Mondi Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1967/013038/06)
JSE share code: MND ISIN: ZAE000097051

Mondi plc
(Incorporated in England and Wales)
(Registration number: 6209386)
JSE share code: MNP ISIN: GB00B1CRLC47
LSE share code: MNDI

As part of the dual listed company structure, Mondi Limited and Mondi plc (together 'Mondi Group') notify both the JSE Limited and the London Stock Exchange of matters required to be disclosed under the JSE listings requirements and/or the Disclosure and Transparency and Listing Rules of the United Kingdom Listing Authority.

Mondi Group: Interim Management Statement 20 October 2008

This statement provides an update on the Group's progress since the half-yearly report for the six months ended 30 June 2008, based on management accounts up to end September and current October trading and precedes the announcement on 4 March 2009 of the full year results for the year ending 31 December 2008.

Group Overview

Whilst Mondi is exposed to a broad range of end markets and geographies, the recent worsening of the global economic outlook is now having an adverse impact on our business. In particular, during October we have seen a downturn in trading within the Europe & International Division. As such, we have brought forward the release of this trading update, originally planned for 24 October 2008.

The downturn in Europe & International Division trading will mean that Group underlying operating profit for the year is likely to be 10% to 15% below last year. This is despite an improvement in South Africa Division trading.

For the nine months to the end of September, underlying operating profit is 2% ahead of prior year. However, for the three months to end September, the Group's underlying operating profit has come in 10% below the comparable period for the prior year, with the slowdown in Europe as a result of the significantly worsened economic backdrop only partially offset by a much improved performance from the South Africa Division. Within Europe & International Division we have not seen the usual post summer seasonal pick up in demand and trading in September was weak. Estimates for October indicate a continuation of this trend, and as a consequence we are taking significant market related downtime in a number of our European operations. In contrast, the South Africa Division has been successful in implementing price increases and is also enjoying an improved operating performance.

Divisional Overview

Europe & International

The Bags & Specialities Business unit has benefited from higher sack kraft paper and converted bag prices versus the comparable period (+10%), however volumes have been much softer than anticipated as demand, particularly from the construction industry, has weakened. It would appear that this slowdown has been exacerbated by an element of destocking as the supply chain adjusts to the weaker economic outlook. In response, the business is taking significant market related downtime to balance inventories. The

Specialities Business unit has been impacted by higher input costs with selling prices lagging and as a result trading is marginally below the comparable period.

In the Uncoated Fine Paper Business unit, whilst selling prices are still up against the comparable period and have held since 30 June 2008, volumes have been impacted by the weaker trading environment and closure of Hungary, down 7% on the prior year. However, overall results are up as the Business unit continues to benefit from the restructuring actions announced at the end of 2007.

In the Corrugated Business unit, trading remains challenging, particularly in recycled containerboard with testliner prices having fallen by around 9% since the half year, although there is some evidence of prices stabilising as significant industry capacity is loss making at these levels. Kraftliner prices are also coming under pressure, down 2% since the half year, while certain input costs have continued to rise, notably for chemicals and energy. The downstream corrugated activities have experienced some margin expansion as box prices have held up while paper prices decline, although box prices have recently come under pressure. The Turkish acquisition continues to underperform against expectation.

South Africa Division

The South Africa Division has seen an improvement in results benefiting from both product mix changes (increased pulp sales) and price increases. The domestic price increases announced in August were successfully implemented, while export sales benefited from a weaker rand, 18% down versus the euro on the comparable period, and dollar denominated price increases of 5% achieved in African markets.

A significant breakthrough was achieved in the settlement of land claims in South Africa, with the recent announcement of the signing of a land restitution settlement whereby over 4000 hectares of Mondi forestry land will be transferred to two local communities under a sale and leaseback agreement. In terms of the agreement Mondi retains ownership of the forests, which ensures security of timber supply to Mondi's operations, while meeting the needs of the land restitution process in South Africa. It is anticipated that this settlement will provide a framework for settling future forestry land claims with Mondi.

Mondi Packaging South Africa (MPSA)

Year to date, underlying operating profit in local currency is marginally down on the comparable period. Whilst pricing has improved recently (circa 15-20% price increases achieved from October), it has lagged input cost pressures, particularly from recycled fibre. The results are also impacted on translation into euros at a significantly weaker rand rate.

Agreement has been reached to refinance MPSA through a ZAR1bn cash injection from Mondi Ltd which allows for the pay down of expensive external debt. The funds will be provided by way of loans and equity. As a result of the refinancing Mondi's shareholding in the business will increase from 55% to 70%.

Merchant and Newsprint

Year to date, Europapier continues to trade above the comparable period benefiting from higher prices and volumes. However, our joint venture, Aylesford Newsprint (which accounted for just under half the division's 2007 result), continues to be heavily impacted by low selling prices and rising energy and recycled fibre input costs and is currently loss making. Recently announced newsprint capacity closures should however support UK newsprint price improvements as the industry enters its annual price negotiations for 2009. Shanduka Newsprint underlying operating profit is down on the comparable period impacted by cost pressures and the weaker rand rate on translation into euros.

Input Costs and Currency

Cost pressures versus the comparable period continue as was noted in the half-yearly report, most significantly chemicals and energy, although there has been some easing of recovered fibre costs. Similarly, while the weaker rand supports margin improvement in export sales from our South Africa Division, the strength of our major emerging European production currencies continues to negatively impact on our cost base, albeit some recent weakness in these currencies should help alleviate this pressure.

The recent US dollar strength should ease import flows into Europe, our key sales geography, improving the supply side dynamics, although it is currently unclear to what extent this will compensate for the near term demand side weakness.

Restructuring

In response to the worsening economic and industry outlook, Mondi is evaluating the closure of certain higher cost operations. We have announced the planned closure of the Holcombe recycled containerboard mill in the UK (capacity 110,000tpa) and the Zaragoza bag converting plant in Spain since the half year. The total cost of these closures is circa €12m and will be taken as an operating special item in the second half accounts.

Major Projects and Capital Expenditure

Progress continues to be made on the two major strategic projects in Russia (€525 million mill modernisation and expansion) and Poland (€305 million lightweight containerboard expansion). Both projects remain on track and within budget. The subsidy package around the related €45 million investment in the new box plant and associated infrastructure in Poland has been agreed and the project is in progress.

Given the well invested nature of our asset base following completion of these major strategic projects, coupled with the more challenging trading environment we now face, we will be reviewing our capital expenditure plans with a view to limiting future capital expenditure (excluding these major strategic projects) to well below depreciation.

Borrowings and Finance Charges

Group borrowings, as expected, have increased since the end of June as capital expenditure increases on the two major strategic expansion projects in Russia and Poland, albeit this has been partially offset by a reduction in the working capital position. As at the end of September, net debt stood at circa €1.7bn, an increase of €70m on the end June position. The Group still has just under €1.1bn of undrawn committed debt facilities, €0.7bn of which is available under a €1.55bn facility expiring on 22 June 2012. The average maturity of the Group's committed debt facilities at the end of September was 3.6 years.

Summary

The recent downturn in Europe & International Division trading as a result of weakening macro-economic conditions will mean that Group underlying operating profit for the year is likely to be 10% to 15% below last year. This is despite the improvement in South Africa Division trading.

We will continue to proactively engage in restructuring actions where appropriate and as required by market conditions. Similarly, our capital expenditure programmes will be tailored to the more challenging trading environment which we now face.

Mondi's financial strength, proactive response to ongoing changes to market conditions, and strategic positioning leave it well positioned to weather the current economic turbulence and take whatever actions are necessary to improve its performance.

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A conference call will take place on 20 October 2008 at 09:00am (UK time) / 10:00am (SA time). The dial-in numbers are: +44 (0) 207 107 0611 / + 27 (0) 11 535 3600.

A replay service will be available until 25 October 2008 for anyone not able to join the call. The dial-in number is: + 27 (0) 11 305 2030 and the code is 120101#.

Editors' notes:

Mondi is an international paper and packaging group and in 2007 had revenues of €6.3 billion. Its key operations and interests are in western Europe, emerging Europe, Russia and South Africa.

The Group is principally involved in the manufacture of packaging paper and converted packaging products; uncoated fine paper; and speciality products and processes, including coating, release liner and consumer flexibles.

Mondi is fully integrated across the paper and packaging process, from the growing of wood and manufacture of pulp and paper (including recycled paper) to the converting of packaging papers into corrugated packaging and industrial bags.

Mondi has production operations across 35 countries and had an average of 35,000 employees in 2007.