving wood pulp during the quarter, similar to the equivalent quarter last year, but less than the volume sold in the prior quarter due to shipping and production schedules. Average sales prices, which are linked to NBSK pulp, were 12% lower than in the equivalent quarter last year, and similar to those achieved in the prior quarter. The Specialised Cellulose business generated an EBITDA excluding special items of ZAR351 million, representing an EBITDA excluding special items margin of 28%.

The Southern African paper business further improved its performance, compared both to the equivalent quarter last year and the prior quarter. While sales volumes were lower predominantly due to the restructuring of the business and resultant machine closures, sales prices were higher for both local and export sales.

Input costs increased, particularly purchased wood and pulp, as a result of the weaker Rand/US Dollar exchange rate.

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1st quarter results

Directorate

Professor Meyer Feldberg, our lead independent director, retired from the board at the end of December 2012 having reached the board's mandatory retirement age. Sir Nigel Rudd who has served as a non-executive director for more than six years succeeded Professor Feldberg as lead independent director.

Outlook

Financial year 2013 is an important transitional year for the group as we expand our Specialised Cellulose business and continue to optimise our paper businesses.

Market conditions for the paper business, particularly in Europe, are expected to remain challenging for the remainder of the fiscal year, particularly with regards to pricing and input costs. Pulp prices, a major input cost for our European business in particular, have increased since the end of the quarter. Conversely, paper pulp and dissolving wood pulp sales from our North American and Southern African operations should benefit from these higher pulp prices. Overall the group benefits from higher pulp prices as a result of the higher margins in the North American and Southern African businesses.

Price increases were announced for coated woodfree paper in Europe effective from 01 January 2013. The impact of these increases is expected to be gradually felt over the coming months and be fully in place during the course of the third financial quarter. Prices for coated mechanical paper decreased in January, and will not recover before July.

The Specialised Cellulose business continues to sell all available production volumes. The Specialised Cellulose expansion projects at both the Ngodwana and Cloquet mills proceed on plan for start-up in our third financial quarter. The Ngodwana mill will take an extended planned annual maintenance shut during the second financial quarter due to the conversion project. We expect that this will negatively impact the quarter operating profit by approximately US\$20 million.

As previously indicated, as a result of the capex spend on the dissolving wood pulp projects, we expect net debt to increase from the September 2012 level during the 2013 fiscal year and to reduce again post the completion of the projects.

Given prevailing market conditions, we expect the second quarter operating profit excluding special items to be below that of the first quarter for the reasons described above. However, we expect the operating profit in the second half of the financial year to be stronger than in the first half.

On behalf of the board

R J Boëttger

S R Binnie

Director

Director

06 February 2013

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Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements 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 (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);
- the impact on our business of the global economic downturn;
  - unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
  - the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
  - the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring or strategic initiatives (including our announced dissolving wood pulp conversion projects), and achieving expected savings and synergies; and
  - currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

Forward-looking statements



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sappi 1st quarter results

Condensed group income statement

Note

**Quarter**

**ended**

**Dec 2012**

**US\$ million**

Quarter

ended

Dec 2011

US\$ million

**Sales**

**1,475**

1,585

Cost of sales

**1,301**

1,377

Gross profit

**174**

208

Selling, general and administrative expenses

**95**

105

Other operating expenses (income)

**10**

(4)

Share of profit from associates and joint ventures

**(1)**

–

**Operating profit**

**2**

**70**

107

Net finance costs

**42**

54

Net interest

**41**

56

Net foreign exchange loss (gain)

**1**

(1)

Net fair value gain on financial instruments

–

(1)

**Profit before taxation**

**28**

53

Taxation

**11**

8	
Current	
<b>3</b>	
(1)	
Deferred	
<b>8</b>	
9	
<b>Profit for the period</b>	
<b>17</b>	
45	
<b>Basic earnings per share (US cents)</b>	
<b>3</b>	
9	
Weighted average number of shares in issue (millions)	
<b>520.9</b>	
520.5	
<b>Diluted earnings per share (US cents)</b>	
<b>3</b>	
9	
Weighted average number of shares on fully diluted basis (millions)	
<b>522.2</b>	
524.5	
Condensed group statement of comprehensive income	
<b>Quarter ended Dec 2012</b>	
<b>US\$ million</b>	
Quarter ended Dec 2011	
US\$ million	
<b>Profit for the period</b>	
<b>17</b>	
45	
<b>Other comprehensive loss, net of tax</b>	
<b>(33)</b>	
(11)	
Exchange differences on translation of foreign operations	
(24)	
2	
Movements in hedging reserves	
(9)	
(14)	
Deferred tax effect of above items	
—	
1	
<b>Total comprehensive (loss) income for the period</b>	
<b>(16)</b>	
34	

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 Condensed group balance sheet

**Dec 2012**

**US\$ million**

Reviewed

Sept 2012

US\$ million

**ASSETS**

**Non-current assets**

**4,024**

3,990

Property, plant and equipment

**3,192**

3,157

Plantations

**553**

555

Deferred taxation

**152**

154

Other non-current assets

**127**

124

**Current assets**

**2,085**

2,178

Inventories

**809**

726

Trade and other receivables

**772**

807

Cash and cash equivalents

**504**

645

Total assets

**6,109**

6,168

**EQUITY AND LIABILITIES**

**Shareholders' equity**

Ordinary shareholders' interest

**1,513**

1,525

Non-current liabilities

**3,302**

3,328

Interest-bearing borrowings

**2,293**

2,358

Deferred taxation

**321**

319

Other non-current liabilities

**688**

651

**Current liabilities**

**1,294**

1,315

Interest-bearing borrowings

**299**

261

Bank overdraft

**7**

5

Other current liabilities

**969**

1,023

Taxation payable

**19**

26

**Total equity and liabilities**

**6,109**

6,168

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

**521.5**

520.8

9	
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1st quarter results	
Condensed group statement of cash flows	
<b>Quarter</b>	
<b>ended</b>	
<b>Dec 2012</b>	
<b>US\$ million</b>	
Quarter	
ended	
Dec 2011	
US\$ million	
<b>Profit for the period</b>	
<b>17</b>	
45	
<i>Adjustment for:</i>	
Depreciation, fellings and amortisation	
<b>106</b>	
113	
Taxation	
<b>11</b>	
8	
Net finance costs	
<b>42</b>	
54	
Defined post-employment benefits paid	
<b>(15)</b>	
(11)	
Plantation fair value adjustments	
<b>(26)</b>	
(24)	
Net restructuring provisions	
<b>7</b>	
–	
Other non-cash items	
<b>8</b>	
10	
<b>Cash generated from operations</b>	
<b>150</b>	
195	
Movement in working capital	
<b>(130)</b>	
(166)	
Net finance costs paid	
<b>(59)</b>	
(64)	
Taxation paid	
<b>(10)</b>	
(5)	
<b>Cash utilised in operating activities</b>	
<b>(49)</b>	

(40)

**Cash utilised in investing activities**

**(53)**

(71)

**Net cash utilised**

**(102)**

(111)

**Cash effects of financing activities**

**(46)**

(117)

**Net movement in cash and cash equivalents**

**(148)**

(228)

Condensed group statement of changes in equity

**Quarter**

**ended**

**Dec 2012**

**US\$ million**

Quarter

ended

Dec 2011

US\$ million

Balance – beginning of period

**1,525**

1,478

Total comprehensive (loss) income for the period

**(16)**

34

Transfers from the share purchase trust

**3**

2

Transfers of vested share options

**(3)**

(2)

Share-based payment reserve

**4**

4

**Balance – end of period**

**1,513**

1,516

10

Notes to the condensed group results

**1. Basis of preparation**

The condensed consolidated interim financial results for the three months ended December 2012 have been prepared in compliance with the Listings Requirements of the JSE Limited and in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, AC 500 standards issued by the Accounting Practices Board, the requirements of the Companies Act of South Africa and the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these interim financial results are consistent with those applied for the year ended September 2012.

The preparation of this condensed consolidated financial information was supervised by the Chief Financial Officer, S R Binnie CA(SA).

These results are unaudited.

**Quarter**

**ended**

**Dec 2012**

**US\$ million**

Quarter

ended

Dec 2011

US\$ million

**2. Operating profit**

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

Depreciation and amortisation

**89**

94

Fair value adjustment on plantations (included in cost of sales)

Changes in volume

Fellings

**17**

19

Growth

**(18)**

(21)

**(1)**

(2)

Plantation price fair value adjustment

**(8)**

(3)

**(9)**

(5)

Included in other operating expenses (income) are the following:

Profit on disposal of property, plant and equipment

–

(5)

Net restructuring provisions

**7**

–

Black Economic Empowerment charge

**1**

1

**3. Headline earnings per share**

Headline earnings per share (US cents)

**3**

8

Weighted average number of shares in issue (millions)

**520.9**

520.5

Diluted headline earnings per share (US cents)

**3**

8

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

**522.2**

524.5

Calculation of headline earnings

Profit for the period

**17**

45

Profit on disposal of property, plant and equipment

–

(5)

Tax effect of above items

–

–

**Headline earnings**

**17**

40

**4. Capital expenditure**

Property, plant and equipment

**110**

76



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1st quarter results

**Dec 2012****US\$ million**

Reviewed

Sept 2012

US\$ million

**5. Capital commitments**

Contracted

**266**

267

Approved but not contracted

**312**

244

**578**

511

**6. Contingent liabilities**

Guarantees and suretyships

**35**

31

Other contingent liabilities

**10**

10

**45**

41

**7. Material balance sheet movements**

Cash and cash equivalents, interest-bearing borrowing and inventories

Inventory increased as a result of a conscious decision to increase stock holding in anticipation of the dissolving wood pulp conversion projects. The decrease in trade and other receivables is mainly attributable to the receipt of US\$42 million on the sale of the previously equity accounted 34% shareholding in Jiangxi Chenming Paper Company. Cash and cash equivalents decreased as a result of the redemption of the remaining €31 million (US\$42 million) of its senior secured notes due 2014, cash capital expenditure of US\$97 million, proceeds on sales of investment as described above and reduction in other current liabilities of US\$54 million due to seasonal changes.

**8. Post balance sheet events**

Following the closure of its Usutu Mill in the 2010 financial year, Sappi Southern Africa has signed an agreement to sell its villages situated around the mill for US\$11 million that have a book value of US\$0.3 million. The sale is subject to the provision of guarantees by the buyer and the registration of the transfer of the properties in the name of the buyer.

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**9. Segment information**

**Quarter**

**ended**

**Dec 2012**

**Metric tons**

**(000's)**

Quarter

ended

Dec 2011

Metric tons

(000's)

**Sales volume**

Sappi Fine Paper North America

**334**

339

Sappi Fine Paper Europe

**849**

849

Sappi Southern Africa –

Pulp and paper

**380**

400

Forestry

**284**

241

**Total**

**1,847**

1,829

**Quarter**

**ended**

**Dec 2012**

**US\$ million**

Quarter

ended

Dec 2011

US\$ million

**Sales**

Sappi Fine Paper North America

**346**

352

Sappi Fine Paper Europe

**799**

846

Sappi Southern Africa –

Pulp and paper

310

368

Forestry

20

19

**Total**

**1,475**

**1,585**

**Operating profit excluding special items**

Sappi Fine Paper North America

18

10

Sappi Fine Paper Europe

21

29

Sappi Southern Africa

31

61

Unallocated and eliminations

(1)

3

–

**Total**

**73**

**100**

**Special items – losses (gains)**

Sappi Fine Paper North America

2

–

Sappi Fine Paper Europe

3

(5)

Sappi Southern Africa

(2)

(2)

Unallocated and eliminations

(1)

–

–

**Total**

**3**

**(7)**

**Segment operating profit**

Sappi Fine Paper North America

16

10

Sappi Fine Paper Europe

18

34

Sappi Southern Africa

33

63

Unallocated and eliminations

(1)

3

–

**Total**

**70**

**107**

**EBITDA excluding special items**

Sappi Fine Paper North America

37

29

Sappi Fine Paper Europe

70

81

Sappi Southern Africa

52

84

Unallocated and eliminations

(1)

3

—

**Total**

162

194

*(1) Includes the group's treasury operations and the self-insurance captive.*

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sappi  
1st quarter results  
**Quarter ended Dec 2012**  
**US\$ million**  
Quarter ended Dec 2011  
US\$ million  
**Segment assets**  
Sappi Fine Paper North America  
**913**  
901  
Sappi Fine Paper Europe  
**1,847**  
1,908  
Sappi Southern Africa  
**1,708**  
1,663  
Unallocated and eliminations  
(1)  
**(3)**  
65  
**Total**  
**4,465**  
4,537

*(1) Includes the group's treasury operations and the self-insurance captive.*

**Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and profit for the period**

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.

**Quarter ended Dec 2012**  
**US\$ million**  
Quarter ended Dec 2011  
US\$ million  
**EBITDA excluding special items**  
**162**  
194  
Depreciation and amortisation  
**(89)**  
(94)  
**Operating profit excluding special items**  
**73**  
100  
Special items – (losses) gains

<b>(3)</b>	
7	
Plantation price fair value adjustment	
<b>8</b>	
3	
Net restructuring provisions	
<b>(7)</b>	
–	
Profit on disposal of property, plant and equipment	
–	
5	
Black Economic Empowerment charge	
<b>(1)</b>	
(1)	
Fire, flood, storm and related events	
<b>(3)</b>	
–	
<b>Segment operating profit</b>	
<b>70</b>	
107	
Net finance costs	
<b>(42)</b>	
(54)	
<b>Profit before taxation</b>	
<b>28</b>	
53	
Taxation	
<b>(11)</b>	
(8)	
<b>Profit for the period</b>	
<b>17</b>	
45	
<b>Reconciliation of segment assets to total assets</b>	
<b>Segment assets</b>	
<b>4,465</b>	
4,537	
Deferred taxation	
<b>152</b>	
43	
Cash and cash equivalents	
<b>504</b>	
401	
Other current liabilities	
<b>969</b>	
974	
Taxation payable	
<b>19</b>	
14	
<b>Total assets</b>	
<b>6,109</b>	
5,969	

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**Supplemental information** (*this information has not been audited or reviewed*)

**General definitions**

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

**Black Economic Empowerment** – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

**Black Economic Empowerment charge** – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in fiscal 2010

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

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

**SG&A** – selling, general and administrative expenses

**Non-GAAP measures**

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

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

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

**Capital employed** – shareholders' equity plus net debt

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

**Headline earnings** – as defined in circular 3/2012 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 Listings Requirement of the JSE Limited to disclose headline earnings per share

**Net assets** – total assets less total liabilities

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

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

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

**Net operating assets** – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to **segment assets**

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

**ROE** – annualised 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 segment 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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**sappi** 1st quarter results

**Supplemental information** *(this information has not been audited or reviewed)*

*Summary rand convenience translation*

**Quarter**

**ended**

**Dec 2012**

Quarter

ended

Dec 2011

**Key figures: (ZAR million)**

**Sales**

**12,829**

12,825

**Operating profit**

**609**

866

Special items – losses (gains)

(1)

**26**

(57)

Operating profit excluding special items

(1)

**635**

809

EBITDA excluding special items

(1)

**1,409**

1,570

Profit for the period

**148**

364

**Basic earnings per share (SA cents)**

**28**

73

Net debt

(1)

**17,776**

17,587

**Key ratios: (%)**

**Operating profit to sales**

**4.7**

6.8

Operating profit excluding special items to sales

**4.9**

6.3

Operating profit excluding special items to capital

employed (ROCE)

(1)

**8.5**

11.0

EBITDA excluding special items to sales

**11.0**

12.2

Return on average equity (ROE)

**4.6**

12.0

Net debt to total capitalisation

(1)

**58.1**

58.9

*(1) Refer to page 14, supplemental information for the definition of the term.*

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

*– assets and liabilities at rates of exchange ruling at period end; and*

*– income, expenditure and cash flow items at average exchange rates.*

***Reconciliation of net debt to interest-bearing borrowings***

**Dec 2012**

**US\$ million**

Sept 2012

US\$ million

**Interest-bearing borrowings**

**2,599**

2,624

Non-current interest-bearing borrowings

**2,293**

2,358

Current interest-bearing borrowings

**299**

261

Bank overdraft

**7**

5

Cash and cash equivalents

**(504)**

(645)

**Net debt**

**2,095**

1,979

***Exchange rates***

**Dec**

**2012**

Sept

2012

Jun

2012

Mar

2012

Dec

2011

Exchange rates:

Period end rate: US\$1 = ZAR

**8.4851**

8.3096

8.1650

7.6725

8.0862

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

**8.6975**

8.2567

8.1229

7.7511

8.0915

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

**8.6975**

8.0531

7.9885

7.9237

8.0915

Period end rate: €1 = US\$

**1.3217**

1.2859

1.2660

1.3344

1.2948

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

**1.2970**

1.2514

1.2838

1.3116

1.3482

Average rate for the YTD: €1 = US\$

**1.2970**

1.2988

1.3145

1.3299

1.3482

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**Sappi ordinary shares (JSE:SAP)**

**US Dollar share price conversion**

**ZAR**

0

10

20

30

40

50

31

Dec

08

30

Jun

09

31

Mar

09

31

Mar

10

30

Sep

09

31

Dec

09

30

Jun

10

31

Dec

10

30

Sep

10

31

Mar

11

31

Mar

12

31

Dec

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Jun

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30

Sep

12  
31  
Jan  
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Jun  
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Sep  
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Sep  
11  
**USD**

Sappi has a primary listing on the JSE Limited and a secondary listing on the New York Stock Exchange  
(Registration number 1936/008963/06)

Issuer code: SAVVI

JSE code: SAP

ISIN: ZAE000006284

**South Africa:**

**United States:**

Computershare Investor

**ADR Depositary:**

Services (Proprietary) Limited

The Bank of New York Mellon

70 Marshall Street

Investor Relations

Johannesburg 2001

PO Box 11258

PO Box 61051

Church Street Station

Marshalltown 2107

New York, NY 10286-1258

Tel +27 (0)11 370 5000

Tel +1 610 382 7836

[www.sappi.com](http://www.sappi.com)

SIGNATURES

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

Date: February 06, 2013

SAPPI LIMITED,

By /s/ S.R. Binnie

Name S.R. Binnie

Title Chief Financial Officer