

SAPPI LTD  
Form 6-K  
August 11, 2006



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, 2006  
Commission file number: 1-14872

SAPPI LIMITED  
(Translation of registrant's name into English)  
48 Ameshoff Street  
Braamfontein  
Johannesburg 2001

REPUBLIC OF SOUTH AFRICA  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

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Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

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If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-





#### INCORPORATION BY REFERENCE

Sappi Limited's report for the conformed third quarter results ended June 2006, furnished by the Registrant under this Form 6-K, is incorporated by reference into (i) the Registration Statements on Form S-8 of the Registrant filed December 23, 1999 and December 15, 2004 in connection with The Sappi Limited Share Incentive Scheme, (ii) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited Share Incentive Scheme, (iii) the Registration Statements on Form S-8 of the Registrant filed December 15, 2004 and December 21, 2005 in connection with The Sappi Limited 2004 Performance Share Incentive Plan, and (iv) the Section 10(a) Prospectus relating to the offer and sale of the Registrant's shares to Participants under The Sappi Limited 2004 Performance Share Incentive Plan. This Form 6-K includes a conformed version of the earnings announcement sent by the Registrant to its shareholders. This conformed version was prepared solely for purposes of supplementing the documents referred to in clauses (i) - (iv) above.

#### 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; 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  
**conformed  
quarter  
results and  
nine months  
ended  
June  
2006  
1st  
2nd  
3rd  
4th  
Form S-8 Version**





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

*for the nine months ended June 2006*

*\*\* Estimate as at 30 June 2006*

† *Rest of World*

Sales by product group \*

Sales: where the product  
is sold \*

Sales: where the product  
is manufactured \*

Geographic ownership \*\*

Coated specialities

9%

8%

Pulp

13%

Other

2%

Europe

Asia and other

14%

Europe and ROW †

10%

Coated fine paper  
63%  
Uncoated fine paper  
5%

North America  
31%

40%

Southern Africa  
15%

North America  
29%

Europe  
45%

Southern Africa  
26%

South Africa  
55%

North America  
35%

Packaging and  
newsprint





Headline loss 20 US cents per share; net loss 23 US cents per share

Unfavourable plantation fair value adjustment – 7 US cents per share

Input cost pressure

Strong demand continues

Prices increase in USA; flat in Europe

Weaker rand benefits SA businesses

Saiccor expansion approved  
summary

Quarter

Nine months

ended

ended

June

March

June

June

June

2006

2006

2005\*\*

2006

2005\*\*

Sales (US\$ million)

1,214

1,256

1,144

3,645

3,630

Operating (loss) profit (US\$ million)

(34)

59

(188)

74

(121)

Operating (loss) profit to sales (%)

(2.8)

4.7

(16.4)

2.0

(3.3)

EBITDA (US\$ million) \*

82

176

(71)



421

246

EPS (US cents)

(23)

4

(78)

(19)

(69)

Headline EPS (US cents) \*

(20)

5

(5)

(14)

25

*\* Refer to notes 1 and 2 of the Supplemental Information for the reconciliation of these numbers and definitions of these terms.*

*\*\* Comparative amounts have been restated to take into account the effect of the adoption of International Financial Reporting*

*Standards (Refer to note 2).*

financial highlights





Demand for our fine paper continued to grow strongly in the quarter with sales volume increasing 8% compared to a year earlier, representing some recovery of market shares. Apparent consumption in the USA grew 13% and in Europe grew 2% compared to the same period last year. Demand in Europe was slower than the prior quarter, which is typical at this time of year and prices remained flat compared to the prior quarter and to the year earlier. In North America prices are improving but our average price realisation reflects a lower increase as a result of the inclusion of a higher proportion of pulp and publication paper in our mix. We reported at the end of the previous quarter that in order to restore margins to an acceptable level we would change a number of business practices. These include pricing policy, distribution and terms of doing business. There is already evidence of some improvement and we expect continued improvement in the coming quarters.

The Forest Products business had strong demand for its products but sales were constrained by poor production and major maintenance events. The relatively weaker rand is expected to result in less competition from imports for our South African businesses and export earnings should rise accordingly. Net sales for the group of US\$1.2 billion were up 6.1% compared to a year earlier mainly as a result of an increase in the average price realised in South Africa and the regional mix.

Although the rate of increase of raw material and energy costs slowed, the unfavourable impact of wood, chemical and energy prices compared to the prior quarter was US\$3 million and US\$34 million compared to a year earlier. Rising pulp prices had a further US\$6 million impact on costs compared to a year earlier; however, as we sell slightly more pulp than we purchase, our sales benefit.

Our South African businesses benefited from the weaker rand towards the end of the quarter but for the first time since the introduction of plantation fair value accounting (IAS41), the non-cash plantation fair value adjustment (net after fellings) was unfavourable. This represented a US\$22 million charge compared to gains of US\$60 million last quarter and US\$8 million a year earlier. This reflects the mark-to-market of increases in the energy cost to bring wood to market over our entire plantation investment. Major boiler repairs at Ngodwana resulted in significant additional purchased fuel and electricity costs, and a severe hailstorm at Stanger caused damage to the roof and inventory. The combined negative effect of these events was US\$9 million.

In addition, the direct cost of major planned maintenance shuts was approximately US\$20 million in the quarter compared to US\$4 million last quarter and US\$19 million a year earlier.

Our operating loss for the quarter after these impacts was US\$34 million compared to a loss of US\$188 million last year, which included the US\$180 million charge for the impairment of Muskegon Mill. SG&A costs this quarter were significantly higher than comparative periods due to the timing of various grant receipts and fee payments. Year to date SG&A costs are largely in line with previous years.

Net finance costs were US\$35 million compared to US\$31 million last quarter; US\$2 million of the difference was a result of lower net foreign exchange gains. In the comparable quarter last year finance costs were reduced by an adjustment for the fair value of financial instruments of US\$19 million.

The headline loss per share for the quarter was 20 US cents and the net loss per share was 23 US cents. The primary reason for the difference was further asset impairment at previously impaired sites and asset write-offs.

comment  
sappi limited – third quarter page 2





cash flow

Cash generated by operations was US\$85 million for the quarter before US\$18 million of foreign currency related non-cash adjustments, compared to US\$93 million a year ago. Working capital reduced US\$16 million as a result of increased payables in the quarter. We aim to reduce working capital substantially in the final quarter.

During the quarter, net interest payments were US\$48 million compared to US\$23 million in the previous quarter. The payments included a semi-annual interest payment on the US\$750 million bonds.

Capital expenditure continued to be tightly controlled and was US\$74 million, about 77% of depreciation, for the quarter compared to US\$83 million a year earlier. We utilised US\$59 million cash this quarter and expect to at least reverse this in the final quarter.

operating review for the quarter

*Sappi Fine Paper*

Quarter

Quarter

Quarter

ended

ended

ended

June 2006

June 2005

%

March 2006

US\$ million

US\$ million

change

US\$ million

Sales

968

905

7.0

1,018

Operating loss \*

(18)

(210)

–

(6)

Operating loss to sales (%)

(1.9)

(23.2)

–

(0.6)

\* Includes pre tax charge of US\$180 million in respect of Muskegon Mill asset impairment in June 2005.

Sales increased 7% for the quarter compared to a year earlier. While we are seeing improved pricing in the USA, particularly for web products, prices in Europe have remained flat. Our efforts in both markets to improve margin management continue.

Cost pressures, particularly wood, energy and chemicals continue to squeeze our margins. The rate of increase in the quarter slowed compared to the recent trend.

sappi limited – third quarter page 3







*Europe*

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2006

June 2005

change

change

March 2006

US\$ million

US\$ million

(US\$)

(Euro)

US\$ million

Sales

536

498

7.6

8.6

569

Operating profit (loss)

1

(12)

–

–

6

Operating profit (loss) to sales (%)

0.2

(2.4)

–

–

1.1

Our sales volume grew 7% in the quarter compared to a year ago resulting in a recovery of market share lost during our strong stand on prices last year. Price realisation in the quarter was flat and continued input cost pressure squeezed our margins resulting in small operating profit of US\$1 million.

We took commercial downtime during the quarter. The mills operated well with efficient management of fixed costs and raw material usage.

*North America*

Quarter

Quarter

Quarter

ended

ended

ended

June 2006

June 2005 \*

%  
 March 2006  
 US\$ million  
 US\$ million  
 change  
 US\$ million  
 Sales  
 354  
 338  
 4.7  
 367  
 Operating loss  
 (14)  
 (199)  
 –  
 (10)  
 Operating loss to sales (%)  
 (4.0)  
 (58.9)  
 –  
 (2.7)

*\* Includes pre tax charge of US\$180 million in respect of Muskegon Mill asset impairment in June 2005.*  
 The quarter ended strongly with improved mill output, improved prices and improving margin management. The quarter's result, however, was an operating loss of US\$14 million. Mill performances improved during the quarter but Muskegon efficiency levels are still well short of our targets. The streamlining of our product range and improved mill scheduling have helped restore our service levels and we expect further improvements in the months ahead. The direct cost of major maintenance shuts in the quarter was US\$6 million. We continue to work towards achieving new labour agreements at our US mills. Offers are on the table at our two mills in Maine, and we are still in discussions at our Muskegon and Cloquet mills. We are hopeful that the offers will be voted on by our employees in the near future.

sappi limited – third quarter page 4  
 operating review for the quarter (continued)





*Fine Paper South Africa*

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2006

June 2005

change

change

March 2006

US\$ million

US\$ million

(US\$)

(Rand)

US\$ million

Sales

78

69

13.0

14.7

82

Operating (loss) profit

(5)

1

–

–

(2)

Operating (loss) profit to sales (%)

(6.4)

1.4

–

–

(2.4)

Sales volumes and prices improved during the quarter but cost pressure including higher pulp costs and the storm damage at Stanger mill resulted in an operating loss in the quarter.

*Forest Products*

Quarter

Quarter

Quarter

ended

ended

%

%

ended

June 2006

June 2005

change

change

March 2006

US\$ million

US\$ million

(US\$)

(Rand)

US\$ million

Sales

246

239

2.9

4.4

238

Operating (loss) profit

(16)

23

–

–

69

Operating (loss) profit to sales (%)

(6.5)

9.6

–

–

29.0

Demand for our products was strong in the quarter; however our sales of kraft products were unfavourably impacted by poor operating efficiency at Ngodwana and Tugela mills. Saiccor's production was lower than planned as a result of the tie-in of debottlenecking capital work. Efficiency levels have improved and Saiccor's output is now ahead of plan. Demand for Saiccor's chemical cellulose is strong and the mill is expected to run at operating rates anticipated by the capital work.

Usutu mill returned to profitability during the quarter as a result of a concerted profit improvement programme and was bolstered by strong pricing and currency.

Average softwood pulp prices (NBSK) were up about US\$40 compared to the prior quarter and hardwood pulp prices increased by US\$25 per ton. This will have a flow through effect in the quarter ahead and should be bolstered by the currency moves.

Operating profit was reduced by the plantation fair value adjustment of US\$22 million and major maintenance and exceptional repair costs of US\$18 million, resulting in an operating loss of US\$16 million.

sappi limited – third quarter page 5







The rand rate was weaker during the quarter at R6.47 to the US dollar compared to R6.18 in the March quarter and R6.37 a year earlier. The rate is currently approximately R7.00. The weaker rate will improve export revenues and help reduce import competition in the domestic markets.

Work will begin on the project to expand chemical cellulose production at our Saiccor mill in the fourth quarter and is expected to be completed in the third quarter 2008.

The project will expand capacity by 300,000 tons, 75,000 tons of which will replace existing higher cost capacity. It will also substantially improve the environmental impact of the mill. The estimated cost of the combined project is US\$460 million

outlook

Our short term goal is to return to reasonable profitability next year and we have identified the steps we believe can deliver this. We are confident that our North American and Southern African businesses will return to operating profitability next quarter. For Europe we are making progress with cost reduction but are unlikely to see much of the effect of price improvements we need before the end of the third calendar quarter. We may also incur some one-off costs to effect cost improvements in the next six months in Europe .

The improvement of the group's cash flow remains a priority. The freeze implemented in April on capital projects except those needed for maintenance of the business and short payback items will continue, providing us with the flexibility to undertake step change projects from time to time such as the Saiccor expansion. We plan to manage the Saiccor expansion and some lesser projects without increasing group debt.

The change in our marketing and control policies is beginning to work. We aim to achieve a meaningful average price increase in Europe towards the end of the summer.

We expect the group to return to profitability in the next quarter, excluding fair value adjustments, and thereafter to move towards attaining our longer term objectives.

On behalf of the Board

E van As

W Pfarl

Director

Director

3 August 2006

sappi limited

(Registration number 1936/008963/06)

NYSE Code: SPP

JSE Code: SAP

ISIN Code: ZAE 000006284

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operating review for the quarter (continued)





sappi limited – third quarter page 7

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, input costs including raw material, energy and employee costs, and pricing), adverse changes in the markets for the group's products, consequences of substantial leverage, 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













conformed financial results  
for the quarter and nine months ended June 2006  
Form S-8 Version  
sappi limited – third quarter page 9





group income statement  
sappi limited – third quarter page 10

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

%

June 2006

June 2005

%

US\$ million

US\$ million

change

US\$ million

US\$ million

change

Sales

1,214

1,144

6.1

3,645

3,630

0.4

Cost of sales

1,143

1,070

3,283

3,263

Gross profit

71

74

(4.1)

362

367

(1.4)

Selling, general and  
administrative expenses

97

81

267  
259  
(26)  
(7)  
95  
108  
Other expenses  
8  
181  
21  
229  
Operating (loss) profit  
(34)  
(188)  
81.9  
74  
(121)  
Net finance costs  
35  
9  
93  
54  
Net paid  
35  
31  
100  
95  
Capitalised  
-  
-  
(1)  
(1)  
Net foreign exchange  
gains  
(1)  
(3)  
(5)  
(6)  
Change in fair value of  
financial instruments  
1  
(19)  
(1)  
(34)  
Loss before tax  
(69)  
(197)  
65.0  
(19)  
(175)  
89.1

Taxation – current  
1  
3  
16  
23  
– deferred  
(17)  
(23)  
9  
(43)  
Net loss  
(53)  
(177)  
70.1  
(44)  
(155)  
71.6  
Loss per share  
(US cents)  
(23)  
(78)  
(19)  
(69)  
Weighted average  
number of shares  
in issue (millions)  
226.3  
225.7  
226.1  
225.8  
Diluted loss per share  
(US cents)  
(23)  
(78)  
(19)  
(69)  
Weighted average  
number of shares  
on fully diluted  
basis (millions)  
228.4  
226.6  
227.9  
226.8







group balance sheet  
sappi limited – third quarter page 11

Restated

Reviewed

Reviewed

June 2006

Sept 2005

US\$ million

US\$ million

**ASSETS**

Non-current assets

4,118

4,244

Property, plant and equipment

3,215

3,333

Plantations

575

604

Deferred taxation

71

70

Other non-current assets

257

237

Current assets

1,476

1,645

Inventories

755

711

Trade and other receivables

552

567

Cash and cash equivalents

169

367

Total assets

5,594

5,889

**EQUITY AND LIABILITIES**

Shareholders' equity

Ordinary shareholders' interest

1,354

1,589

Non-current liabilities

2,578

2,547

Interest-bearing borrowings

1,637

1,600

Deferred taxation	
356	
367	
Other non-current liabilities	
585	
580	
Current liabilities	
1,662	
1,753	
Interest-bearing borrowings	
746	
616	
Bank overdraft	
8	
159	
Other current liabilities	
792	
858	
Taxation payable	
116	
120	
Total equity and liabilities	
5,594	
5,889	
Number of shares in issue at balance sheet date (millions)	
226.5	
225.9	





group cash flow statement  
sappi limited – third quarter page 12  
group statement of recognised income and  
expense  
Restated  
Restated  
Reviewed  
Reviewed  
Reviewed  
Reviewed  
Reviewed  
Quarter  
Quarter  
Nine months  
Nine months  
ended  
ended  
ended  
ended  
June 2006  
June 2005  
June 2006  
June 2005  
US\$ million  
US\$ million  
US\$ million  
US\$ million  
Operating (loss) profit  
(34)  
(188)  
74  
(121)  
Depreciation, fellings and other amortisation  
116  
117  
347  
367  
Other non-cash items (including impairment  
charges)  
(15)  
164  
(115)  
161  
Cash generated by operations  
67  
93  
306  
407  
Movement in working capital  
16  
97  
(97)

(110)  
 Net finance costs  
 (48)  
 (33)  
 (116)  
 (100)  
 Taxation paid  
 –  
 (1)  
 (12)  
 (40)  
 Dividends paid  
 –  
 –  
 (68)  
 (68)  
 Cash retained from operating activities  
 35  
 156  
 13  
 89  
 Cash effects of investing activities  
 (94)  
 (64)  
 (246)  
 (270)  
 (59)  
 92  
 (233)  
 (181)  
 Cash effects of financing activities  
 31  
 (150)  
 34  
 (129)  
 Net movement in cash and cash equivalents  
 (28)  
 (58)  
 (199)  
 (310)  
 Restated  
 Restated  
 Reviewed  
 Reviewed  
 Reviewed  
 Reviewed  
 Quarter  
 Quarter  
 Nine months  
 Nine months  
 ended



ended  
 ended  
 ended  
 June 2006  
 June 2005  
 June 2006  
 June 2005  
 US\$ million  
 US\$ million  
 US\$ million  
 US\$ million  
 Pension fund asset not recognised  
 (2)  
 –  
 (6)  
 –  
 Actuarial losses on pension and other post  
 employment benefit liabilities  
 (5)  
 –  
 (5)  
 –  
 Deferred taxation on above items  
 –  
 –  
 1  
 –  
 Valuation allowance against deferred tax asset  
 on actuarial losses  
 –  
 –  
 –  
 (62)  
 Exchange differences on translation of  
 foreign operations  
 (142)  
 (102)  
 (122)  
 (38)  
 Net expense recorded directly in equity  
 (149)  
 (102)  
 (132)  
 (100)  
 Net loss for the period  
 (53)  
 (177)  
 (44)  
 (155)  
 Total recognised expense for the period  
 (202)

(279)  
(176)  
(255)





notes to the group results

### **1. Basis of preparation**

The condensed quarterly financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Sappi is reporting under IFRS for the first time for the year ending September 2006. The date of first transition to IFRS is October 2004 and comparative results have been restated accordingly. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These quarterly results have been prepared in accordance with IAS 34 (Interim financial reporting). The accounting policies used in the preparation of the quarterly results are compliant with IFRS and consistent with those used in the annual financial statements for September 2005, except as disclosed below.

The preliminary results for the quarter have been reviewed in terms of International Standards on Review Engagements by the group's auditors, Deloitte & Touche. Their unqualified review report includes an emphasis of matter that amendments to the interpretive guidance issued between the date of this announcement and the finalisation of the financial statements for the year ending September 2006, may result in changes to the restatements published. This report is available for inspection at the company's registered offices.

### **2. Effect of the first time adoption of IFRS**

As discussed in Note 1, the group has adopted International Financial Reporting Standards (IFRS) in preparing its consolidated financial statements for the year ending September, 2006. For purposes of these interim financial statements, the group has developed accounting policies based on IFRS issued to date that will be effective at our reporting date of September, 2006. IFRS 1, First-time Adoption of International Financial Reporting Standards, requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first IFRS financial statements. IFRS 1 also requires that those policies be applied as of the date of transition to IFRS and throughout all periods presented in the first IFRS financial statements. The accounting policies used in these financial statements are subject to change up to the reporting date of our first IFRS financial statements. Management does not believe the final accounting policies will change materially from those utilised in the preparation of the accompanying interim financial statements.

The following exemptions in accordance with IFRS 1 were considered:

•

#### **Business Combinations – IFRS 3**

The group has elected not to retrospectively apply the requirements of IFRS 3 for Business Combinations that occurred prior to October 2004.

•

#### **Share based payments – IFRS 2**

The group has applied the share based payment exemption therefore IFRS 2 is only applicable to equity instruments granted after 7 November 2002 that were not vested by 1 January 2005.

Liabilities arising from cash-settled share-based payments settled after 1 January 2005 are subject to IFRS 2. For instruments vesting on or after 1 January 2005, Sappi has recognised a charge in the income statement and set up a separate category in shareholders' equity for all share options and awards, based on the fair value of the awards as calculated at the grant date.

•

#### **The effects of changes in foreign exchange rates – IAS 21**

Sappi has elected to apply the exemption in IFRS 1 which allows the cumulative translation differences of all foreign operations to be reset to zero by transfer to distributable reserve at the date of transition to IFRS which is October 2004.

sappi limited – third quarter page 13





### **Adjustments on adoption of IFRS**

The adoption of IFRS led to changes in the Group's financial position, financial performance and cash flows. The significant differences between previously reported SA GAAP financial statements and IFRS are as follows:

- **Employee benefits – IAS 19**

Previously unrecognised actuarial employee benefit losses were recognised at October 2004, resulting in an increase in pension and other post employment benefits liabilities and a corresponding reduction in equity and deferred tax liability. These adjustments also led to a reduction in employee benefit expense in profit for the period. Sappi has elected to adopt the policy of recognising actuarial gains and losses in the period in which they occur. The gains and losses are recognised outside of profit for the period in the statement of recognised income and expense (SORIE). Items processed through SORIE are tax effected through SORIE. Part of the first-time adoption of this method of accounting included a historic analysis of all pension fund movements to determine the portion of our deferred tax balances that relate to SORIE.

- **Share based payments – IFRS 2**

Sappi has recognised a charge in the income statement and established a separate category in shareholders' equity for all share options and awards, based on the fair value of the awards as calculated at the grant date. The cost of the share options and grants are reflected in the income statement over the vesting period. This IFRS change had no impact on the comparative total shareholders' equity as a Share Based Payment Reserve is created with the equal and opposite amount included in retained earnings.

- **Financial instruments – IAS 39**

A significant portion of our securitised receivables are now reflected on our balance sheet, increasing trade and other receivables by US\$268 million and short term debt by US\$346 million and decreasing other payables by US\$78 million at September 2005. The related expense is no longer reflected in S,G&A but is included under finance costs. This caused an increase in finance costs and decrease in S,G&A of US\$15 million for the year ended September 2005 (June 2005: US\$12 million).

Cash flow hedges on inter-company loans, accounted for in equity, no longer qualify for hedge accounting under IAS 39. As a result these instruments are now recognised at fair value through profit and loss.

- **The effects of changes in foreign exchange rates ? IAS 21**

Sappi has elected to apply the exemption in IFRS 1 which allows the cumulative translation differences of all foreign operations to be reduced to zero at the date of transition to IFRS which is October 2004. The Foreign Currency Translation Reserve (Non Distributable Reserve) was transferred to retained earnings. This IFRS change has no impact on total shareholders' equity. There are no other accounting policy changes relevant to the first time adoption of IFRS.

- **Circular 9/2006 Transactions giving rise to adjustments to sales/purchases**

The South African Institute of Chartered Accountants recently issued a circular on the treatment of settlement discount in accordance with IFRS.

**This circular clarifies the following IFRS interpretations:**

- Settlement/cash discounts allowed should be estimated at the time of sale and presented as a reduction in sales.
-



Settlement/cash discounts received should be deducted from the cost of inventories, or cost of sales.

Management has evaluated the impact of the above interpretations on the group's results and the impact was found to be minimal. The results have been adjusted accordingly for this circular.

sappi limited – third quarter page 14  
notes to the group results (continued)





sappi limited – third quarter page 15

**Reconciliation of previous SA GAAP to IFRS for shareholders' equity**

Reviewed

Reviewed

Reviewed

Year

Nine months

IFRS

ended

ended

transition

Sept 2005

June 2005

Oct 2004

US\$ million

US\$ million

US\$ million

Total equity presented under SA GAAP

1,881

1,867

2,157

Impact on retained earnings:

Recognition of previously unrecognised  
actuarial losses – IAS 19

(340)

(284)

(300)

Deferred taxation impact of IAS 19 change

43

34

93

Share based payments – IFRS 2

(20)

(17)

(9)

Release of cash flow hedge reserve – IAS 39

14

11

(2)

Foreign Currency Translation Reserve reset to zero  
at October 2004

244

244

244

Share based payment reserve – IFRS 2

20

17

9

Hedging Reserves – IAS 39

(13)

(10)

2

Foreign Currency Translation Reserve

(240)

(243)

(244)

**Total equity and reserves presented under IFRS**

1,589

1,619

1,950

**Reconciliation of previous SA GAAP to IFRS for net (loss) profit**

Reviewed

Reviewed

Year

Nine months

ended

ended

Sept 2005

June 2005

US\$ million

US\$ million

**Net loss under SA GAAP**

(213)

(180)

Reduction in expense due to recognition of actuarial gains and losses – IAS 19

23

17

Deferred taxation impact of IAS 19

1

3

Share based payment expense – IFRS 2

(10)

(8)

Gains from cash flow hedges that do not qualify for hedge accounting – IAS 39

22

18

Deferred taxation impact of IAS 39

(7)

(5)

**Net loss under IFRS**

(184)

(155)

**IFRS cash flow statement impact**

The reduction in employee benefit expense resulted in an increase in operating profit and a corresponding decrease in non-cash items. Share based payment costs led to a decrease in operating profit and an increase in non-cash items. The recognition of securitised debtors caused the relating costs to be reflected under finance costs instead of included in operating profit. In addition related movements are reflected in working capital and borrowings.





notes to the group results (continued)

sappi limited – third quarter page 16

**IFRS impact on debt**

In accordance with IAS 39 a significant portion of our securitised receivables are now reflected on our balance sheet, increasing trade and other receivables by US\$268 million and short term debt by US\$346 million and decreasing other payables by US\$78 million at September 2005.

**IFRS impact on contingent liabilities**

In accordance with IAS 39 securitised receivables are now reflected on our balance sheet. The contingent liabilities disclosed at September 2005 included certain guarantees related to the securitisation programme. The amount disclosed for September 2005 has been amended accordingly to exclude these guarantees as the liability is now disclosed on balance sheet.

**3. Reconciliation of movement in shareholders' equity**

Restated

Reviewed

Reviewed

Nine months

Nine months

ended

ended

June 2006

June 2005

US\$ million

US\$ million

Balance – beginning of year as reported

1,881

2,157

IFRS adoption (refer note 2)

(292)

(207)

Recognition of previously unrecognised actuarial losses – IAS 19

(340)

(300)

Deferred taxation impact of IAS 19 change

43

93

Translation differences

5

–

Balance – beginning of year restated

1,589

1,950

Total recognised expense for the period

(176)

(255)

Dividends paid

(68)

(68)

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

2

(15)



Share based payment reserve

7

7

Balance – end of period

1,354

1,619





sappi limited – third quarter page 17

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

June 2006

June 2005

US\$ million

US\$ million

US\$ million

US\$ million

**4. Operating profit**

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

Depreciation and amortisation

Depreciation of property, plant and equipment

96

101

291

317

Other amortisation

–

–

1

1

96

101

292

318

Impairment of property, plant and equipment

3

177

8

219

Impairment of other assets

–

3

—  
3  
99  
281  
300  
540  
Fair value adjustment gains on  
plantations (included in cost of sales)  
Changes in volume  
Fellings \*  
20  
16  
55  
49  
Growth  
(21)  
(16)  
(56)  
(49)  
(1)  
—  
(1)  
—  
Changes in fair value  
23  
(8)  
(44)  
(25)  
22  
(8)  
(45)  
(25)  
The above fair value adjustments have  
been offset by silviculture costs  
11  
12  
33  
34

\* *The amount charged against the income statement representing the standing value of plantations harvested.*





sappi limited – third quarter page 18  
notes to the group results (continued)

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

June 2006

June 2005

US\$ million

US\$ million

US\$ million

US\$ million

**5. Capital expenditure**

Property, plant and  
equipment

74

83

213

221

Reviewed

Reviewed

June 2006

Sept 2005

US\$ million

US\$ million

**6. Capital commitments**

Contracted but not provided

116

115

Approved but not contracted

135

198

251

313

**7. Contingent liabilities**

Guarantees and suretyships

48

56 \*

Other contingent liabilities



11

11

*\* In accordance with IAS 39 securitised receivables are now reflected on our balance sheet. The contingent liabilities disclosed at September 2005 included certain guarantees related to the securitisation programme. The amount disclosed for September 2005 has been amended accordingly to exclude these guarantees as the liability is now disclosed on balance sheet.*





sappi limited – third quarter page 19  
supplemental information  
*additional information*

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

June 2006

June 2005

US\$ million

US\$ million

US\$ million

US\$ million

**1. Net loss to EBITDA**

**(1)**

**reconciliation**

Net loss

(53)

(177)

(44)

(155)

Net finance costs

35

9

93

54

Taxation – current

1

3

16

23

– deferred

(17)

(23)

9

(43)

Depreciation

96

101

291  
317  
Amortisation (including fellings)

20  
16  
56  
50

EBITDA

(1) (2)

82

(71)

421

246

(1)

*Earnings before interest (net finance costs), tax, depreciation and amortisation.*

(2)

*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 IFRS. EBITDA is not a measure of performance under IFRS. EBITDA should not be construed as an alternative to operating profit as an indicator of the company’s operations in accordance with IFRS.*

*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.*





supplemental information  
sappi limited – third quarter page 20

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

June 2006

June 2005

US\$ million

US\$ million

US\$ million

US\$ million

**2. Calculation of Headline earnings \***

Net loss

(53)

(177)

(44)

(155)

Profit (loss) on disposal of business  
and property, plant and equipment

–

1

(2)

1

Write-off of assets

5

–

7

4

Impairment of property, plant and  
equipment

3

165

8

207

Headline earnings

(45)

(11)

(31)



57

Headline earnings per share

Headline earnings per share (US cents) \*

(20)

(5)

(14)

25

Weighted average number of shares

in issue (millions)

226.3

225.7

226.1

225.8

Diluted headline earnings per

share (US cents) \*

(20)

(5)

(14)

25

Weighted average number of shares

on fully diluted basis (millions)

228.4

226.6

227.9

226.8

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

### **3. Exchange rates**

June

March

Dec

Sept

June

2006

2006

2005

2005

2005

Exchange rates:

Period end rate: US \$1 = ZAR

7.1700

6.1655

6.3275

6.3656

6.7041

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

6.4658

6.1858

6.4795

6.5289

6.3738

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

6.4031

6.3334

6.4795

6.2418

6.1732

Period end rate: EUR 1 = US\$

1.2789

1.2119

1.1843

1.2030

1.2097

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

1.2570

1.1983

1.1915

1.2139

1.2678

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

1.2191

1.1964

1.1915

1.2659

1.2811

*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

sappi limited – third quarter page 21

*regional information*

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

June 2006

June 2005

Metric tons

Metric tons

%

Metric tons

Metric tons

%

(000's)

(000's)

change

(000's)

(000's)

change

Sales

Fine Paper –

North America

349

324

7.7

1,058

1,005

5.3

Europe

576

538

7.1

1,824

1,754

4.0

Southern Africa

79

68

16.2

237

215

10.2

*Total*

1,004

930

8.0

3,119

2,974

4.9

Forest Products – Pulp and paper  
operations

368

374

(1.6)

1,070

1,154

(7.3)

Forestry  
operations

394

455

(13.4)

1,142

1,205

(5.2)

*Total*

1,766

1,759

0.4

5,331

5,333

(0.0)

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

%

June 2006

June 2005

%

US\$ million

US\$ million

change  
 US\$ million  
 US\$ million  
 change  
 Sales  
 Fine Paper –  
 North America  
 354  
 338  
 4.7  
 1,066  
 1,034  
 3.1  
 Europe  
 536  
 498  
 7.6  
 1,625  
 1,643  
 (1.1)  
 Southern Africa  
 78  
 69  
 13.0  
 238  
 224  
 6.3  
*Total*  
 968  
 905  
 7.0  
 2,929  
 2,901  
 1.0  
 Forest Products – Pulp and paper  
 operations  
 224  
 217  
 3.2  
 651  
 669  
 (2.7)  
 Forestry  
 operations  
 22  
 22  
 –  
 65  
 60  
 8.3  
*Total*

1,214  
1,144  
6.1  
3,645  
3,630  
0.4







sappi limited – third quarter page 22

supplemental information

Restated

Restated

Reviewed

Reviewed

Reviewed

Reviewed

Quarter

Quarter

Nine months

Nine months

ended

ended

ended

ended

June 2006

June 2005

%

June 2006

June 2005

%

US\$ million

US\$ million

change

US\$ million

US\$ million

change

Operating profit

Fine Paper –

North America

(14)

(199)

93.0

(23)

(211)

89.1

Europe

1

(12)

–

21

42

(50.0)

Southern Africa

(5)

1

–

(7)

4

–

*Total*

(18)

(210)

91.4

(

9)

(165)

94.5

Forest Products

(16)

23

—

90

48

87.5

Corporate

—

(1)

—

(7)

(4)

(75.0)

*Total \**

(34)

(188)

81.9

74

(121)

—

*\* Operating profit for the nine months ended June 2005 reduced by US\$222 million in respect of asset impairments and asset impairment reversals.*





sappi limited – third quarter page 23

n o t e : ( 1 A D R = 1 s a p p i s h a r e )

sappi ordinary shares

ADR price (NYSE TICKER: SPP)

1 Apr

2003

1 Jul

2003

1 Oct

2003

1 Jan

2004

1 Apr

2004

1 Jul

2004

1 Oct

2004

1 Jan

2005

1 Apr

2005

1 Jul

2005

1 Oct

2005

1 Jan

2006

18

16

14

12

10

8

6

4

2

0

1 Jul

2006

1 Apr

2006

2 Aug

2006

1 Apr

2003

1 Jul

2003

1 Oct

2003

1 Jan

2004  
1 Apr  
2004  
1 Jul  
2004  
1 Oct  
2004  
1 Jan  
2005  
1 Apr  
2005  
1 Jul  
2005  
1 Oct  
2005  
1 Jan  
2006  
120  
100  
80  
60  
40  
20  
0  
1 Jul  
2006  
1 Apr  
2006  
2 Aug  
2006







this report is available on the Sappi website

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

Transfer secretaries

South Africa:

United States

United Kingdom:

Computershare Investor

ADR Depository:

Capita Registrars

Services 2004 Limited

The Bank of New York

The Registry

70 Marshall Street

Investor Relations

34 Beckenham Road

Johannesburg 2001

PO Box 11258

Beckenham, Kent

PO Box 61051

Church Street Station

BR3 4TU, DX 91750

Marshalltown 2107

New York, NY 10286-1258

Beckenham West

Tel +27 (0)11 370 5000

Tel +1 610 382 7836

Tel +44 (0)208 639 2157





[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: August 11, 2006

SAPPI LIMITED,

by: /s/ D. J. O'Connor

Name:

Title: Group Secretary

D. J. O'Connor