

# Dunapack Ltd. annual report 2003

Economic growth in Hungary slowed down further in 2003. The forint exchange rate fluctuated widely during the year, with a detrimental effect on the profitability of the Company's exports, and the stagnation of industrial output in the first half of the year hampered substantial growth in our sales volume. Owing to stagnating European demand, paper prices fell in the first half of the year and remained under the projected level by more than 10%. Our manufacturing operation was characterized by slightly decreasing prices, but – especially in the second half – sales volumes were higher than planned.

At the end of the year, substantial provisions had to be made partly to buy-back the Rambox Co. of Romania sold temporarily and partly for the environmental remediation of the Csepel site.

2003 was the year of capital projects and investments for the Group, and in line with corporate strategy, preparations for the future were made in nearly every area of operation. The close to one billion-forint investment into paper manufacturing has greatly improved consistency of paper quality and enabled us to satisfy customers' demand for a constant paper quality.

Major developments were implemented in corrugated product manufacture during the year. This involved the simultaneous upgrade of five board making machines at different sites within the Group. Increased capacity means faster and more flexible service to customers. The e-commerce service launched this year provides Dunapack's customers with a direct channel of communication and a source of permanently updated sales information.

In the Nyíregyháza plant, a new converting machine was purchased and bag production was modernised at a capital cost of over a billion forints.

With the integration and development of the management information system, we have started to introduce an integrated financial and accounts system (EOS project) which will involve all of our subsidiaries with a total cost of more than one billion forints at group level.

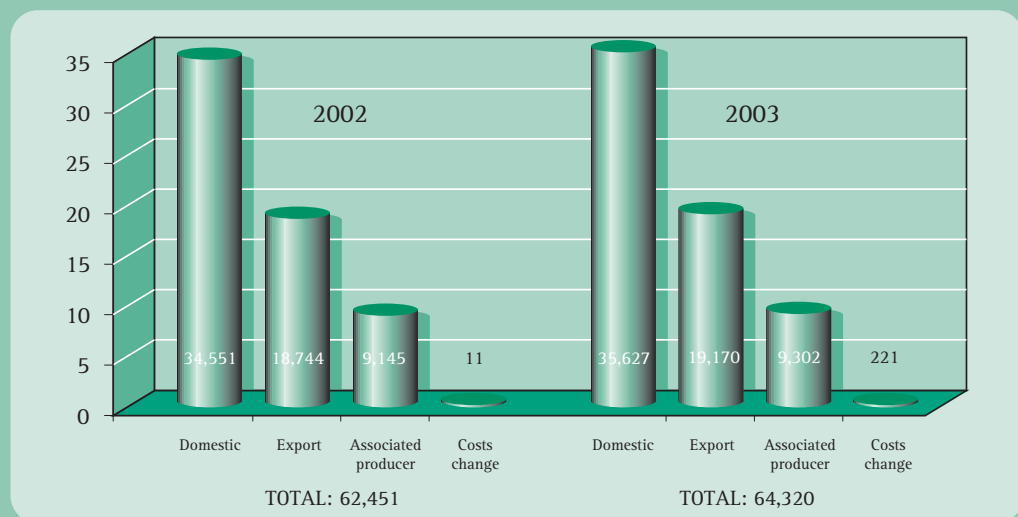
We also pursued an active acquisition policy during the year. The new plant built as a greenfield investment went into production in Zabok, Croatia.

At Rodina Co. of Bulgaria, a series of modernisation and rationalisation projects were carried out. There is still much to be done in both companies, and our staff are on site to help increase production and bring our subsidiaries up to the same level as in Hungary in every area.

## The position of the Company's product groups in 2003

### 1. Corrugated base paper

Sales of corrugated base papers grew by 11,000 tonnes or 5% over the basis (and the planned) level. Sales within the company did not rise as compared to the base figure, and fell some 4000 tonnes short of 2002. This was counterbalanced by an increase of nearly 10,000 tonnes in the paper supplied to subsidiaries. Domestic sales nearly doubled, so that corrugated paper sold on the international market went down slightly. The 20% rise in corrugated base paper sales from paper machine No. 4 led to an increase in utilisation of capacity not convertible for sack paper.



Production value of the Dunapack Group (HUF million)

Notes: Exclusive of own consumption

Sales prices fell some 5% short of the planned level in forints, and even further – nearly 10% short – in foreign exchange terms, owing to the weakness of the market in the first and fourth quarters.

## 2. Sack paper

The drop in demand for paper and the further concentration of sack production led to a decrease of about 4% (1000 tonnes) from the 2002 level, and 9% from the planned level. Whereas domestic sales grew by over a third (36%), sales to affiliated companies decreased by 1500 tonnes. However, the latter was the same amount by which sales to Dunapack Ukraine increased, so that exports actually were slightly above the basis level.

Prices slightly fell in foreign exchange terms, but this was counterbalanced by changes in the exchange rate, with the exception of exports to the Ukraine.



Production by product groups of Dunapack Ltd. (tonnes)

Notes: Exclusive of own consumption



### 3. Corrugated board products

Domestic and export sales took very different courses during the year. Domestic demand was somewhat restrained in the first half of the year. The situation was exacerbated by the loss of some customers on price considerations. Measures to compensate for loss of volume took effect in the second half, leading to a substantial increase in quantities sold, reinforced by the normal seasonal characteristic at this time of the year. In the Eastern part of the country, the rising demand from the electronics industry formed a basis of new growth. Overall, domestic sales increased by 14 Mm<sup>2</sup> over 2002.

Export sales fell short of both the base year and planned levels. The Croatian, Ukrainian and Slovak regions remained the principal export destinations. Sales in Croatia increased steadily until the new local plant went into production, after which sales decreased as planned. In the Serbian area, direct sales from the Croatian plant, whose geographical proximity makes it more competitive, caused some decrease. The 10 Mm<sup>2</sup> decrease to Ukraine is explained by the strong forint and weak dollar, making it impossible to compensate for the restrictive effects of customs duties.

### 4. Sacks and bags

Sales in the sack product group decreased by 14-15% compared to the basis, and planned, levels. The fall was greater in exports, where only 83% of the plan was fulfilled.

The shortfalls in exports were due to price competition and long delivery schedules, and in domestic sales to contracting customer requirements, with the freezing industry in particular being hard hit by the drought.

Paper bag sales came up to the basis level, but this was 13% short of the plan. The market for bags with handles contracted further. A reversal of this trend is expected from an investment in printing technology.

We have attempted to keep our prices in line with purchase prices. However, our presence on the bag market remains possible only at very depressed prices.

## 5. Raw materials

### Fibre

Fibre purchases in 2003 totalled 300,000 tonnes. Home-sourced fibres were above the planned level and 9% above the previous year, at over 256,000 tonnes. Only 1200 tonnes (0.5%) of ordinary quality corrugated paper was imported during the year. Our use of imported cellulose and kraft waste combined with PE foil was 10% lower than the previous year, and so imports went down to 24,000 tonnes, or 8% of total raw material procurement.

There was a major change in the system of finance of domestic waste paper collection in 2003. Organisations having a strong preference for domestic selective collection accounted for 40% of total procurement, but many new sources were added to our supplier base. Waste paper prices were higher than planned, but were still very favourable by international comparison.

### Paper

Corrugated base paper prices remained slightly below the planned level, and we again attained good prices through to a group level agreement for purchase of white kraft paper. We also attained price reductions through project-linked internal prices and occasional procurements of papers with lower roll width. The changeover to light-weight papers also continued in 2003.

Our average stock level was high throughout the year, owing to the lower-than-planned consumption in the first half and the product structure caused by the loss of former high-volume products. The stock levels did not go down by the end of the year, because new advance purchases were required as the result of W. Hamburger's planned shutdown.

## 6. Profits

Dunapack Ltd's profit before tax of HUF 293 m was considerably below its 2002 figure (HUF 1.757 m). This principally derives from one-off items not involving cash movements. A large provision (HUF 210 m) was set aside in the balance sheet for the expected costs of environmental remediation at the Csepel site. In 2004, we expect to buy back a 17% stake our Romanian company from IFC, which under the accounting rules must be amortised in line with changes in the exchange rate. A large provision – nearly HUF 650 m – has been set aside for this transaction. The end-year revaluation of foreign exchange items resulted in a HUF 400 m deterioration of profit for the Company, which – as with the setting aside of provisions – did not involve actual expenditure.

The company's equity ratio went down from 64% in 2002 to 57% in 2003.

	2002	2003		2002	2003
FIXED ASSETS	21 018	25 911	SHAREHOLDER'S EQUITY	23 271	23 345
Intangible assets	873	959	Of which: subscribed	10 000	10 000
Tangible assets	13 603	15 378			
Financial investments	6 542	9 574	PROVISIONS	25	881
CURRENT ASSETS	14 900	14 861			
Stocks	4 016	4 795	LIABILITIES	11 909	16 159
Receivables	10 031	9 297	Long-term liabilities	3 943	8 253
Securities	512	-	Short-term liabilities	7 966	7 906
Liquid assets	341	769			
ACCRUED AND DEFERRED ASSETS	221	244	ACCRUED EXPENSES.	934	631
TOTAL ASSETS	36 139	41 016	TOTAL LIABILITIES	36 139	41 016

Dunapack Ltd. balance sheet (HUF million)


Dunapack Ltd.		
	2002	2003
Net sales income	41 212	41 836
Trading profit	3 292	798
Income from financial transactions	-1 497	-469
Profit on ordinary activities	1 795	329
Extraordinary profit or loss	-38	-36
Pre-tax profit	1 757	293
Gross cash flow	5 338	4 226
Net cash flow	5 242	3 906

Key figures (HUF million)

The long term ratio improved over the same period from 1.70 to 1.77. Overall, the 2003 balance sheet and profit-and-loss statement reflect an expanding Company with good liquidity and with a favourable structure of assets and liabilities. These results form the basis for further steady progress towards the Company's strategic objectives. 2004 is the year of accession to the European Union. The competitive environment presents nothing new for us, since we have been working in similar circumstances for many years, but changes in economic regulation associated with EU entry, and indirect effects felt through customers, will nonetheless have a considerable impact on the Company. The biggest challenge for us is to fulfil the tightening environmental regulations and to implement the necessary developments.

	2002	2003
Profit on ordinary activities	7,7%	1,4%
Profit after taxation	7,3%	0,3%
Retained profit	3,6%	0,3%

Returns on capital indicators Dunapack Ltd.



We are constantly working to ensure that Dunapack Ltd. remains competitive and that both the company and all of its customers prove winners of entering the EU.

The principal tasks for 2004 are to attain the profitability objectives set out in the plan, strengthen existing market positions, preserve financial stability and integrate the new Croatian subsidiary into the Group. A priority objective is to support the project in Germany by the parent company and to introduce the group-wide integrated computer system in all member companies.

Budapest, 28 April 2004



Miklós Galli  
Chairman-CEO