

DUNAPACK
MAGYARORSZÁG

P A C K A G I N G



A N N U A L R E P O R T

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The Dunapack Ltd. member of Prinzhorn Group



Dunapack Group

Business Report For The Year 2009

2009 once again brought about significant changes for the European paper industry. We have seen significant volatility in external conditions. Profitability suffered to a great extent due to the trends in the paper industry, the global financial crisis and the related recession. As a one-off effect, our results were further decreased by the fact that our activities were partially discontinued and partially outsourced into a separate limited liability company. Thus, according to its strategic goals, Dunapack Zrt. became a purely corrugated product manufacturer.

There were hectic fluctuations in the exchange rate of the Hungarian Forint. At the beginning of the year, it was around HUF 320 / EUR, while by the end of the year it had fallen to HUF 270 / EUR.

In 2009, the European containerboard market went through its deepest crisis of the past few decades. Due to the recession, demand fell and by the end of the year, the stocks of paper factories rose to their historical peak. Thus, prices bottomed out in August. From autumn, we succeeded to reach a price increase of EUR 80/ton, but this improvement could not turn the trend around and our containerboard division closed the year with serious losses.

At our converting activity, we saw a weak beginning in the first quarter 2009 after a very weak fourth quarter in 2008. Due to the decreasing industrial production, demand for packaging materials also fell.

In the 1st and 2nd quarters, we faced lack of orders, therefore, first we had to send our staff on holiday, later we were compelled to decrease staff. As a result of the improvement of the external conditions, orders started to grow gradually from the middle of the year and after an outstanding July, we closed a very strong September-December period. We have not achieved the volumes originally planned, but both the manufactured and sold quantity exceeded that of 2008. Our profit margin based on low paper prices improved significantly in this product group, thus our results exceeded the forecasts.

In a deteriorating economic environment, our group performed significant rationalisation and reorganisation activities during the year.

- At the beginning of the year, due to decreasing production, we took immediate cost saving measures. These strict measures affected our staff management and general cost guidelines (e.g. maintenance, travelling and consultancy).

- Paper manufacturing at Csepel was discontinued. From April, Kraft paper manufacturing was stopped, while from June, we discontinued the waste based containerboard manufacturing.
- Parallel to this, the production of corrugated packaging materials at the Csepel site was transformed to function independently involving major changes of infrastructure.
- Due to the changing tasks and circumstances, we performed significant transformations in the administrative/economic area of the company during the year, as a result of which the administrative activity had to be re-organised at each site. The two profit centres which were under the supervision of the Finance Director ceased to exist and we launched a joint administrative management with a significantly lower staff.
- We completed the PM7 investment in Dunaújváros. The new containerboard factory successfully started its operations under the name Hamburger Hungária Kft.
- The PM3 in Dunaújváros was outsourced to a new company, Hamburger Dunaújváros Kft. from 1 December.
- In addition, the new division management commissioned several consultants to start their work. First a due diligence of our Hungarian subsidiaries (Logipack Group) was performed, followed by a review of the production area. In the 4th quarter, the sales activities were reviewed in order to improve efficiency. The completion of the recommended modifications is in progress.
- During our market activities, we had to pay attention to the needs of the containerboard division too. We worked hard on using our own white outer liners instead of external sources; the biggest task was however the introduction of the paper from the new PM7. While changing the specification and production width of the reels, we replaced the narrow widths of Csepel by the new, modern ones.

Dunapack Zrt.'s investment activities in 2009 were moderate.

We completed environmental and production rationalisation projects worth HUF 1,072 million. As a result of stopping paper manufacture in Csepel and due to continuing the production of corrugated packaging materials, we primarily focused our investment activities on waste water treatment, energy production and the sewage network (HUF 644 million). We made investments (HUF 96 million) on the PM3 at Dunaújváros in order to improve its efficiency. We spent HUF 133 million on IT and organisation modernisation projects.

As opposed to the budgeted HUF 892 million, our actual spending on maintenance-type investments was HUF 604 million.

Our investment activities were characterised by organisational restructuring in 2009. We sold Duparec Kft. and PM3 was outsourced to Hamburger Dunaújváros Kft. Our shares in Dunapack Ukrajna Ltd. were purchased by Mosburger GmbH.

The yearly audit of both the ISO 14001 environmental management and the OHSAS 18001 occupational health and safety systems encompassing the overall activities of Dunapack Zrt., at all sites in Hungary, was completed successfully in 2009. On the basis of this, the certification of our integrated management system is valid until July 2012. In July 2009, the National Directorate General for Environment, Nature and Water certified the environmental management system of the Dunaújváros plant according to EMAS, the eco-management and audit scheme of the EU. The validity of the certificate has been extended until December 2010.

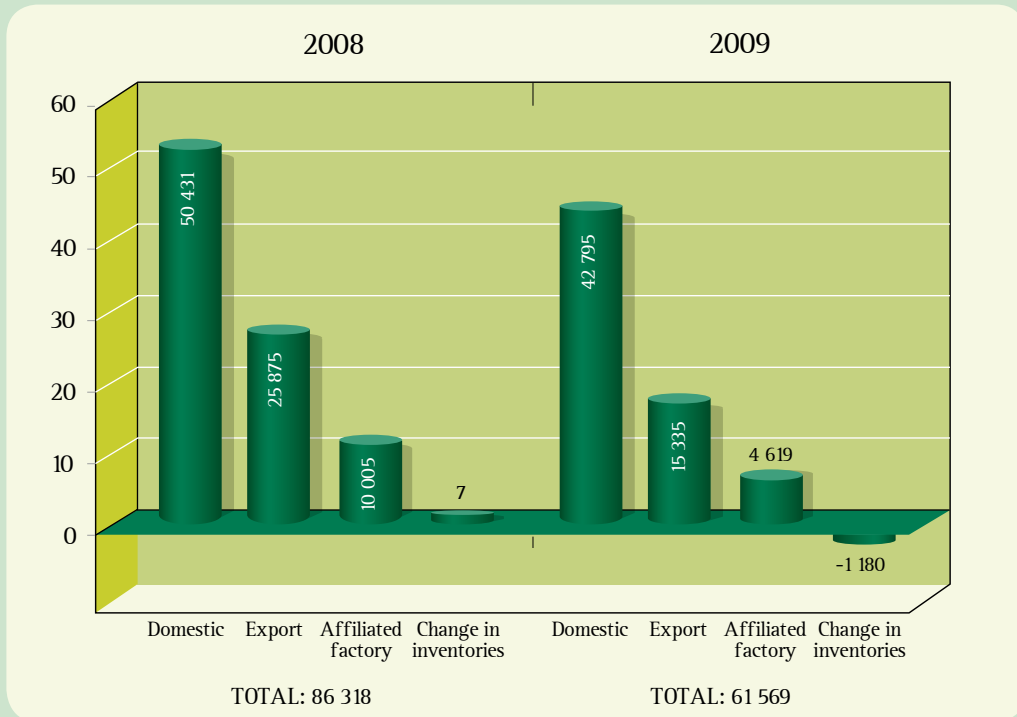
Due to the environmental investments made and the environmental protection measures introduced, the company has reached a level conformant with the requirements regarding the best available technology. During 2009, the company's objective was to maintain and slightly improve this achievement.

At the Csepel site, activities related to paper manufacturing were discontinued in 2009. The Supervisory Authority of the Middle Danube-Valley Inspectorate for Environmental Protection, Nature Conservation and Water Management issued a regulation containing the regulatory requirements in respect of the discontinuance of paper manufacturing. The suspension of production was final as required and planned on 31 December 2009. Papermaking machines and equipments used for material preparation, energy production facilities and the biological waste water treatment plant were stopped. After stopping production, the remaining unused raw and auxiliary materials along with the finished products were transported away. Machinery, equipment and free areas were cleaned; hazardous waste was collected selectively, and was either recycled or destroyed. Non-hazardous waste in buildings and equipments and from open areas was collected selectively, and was either recycled or destroyed. Materials and waste that could not be utilised were recycled and destroyed by authorised organisations.

In 2009, the Supervisory Authority of the Middle Danube Valley Inspectorate for Environmental Protection, Nature Conservation and Water Management modified its requirements regarding the cleansing of soil water after the removal of soil contamination from the distant past at the Csepel site. Instead of continuous pumping, it ordered the operation of a periodic monitoring system.

Our research and development activity has focused mainly on product and – to a lesser degree – on technological development. In 2009, we accounted HUF 20.6 million as R&D expenditure.

Review of the product groups of the company in 2009



VALUE OF PRODUCTION (HUF million)

1. Corrugated base paper

In 2009, the European corrugated base paper market went through its deepest crisis of the past few decades. The production capacity did not change significantly demand however fell by 4% on the annual average. The situation was particularly serious in the first half of the year, when the decline reached almost 10% compared to 2008. By the beginning of the year, the stocks of the paper mills have reached a historic peak. In order to sell this stock off, between January and May factories suspended their production frequently, sometimes even for several weeks. The Hamburger Group and Dunapack PC1 were no exceptions to this. The prices hit a historic low in August, i.e. EUR 228/ton, while the European average was around EUR 210/ton. In most of the sales regions, the quantities sold were significantly below the targets of 2008 or 2009. Total sales in 2009 amounted to 198,000 tons. One of the reason for the decrease was that we discontinued paper manufacturing at Csepel site 3 months earlier than planned and we outsourced the PM3 from 1 December. The rest of the

decrease was the result of the irregular production limitations due to narrowing of the market. Budgeted sales volumes were only exceeded in Poland, Romania, Bulgaria and Serbia.

2. Sack kraft paper

The sack kraft paper markets shrank further in the first half 2009 and the demand fell by 6% compared to previous years. Market prices decreased by EUR 100-150/ton affecting us only partially since most of our production was sold through long-term contracts. Sack kraft paper was only produced in the first quarter and we served our customers from the stock during the rest of the year.


The 2009 budget has foreseen a production of 2,500 tons, while actual production amounted to 1,880 tons. The source of the surplus sales was the stock brought forward from 2008. Until end of August sales went as usual, in October 2009 we invoiced the last sack kraft paper with no paper left in stock.

3. Corrugated products

The business plan 2009 had not reckoned with deepening of the financial crisis and its economic impact that developed in the last quarter 2008. The production of the industry which is our main market fell by 17.7% and within that, the processing industry shrank by 18.4%. The Hungarian corrugated product market also showed a decrease in 2009. Although the pace of decrease slowed down after the first quarter, the total corrugated market was 5.7% behind the 2008 figure together with import. Nevertheless our sales improved compared to the previous year, thus our market share increased.

Dunapack Corrugated Factory suffered a significant decrease of sales in the first half of the year due to the drop in domestic consumption. However, we managed to turn the sales around from the middle of the year, so it has actually achieved the planned level. A significant increase was achieved in the case of new, smaller customers in particular. Finally the sales volume exceeded that of the previous year and is slightly below the planned figure.

Prices were stable in the first quarter, but due to the decreasing paper prices our sales prices were falling back. At the end of the year the average price was 11% below the previous year's price level. In spite of the these tendencies the result of 2009 exceeded the budgeted figure.



The Corrugated Box Factory Nyíregyháza performed its domestic sales plans close to the budgeted level. The favourable volumes were registered with multinational customers. As their order level remained stable despite the crisis. However, the impact of the crisis was felt with small and medium-sized customers as orders were less. Export sales were considerably behind the figures of the previous year in almost every country.

The falling raw material prices were slowly reflected in lower product prices throughout the year. Due to this and the cost cutting measures carried out in connection with the crisis, our results improved continuously, as a result of which we significantly exceeded our targets.

In Romania too the financial crisis had a strong impact, which was felt in the shrinking corrugated production. As a result of the unfavourable circumstances, several leading corrugated manufacturers lost market share. Dunapack Rambox SRL, our Romanian subsidiary, is among the few exceptions. Although the company did not fulfill its plan 2009 it was able to increase its market share. In 2009, the increase of box proportion within the total sales remained an important objective and the plan has been surpassed. Throughout the year, costs were strictly controlled. Thanks to this and to the favourable paper prices, both the production value excluding material costs and revenue significantly exceeded the budget.

Although the Polish economy was not able to protect itself from the strong decrease caused by the crisis, it was able to achieve a positive economic growth. The market for corrugated products also expanded, but its pace was below that of other industries. Eurobox Polska, our Polish subsidiary, delivered the packaging solutions, innovation and customer services required by the processing industry. Despite this, it was not able to fulfil its plans in terms of volume and results. The improving proportion of boxes, lower than budgeted paper prices and cost savings did not compensate the more than 10% fall in sales prices. Finally, the result was below the planned figure by PLN 11 million.

The Bulgarian GDP fell by 6.3% in 2009. No significant changes occurred in the corrugated market Dunapack Rodina remained one of the most important market players. At the beginning of the year, there was a significant price increase on the Bulgarian market, which induced heavy customer reactions, making the competition very fierce and unpredictable. The orders of our Bulgarian subsidiary decreased and the sales volume was behind the plans. Moreover, there was a drop in sales prices compared to both budget and the previous year. The pre-tax profit significantly

exceeded the plans; this was however primarily due to the continually falling paper prices and the productivity improvement. However, for the company, the decrease of high rate of rejects and receivables remain an important task.

The Croatian economy saw a serious decrease as a result of the crisis, which had a negative impact on corrugated product manufacturing. The sales volume of our Croatian subsidiary, Valoviti d.o.o. was according to plan, while box sales were slightly higher than budgeted. Although sales prices did not reach the planned level, lower paper prices and strict cost control led to an increase in the production value excluding material costs and also in the profit. Valoviti d.o.o. again achieved a positive result in 2009.

Ukraine's economy was intensely effected by the crisis occurred at the end of 2008. The Ukrainian currency, Hrivna is no longer tied to the US Dollar and exchange rates started rocketing. The 2009 budget prepared at the end 2008 under uncertain conditions had already become visibly unrealistic at the beginning 2009. Thus the sales volume of Dunapack Ukraine was well below the budget and the previous figures. The market expansion plan in Hodorov was not as successful as expected and the situation of material supplies further deteriorated. The purchase price of imported boards rose to a greater extent than the price of the domestic raw material due to the exchange rate increase. To serve big customers with special needs was rendered impossible by this. Therefore the Kherson project was suspended. We withdrew the temporary production launched there to Hodorov during the second half of the year together with shifting of the machinery.

By concentrating the activity on one site only we try to consolidate the activity until the Ukrainian market, the economy and the financial situation get stabilised.

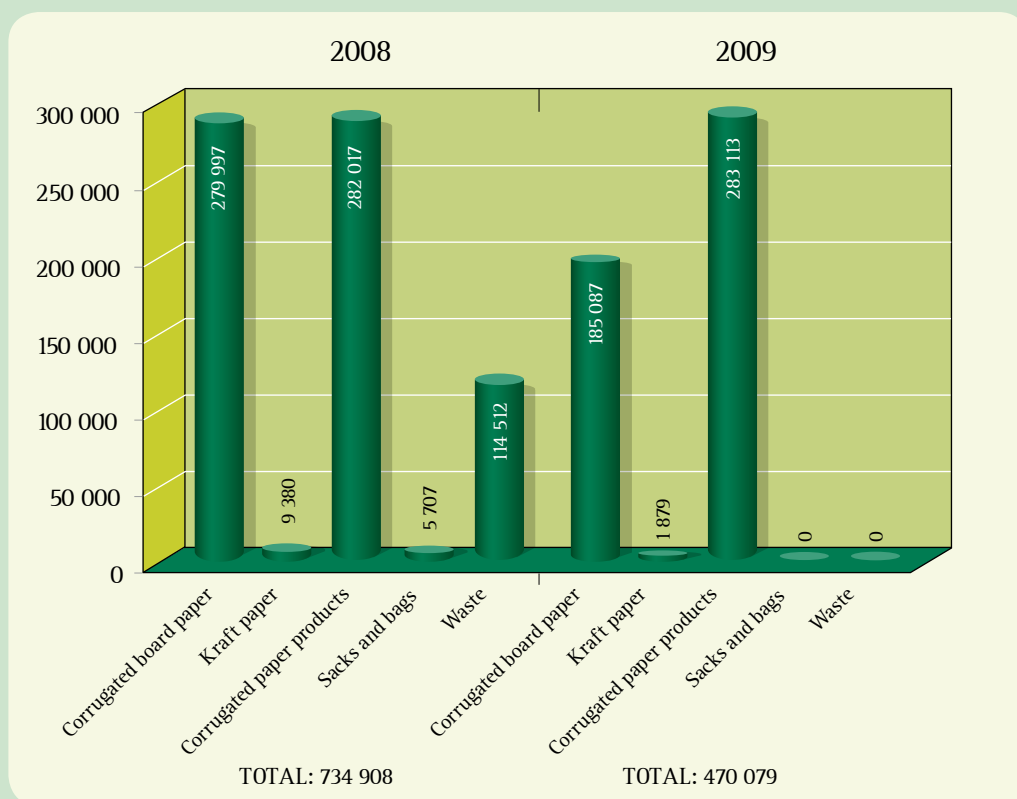
4. Production of stationery

The sales revenue of Halas Irodaszergyártó Kft. was behind of the previous year's figure. The main reason for this was the falling demand due to the global crisis. The leading market players in the region and Far East suppliers still offer extremely low prices. A positive result can only be achieved through the postponing of maintenance works and strict wage management. Further pre-conditions for survival are the increasing of exports and the running up of presentation products for which missed maintenance work must be arranged; in addition, the manufacturing base must be modernised and management re-organised.

5. Logipack Kft.

During 2009, the activities of the Kft. connected with the operations have supported the Hullámtermékgyár in many ways. Thus, its tasks include paper processing, provision of logistics and maintenance services and printing activity.

A new business line was launched in 2009, like reel cutting and the sales of small reels. Over the years, the proportion of the orders fulfilled for the parent company has decreased continuously, although it is still dominant. Currently it accounts for 42% of sales revenue. Their objective is to continuously increase sales outside the company group, looking for new markets and thereby decrease dependency on the parent company. The company has been operating profitably for several years. The pre-tax profit for 2009 was HUF 32 million.



PRODUCTION PER PRODUCT GROUP (ton)

6. Material supply

FIBRE

Our waste paper purchases were influenced by several events in 2009 that could not have been foreseen in advance: the economic crisis, the discontinuation of production at the Csepel site earlier than expected, the quick running up of the new PM7 at the Dunaujváros site, stocking problems, etc. Over the year, the monthly waste demand changed significantly, equipment had to be stopped due to missing orders, production was less than budgeted, however we have always purchased the contracted quantities from our suppliers. Throughout the year, our raw material supply was undisturbed, although due to the economic crisis, waste paper prices and collected quantities were low.

PAPER

Our supply with raw materials was appropriate, we used the planned quantities. The change in reel-width following the discontinuation of paper manufacturing at the Csepel site entailed significant work. The complete stocks had to be replaced; therefore, stocks in the 2nd and 3rd quarters were periodically higher. The change was completed by December.

The price of corrugated base paper expressed in EUR decreased until August, and then it started to increase gradually.

The change of waste-based paper prices was bigger than that of primary fibres. Also the minor exchange rate fluctuation of the Forint had an impact on the price level.

The total quantity of corrugated base paper purchased in 2009 grew in proportion to the growth of production. Our paper stocks were also volatile: the high stock level at the beginning of the year decreased slowly, then it started to grow after stopping the PM6 and launching the PM7, and it was at the budgeted level in the second half of the year.

Similarly to the previous years, the raw material of the corrugator used as gluer was the starch powder purchased from HUNGRANA Kft. and its water suspension in the proportion of 25%-75%. During the year, the EUR price of milk and powder also decreased gradually.

7. Profit

The pre-tax profit of Dunapack Group (HUF -456 million) decreased compared to the previous year (HUF 7 326 million). The Group's equity/balance sheet total ratio increased from 55% in 2008 to 57% in 2009. Over the same period, the liquidity ratio increased from 1.85 to 2.00.

In general, we can state that the 2009 consolidated balance sheet and financial statement give an account of a liquid company with a favourable asset-liability structure. No events have occurred since the balance sheet date that could significantly impact the company's financial situation or the veracity of the report.

8. Plans for 2010

When preparing the 2010 plan, we calculated with the following factors:

- Due to the financial crisis and the restrictive government measures, economic growth will be stagnant and the Hungarian economy is expected to shrink by further 1%.
- The expected inflation rate is 5.0%. We calculate with a yearly average exchange rate around 271 HUF/EUR.
- After stopping the paper production at the Csepel site, the paper factory in Dunaujváros was transformed into an independent Kft. and the plans of Dunapack Zrt. do not include paper manufacturing.
- The paper-manufacturing equipments and real assets at the Csepel site remain the property of Dunapack Zrt.
- In our business plans, we calculated with a significant rise in paper prices: the actual price in August plus EUR 85/ton. As to the finished goods we are planning to realise the higher costs caused by the paper price increase in our sales prices.
- No price rise is considered regarding energy costs.
- As to the salary rise, inflation and business/market impacts will be taken into consideration together with 2% productivity improvement. Concerning personnel cost budgeting the impact of lower contributions in 2010 and the results of the "Fit in Admin" project were built into our budget and also the reverse of activities outsourced before.
- Our financial plans show a decrease of credit stock. The reason for this: moderate investment activity, the revenue from asset sales, the spinning off of the PM3 and the closer supervision of current asset financing.

	2008	2009		2008	2009
FIXED ASSETS	30 527	23 067	CAPITAL AND RESERVES	31 176	29 349
Intangible assets	302	294	Of which: called up share capital	9 999	9 999
Tangible assets	29 045	22 479			
Investments	1 180	294	PROVISIONS	1 140	257
CURRENT ASSETS	25 682	28 536			
Inventories	8 251	6 600	CREDITORS	23 499	21 456
Debtors	14 895	20 261	Long term liabilities	9 622	7 209
Securities		1	Short term liabilities	13 877	14 247
Liquid assets	2 536	1 674			
PREPAYMENTS	607	222	ACCRUALS	1 001	763
TOTAL ASSETS	56 816	51 825	TOTAL LIABILITIES	56 816	51 825

DUNAPACK GROUP – CONSOLIDATED BALANCE SHEET (HUF million)

Dunapack Csoport		
	2008	2009
Net sales revenue	76 972	64 069
Operating profit	7 593	-231
Financial profit or loss	-988	-211
Profit or loss on ordinary business	6 605	-443
Profit or loss on extraordinary business	721	-13
Pre-tax profit	7 326	-456

KEY FIGURES (HUF million)

	2008	2009
Profit or loss on ordinary business level	21,2%	-1,5%
After tax profit level	18,6%	-2,1%
Profit and loss account level	11,2%	-2,1%

PROFITABILITY AND EQUITY RATIOS

In 2010, the fine-tuning of the new operation structure arising from the changes last year will be a significant task, along with the stabilisation of the new organisations, ensuring of services complying with customer demands. Agreement on sales prices with our customers due to the impact of rapidly rising paper prices since year end reflecting the increased material costs, higher efficiency, better results, rationalisation of financing needs of operation are also high on the agenda.

Budapest, April 2010



A handwritten signature in black ink, appearing to read 'László Panyi'.

László Panyi
General Manager



