

SAPPI LTD
Form 6-K
May 09, 2005

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 May 2005

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 and pricing levels in North America, Europe, Asia and southern Africa; any major disruption in production at the Group's key facilities; changes in environmental, tax and other laws and regulations; adverse changes in the markets for the Group's products; any delays, unexpected costs or other problems experienced with any business acquired or to be acquired; consequences of the Group's leverage; adverse changes in the South African political situation and economy or the effect of governmental efforts to address present or future economic or social problems; and the impact of future investments, acquisitions and dispositions (including the financing of investments and acquisitions) and any delays, unexpected costs or other problems experienced in connection with dispositions. These and other risks, uncertainties and factors are discussed in the Company's Annual Report on Form 20-F and other filings with and submissions to the Securities and Exchange Commission, including this Report on Form 6-K. Shareholders and prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the submission of this Report on Form 6-K and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

sappi

1st

2nd

3rd 4th

quarter results and half-year ended

March 2005

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

for the quarter ended March 2005

*** as at 31 March 2005*

Rest of World

Sales by product group *

Sales: where the product
is sold *

Sales: where the product
is manufactured *

Geographic ownership **

%

Coated fine paper

%

Uncoated fine paper

%

Coated specialities

%

Commodity paper

%

Pulp

%

Other

64%

4%

9%

9%

12%

2%

%

North America

%

Europe

%

Southern Africa

%

Asia and other

28%

43%

15%

14%

%

North America

%

Europe

%

Southern Africa

28%

46%

26%

%

South Africa

%

North America

%

Europe and ROW

47%

42%

11%

%
 Headline EPS 12 US cents; EPS 10 US cents

%
 Stable market demand

%
 Continued currency pressure

%
 Raw material cost increases slowing

%
 Price increases in April

Quarter ended
 Half-year ended

March

Dec

March

March

March

2005

2004

2004

2005

2004

Sales (US\$ million)

1,225

1,253

1,185

2,478

2,305

Operating profit (US\$ million) **

47

4

56

51

56

EBITDA * (US\$ million) **

172

129

173

301

287

Operating profit to sales (%)

3.8

0.3

4.7

2.1

2.4

EBITDA to sales (%) *

14.0

10.3

14.6

12.1

| |
|--|
| 12.5 |
| Operating profit to average net assets (%) * |
| 4.0 |
| 0.3 |
| 4.9 |
| 2.2 |
| 2.5 |
| Headline EPS (US cents) * |
| 12 |
| 6 |
| 10 |
| 18 |
| 0 |
| EPS (US cents) |
| 10 |
| (13) |
| 10 |
| (3) |
| 0 |
| Return on average equity (%) * |
| 4.2 |
| (5.3) |
| 4.6 |
| (0.6) |
| (0.1) |
| Net debt (US\$ million) * |
| 1,934 |
| 1,898 |
| 1,753 |
| 1,934 |
| 1,753 |
| Net debt to total capitalisation (%) * |
| 37.8 |
| 35.6 |
| 35.6 |
| 37.8 |
| 35.6 |

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

** Operating profit and EBITDA for the half-year ended March 2005 reduced by US\$42 million (Quarter ended December 2004: US\$41 million) in respect of asset impairments.

financial highlights
summary

During the quarter we remained firm on pricing of coated paper in North America and Europe to recover the significant cost increases of recent months and to begin to re-establish more acceptable margins. The move caused an initial sharp drop in our sales volumes in North America and towards the end of the quarter also in Europe. Some of this decline did persist in April, but we are confident that higher prices will be successfully implemented and that we will see improved margins and normal volumes in following quarters.

Market conditions were stable in our key businesses this quarter. In our largest market, Europe, demand for coated fine paper remained firm and taking account of the reduced shipping days resulting from the earlier Easter holidays, was slightly up compared to the same quarter last year. In North America, coated fine paper demand growth remained positive, but a sharp influx of imports dampened domestic shipments. Demand levels experienced by our South African businesses were generally good, driven by a buoyant domestic economy and continued strong export demand for chemical cellulose.

Price movements were mixed. In Europe price increases were effective in April; our average sales price from our European business measured in US Dollars increased 2% on the prior quarter but was flat in Euro terms. Improved paper prices were realised by our North American business in comparison to the prior quarter; however, overall average sales prices were flat due to a higher proportion of pulp sales included in the mix. Prices realised by our South African fine paper business (measured in US Dollars) fell 2% in comparison to the prior quarter due to import pressure driven by the relative strength of the Rand. Price increases that averaged 4% (measured in US Dollars) in comparison to the prior quarter were realised on pulp, chemical cellulose and packaging paper produced by our Forest Products division.

Cost savings initiatives announced last quarter proceeded well with run-rates at the level necessary to reach our year-end targets. However, these savings were to a large extent offset by raw material input cost escalation especially in our Fine Paper business, and the impact of the sustained strength of the Rand, which averaged R5.96 per US Dollar in the quarter, on our South African businesses. The price impact for the group as a whole of higher wood, chemicals and energy costs reduced our earnings by US\$30 million in comparison to the same quarter last year.

There was a small gain of US\$3 million at the operating profit level from the fair value adjustment on plantations, net after fellings, largely as a result of higher than expected recovery of snow damaged wood. This compares to a gain of US\$17 million in the same quarter last year.

Net finance costs of US\$23 million for the quarter were US\$3 million lower than the same quarter last year. The decrease stems primarily from gains on financial instruments.

Tax for the quarter was at an effective rate of 4%. There was a tax credit of US\$6 million recorded in the quarter due to the recent reduction of the South African corporate tax rate from 30% to 29%.

comment

sappi limited second quarter page 2

Headline earnings per share were 12 US cents, compared to 10 US cents in the equivalent quarter last year and 6 US cents in the prior quarter. Earnings per share were 10 US cents for the quarter, the same as the equivalent quarter last year.

cash flow and debt

Cash generated by operations was US\$168 million, 9% lower than a year earlier due to lower operating income. The annual dividend payment of US\$68 million was paid in January 2005 and a further pension funding payment of US\$22 million was also paid in the quarter.

Net debt was US\$1.934 billion at the end of the quarter, an increase of US\$36 million compared to the prior quarter. Net debt to total capitalisation at the end of the period was 37.8%, which is well within our stated target range of 25% to 50%. At the end of December 2004, net debt to total capitalisation was 35.6%.

Working capital increased by US\$117 million in the quarter mainly as a result of higher inventories in North America and reduced payables related to annual rebate payments.

In North America we built inventory as a short-term fix of our service levels which had deteriorated last year as a result of scheduling and inventory management problems. We are now achieving our target service levels and will reduce inventory during the current quarter including taking downtime.

operating review for the quarter

Sappi Fine Paper

Quarter

Quarter

Quarter

ended

ended

ended

March 2005

March 2004

%

Dec 2004

US\$ million

US\$ million

change

US\$ million

Sales

977

967

1.0

1,011

Operating profit

18

10

80.0

16

Operating profit to sales (%)

1.8

1.0

1.6

EBITDA

109

98

11.2

105

EBITDA to sales (%)

11.2

10.1

10.4

RONOA pa (%)

2.1

1.2

1.9

Margins for our fine paper business were slightly improved in comparison to the prior quarter but are still much lower than acceptable levels. Margins were somewhat better than the same quarter last year as higher prices in US Dollar terms more than offset volume declines in all three components of this business and higher costs per ton. The key issues facing our fine paper business this quarter were our stance on coated paper prices, a sharp increase in imports into the US dampening domestic shipments in that region and continued raw material cost pressure in all regions.

sappi limited second quarter page 3

operating review for the quarter (continued)

Europe

Quarter

Quarter

Quarter

ended

ended

%

%

ended

March 2005

March 2004

change

change

Dec 2004

US\$ million

US\$ million

(US\$)

(Euro)

US\$ million

Sales

566

556

1.8

(3.0)

571

Operating profit

21

27

(22.2)

(25.9)

28

Operating profit to sales (%)

3.7

4.9

4.9

EBITDA

71

77

(7.8)

(12.1)

78

EBITDA to sales (%)

12.5

13.8

13.7

RONOA pa (%)

4.5
6.2

6.2

Our determination to increase our price levels for coated paper resulted in a short-term loss of revenue in the quarter and current low order book. We remain confident that higher prices will be achieved in our third financial quarter.

Cost reduction efforts are proceeding well. Due to our cost of quality and recipe optimisation work, variable costs were nearly flat in comparison to the previous quarter despite general raw material cost inflation and in particular higher purchased pulp costs. Headcount reduction plans related to the rationalisation of departments between two mills are on schedule. Raw material cost inflation slowed this quarter, but the impact of wood, energy and chemicals costs inflation was US\$10 million in comparison to the same quarter last year.

North America

Quarter

Quarter

Quarter

ended

ended

ended

March 2005

March 2004

%

Dec 2004

US\$ million

US\$ million

change

US\$ million

Sales

339

339

357

Operating loss

(2)

(20)

90.0

(15)

Operating loss to sales (%)

(0.6)

(5.9)

(4.2)

EBITDA

34

15

126.7

21

EBITDA to sales (%)

10.0

4.4

5.9

RONOA pa (%)

(0.6)

(5.8)

(4.4)

sappi limited second quarter page 4

Shipments of paper from our North American mills fell 6% in comparison to the same quarter last year largely as a result of remaining firm on prices early in the quarter. Industry coated fine paper demand growth was healthy, up 3% in comparison to the same quarter last year; however, imports surged 24% which had a major negative impact on domestic shipments. Consequently, shipments from US manufacturers fell 1% in comparison to the same quarter last year.

Price increases were gaining traction by March; but, the real impact of these will only be seen in the third fiscal quarter.

Raw material cost inflation remained a major issue. The price impact of higher wood, chemicals and energy costs was US\$19 million in comparison to the same quarter last year and US\$7 million in comparison to the December quarter.

We made progress reducing logistics and distribution costs this quarter. Delivery costs were down despite fuel surcharges and increases in carrier rates. We have also increased usage of rail transport. Notwithstanding these cost improvements, our operating performance next quarter will be adversely affected by commercial downtime and maintenance charges.

Fine Paper South Africa

Quarter

Quarter

Quarter

ended

ended

%

%

ended

March 2005

March 2004

change

change

Dec 2004

US\$ million

US\$ million

(US\$)

(Rands)

US\$ million

Sales

72

72

(12.5)

83

Operating profit (loss)

(1)

3

(129.2)

3

Operating profit (loss) to sales (%)

(1.4)

4.2

3.6
EBITDA
4
6
(33.3)
(41.6)
6
EBITDA to sales (%)
5.6
8.3

7.2
RONOA pa (%)
(2.0)
7.4

6.8
Our South African fine paper business incurred a small operating loss compared to a profit of US\$3 million in the same quarter last year. The relative strength of the Rand continues to attract imports and therefore puts pressure on prices. This had an adverse impact on both sales volumes which were down 7% compared to last year and on local prices. Export price realisations in Rand terms were also negatively affected. Average prices in Rand terms fell 4% in comparison to the prior quarter.
sappi limited second quarter page 5

operating review for the quarter (continued)

Forest Products

Quarter

Quarter

Quarter

ended

ended

%

%

ended

March 2005

March 2004

change

change

Dec 2004

US\$ million

US\$ million

(US\$)

(Rands)

US\$ million

Sales

248

218

13.8

(0.4)

242

Operating profit (loss) *

30

48

(37.5)

(45.3)

(11)

Operating profit (loss) to sales (%)

12.1

22.0

(4.5)

EBITDA *

64

77

(16.9)

(27.2)

25

EBITDA to sales (%)

25.8

35.3

10.3

RONOA pa (%)

8.5
16.0

(3.2)

** Operating profit and EBITDA for the quarter ended December 2004 reduced by US\$41 million in respect of asset impairment.*

Demand across all of Forest Products' businesses remained fairly strong. Pulp and paper sales volumes increased 4% compared to the same quarter last year. Domestic prices continued to be under pressure from imports, driven by the continued strength of the Rand in comparison to the US Dollar. Export margins also decreased due to currency. Demand for chemical cellulose remained high and prices increased in US Dollar terms, largely in line with market paper pulp. Average Rand prices for both domestic sales and exports of pulp and paper rose 2% in comparison to the prior quarter.

Management actions to improve efficiency and productivity at our Usutu Mill are ongoing and have started to show results.

Forest Products' operating income for the quarter was US\$30 million, compared to US\$48 million in the same quarter last year. US\$14 million of the decline was due to a lower forestry fair value adjustment.

Cost reduction efforts are progressing well. Transport costs have been reduced through logistics optimisation actions including an earlier redesign of our trucks to increase loads. Headcount reduction is being achieved through careful evaluation of all job vacancies and personnel restructuring where possible. Purchasing programs to gain leverage from the strong Rand are ongoing.

sappi limited second quarter page 6

outlook

Despite forecasts of lower GDP growth in our major markets, we expect the global supply-demand balance for coated fine paper will continue to improve. Ad-spend growth, while forecast to slow somewhat in 2005 before picking up again in 2006, is still much higher than the levels that we saw in the period 2001-2003. Coated fine paper demand is closely correlated with ad-spend growth, suggesting that coated fine paper demand growth will strengthen, and capacity additions are at a historically low level, which is expected to result in improved operating rates. While the longer-term outlook is positive, current levels of profitability remain a concern. Our key objective is to improve our returns to a level higher than our cost of capital and to provide shareholder returns in excess of our peer group. We continue to focus on costs across the Sappi group and in particular on improving our North American business. However, raw material cost increases continue to severely impact our margins and next quarter we will have a large seasonal maintenance charge of approximately US\$22 million of direct costs. We remain confident about our prices given underlying market conditions and the cost pressure the industry is experiencing.

We plan to take downtime to readjust our inventory levels in North America and to match our output in Europe to customer demand during the quarter. This downtime will have a further detrimental impact on performance.

Price increases have already been realised in North America and are now being realised in Europe. Despite this positive development and savings from our on-going cost reduction actions, the combination of high raw material costs and substantial downtime now makes it unlikely that earnings for the full year will match last year's earnings.

On behalf of the Board

J C A Leslie

D G Wilson

Director

Director

29 April 2005

sappi limited

(Registration number 1936/008963/06)

Issuer Code: SAVVI

JSE Code: SAP

ISIN Code: ZAE 000006284

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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. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors, that could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclical nature, such as levels of demand, production capacity, production and pricing), adverse changes in the markets for the group's products, consequences of substantial leverage, changing regulatory requirements, unanticipated production disruptions, economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions and achieving expected savings and synergies and currency fluctuations. The company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

forward-looking statements

sappi limited second quarter page 8

financial results
for the quarter and half-year ended March 2005
sappi limited second quarter page 9

Reviewed
Reviewed
Reviewed
Reviewed
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
March
March
March
March
2005
2004
2005
2004
US\$ million
US\$ million
% change
US\$ million
US\$ million
% change
Sales
1,225
1,185
3.4
2,478
2,305
7.5
Cost of sales
1,076
1,030
2,189
2,025
Gross profit
149
155
(3.9)
289
280
3.2
Selling, general and
administrative expenses
97
99
190
224

| | |
|--|--------|
| | 52 |
| | 56 |
| | 99 |
| | 56 |
| Other expenses | |
| | 5 |
| | |
| | 48 |
| | |
| Operating profit | |
| | 47 |
| | 56 |
| | (16.1) |
| | 51 |
| | 56 |
| | (8.9) |
| Net finance costs | |
| | 23 |
| | 26 |
| | 52 |
| | 54 |
| Net paid | |
| | 27 |
| | 26 |
| | 55 |
| | 52 |
| Capitalised | |
| | (1) |
| | |
| | (1) |
| | (1) |
| Net foreign exchange gains | |
| | (1) |
| | (4) |
| | (3) |
| | (6) |
| Change in fair value of financial instruments | |
| | (2) |
| | 4 |
| | 1 |
| | 9 |
| Profit (loss) before tax | |
| | 24 |
| | 30 |
| | (20.0) |
| | (1) |
| | 2 |
| | |
| Taxation current | |
| | 12 |

13
 20
 24
 deferred
 (11)
 (6)
 (15)
 (21)
 Net profit (loss)
 23
 23

 (6)
 (1)

 Earnings (loss) per share
 (US cents)
 10
 10
 (3)
 0
 Headline earnings per
 share (US cents) *
 12
 10
 18
 0
 Weighted average number of
 shares in issue (millions)
 225.6
 226.1
 225.8
 226.3
 Diluted earnings (loss) per share
 (US cents)
 10
 10
 (3)
 0
 Diluted headline earnings
 per share (US cents) *
 12
 10
 18
 0
 Weighted average number of
 shares on fully diluted basis
 (millions)
 226.8
 228.3
 227.1

228.4

Calculation of Headline
earnings (loss) *

Net profit (loss)

23

23

(6)

(1)

Write-off of assets

3

4

Impairment of assets

1

42

Headline earnings (loss)

27

23

40

(1)

* *Headline earnings (loss) disclosure is required by the JSE Securities Exchange South Africa.*

group income statement

sappi limited second quarter page 10

Reviewed
Reviewed
March 2005
Sept 2004
US\$ million
US\$ million
ASSETS
Non-current assets
4,655
4,564
Property, plant and equipment
3,660
3,670
Plantations
583
548
Deferred taxation
66
84
Other non-current assets
346
262
Current assets
1,517
1,580
Cash and cash equivalents
247
484
Trade and other receivables
370
331
Inventories
900
765
Total assets
6,172
6,144
EQUITY AND LIABILITIES
Shareholders equity
Ordinary shareholders interest
2,151
2,157
Non-current liabilities
2,409
2,463
Interest-bearing borrowings
1,621
1,693
Deferred taxation
446
453

Other non-current liabilities

342

317

Current liabilities

1,612

1,524

Interest-bearing borrowings

451

364

Bank overdraft

109

11

Taxation payable

116

137

Other current liabilities

936

1,012

Total equity and liabilities

6,172

6,144

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

225.7

226.5

group balance sheet

sappi limited second quarter page 11

Reviewed
Reviewed
Reviewed
Reviewed
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
March
March
March
March
2005
2004
2005
2004
US\$ million
US\$ million
US\$ million
US\$ million
Cash generated by operations
168
184
305
290
Movement in working capital
(117)
(31)
(266)
(144)
Net finance costs
(24)
(26)
(58)
(52)
Taxation paid
(12)
(4)
(39)
(19)
Dividends paid
(68)
(66)
(68)
(66)
Cash retained (utilised) from operating
activities

(53)
57
(126)
9
Cash effects of investing activities
(79)
(96)
(206)
(185)
(132)
(39)
(332)
(176)
Cash effects of financing activities
10
(25)
80
(99)
Net movement in cash and cash
equivalents
(122)
(64)
(252)
(275)
group cash flow statement
sappi limited second quarter page 12

Reviewed
 Reviewed
 Half-year ended
 Half-year ended
 March 2005
 March 2004
 US\$ million
 US\$ million
 Balance beginning of year as reported
 2,119
 1,945
 Change in accounting policy refer to note 1
 38
 38
 Balance beginning of year restated
 2,157
 1,983
 Net loss
 (6)
 (1)
 Foreign currency translation reserve
 70
 130
 Revaluation of derivative instruments
 12
 (7)
 Dividends paid US\$ 0.30 (2004: US\$ 0.29) per share
 (68)
 (66)
 Share buybacks net of transfers to participants of the
 share purchase trust
 (14)
 (11)
 Balance end of period
 2,151
 2,028
 group statement of changes in
 shareholders equity
 sappi limited second quarter page 13

1. Basis of preparation

The annual financial statements are prepared in conformity with South African Statements of Generally Accepted Accounting Practice (SA GAAP). These quarterly results have been prepared in compliance with AC 127 (Interim financial reporting) and are based on accounting policies which are consistent with those used in the annual financial statements.

The same accounting policies have been followed as in the annual financial statements for September 2004, except for the new accounting standard AC 501 - Accounting for

Secondary Tax on Companies (STC) which became effective from the beginning of the current financial year. This has resulted in the recognition of a deferred tax asset for unused tax credits to the extent that they will be utilised in the future.

The adoption of the new accounting policy resulted in an increase in shareholders' equity of US\$38 million at September 2004 (September 2003: increase of US\$38 million). The effect on net profit for the current quarter is nil (December 2004 quarter: decrease of US\$8 million; March 2004 quarter: nil). Where appropriate, comparative figures have been restated.

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

2. Comparative figures

Certain comparative amounts have been reclassified between deferred tax and current tax.

This had no effect on reported net income or shareholders' equity.

notes to the group results

sappi limited second quarter page 14

Reviewed
Reviewed
Reviewed
Reviewed
Quarter
Quarter
Half-year
Half-year

ended
ended
ended
ended
March
March
March
March

2005
2004
2005
2004

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

3. Operating profit

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

Depreciation and amortisation

Depreciation of property, plant and equipment

108

103

216

203

Other amortisation

1

1

1

108

104

217

204

Asset impairment

1

42

109

104

259

204

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

Changes in volume

Fellings

17

13

33

27

Growth

(19)

(13)

(33)

(28)

(2)

(1)

Changes in fair value

(1)

(17)

(17)

(24)

(3)

(17)

(17)

(25)

The above fair value adjustment gains
have been partially offset by silviculture
costs

11

9

22

18

4. Capital expenditure

Property, plant and equipment

60

84

138

167

sappi limited second quarter page 15

Reviewed

Reviewed

March 2005

Sept 2004

US\$ million

US\$ million

5. Capital commitments

Contracted but not provided

66

76

Approved but not contracted

259

198

325

274

6. Contingent liabilities

Guarantees and suretyships

78

68

Other contingent liabilities

11

15

notes to the group results (continued)

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definitions

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

*

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

*

EBITDA to sales EBITDA divided by sales

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

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

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 pulp and paper industry for comparative purposes

*

Net assets total assets less current liabilities

*

Net asset value shareholders equity plus net deferred tax

*

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

*

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

*

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

*

ROE return on average equity. Net profit divided by average shareholders equity

*

RONA operating profit divided by average net assets

*

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

** The above financial measures, other than headline earnings per share, are presented to assist our shareholders and the investment community in interpreting our financial results. These financial measures are regularly used and compared between companies in our industry.*

supplemental information

sappi limited second quarter page 17

additional information

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Half-year

Half-year

ended

ended

ended

ended

March

March

March

March

2005

2004

2005

2004

US\$ million

US\$ million

US\$ million

US\$ million

Net profit (loss) to EBITDA

(1)

reconciliation

Net profit (loss)

23

23

(6)

(1)

Net finance costs

23

26

52

54

Taxation current

12

13

20

24

deferred

(11)

(6)

(15)

(21)

Depreciation

108

103

216
 203
 Amortisation (including fellings)
 17
 14
 34
 28
EBITDA
 (1) (3)
 172
 173
 301
 287
 Reviewed
 Reviewed
 March 2005
 Sept 2004
 US\$ million
 US\$ million
 Net debt (US\$ million)
 (2)
 1,934
 1,584
 Net debt to total capitalisation (%)
 (2)
 37.8
 31.7
 Net asset value per share (US\$)
 (2)
 11.21
 11.15

(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 to net profit rather than operating profit. As a result our definition retains other income/expenses as part of EBITDA.

We use EBITDA as an internal measure of performance and believe it is a useful and commonly used measure of financial performance in addition to operating profit and other profitability measures under SA GAAP. EBITDA is not a measure of performance under SA GAAP. EBITDA should not be construed as an alternative to operating profit as an indicator of the company s operations in accordance with SA GAAP. EBITDA is also presented to assist our shareholders and the investment community in interpreting our financial results. This financial measure is regularly used as a means of comparison of companies in our industry by removing certain differences between companies such as depreciation methods, financing structures and taxation regimes. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully.

(2)
Refer to page 17, Supplemental Information for the definition of the term.

(3)
EBITDA for the half-year ended March 2005 reduced by US\$42 million (Quarter ended December 2004: US\$41 million) in respect of asset impairments.

supplemental information

regional information

Quarter

Quarter

Half-year

Half-year

ended

ended

ended

ended

March

March

March

March

2005

2004

2005

2004

Metric tons

Metric tons

Metric tons

Metric tons

(000 s)

(000 s) % change

(000 s)

(000 s) % change

Sales

Fine Paper

North America

331

362

(8.6)

681

699

(2.6)

Europe

595

611

(2.6)

1,206

1,199

0.6

Southern Africa

69

74

(6.8)

147

146

0.7

Total

995

1,047

(5.0)
2,034
2,044
(0.5)
Forest Products Pulp and paper operations
389
373
4.3
780
757
3.0
Forestry operations
369
341
8.2
750
658
14.0
Total
1,753
1,761
(0.5)
3,564
3,459
3.0
Reviewed
Reviewed
Reviewed
Reviewed
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
March
March
March
March
2005
2004
2005
2004
US\$ million
US\$ million
% change
US\$ million
US\$ million
% change

Sales

Fine Paper

North America

339

339

696

655

6.3

Europe

566

556

1.8

1,137

1,074

5.9

Southern Africa

72

72

155

143

8.4

Total

977

967

1.0

1,988

1,872

6.2

Forest Products Pulp and paper operations

230

203

13.3

452

404

11.9

Forestry operations

18

15

20.0

38

29

31.0

Total

1,225

1,185

3.4

2,478

2,305

7.5

Operating profit

Fine Paper

North America

(2)

(20)

90.0

(17)

(74)

77.0

Europe

21

27

(22.2)

49

42

16.7

Southern Africa

(1)

3

2

8

(75.0)

Total

18

10

80.0

34

(24)

Forest Products *

30

48

(37.5)

19

83

(77.1)

Corporate

(1)

(2)

50.0

(2)

(3)

33.3

*Total **

47

56

(16.1)

51

56

(8.9)

supplemental information
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supplemental information
sappi limited second quarter page 20
regional information (continued)
Reviewed
Reviewed
Reviewed
Reviewed
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
March
March
March
March
2005
2004
2005
2004
US\$ million
US\$ million
% change
US\$ million
US\$ million
% change
Earnings before interest, tax, depreciation
and amortisation charges
Fine Paper
North America
34
15
126.7
55
(5)

Europe
71
77
(7.8)
149
140
6.4
Southern Africa
4
6
(33.3)
10

14
 (28.6)
Total
 109
 98
 11.2
 214
 149
 43.6
 Forest Products *
 64
 77
 (16.9)
 89
 141
 (36.9)
 Corporate
 (1)
 (2)
 50.0
 (2)
 (3)
 33.3
*Total **
 172
 173
 (0.6)
 301
 287
 4.9
 Net operating assets
 Fine Paper
 North America
 1,421
 1,396
 1.8
 1,421
 1,396
 1.8
 Europe
 1,811
 1,729
 4.7
 1,811
 1,729
 4.7
 Southern Africa
 194
 166
 16.9
 194

166
16.9
Total
3,426
3,291
4.1
3,426
3,291
4.1
Forest Products
1,343
1,233
8.9
1,343
1,233
8.9
Corporate and other **
38
(16)

38
(16)

Total
4,807
4,508
6.6
4,807
4,508
6.6

* *Operating profit and EBITDA for the half-year ended March 2005 reduced by US\$42 million (Quarter ended December 2004: US\$41 million) in respect of asset impairments.*

** *Includes investment in joint venture in China. This investment was included in the net operating assets of Sappi Fine Paper Europe at December 2004.*

summary rand convenience translation

| |
|-----------------------------------|
| Reviewed |
| Reviewed |
| Reviewed |
| Reviewed |
| Quarter |
| Quarter |
| Half-year |
| Half-year |
| ended |
| ended |
| ended |
| ended |
| March |
| March |
| March |
| March |
| 2005 |
| 2004 % change |
| 2005 |
| 2004 % change |
| Sales (ZAR million) |
| 7,298 |
| 8,064 |
| (9.5) |
| 15,025 |
| 15,758 |
| (4.7) |
| Operating profit (ZAR million) ** |
| 280 |
| 381 |
| (26.5) |
| 309 |
| 383 |
| (19.3) |
| Net profit (loss) (ZAR million) |
| 137 |
| 157 |
| (12.7) |
| (36) |
| (7) |
| EBITDA * (ZAR million) ** |
| 1,025 |
| 1,177 |
| (12.9) |
| 1,825 |
| 1,962 |
| (7.0) |
| Operating profit to sales (%) |
| 3.8 |

| |
|--|
| 4.7 |
| 2.1 |
| 2.4 |
| EBITDA * to sales (%) |
| 14.0 |
| 14.6 |
| 12.1 |
| 12.5 |
| Operating profit to average net assets (%) |
| 4.0 |
| 5.0 |
| 2.1 |
| 2.5 |
| EPS (SA cents) |
| 60 |
| 68 |
| (11.8) |
| (18) |
| 0 |
| Headline EPS (SA cents) * |
| 71 |
| 68 |
| 4.4 |
| 109 |
| 0 |
| Net debt (ZAR million) * |
| 12,002 |
| 11,524 |
| 4.1 |
| Net debt to total capitalisation (%) * |
| 37.8 |
| 35.6 |
| Cash generated by operations (ZAR million) |
| 1,001 |
| 1,252 |
| (20.0) |
| 1,849 |
| 1,983 |
| (6.8) |
| Cash retained (utilised) from operating activities (ZAR million) |
| (316) |
| 388 |
| (764) |
| 62 |

Net movement in cash and cash
equivalents (ZAR million)

(727)

(436)

(66.7)

(1,528)

(1,880)

18.7

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

*** Operating profit and EBITDA for the half-year ended March 2005 reduced by ZAR257 million
(Quarter ended December 2004: ZAR247 million) in respect of asset impairments.*

exchange rates

March

Dec

Sept

June

March

2005

2004

2004

2004

2004

Exchange rates:

Period end rate: US \$1 = ZAR

6.2059

5.6480

6.4290

6.3224

6.5738

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

5.9577

6.0649

6.3830

6.5953

6.8054

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

6.0632

6.0649

6.6824

6.7661

6.8363

Period end rate: EUR 1 = US\$

1.2982

1.3456

1.2309

1.2138

1.2150

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

1.3110

1.2848

1.2233

1.2051

1.2497

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

1.2911

1.2848

1.2152

1.2118

1.2161

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

Assets and liabilities at rates of exchange ruling at period end; and

Income, expenditure and cash flow items at average exchange rates.

supplemental information

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note: (1 ADR = 1 sappi share)

sappi ordinary shares

ADR price (NYSE TICKER: SPP)

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notes

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notes

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2

and 150g/m

2

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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: May 9, 2005

SAPPI LIMITED,
by /s/ D. G. Wilson
Name: D. G. Wilson
Title: Executive Director: Finance