

A detailed illustration of a feather quill pen, shown in profile, resting on a globe. The globe is partially obscured by a curved line that arches over the text below. The entire scene is rendered in a light green color against a dark green background.

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

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Dunapack is a member of the Hamburger Group



Annual Report of Dunapack Group for 2005

2005 was not a year of upheaval for the European paper industry. Supply increased faster than demand, driving prices down in all product segments. By autumn 2005, paper prices fell by EUR 40/tons, which meant operating at a loss for the entire European paper industry. The Group's processing operations were also characterized by falling sales prices, but decreased raw material prices drove profits up to the planned level. The only exception was the Croatian subsidiary, where sales targets were not met and another significant loss was reported for the year.

For the above reasons, the Group failed to realize its targeted profits. Financial reserves, however, grew on account of decreased capital investments and acquisitions. Therefore, we still have sufficient funds at our disposal to meet our strategic objectives.

In 2005, Dunapack Ltd. implemented a number of capital investment projects in environmental protection and production line optimisation in an amount of HUF 1.155 million. Such projects included investments in paper machine no. 3 at Dunaújváros, such as the development of light weight production (at HUF 44 million) and replacement of the driving units of the drying section (at HUF 133 million), and reduced water consumption at the Csepel plant (at HUF 166 million). The most significant improvement in the paper processing business was the acquisition of a new folding-gluing machine, which cost HUF 158 million. With a considerable cut-back in capital investments for the maintenance of standards, only HUF 500 million was spent instead of the budgeted HUF 1 billion.

Only minimal investment activities were undertaken throughout the year, our only investment being a capital increase of HUF 124 million in our subsidiary in Poland, required for financing outstanding capital investment activities there. At the end of the year, a capital decrease in the subsidiary in Bulgaria (Rodinvest) involving no cash transaction was carried out, making Dunapack a direct owner of our production unit Rodina.

In 2000, Dunapack Ltd. introduced the ISO 14001 environment management system in all of its units, forming an integral part of a system of ISO

9001 quality assurance and OHSAS 18001 Occupational health and safety standards. Targets and tasks are set and evaluated.

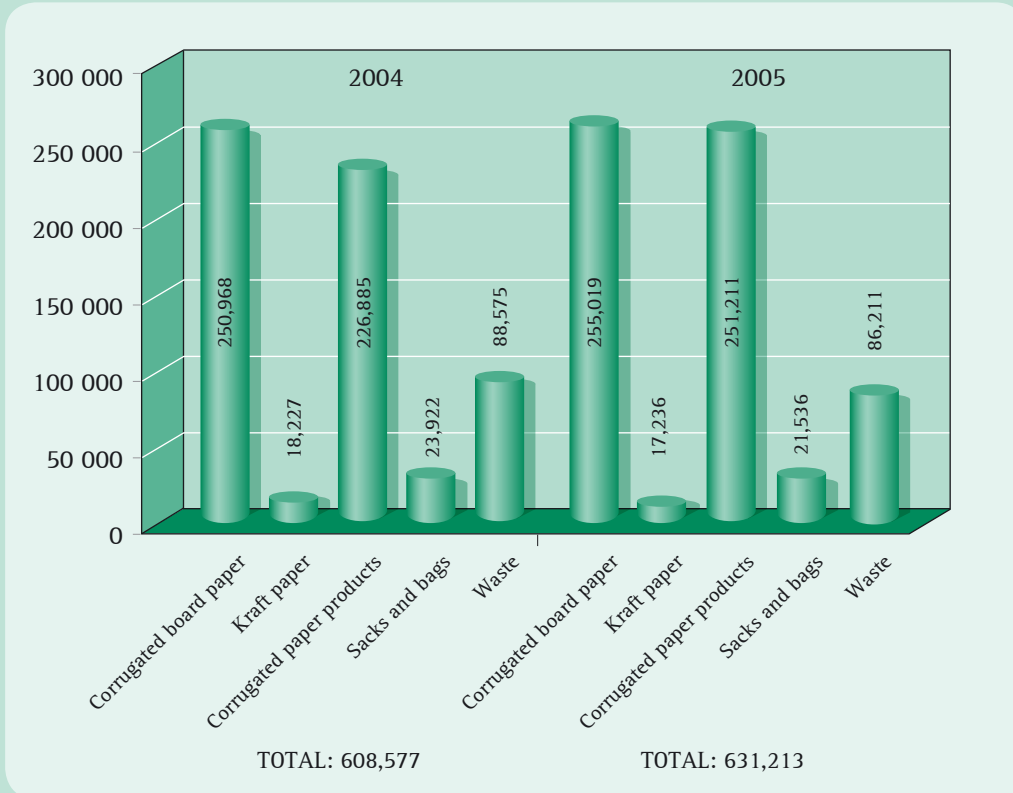
In 2005, the total amount of capital investment in environmental protection reached HUF 502.7 million. A great majority of these projects targets paper manufacturing, the corporate operation with the highest pollution factor. Our most important environmental projects include:

- Removal of the contaminated soil discovered at the Csepel site and reclamation of the soil in 2005. Remedial works with a capital project of HUF 66 million and completion of a system for the drainage and purification of contaminated ground water. Expected duration of groundwater purification: 3 years.
- The Csepel plant is surrounded by a residential area with public institutions. Noise protection in this area therefore is strictly regulated by the environment protection authority. As part of the noise reduction program for 2003-2005, noise emission was reduced to the prescribed level with the help of a HUF 69 million capital investment budgeted for 2005 and various optimization measures.
- In 2001, a ten-year development project approved by the environmental authority was planned for the Csepel site. Tasks related to water reuse and sewage facility construction planned for 2005 were completed. As a result, specific fresh water use was kept below the targeted 10 m³/t paper. The preliminary permit from for the new biological sewage treatment facility was obtained this year.

In 2005, the Dunaújváros site was registered in EMAS, the management and certification system of the European Union. Dunapack Ltd. is registered under HU-000002 in the EMAS registry in Hungary and Brussels.

Research and development activity involved product, and to a lesser extent, technological developments. In 2005, expenditure on R&D reached HUF 51 million.

Product Categories in 2005



Production per product group (ton)

1. Corrugated Board Paper

Despite expectations, the trend for the European packaging paper market was not reversed in 2005. In the region corresponding to the 15 countries of the former EU and accounting for 90% of consumption and production, consumption and production capacity in 2005 rose at an annual rate of 1% and 7%, respectively. In contrast, only 3% of non-competitive production capacity was stopped. The relatively small Central-Eastern European region could not change this trend even though waste paper based corrugated board paper consumption expanded at a rate of approx. 10% a year.

Increased production speed and decreased demand from sack factories contributed to a 1% drop in the sale of corrugated board paper as compared to 2004, a record year for sales. Dunapack's internal paper use increased by 7% as compared to base figures, nearly meeting the target figure. Domestic sales decreased by 3,000 tons due to certain integration efforts. Product materials unsold to affiliates and other domestic businesses are exported. Figures fell somewhat short of the base year, though exceeded the target by far.

Foreign affiliates of Dunapack purchased a total of 58,979 tons of paper. The usual trend in export sales to companies outside the Group changed considerably: Western-European sales dropped while Eastern-Europe became our most significantly developing market.

When plans for the year 2005 were developed, lower initial capacity for the new paper machines and a more marked increase in demand from Western-Europe were expected. Therefore, we set our prices 5% higher than in 2004, assuming that heavy costs will force the paper industry to raise prices. In contrast, the price of corrugated board paper fell considerably, which meant a loss of profit for most European corrugated board factories. It was not until the last quarter that prices were increased to reach the 2004 end-of-year level.

2. Sack paper

Sack paper sales failed to reach the targeted 24% increase and proved 10% lower than sales in 2004. At a time when domestic and Western-European deliveries reached both the targeted and base level, purchases by the affiliate in Nyíregyháza and the Ukraine decreased.

Thus, paper machine No. 4 manufacturing sack paper was set to produce even more thin corrugated board papers, whose proportion rose to 63% from 60% (figure for the year 2004). As a result of the change in the product structure, the profit generated by sales from paper produced by paper machine No. 4 compensated for the loss in the sack paper market.

Sack paper prices also dropped, although not as markedly as corrugated board paper prices.

3. Corrugated board products

In 2005, the general trend in Europe also affected the Hungarian market and demand plunged especially in the first half. For the first time in years, demand in Hungary stagnated and growth rate slackened. Although market capacity remained essentially unchanged, the company was successful in retaining its market share.

The year 2005 saw less competitive branches of economy (shoe, meat and poultry industries) gradually fell behind and a restructuring of customer segments. Several businesses became bankrupt or insolvent during this time. Our domestic competitors continued to focus on growth, introducing a new line of sheet line products, which presents a considerable challenge to our flexographic printing technology.

Export sales rocketed as compared to both the targeted and the base figures. The growth is attributable to three reasons: board sales to Ukraine becoming exempt from customs duty, the efforts of area representatives in Slovakia and our entry to the Scandinavian market.

As regards prices, last year was characterised by a decrease in paper prices and a marked rise in energy prices. In the domestic market, competitors prompted the company to constantly reconsider its prices, and we were forced to lower prices in some areas to retain sales volumes. All in all, due to heavy cost cuts, funds did not dwindle.

Rambox, our Rumanian subsidiary continued its efforts to retain and increase its market share in 2005. While the Romanian corrugated board market expanded by 11% in 2005, Rambox's sales grew by 23% as compared to the base year. As a result, the company is the leader of the Rumanian market. Although the company's achievements are remarkable, it still needs to improve the proportion of boxes within the corrugated cardboard product line and increase sales prices. As regards paper consumption, paper is mostly purchased from Group members, with slightly less purchased from domestic sources. In July, the new leu was introduced in Rumania without any negative effect on the company.

Poland experienced a 10% rise in demand for corrugated board paper in 2005. As a consequence, production increased, accompanied by an intensifying competition and low prices. Sales for the Polish affiliate, Eurobox Polska Sp. z o.o. exceeded the targets by 5.6%, while its prices remained below the Polish market price, due to a higher proportion of corrugated boards. This lost profit was only partly counterbalanced by efficient cost management, and therefore sales revenues did not meet the expectations.

In the Ukraine, there was a change in packaging practices, driving up the demand for packaging materials. This is reflected in Dunapack Ukraine Ltd.'s higher output, which exceeds base figures by 16%. Business operations are influenced by two major factors: price and quality. As of 1 September 2005, the rate of customs duty fell to 5%, rendering purchases from Nyíregyháza cheaper. Raw materials are therefore purchased from here.

Our affiliate in Bulgaria, Rodina AD increased sales by 20%, but still fell short of expectations as a result of low export sales to Serbia and difficulties in entering the Greek market. Its biggest paper supplier is Dunapack. Kraft paper and raw materials at discounted prices are purchased from Mondi and the domestic market, respectively. In general, as costs were lower than in the base year and plans, profits far exceeded the targeted figures.

The Croatian affiliate strengthened its market position in its second full year of operation. It increased sales considerably, although it fell short of the target. The effort to increase the volume of production involved compromises, especially in respect of prices and profitability. In addition to strengthening market positions, priorities include the improvement of profitability and compliance with financial objectives.

4. Sacks and bags

In 2005, the domestic sacks market was affected by a hopefully temporary price fall that was brought about by the opening of domestic markets to the EU and the decrease of the market share of competitors. As a result, the company failed to win tenders invited annually by major customers. Sales

in the product group dropped as compared to base year and target figures. As a consequence, production volume fell sharply, which had a negative impact on profitability.

Bag sales grew by 4% as compared to base year figures but were still 5% short of plans. While there was a surplus from increased quantities of bags with handle, large quantities of small bags remained unsold. In the domestic market, there is an oversupply of small bags and a fierce price war between the competitors, resulting in rather depressed prices.

Sales by the Ukrainian affiliate fell short of the plans due to loss of market, which was partly compensated by the end of the year. The company has an approximately 35% market share in sacks production in the Ukraine. Further expansion in the market is conditional on better technology, which will be facilitated by capital investments in 2006.

5. Waste collection

Duparec Ltd. exceeded waste collection plans by 104%, increasing its market share in the domestic waste market to 24.5%. The profit slightly exceeded the adjusted plan. In 2005, competitors in Hungary, that is both foreign companies with considerable financial muscle and consortia founded by local municipalities, became increasingly active. In order to overcome its market handicap, the company plans to enter the plastic waste management market.

6. Office supply manufacturing

Halas Office Supplies Ltd. is primarily engaged in the production of folders and files. The Hungarian market of this product range is controlled by price sensitive, multinational companies who select their suppliers through tendering. In 2005, a restructuring of the market took place, resulting in businesses controlling large market segments. Under these conditions, in order to promote sales the company can only rely on its main assets quality, reliability and willingness.

7. Logipack Ltd.

Key business lines include paper processing, logistics, temporary agency work and maintenance. The overwhelming majority of its services are rendered to Dunapack Ltd. and the Corrugated Division. As regards revenues, the line of business with the highest sales and growth figures was the paper processing division. In 2005, the company sold more than 2.5 million square meter products. The Logistics Division provides delivery and warehousing services. Pre-tax profits were essentially the same as in the previous year.

8. Raw Material

Fibre

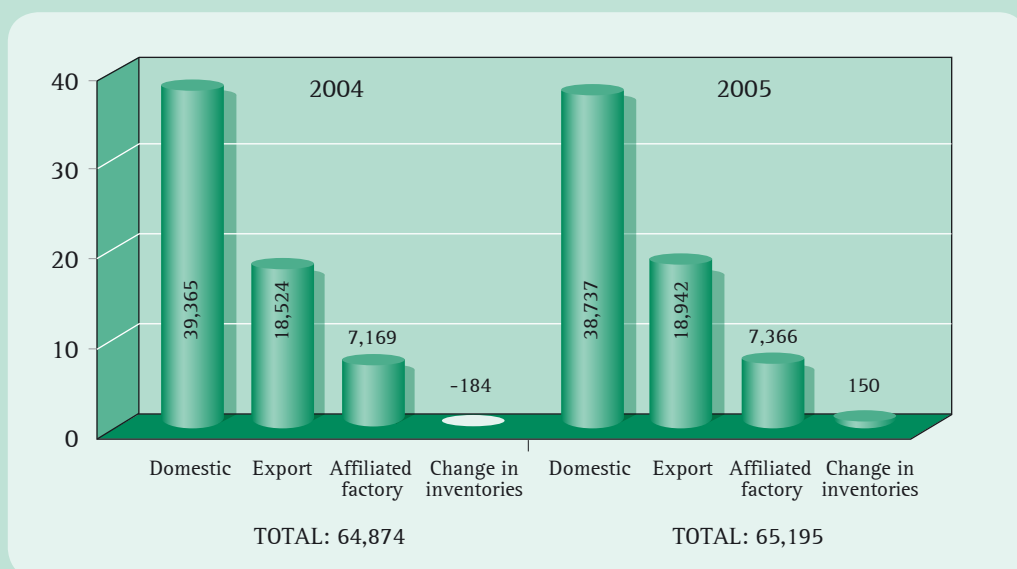
The domestic waste market was characterized by a moderate oversupply. Therefore, our demand for all regular types of wastes was satisfied without any imports and at a favourable price. Organizations coordinating the recycling of packaging wastes and companies under obligation by law to recycle were convinced, for reasons of unfavourable market conditions, to support waste paper processing in order to avoid financial losses. The amount of financial support provided was HUF 520 million.

The use of primary fibre (cellulose) will gradually be avoided due to changes in the product portfolio and technological developments; in 2005 only 751 tons were used.

Paper

In contrast to our expectations, the price of corrugated board papers was sliding gradually by the end of quarter 3, reaching an all-time low. Only in quarter 4 did prices recover slightly. Despite falling prices, in the first half of the year waste-based white paper was purchased outside the Group due to uncompetitive prices. We took the opportunities offered by the Spremberg facility not only to avoid imports but also to acquire a new range of products.

As a result of a strike in the Finnish paper industry, our paper supply was briefly disrupted, and soaring oil prices brought about a rise in the price of plastic-based auxiliary materials.



Value of production (HUF million)

9. Profits

Dunapack Group		
	2004	2005
Net sales revenues	54,945	56,580
Operating profit	-185	689
Financial profit or loss	250	-452
Profit or loss on ordinary business	65	237
Profit or loss on extraordinary business	-66	-40
Pre-tax profit	-1	197
Gross cash-flow	4,402	5,414
Net cash-flow	3,520	4,707

Key figures (HUF million)

Dunapack Groups' pre-tax profit for the year, HUF 197 million, exceeded previous year's figures (HUF -1 million). The Group's equity ratio remained unchanged at 49%.

The long term ratio fell from 1.64 to 1.50 over the same period.

Overall, the balance sheet and profit-and-loss statement give an account of a cash-rich company with a favourable structure of assets and liabilities.

	2004	2005		2004	2005
FIXED ASSETS	29,072	27,799	CAPITAL AND RESERVES	23,166	22,640
Intangible assets	1,021	789	Of which: called up share capital	14,224	14,224
Tangible assets	26,039	25,858			
Investments	2,012	1,152	PROVISIONS	307	350
CURRENT ASSETS	17,385	17,565			
Inventories	5,626	5,658	CREDITORS	22,969	22,104
Debtors	10,541	11,245	Long term liabilities	12,360	10,362
Securities			Short term liabilities	10,609	11,742
Liquid assets	1,218	662			
PREPAYMENTS	531	383	ACCRUALS	546	653
TOTAL ASSETS	46,988	45,747	TOTAL LIABILITIES	46,988	45,747

Dunapack Group – Consolidated balance sheet (HUF million)

	2004	2005
Profit or loss on ordinary business level	0.3 %	1.0 %
After tax profit level	-0.1 %	0.2 %
Profit and loss account level	-0.3 %	-2.2 %

Profitability and equity ratios

10. Annual plans for the year 2006

When developing the plan, the following factors were taken into account:

- There is a slight upturn in both the domestic and foreign markets; Hungarian economy is expected to grow at approximately 4% in 2006.
- The inflation rate is expected to reach 2.0%. No change in the exchange rate is planned (planned exchange rate: 250 HUF/EUR).
- The amount of taxes payable by the company will remain unchanged. The company will continue to pay no corporate tax due to corporate tax base reduction.
- According to plans, prices for wastes and processed products will remain unchanged while paper prices will be increased by 40 EUR/ton as compared to the lowest prices in September 2005.
- We calculated a volume growth of 3-4% in paper production and processing, slightly different for each product group and each company in the Group, with the exception of two promising new units, Dunapack Rodina AD and Valoviti Papir Dunapack d.o.o., where volume growth is expected to reach 15 and 22%, respectively.
- The upturn in domestic waste collection will continue, wastes collection and financial support for recycling will increase significantly as a result of a contract concluded with coordinating organizations, adding HUF 800 million to next year's profits.
- Soaring oil prices in 2005 will prompt an increasing rise in energy prices, which means an additional HUF 1.2 billion in costs for the Group.
- Personnel costs will involve a general efficiency improvement at 2% and wages increase of 3%.
- In order to improve profitability, we are planning a significant cut in each cost group under general costs (e.g. IT: HUF 96 million), while costs associated with central customer care will be shifted to the Divisions and affiliates (HUF 177 million).
- One of our objectives is to decrease debts through stringent current asset management measures and restraints in investments and capital projects

The principal tasks for 2004 are to meet the profitability objectives set out in the plan, strengthen both existing market positions and financial stability and carry out certain organization-related modernization tasks. A top

priority is to participate in major paper production projects (investments in paper machines in Hungary) and to continue to expand the market of corrugated board paper products and to prepare new projects in the Ukraine and the Baltics.

Budapest, April 2006



Miklós Galli
Chairman-CEO



