

HUNGARY

Though the favourable international conditions, the Hungarian economy expanded in 2007 only by 1,3 percent and the dynamism of the growth showed a slowing-down tendency during the year. This slowing-down was primarily due to the domestic consumption damping effect of the rectifying measures of the government. Significant decrease began in the field of the investments, agriculture and also of services. The unemployment rate increased to a level of 7,4 percent and also the yearly average inflation reached the highest level of the last years (8 percent). Taking an over-all view, almost all economic index-numbers of the country show weakening tendency.

PULP

The only pulp mill in Hungary is owned by Delfort Group, its capacity amounts to approx. 30 000 tons. The factory was rebuilt from straw pulp to flax production at the end of 2005 and in 2007 it has not reached its full capacity yet.

The pulp production and consumption in 2007 are shown below:

thousand metric tons

| | Production | Export | Import | Consumption |
|---------------|-------------------|---------------|---------------|--------------------|
| Chemical pulp | - | - | 182 | 182 |
| Other pulp | 20 | 20 | - | 0 |
| Total pulp | 20 | 20 | 182 | 182 |

PAPER

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

thousand metric tons

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| Production | 546 | 579 | 571 | 553 | 552 |
| Export | 296 | 307 | 389 | 366 | 356 |
| Import | 634 | 659 | 697 | 758 | 775 |
| Consumption | 884 | 931 | 879 | 945 | 971 |

In line with the relatively weak performance of the Hungarian economy, the paper consumption increased by approx. 2,7 percent.

Paper production in 2007 remained practically at the same level as in 2006. Unfortunately, one smaller paper mill (Füzfő) closed down its production. This falling quantity was counterbalanced by the production of Delfort Group in Dunaujvaros. The company rebuilt the paper machine purchased in 2005 from Mondi and started to manufacture release paper.

The Hamburger Group decided to enlarge its production capacity and started to build a new paper machine at its Hungarian subsidiary, Dunapack Ltd. The paper machine, with a finished reelwidth of 7800 mm, will produce approx 350.000 tons of brown testliner and medium from 100 percent waste paper in the range of 70-150 g/m². The PM is designed for a construction speed of 1500 m/min and starts its production in July 2009.

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

| | 2006 thousand tons | 2007 thousand tons | 2007/2006 % |
|------------------------------|-------------------------------|-------------------------------|------------------------|
| Total paper and board | 553 | 552 | 99,8 |
| Newsprint | 0 | 0 | 0 |
| Printing-writing paper | 187 | 117 | 62,6 |
| Uncoated p-w paper | 187 | 117 | 62,6 |
| Coated p-w paper | 0 | 0 | 0 |
| Sanitary and household paper | 30 | 39 | 130,0 |
| Linerboard | 92 | 98 | 106,5 |
| Fluting medium | 208 | 207 | 99,5 |
| Kraft wrapping and packaging | 12 | 14 | 116,7 |
| Other paper and board | 24 | 77 | 320,8 |

For this production the country used 437 thousand tons of recycled paper reaching a utilisation rate of 79 percent.

The industry has to face in Hungary the following emerging issues:

- high energy costs
- modest growth of economy