



**DUNAPACK LTD.**  
*Annual Report*

*2000*

# Annual Report 2000

## Overview

Hungary's economic growth speeded up during 2000, and the country was putting in one of its best years since the change of system, with a rise in GDP of 5.2%.

Growth made an impact on the demand for packaging materials and was accompanied by an upturn with domestic and European demand showing steady growth in the paper industry.

The year started with substantial rises in waste and paper prices, to the great benefit of the Company's corrugated operation, which was able to realise these in full. A major factor in exploiting this situation was the boost to corrugated paper sales volume afforded by the successful capacity expansion programme on No. 3 paper machine.

The volume of sales from processing operations was also outstanding. In corrugated product sales, however, it was not possible to pass on the entire 40% paper price rise to the customers, which resulted in a temporary fall in profitability in this product group.

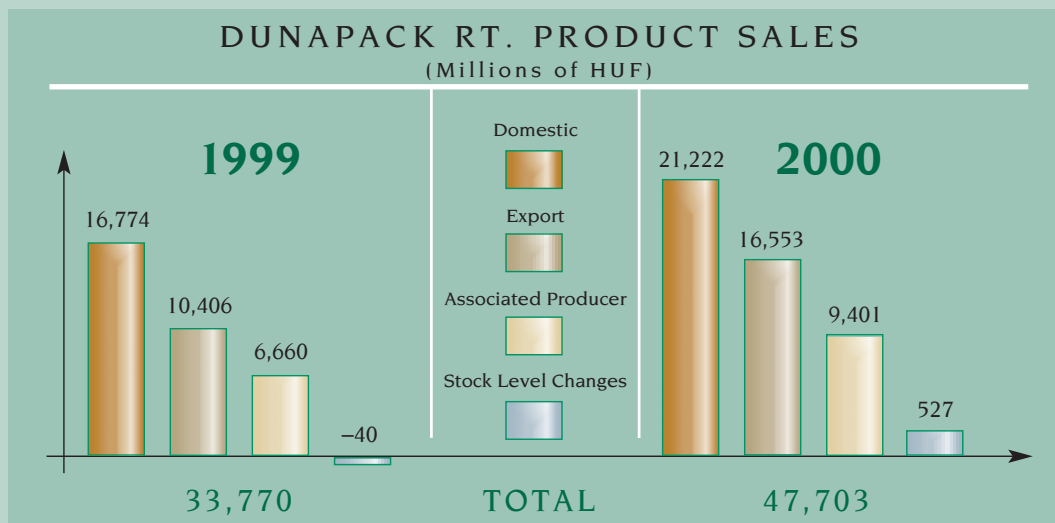
The overall outcome of these factors was that **Dunapack achieved outstanding results, and completed one of its most profitable years since foundation.**

The Company increased its total domestic sales by 27% and its exports by 59% over the preceding year, and its accumulated product value increased by 41% over 1999.

## Sales

A major rise in corrugated paper prices and demand started in May 2000 and persisted till the end of the year. The market upturn showed up mainly in sales within Europe. Besides sales to associated producers above the plan, there was a major rise in sales to subsidiaries (Eurobox, Rambox) and domestic market building also brought in its first results.

**Corrugated paper** sales reached hitherto unseen levels, some 33,000 tonnes higher than the base and more than 13,000 tonnes higher than planned. Capacity utilisation of production plant was 100%.



There was a shortfall in the volume of **sack paper** sales because of reduction of in-house demand and the intensifying competition in Central Europe. The positive market response to the quality-raising project on No. 4 paper machine opened the way to the hoped-for price rise, but raw material price levels considerably higher than planned held the profitability of sack paper sales below target.

Counterbalancing the fall in demand on traditional markets, sales of paper for **bags and sacs** with handles to stores and fast-food chains were stabilised and production of 80 gm/m<sup>2</sup> Wellenstoff was commenced on No. 4 paper machine to ensure continuous utilisation.

The effect of economic growth was perceptible in demand for packaging materials, and corrugated sales volume increased by 17 % over the preceding year. The year was characterised by a full order book and continuous market expansion.

There was a strengthening domestic demand for highly-processed printed and die-cut products, especially in the household chemicals and electronics industries.

Progress was also substantial in export sales (24 %), due to market expansion in the former Yugoslav countries and in Ukraine and Romania mainly.

A crucial factor in sales is that paper price rises can only be passed on with some delay and to a limited extent. Thus the rise in volume was not matched by profit.

The above-plan increase in **sack products** was due to sales to Central European markets via domestic partners and the continued expansion in the seed market. The shortfall in export sales was the result of an unsuccessful Middle Eastern tender.

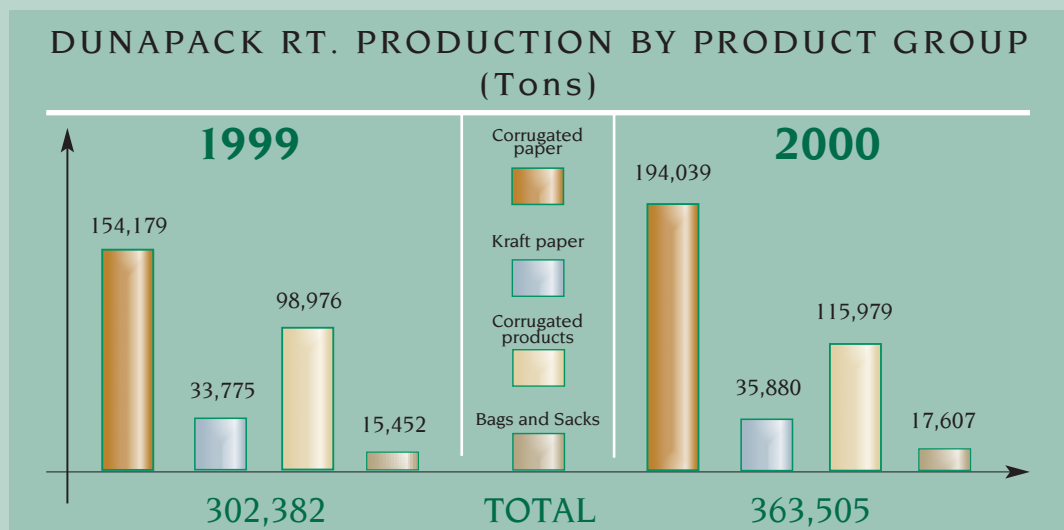
In the building materials and cement industry area, competition in 2000 forced major price reductions, and the paper price rise could only be passed on to other customers.

The Company's **bags-with-handles** and **small-bags** markets were stable.

## Materials Supply

**Fibers** • The procurement and use of Hungarian-origin fibres grew significantly by virtue of a subsidies system that remained stable throughout the year. Above-plan use of domestic paper waste (105 %) and domestic procurement prices that remained below international levels gave a major cost-side boost to profitability of paper production.

Use of primary fibre continued to fall in 2000 and was lower than planned, which improved the competitiveness of sack papers.



**MAIN INDICATORS FOR DUNAPACK RT.**  
(Millions of HUF)

	1999		2000	
	M HUF	%	M HUF	%
Net sales income	27,898	100.0	38,230	100.0
Trading profit	818	2.9	2,958	7.7
Income from financial transactions	- 178	- 0.6	+ 258	0.7
Profit on ordinary activities	640	2.3	3,216	8.4
Extraordinary income	480	1.7	- 79	- 0.2
Pre-tax profit	1,120	4.0	3,137	8.2
Gross cash flow	3,563	12.8	5,608	14.7
Net cash flow	3,286	11.8	5,163	13.5

**Papers** • The upswing in European demand and the major increase in waste prices led to the greatest price rises in waste-based papers at the end of the first quarter. Both imported and partner-producer paper prices rose steadily throughout the year.

As domestic and European demand increased, the Company contended with procurement difficulties in waste-based papers. Procurement managed to match production increases by raising imports and by co-operation within the group, but there was a relative paper scarcity during the summer months. Stocks stayed constantly low and reached the planned levels only at the end of the year.

### Profit, Financial Standing & Balance-sheet

The combined effect of the above factors was a level of Company profit substantially higher than both the basis and planned levels. Pre-tax profit was almost three times the 1999 result.

The Company's financial position in 2000 was better than that planned.

External finance remained considerably below the planned level throughout the year, owing to a starting position that was better than anticipated and profits that, as discussed above, were outstanding.

However, part of the extra funds was tied down by the higher working capital requirement of greater-than-anticipated sales and production.

External conditions for financial management were as envisaged in the plan (slowing forint devaluation, falling interest rates).

These factors combined to lower interest costs considerably and deliver a profit on financial transactions.

The Company's development objectives required that more banks be involved in providing finance, which in turn led to the restructuring of cash flow in 2000.

### Capital Projects

In **Packaging Paper Production** the key project raising the capacity of corrugated paper, the reconstruction of the press section of No. 3 paper machine (at a cost of HUF 3.8 billion), the quality upgrading projects on No. 4 paper machine and the

## DUNAPACK RT. BALANCE SHEET (Mft)

ASSETS	1999	2000	EQUITY	1999	2000
Fixed assets	18.359	19.200	Shareholders' equity	17.262	19.314
Intangibles	288	349	Of which subscribed	10.000	10.000
Tangible assets	12.638	11.820			
Financial investments	5.433	7.031	Provisions	635	567
Current assets	11.515	13.274	Liabilities	11.809	12.406
Stocks	2.991	3.686	Long-term liabilities	3.883	3.631
Receivables	6.981	7.727	Short-term liabilities	7.926	8.775
Securities	1.213	1.052			
Liquid assets	330	809	Accrued expenses	376	411
Accured and deferred assets	208	224			
Total assets	30.082	32.698	Total sources	30.082	32.698

## RETURNS ON CAPITAL INDICATORS

	1999	2000
Profit from ordinary activity	3.7 %	17.6 %
Profit after taxation (ROE)	6.2 %	16.4 %
Retained profit	0.1 %	11.2 %

developments in computer production control (Braunpapier 2000 and BDE projects) were completed in 2000. Installation of the turbogenerator was continued and work to close the water systems in the Csepel site was started.

In **Corrugated Production**, infrastructural projects included installation of an in-house heat supply for the Dunaújváros site involving a fast steam-generation boiler, and a new telephone exchange reaching all three Corrugated Production sites. Installation work on the Fosber cross-cutter was also started.

In the **Nyíregyháza Paper Factory**, the already-commenced improvement of the ABC corrugated board machine to raise machine width and production speed was completed with the replacement of the roll-changers, track brakes and triplex bonder and the reconstruction of the slitter and flat dryer. New winding and packaging units on the e-corrugating line, which had also been refurbished, permitted production of rollpacked E-corrugated paper for fluorescent tube packaging.

The focus of capital investment in 2000 shifted to the Company's latest factory, Eurobox Polska in Poland, and solution of the factory's start-up problems by increased involvement of partner companies led to an above-expectation upturn of sales and production in the second half of the year.

**Overall, the year 2000 balance-sheet and profit-and-loss statement show the Company's asset-liability structure and liquidity position to be good and its operations to be profitable. These results indicate unbroken progress toward strategic goals.**

Budapest, May 2001



**Miklós Galli**  
Chairman and CEO

