



Hungary

In 2008 the performance of the Hungarian economy was determined by the internal balance-improving efforts and measures on the one hand, and the spillover effect of the crisis on the real estate market reaching Hungary mainly in the second half of the year, followed by the impacts of the financial and economic crisis that has spread on a global scale on the other hand. For the whole of the year the growth rate of the Gross Domestic Product was down to 0,6% from 1,1% in the previous year. On the production side decreases or stagnation were observed in the areas sensitive to external market processes. Consumer prices increased by 6,1% and unfavourable changes were observed also on the labour market: the unemployment rate rose by 0.5 percentage point to 7.9%. The deficit of current account and the external financing demand significantly increased.

Pulp

The only pulp mill produced last year 20 thousand ton pulp from flax. All this quantity was exported.

Paper

Paper consumption and production developed in the last 5 years as follows:

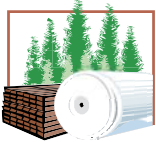
thousand metric tons

	2004	2005	2006	2007	2008
Production	579	571	553	552	424
Export	307	389	366	356	354
Import	659	697	758	775	840
Consumption	931	879	945	971	910

In line with the weak performance of the Hungarian economy, the paper consumption decreased by approx. 6%.

Also paper production declined last year by 23%, due to the fact that in 2008 two paper mills closed down its production. With this measure a production capacity of approx. 160 thousand tons has ceased in the country.

The enlargement of the production capacity of the Dunapack Ltd. started in 2007 continued also in 2008. The new paper machine with a finished reelwidth of 7800 mm will produce 350.000 tons of brown testliner and corrugating medium from 100% recovered paper in the range of 70-150 g/m². It will start the production in July 2009.



The breakdown of the Hungarian paper production by main grades is shown in the next chart:

	2007 000 tons	2008 000 tons	2008/2007 %
Total paper and board	552	424	76,8
Newsprint	0	0	0
P-W paper	117	18	15,4
Sanitary and household paper	39	28	71,8
Linerboard	98	91	92,9
Fluting medium	207	189	91,3
Kraft wrapping and packaging	14	9	64,3
Other paper and board	77	89	115,6

For this production the country used 387 thousand tons of recycled paper reaching a utilisation rate of 91%.

The major emerging issues that the industry has to face in Hungary are:

- high energy costs
- weakness of domestic and external paper demand
- unstable currency exchange rates