



**sappi**

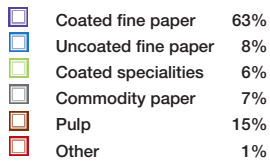
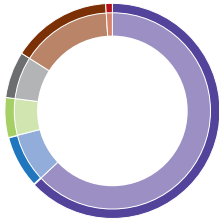
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**1st** Quarter results  
for the period ended  
December 2010

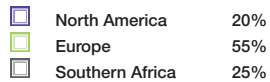
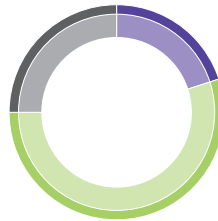


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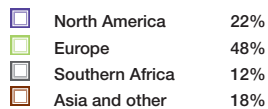
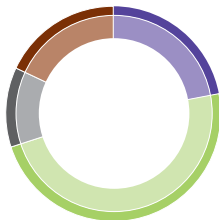
Sales by product group\*



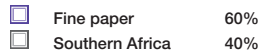
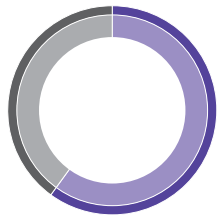
Sales by source\*



Sales by destination\*



Net operating assets\*\*



\* for the period ended December 2010

\*\* as at December 2010

## Financial summary for the quarter

- EPS 7 US cents; Q1 2010 loss per share 10 US cents
- Operating profit US\$137 million (excluding special items);  
Q1 2010 US\$81 million (excluding special items)
- Improved demand and pricing for the majority of our products

	Quarter ended		
	Dec 2010	Dec 2009	Sept 2010
<b>Key figures: (US\$ million)</b>			
<b>Sales</b>	<b>1,873</b>	1,620	1,774
<b>Operating profit</b>	<b>121</b>	1	158
Special items – losses (gains) <sup>1</sup>	<b>16</b>	80	(29)
Operating profit excluding special items <sup>2</sup>	<b>137</b>	81	129
EBITDA excluding special items <sup>3</sup>	<b>246</b>	193	227
<b>Basic earnings (loss) per share (US cents)</b>	<b>7</b>	(10)	16
Net debt <sup>4</sup>	<b>2,432</b>	2,581	2,221
<b>Key ratios: (%)</b>			
<b>Operating profit to sales</b>	<b>6.5</b>	0.1	8.9
Operating profit excluding special items to sales	<b>7.3</b>	5.0	7.3
Operating profit excluding special items to capital employed (ROCE)	<b>12.8</b>	7.5	12.6
EBITDA excluding special items to sales	<b>13.1</b>	11.9	12.8
Return on average equity (ROE) <sup>5</sup>	<b>7.6</b>	(11.6)	18.6
Net debt to total capitalisation <sup>5</sup>	<b>54.7</b>	60.0	53.9

1. Refer to page 15 for details on special items.

2. Refer to page 15, note 9 to the group results for the reconciliation of operating profit excluding special items to operating profit.

3. Refer to page 15, note 9 to the group results for the reconciliation of EBITDA excluding special items to profit (loss) before taxation.

4. Refer to page 17, Supplemental information for the reconciliation of net debt to interest-bearing borrowings.

5. Refer to page 16, Supplemental information for the definition of the term.

The table above has not been audited or reviewed.

## Commentary on the quarter

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The trend of improving performance continued in the quarter. Operating profit improved further as a result of the inclusion of an additional accounting week in the quarter, which occurs every six years in the group's accounting calendar. The group achieved an annualised return on capital employed (ROCE) of 12.8% for the quarter, which was an improvement on the quarter ended September 2010 and ahead of our target minimum of 12%.

Demand for our products remained good and prices increased gradually. Pulp prices remained high, benefiting our Southern African and North American businesses, which performed strongly. Our North American business had a planned outage for an upgrade of the pulp mill at Somerset mill commencing in October 2010 which reduced output and profitability in the quarter. The European business generated modest margins and continued to experience significant pressure as a result of high pulp input costs and price increases for other raw materials.

Sales increased to US\$1.9 billion, up 16% compared to the equivalent quarter last year as a result of improved sales volumes and prices.

Average prices realised by the group were up 7.7% on the equivalent quarter last year in US Dollar terms. In local currency, average prices increased by 11.6% in Europe, 5.6% in North America and 17.7% in Southern Africa.

Raw material input costs were approximately US\$100 million higher than a year ago as a result of the high pulp prices and a gradual increase in chemical and energy costs.

Special items for the quarter amounted to a charge of US\$16 million mainly in respect of the plantation fair value adjustment.

Operating profit excluding special items was US\$137 million for the quarter compared to US\$81 million in the equivalent quarter last year. Including special items, operating profit was US\$121 million compared to US\$1 million in the equivalent quarter last year.

Earnings per share for the quarter was 7 US cents (which included a charge of 3 US cents of special items) compared to a loss of 10 US cents per share (which included a charge of 11 US cents of special items) in the equivalent quarter last year.

## Cash flow and debt

Net cash utilised for the quarter was US\$196 million. We expect positive cash generation for the rest of our financial year and good net cash generation for the full year.

Cash generated from operations was US\$245 million for the quarter; however, partly for seasonal and accounting calendar reasons, our working capital increased by US\$335 million during the quarter, much of which will be reversed during the balance of the financial year.

Capital expenditure for the quarter was US\$45 million. Our target for the year is a modest increase on the US\$188 million capital spent last year in order to ensure the continued sustainability of our business.

At quarter-end we had cash on hand of US\$591 million and access to additional liquidity in the form of a €209 million (US\$280 million) committed revolving credit facility, which remains undrawn.

Net debt increased to US\$2.4 billion as a result of the cash utilisation in the quarter. We are committed to prudent cash flow management and the continued reduction of finance costs.

## Operating Review – Quarter ended December 2010 compared with quarter ended December 2009

### Sappi Fine Paper

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million	%	Quarter ended Sept 2010 US\$ million
<b>Sales</b>	<b>1,409</b>	1,256	12	1,327
<b>Operating profit</b>	<b>57</b>	79	(28)	87
<b>Operating profit to sales (%)</b>	<b>4.0</b>	6.3	–	6.6
Special items (gains)	–	(35)	–	(11)
Operating profit excluding special items	<b>57</b>	44	30	76
Operating profit excluding special items to sales (%)	<b>4.0</b>	3.5	–	5.7
EBITDA excluding special items	<b>137</b>	130	5	151
EBITDA excluding special items to sales (%)	<b>9.7</b>	10.4	–	11.4
RONOA pa (%)	<b>7.3</b>	5.3	–	10.0

The fine paper business' operating profit (excluding special items) improved 30% compared to the equivalent quarter last year. The performance of both the European and North American businesses improved compared to last year. In North America, the operating profit was unfavourably impacted by the planned outage at Somerset Mill during the upgrade of the chemical recovery complex, resulting in a reduction in margins compared to the quarter ended September 2010.

## Europe

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million	% change (US\$)	% change (Euro)	Quarter ended Sept 2010 US\$ million
<b>Sales</b>	<b>1,027</b>	936	10	20	963
<b>Operating profit</b>	<b>34</b>	12	183	213	40
<b>Operating profit to sales (%)</b>	<b>3.3</b>	1.3	–	–	4.2
Special items – losses (gains)	–	13	–	–	(6)
Operating profit excluding special items	<b>34</b>	25	36	47	34
Operating profit excluding special items to sales (%)	<b>3.3</b>	2.7	–	–	3.5
EBITDA excluding special items	<b>95</b>	88	8	17	90
EBITDA excluding special items to sales (%)	<b>9.3</b>	9.4	–	–	9.3
RONOA pa (%)	<b>6.2</b>	4.3	–	–	6.5

Compared to a year earlier, the business has achieved a significant improvement in sales volumes and average prices. However, as a result of input cost pressure particularly of purchased pulp, the business' operating margins remain below expectations.

Demand for coated paper has remained generally robust and the third coated woodfree price increase of 2010, effective September 2010, was implemented during the quarter. A further price increase for both coated woodfree and uncoated woodfree paper has been announced for March 2011. Prices for coated mechanical paper remained depressed during the quarter, resulting in negative margins for this category. Price increases for coated mechanical paper have been implemented in January 2011.

Our average prices realised in Europe in Euro terms were approximately 12% above the equivalent quarter last year and similar to those realised in the September 2010 quarter.

## North America

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million	% change	Quarter ended Sept 2010 US\$ million
<b>Sales</b>	<b>382</b>	320	19	364
<b>Operating profit</b>	<b>23</b>	67	(66)	47
<b>Operating profit to sales (%)</b>	<b>6.0</b>	20.9	–	12.9
Special items – (gains)	–	(48)	–	(5)
Operating profit excluding special items	<b>23</b>	19	21	42
Operating profit excluding special items to sales (%)	<b>6.0</b>	5.9	–	11.5
EBITDA excluding special items	<b>42</b>	42	–	61
EBITDA excluding special items to sales (%)	<b>11.0</b>	13.1	–	16.8
RONOA pa (%)	<b>9.9</b>	7.8	–	17.8

Despite the planned outage of the Somerset Mill pulp mill, which dampened the strong underlying performance during the quarter, the North American business' operating profit (excluding special items) was up 21% compared to the equivalent quarter last year. The upgraded chemical recovery complex is now fully operational and delivering the expected reduction in energy costs and increase in pulp production capacity.

Demand for our coated fine paper was firm and our mills were sold out during the quarter. Our average price achieved for coated paper improved compared to both the equivalent quarter last year and the quarter ended September 2010. Pulp demand and pricing remained high. Pulp production, however, was lower during the quarter as a result of the pulp mill outage. Our speciality business also performed strongly during the quarter, with price increases in key segments.

## Sappi Southern Africa

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million	% change (US\$)	% change (Rand)	Quarter ended Sept 2010 US\$ million
<b>Sales</b>	<b>464</b>	364	27	18	447
<b>Operating profit (loss)</b>	<b>66</b>	(86)	–	–	84
<b>Operating profit (loss) to sales (%)</b>	<b>14.2</b>	(23.6)	–	–	18.8
Special items – losses (gains)	<b>13</b>	115	(89)	(90)	(26)
Operating profit excluding special items	<b>79</b>	29	172	151	58
Operating profit excluding special items to sales (%)	<b>17.0</b>	8.0	–	–	13.0
EBITDA excluding special items	<b>108</b>	55	96	82	82
EBITDA excluding special items to sales (%)	<b>23.3</b>	15.1	–	–	18.3
RONOA pa (%)	<b>15.8</b>	6.3	–	–	12.6

The performance of the Southern African business improved further during the quarter.

The chemical cellulose business achieved improved sales volumes and prices. Demand for this business remains strong, driven by demand for viscose fibres, particularly in Asia. The Saiccor mill's post expansion output and efficiency continued to improve.

Our paper and packaging business had improved demand for containerboard, sackkraft and newsprint, but weaker demand for fine paper. Competition from low-priced imports has continued as a result of the strength of the Rand relative to the US Dollar, which squeezed margins in the paper and packaging business.



# Outlook

We are pleased with the improving trend in the group's financial performance. We expect demand for coated paper to remain reasonably firm in our major markets. Prices for coated mechanical paper in Europe increased in January 2011, which we expect to help restore this product category to profitability.

Our raw material input costs are gradually increasing as commodity prices rise. We continue to focus on more efficient procurement and use of our inputs.

Our chemical cellulose business is performing strongly and we intend to accelerate our plans for expanding this business through investment in additional capacity.

Although our net debt increased in the quarter as a result of working capital growth, we intend to continue to reduce net debt this year. We also aim to reduce finance costs by, from time to time, applying a portion of our cash on hand to further debt repayment. We have today announced a tender offer to repurchase up to US\$150 million of our senior notes, which mature in June 2012. This transaction will allow us to use a portion of our available cash on hand more efficiently and to repurchase a portion of such notes well ahead of their maturity.

In our second financial quarter we expect the group's operating profit (excluding special items) to continue the improving trend relative to the equivalent quarter last year, but to be below that of the first financial quarter.

On behalf of the board

R J Boëttger

**Director**

M R Thompson

**Director**

09 February 2011

**sappi limited**

(Registration number 1936/008963/06)

Issuer Code: SAVVI

JSE Code: SAP

ISIN: ZAE000006284

## forward-looking statements

Certain statements in this report that are neither reported financial results nor 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. 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 can 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 the group's products;
- consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of government efforts to address present or future economic or social problems;
- the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or integrating acquisitions 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.

## Group income statement

	Notes	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million
<b>Sales</b>		<b>1,873</b>	1,620
Cost of sales		<b>1,637</b>	1,531
Gross profit		<b>236</b>	89
Selling, general and administrative expenses		<b>112</b>	107
Other operating expenses (income)		<b>5</b>	(16)
Share of profit from associates and joint ventures		<b>(2)</b>	(3)
<b>Operating profit</b>	2	<b>121</b>	1
Net finance costs		<b>71</b>	73
Net interest		<b>78</b>	79
Net foreign exchange gains		<b>(4)</b>	(3)
Net fair value gains on financial instruments		<b>(3)</b>	(3)
<b>Profit (loss) before taxation</b>		<b>50</b>	(72)
Taxation		<b>13</b>	(21)
Current		<b>2</b>	4
Deferred		<b>11</b>	(25)
<b>Profit (loss) for the period</b>		<b>37</b>	(51)
<b>Basic earnings (loss) per share (US cents)</b>		<b>7</b>	(10)
Weighted average number of shares in issue (millions)		<b>519.5</b>	515.6
<b>Diluted basic earnings (loss) per share (US cents)</b>		<b>7</b>	(10)
Weighted average number of shares on fully diluted basis (millions)		<b>524.5</b>	515.6

## Group statement of comprehensive income

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million
Profit (loss) for the period	<b>37</b>	(51)
<b>Other comprehensive income (loss), net of tax</b>	<b>78</b>	(24)
Exchange differences on translation of foreign operations	<b>82</b>	(25)
Movements in hedging reserves	<b>(3)</b>	1
Deferred tax effects on above	<b>(1)</b>	–
<b>Total comprehensive income (loss) for the period</b>	<b>115</b>	(75)

# Group balance sheet

	Dec 2010 US\$ million	Reviewed Sept 2010 US\$ million
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>4,689</b>	4,653
Property, plant and equipment	3,656	3,660
Plantations	717	687
Deferred taxation	52	53
Other non-current assets	264	253
<b>Current assets</b>	<b>2,388</b>	2,531
Inventories	890	836
Trade and other receivables	907	903
Cash and cash equivalents	591	792
<b>Total assets</b>	<b>7,077</b>	7,184
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Ordinary shareholders' interest	2,016	1,896
<b>Non-current liabilities</b>	<b>3,089</b>	3,249
Interest-bearing borrowings	2,120	2,317
Deferred taxation	417	386
Other non-current liabilities	552	546
<b>Current liabilities</b>	<b>1,972</b>	2,039
Interest-bearing borrowings	899	691
Bank overdraft	4	5
Other current liabilities	1,030	1,307
Taxation payable	39	36
<b>Total equity and liabilities</b>	<b>7,077</b>	7,184
Number of shares in issue at balance sheet date (millions)	<b>519.8</b>	519.5

## Group cash flow statement

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million
<b>Profit (loss) for the period</b>	<b>37</b>	(51)
Adjustment for:		
Depreciation, felling and amortisation	131	132
Taxation	13	(21)
Net finance costs	71	73
Post-employment benefits	(14)	(13)
Plantation price fair value adjustment	11	95
Other non-cash items	(4)	30
<b>Cash generated from operations</b>	<b>245</b>	245
Movement in working capital	(335)	(170)
Net finance costs	(63)	(64)
Taxation paid	(2)	(4)
<b>Cash (utilised in) retained from operating activities</b>	<b>(155)</b>	7
<b>Cash utilised in investing activities</b>	<b>(41)</b>	(37)
Net cash utilised	(196)	(30)
<b>Cash effects of financing activities</b>	<b>(15)</b>	57
<b>Net movement in cash and cash equivalents</b>	<b>(211)</b>	27

## Group statement of changes in equity

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million
Balance – beginning of period	1,896	1,794
Total comprehensive income (loss) for the period	115	(75)
Transfers from the share purchase trust	2	–
Share-based payment reserve	3	2
<b>Balance – end of period</b>	<b>2,016</b>	1,721

# Notes to the group results

## 1. Basis of preparation

The condensed financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, the AC 500 standards issued by the Accounting Practices Board and the information required by IAS 34 "Interim Financial Reporting". The report has been prepared using accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the year ended September 2010.

The results are unaudited.

	Quarter ended Dec 2010 US\$ million	Quarter ended Dec 2009 US\$ million
<b>2. Operating profit</b>		
Included in operating profit are the following non-cash items:		
Depreciation and amortisation	109	112
Fair value adjustment on plantations (included in cost of sales)		
Changes in volume		
Fellings	22	20
Growth	(21)	(19)
	1	1
Plantation price fair value adjustment	11	95
	12	96
Included in other operating expenses (income) are the following:		
Asset impairment reversals	-	(8)
Loss on disposal of property, plant and equipment	-	2
Restructuring provisions raised	3	38
Black Economic Empowerment charge	1	-
Fuel tax credit	-	(49)
<b>3. Headline earnings (loss) per share *</b>		
Headline earnings (loss) per share (US cents)	7	(11)
Weighted average number of shares in issue (millions)	519.5	515.6
Diluted headline earnings (loss) per share (US cents)	7	(11)
Weighted average number of shares on fully diluted basis (millions)	524.5	515.6
<b>Calculation of headline earnings (loss) *</b>		
Profit (loss) for the period	37	(51)
Asset impairment reversals	-	(8)
Loss on disposal of property, plant and equipment	-	2
Tax effect of above items	-	-
Headline earnings (loss)	37	(57)
<i>*Headline earnings disclosure is required by the JSE Limited.</i>		
<b>4. Capital expenditure</b>		
Property, plant and equipment	45	37

	Dec 2010 US\$ million	Sept 2010 US\$ million
<b>5. Capital commitments</b>		
Contracted	69	62
Approved but not contracted	175	109
	<b>244</b>	<b>171</b>
<b>6. Contingent liabilities</b>		
Guarantees and suretyships	52	48
Other contingent liabilities	8	8
	<b>60</b>	<b>56</b>

## 7. Material balance sheet movements

### Cash and cash equivalents and other current liabilities

The decrease in cash and cash equivalents and in other current liabilities is largely due to the timing of creditor payments as a result of the calendar month-end falling before the fiscal month-end when creditor payments fell due.

### Interest-bearing borrowings

An amount of US\$213 million was transferred from non-current interest-bearing liabilities to current interest-bearing liabilities due to the maturity profile of two loans falling due in the next twelve months.

## 8. Post balance sheet events

A tender offer to repurchase up to US\$150 million of our senior notes, which mature in June 2012 was announced on 9 February 2011.

## 9. Segment information

The information below is presented in the way that it is reviewed by the chief operating decision maker as required by IFRS 8 "Operating Segments".

		Quarter ended Dec 2010	Quarter ended Dec 2009
		Metric tons (000's)	Metric tons (000's)
<b>Sales volume</b>			
Fine Paper –	North America	364	322
	Europe	1,012	944
<b>Total</b>		<b>1,376</b>	<b>1,266</b>
Southern Africa –	Pulp and paper	452	450
	Forestry	194	168
<b>Total</b>		<b>2,022</b>	<b>1,884</b>
		US\$ million	US\$ million
<b>Sales</b>			
Fine Paper -	North America	382	320
	Europe	1,027	936
<b>Total</b>		<b>1,409</b>	<b>1,256</b>
Southern Africa –	Pulp and paper	447	350
	Forestry	17	14
<b>Total</b>		<b>1,873</b>	<b>1,620</b>

		Quarter ended Dec 2010	Quarter ended Dec 2009
		US\$ million	US\$ million
<b>Operating profit excluding special items</b>			
Fine Paper –	North America	23	19
	Europe	34	25
<b>Total</b>		<b>57</b>	<b>44</b>
Southern Africa		79	29
Unallocated and eliminations <sup>1</sup>		1	8
<b>Total</b>		<b>137</b>	<b>81</b>
<b>Special items – losses (gains)</b>			
Fine Paper –	North America	–	(48)
	Europe	–	13
<b>Total</b>		<b>–</b>	<b>(35)</b>
Southern Africa		13	115
Unallocated and eliminations <sup>1</sup>		3	–
<b>Total</b>		<b>16</b>	<b>80</b>
<b>Segment operating profit (loss)</b>			
Fine Paper –	North America	23	67
	Europe	34	12
<b>Total</b>		<b>57</b>	<b>79</b>
Southern Africa		66	(86)
Unallocated and eliminations <sup>1</sup>		(2)	8
<b>Total</b>		<b>121</b>	<b>1</b>
<b>EBITDA excluding special items</b>			
Fine Paper –	North America	42	42
	Europe	95	88
<b>Total</b>		<b>137</b>	<b>130</b>
Southern Africa		108	55
Unallocated and eliminations <sup>1</sup>		1	8
<b>Total</b>		<b>246</b>	<b>193</b>
<b>Segment assets</b>			
Fine Paper –	North America	924	980
	Europe	2,255	2,364
<b>Total</b>		<b>3,179</b>	<b>3,344</b>
Southern Africa		2,121	1,770
Unallocated and eliminations <sup>1</sup>		65	15
<b>Total</b>		<b>5,365</b>	<b>5,129</b>

<sup>1</sup> Includes the group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

#### Reconciliation of operating profit excluding special items to operating profit

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.



	Quarter ended Dec 2010	Quarter ended Dec 2009
	US\$ million	US\$ million
<b>Operating profit excluding special items</b>	<b>137</b>	81
<b>Special items</b>	<b>(16)</b>	(80)
Plantation price fair value adjustment	(11)	(95)
Restructuring provisions raised	(3)	(38)
Loss on disposal of property, plant and equipment	-	(2)
Asset impairment reversals	-	8
Fuel tax credit	-	49
Black Economic Empowerment charge	(1)	-
Fire, flood, storm and related events	(1)	(2)
<b>Operating profit</b>	<b>121</b>	1
<b>Reconciliation of EBITDA excluding special items and operating profit excluding special items to profit (loss) before taxation</b>		
EBITDA excluding special items	246	193
Depreciation and amortisation	(109)	(112)
Operating profit excluding special items	137	81
Special items – losses	(16)	(80)
Net finance costs	(71)	(73)
<b>Profit (loss) before taxation</b>	<b>50</b>	(72)
<b>Reconciliation of segment assets to total assets</b>		
Segment assets	5,365	5,129
Deferred tax	52	56
Cash and cash equivalents	591	786
Other current liabilities	1,030	1,092
Taxation payable	39	54
Liabilities associated with assets held for sale	-	28
<b>Total assets</b>	<b>7,077</b>	7,145

## 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 3/2009 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 is considered to equal **segment assets**

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

**ROE** – return on average equity. Profit for the period divided by average shareholders' equity

**RONOA** – return on average net operating assets. Operating profit excluding special items divided by average 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.*

## Summary Rand convenience translation

	Quarter ended Dec 2010	Quarter ended Dec 2009
<b>Key figures: (ZAR million)</b>		
<b>Sales</b>	<b>13,011</b>	12,151
<b>Operating profit</b>	<b>841</b>	8
Special items – losses *	<b>111</b>	600
Operating profit excluding special items *	<b>952</b>	608
EBITDA excluding special items *	<b>1,709</b>	1,448
<b>Basic earnings (loss) per share (SA cents)</b>	<b>49</b>	(75)
Net debt *	<b>16,097</b>	19,439
<b>Key ratios: (%)</b>		
<b>Operating profit to sales</b>	<b>6.5</b>	0.1
Operating profit excluding special items to sales	<b>7.3</b>	5.0
Operating profit excluding special items to capital employed (ROCE) *	<b>13.1</b>	7.5
EBITDA excluding special items to sales	<b>13.1</b>	11.9
Return on average equity (ROE)	<b>7.7</b>	(11.7)
Net debt to total capitalisation *	<b>54.7</b>	60.0

\*Refer to page 16, 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 2010 US\$ million	Sept 2010 US\$ million
<b>Interest-bearing borrowings</b>	<b>3,023</b>	3,013
Non-current interest-bearing borrowings	<b>2,120</b>	2,317
Current interest-bearing borrowings	<b>899</b>	691
Bank overdraft	<b>4</b>	5
Cash and cash equivalents	<b>(591)</b>	(792)
<b>Net debt</b>	<b>2,432</b>	2,221

## Exchange rates

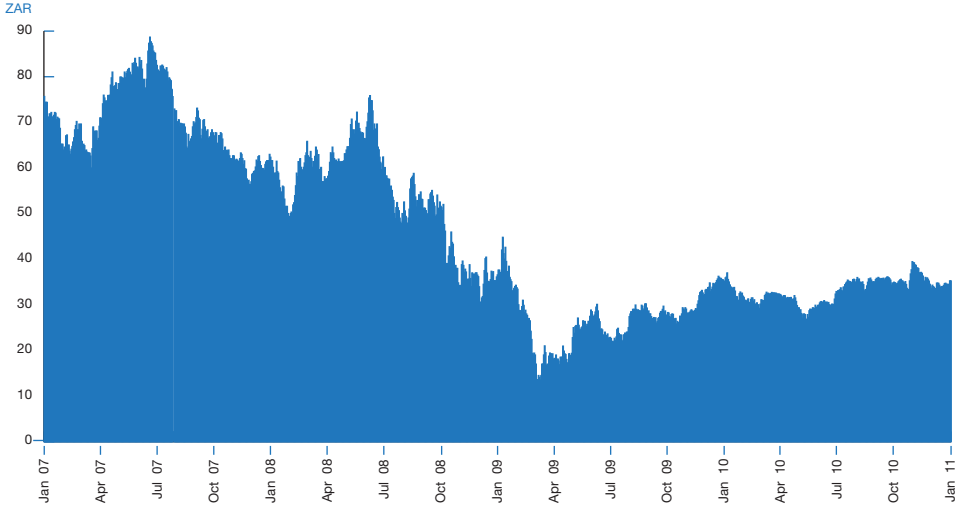
	Dec 2010	Sept 2010	Jun 2010	Mar 2010	Dec 2009
<b>Exchange rates:</b>					
Period end rate: US\$1 = ZAR	<b>6.6190</b>	7.0190	7.6250	7.4298	7.5315
Average rate for the Quarter: US\$1 = ZAR	<b>6.9464</b>	7.3517	7.5821	7.5597	7.5009
Average rate for the YTD: US\$1 = ZAR	<b>6.9464</b>	7.4917	7.5610	7.5302	7.5009
Period end rate: EUR 1 = US\$	<b>1.3380</b>	1.3491	1.2377	1.3413	1.4397
Average rate for the Quarter: EUR 1 = US\$	<b>1.3516</b>	1.2871	1.2937	1.3891	1.4737
Average rate for the YTD: EUR 1 = US\$	<b>1.3516</b>	1.3658	1.3845	1.4302	1.4737

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

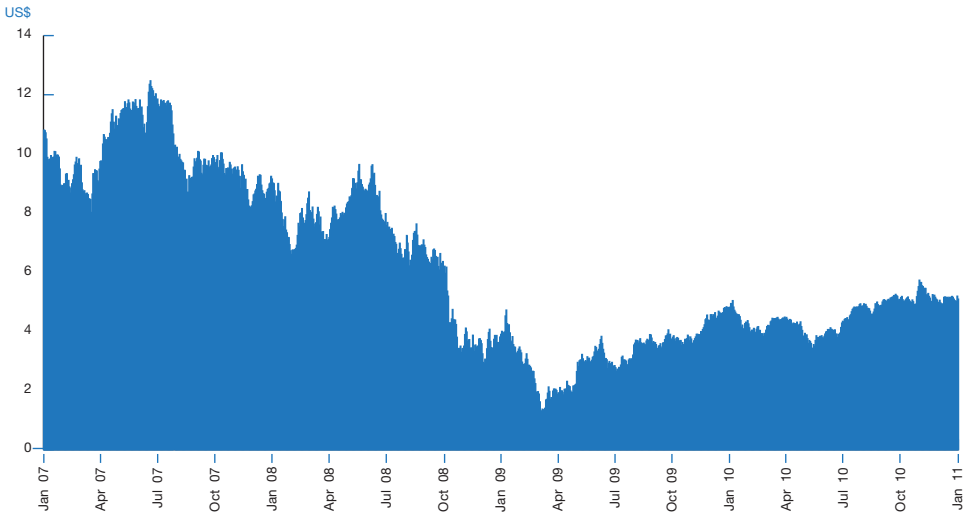
– Assets and liabilities at rates of exchange ruling at period end; and

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

# Sappi ordinary shares\* (JSE: SAP)



# US Dollar share price conversion\*



\* Historic share prices revised to reflect rights offer

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