Svilosa AD

Consolidated financial statements for the year ended 31 December 2007 with Auditor's Report Thereon

Consolidated income statement

For the year ended 31 December 2007

In thousands of BGN	**Note**	**2007**	**2006**
Revenue	7	44,959	46,971
Cost of sales	8	(38,222)	(37,106)
Gross profit		6,737	9,865
Distribution expenses	9	(3,069)	(3,527)
Administrative expenses	10	(3,234)	(3,372)
Other income	11	5,049	149
Profit from operations		5,483	3,115
Financing income		779	156
Financing expenses		(3,912)	(2,055)
Net financing costs	13	(3,133)	(1,899)
Profit before tax		2,350	1,216
Income tax income (expense)	14	(260)	328
Profit after tax		2,090	1,544
Net profit (loss) for the year		2,090	1,544
Earnings (loss) per share (BGN)		0.08	0.21

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

The financial statements are prepared on 24 March 2008.

Chief Accountant: Zarka Parvanova

Executive Director: Mihail Kolchev

Krassimir Hadjidinev
Partner

Dobrina Kaloyanova
Registered auditor

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia

Consolidated statement of changes in equity

For the year ended 31 December 2007

In thousands of BGN	**Note**	**Share capital**	**Reserves**	**Retained earnings**	**Revaluation reserve**	**Translation reserve**	**Total**
Balance at 1 January 2006	24	6,658	7,198	(192)	10,686	-	24,350
Total recognised income and expense		-	-	1,544	-		1,544
Distribution of prior year profit		-	4,593	(4,593)	-	-	-
Change in deferred tax from tax rate change		-	-	-	100	-	100
Revaluation reserve on written off and fully depreciated fixed assets		-	-	4,241	(4,241)	-	-
Balance at 31 December 2006	24	6,658	11,791	1,000	6,545	-	25,994
Balance at 1 January 2007	24	6,658	11,791	1,000	6,545	-	25,994
Issue of share capital		25,097	-	-	-	-	25,097
Total recognised income and expense		-	-	2,090	-	-	2,090
Foreign exchange rate translation		-	-	-	-	28	28
Distribution of prior year profit		-	3,402	(3,402)	-	-	-
Revaluation reserve on written off and fully depreciated fixed assets		-	-	488	(488)	-	-
Balance at 31 December 2007	24	31,755	15,193	176	6,057	28	53,209

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

The consolidated financial statements are prepared on 24 March 2008.

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Consolidated balance sheet

For the year ended 31 December 2007

In thousands of BGN	**Note**	**2007**	**2006**
Assets			
Property, plant and equipment	15	95,438	39,326
Intangible assets	16	34	59
Investment property	17	273	733
Investments	18	8	8
Deferred tax assets	20	96	-
Total non-current assets		95,849	40,126
Inventories	21	10,393	5,620
Tax receivable		2,181	1,649
Related party receivables	31	139	-
Loans granted	19	192	-
Other receivables	22	15,814	17,711
Cash and cash equivalents	23	11,442	19,632
Total current assets		40,161	44,612
Total assets		136,010	84,738
Equity			
Share capital	24	31,755	6,658
Reserves	24	21,278	18,336
Retained earnings		176	1,000
Total equity		53,209	25,994
Liabilities			
Interest-bearing loans and borrowings	26	53,593	31,628
Other payables	30	4,234	1,035
Deferred tax liabilities	20	1,579	1,246
Retirement benefits liability	28	297	300
Provisions	29	528	551
Total non-current liabilities		60,231	34,760
Bank overdrafts	26	4,422	2,100
Interest-bearing loans and borrowings	26	1,466	5,607
Income tax payable		21	85
Related party payables	31	135	6,584
Other payables	30	16,526	9,608
Total current liabilities		22,570	23,984
Total equity and liabilities		136,010	84,738

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on page 7 to 47.

The consolidated financial statements are prepared on 24 March 2008.

Chief Accountant: Executive Director:

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37 Fridtjof Nansen Str.
1142 Sofia

Dobrina Kaloyanova
Registered auditor

Consolidated statement of cash flows

For the year ended 31 December 2007

In thousands of BGN	**Note**	**2007**	**2006**
Operating activities			
Profit before taxes		2,350	1,216
Adjustments for:			
Depreciation and amortisation	15,16, 17	2,343	3,356
Written off receivables	11	197	-
Impairment of inventories	11	145	-
Interest income	13	(779)	(156)
Interest expense	13	3,783	1,955
Other financing costs	13	76	64
Gain on sale of tangible fixed assets	11	(3,572)	(401)
Operating profit before working capital changes		4,543	6,034
(Increase)/decrease in inventories		(4,920)	(1,212)
(Increase)/decrease in trade and other receivables		1,028	6,791
Increase/(decrease) in trade and other payables		3,349	(15,073)
Increase/(decrease) in provisions		(27)	851
Cash generated from operations		3,973	(2,609)
Interest paid		(2,547)	(2,009)
Interest received		771	143
Other financial costs paid		(200)	(58)
Income tax paid		(84)	-
Cash flows from operating activities		1,913	(4,533)
Investing activities			
Acquisition of property, plant and equipment		(56,300)	(15,152)
Loans granted		(192)	-
Proceeds from sale of assets		2,374	5,256
Cash flows from investing activities		(54,118)	(9,896)
Financing activities			
Proceeds from issue of share capital		25,097	-
Loans received		22,340	39,067
Repayment of borrowings		(5,744)	(1,307)
Cash flows from financing activities		41,693	37,760

Consolidated statement of cash flows (continued)

For the year ended 31 December 2007

Net increase/(decrease) in cash and cash equivalents		(10,512)	23,331
Cash and cash equivalents at the beginning of the year		17,532	(5,799)
Cash and cash equivalents at the end of the year	23	7,020	17,532

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 47.

The consolidated financial statements are prepared on 10 March 2008.

Chief Accountant: Zarka Parvanova

Executive Director: Mihail Kolchev

Krassimir Hadjidinev
Partner

Dobrina Kaloyanova
Registered auditor

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1142 Sofia

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1. Reporting entity

Svilosa AD (the “Company”) is a company registered in Bulgaria under court case No. 1595/1993 of Veliko Tarnovo District Court in compliance with the Commercial Law of Republic of Bulgaria. The headquarter address is Town of Svishtov, Industrial Area, Bulgaria. The consolidated financial statements of the Group for the year include the financial statements of the Company and its subsidiaries (together referred to as the “Group”). The consolidated financial statements are approved for issuance by the Board of Directors.

The main activities of the Group consist of production of Sulfate Bleached Hardwood Pulp and the related products.

2. Basis of preparation

(a) Statement of compliance

The present financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Commission of the European Union.

These are the Company’s first financial statements prepared in accordance with IFRS as endorsed by the European Commission and IFRS 1 – *First time adoption of the International Financial Reporting Standards* has been applied.

The financial statements of the Group for the year ending 31 December were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Commission of the European Union, edited as of 1 January 2005, prepared by the International Accounting Standards Board (IASB). They were approved by the Council of Ministers with Decree No 207 dated 7 August 2006 and published in Bulgarian in the State Gazette, issue 66/15.08.2006. The Management of the Group has performed an analysis and has not identified material differences between the carrying amount of assets and liabilities and the amounts in the Income Statement as presented for the year ending 31 December 2006 and their presentation in accordance with International Financial Reporting Standards (IFRS) as adopted by the Commission of the European Union.

The disclosed below significant accounting policies have been applied consistently in all reporting periods presented in these financial statements.

The financial statements prepared for the year ended 31 December 2007 were approved by the Board of Directors of the Group as at 24 March 2008.

(b) Basis of measurement

The financial statements have been prepared on the historical cost, except for property, plant and equipment which are stated at revalued amount (see accounting policy (3 d).

(c) Functional and presentation currency

These financial statements are presented in Bulgarian Lev (BGN), which is the Group’s functional currency. All financial information presented in BGN has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes to the consolidated financial statements

(e) Use of estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 16 Property, plant and equipment
- Note 18 Investment property
- Note 21 Inventories
- Note 22 Other receivables
- Note 28 Retirement benefits
- Note 30 Provisions

3. Significant accounting policies

The significant accounting policies disclosed below have been applied during all periods represented in these financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the Group's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity (if any). Effective 1997, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Notes to the consolidated financial statements

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(n).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

During 2006 and 2007 the Group does not hold derivative financial instruments to hedge foreign currency, interest rate risk exposures, or cash flows.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the consolidated financial statements

(d) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost or fair value less accumulated depreciation (see below) and impairment loss. The acquisition cost includes the expenses directly related to the acquisition of the asset, as well as the expenses directly incurred to bringing the asset to the location and the condition necessary for its exploitation as stipulated by the management.

The cost of the assets under construction includes the cost of materials, the direct labor and the appropriate proportion of production overheads; the expenses directly attributable to bringing the asset to the working location for its intended use; the initial valuation of the costs for dismantling and removing the items, and restoring the site at which they are located.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(i) Subsequent expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated for the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation of the asset begins when it is available for use, i.e. when it is in the location and in condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of date that the asset is classified as held for sale and the date that the asset is derecognised.

As at 1 January 2003 the Group has made a review of the useful life of the major items of property, plant and equipment. Their new useful life was estimated on the basis of a report of the Group's technical specialists.

The estimated useful lives are as follows:

- buildings 25 years;
- machinery and equipment 3 - 25 years;
- vehicles 5 - 12 years;
- fixture and fittings 6 years;
- others 6 years;

The depreciation method, the useful life and the residual value are reviewed at each balance sheet date.

Notes to the consolidated financial statements

(e) Property, plant and equipment (continued)

(iv) In- kind contribution of assets

In December 2005 Svilosa AD made an in-kind contribution representing installment of the basic items of property, plant and equipment for production of pulp. As at the date of the contribution, the assets were valued by independent valuers, appointed by the court in relation to the registration of the share capital of Svilocell EAD. The Group adopted a policy for treatment of the valuation made by the independent valuers as revaluation and the difference between the carrying amount of the in-kind contribution of the assets and their value determined by the independent valuers is stated as revaluation reserve in the consolidated financial statements.

(f) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 3(k)).

(i) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the month following the date of acquisition or the date they are available for use. The estimated useful lives are as follows:

- patents and trademarks 6 years;
- software 3years;
- other 6 years;

(g) Investments

(i) Investment properties

Investment properties are those property, plant and equipment which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less amortization and impairment losses (refer to accounting policy 3(k)).

Investment properties are transferred from land and buildings to property, plant and equipment. The carrying amount of the transferred assets is perceived as acquisition cost as at the date of presenting the assets in the Balance sheet as an investment property.

If the investment property is used again by the owner, it is reclassified as land and/or buildings and its carrying amount as at the date of reclassification becomes cost for accounting purposes for subsequent accounting for of the asset. When the Group starts to reverse the present investment property, the property remains an investment property and is valued at cost and is not reclassified as property, plant and equipment during the reversal.

Notes to the consolidated financial statements

(g) Investments (continued)

(i) Investment properties (continued)

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the investment properties. Land is not depreciated. Depreciation of the investment property is accrued from the month following the date they are put into use. The useful life of the investment property is determined to twenty five years based on the estimation performed by internal technical experts.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on the produced quantity for the month.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Notes to the consolidated financial statements

(i) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses in respect of assets, other than goodwill, recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) Defined contribution plans

The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are charged to the income statement as incurred.

(ii) Paid annual leave

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(iii) Retirement benefits

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labour Code. Management estimates the potential liabilities to employees as at the balance sheet date based on an actuarial report. Note 28 explains further the recognized provision and key assumptions applied in measuring the liability.

Notes to the consolidated financial statements

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Provisions for expenses for environment protection

A provision for environment protection is recognized by the Group, when it is probable that expenses will be incurred or recoverable works will be performed and the Group has a contractual or legal obligation to undertake such actions. When the expenses are expected to be incurred within a long period of time, the provision is recognized as present value of the expected future cash flows and the discount factor release is stated as financial expense.

In 2006 the Group recognized provision for expenses for environment protection related to expenses which are expected to be incurred in relation to activities of storage of waste and site restoration.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For majority of the Group's sales of goods, transfer usually occurs when the product is received by the customer from the Group's warehouse.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Notes to the consolidated financial statements

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The initial direct costs related to arranging an operating lease are expensed in the Income statement in the period when incurred.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, losses of foreign exchange rate transactions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the consolidated financial statements

(o) Income tax (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

For assessing the current and deferred taxes the Group uses the accounting basis, described in note 2 above.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments (effective 1 January 2009)* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will not have impact on the Group's financial statements.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- IFRIC 11 *IFRS 2 – Company and Treasury Share Transactions (effective for reporting periods commencing on or after 31 March 2007)* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. It also introduces guidance if share-based payments' contracts where the suppliers of inventories and services of an entity obtain equity instruments of the parent company of the Group should be accounted for as based on cash consideration or share-based in the Group's financial statements. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

Notes to the consolidated financial statements

(p) New standards and interpretations not yet adopted (continued)

- IFRIC 12 *Service Concession Arrangements (effective 1 January 2008)* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008) – management estimates that IFRIC 14 is not expected to have any effect on the Group's financial statements due to the Company's transactions.

(q) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of.

4. Determination of fair values

A number of the accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(iii) Investment properties

Fair value, determined for disclosure purpose, is calculated based on the present value of future cash flows expected to be received from rents.

Notes to the consolidated financial statements

5. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. This exposure may also depend on the default risk of the industry and the internal market on which the Group operates. Approximately 82 % of the Group's are realized by export activities (2006:88, 02%).

The credit policy determines that each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Group's analysis includes but is not limited to requiring in most cases a letter of credit or a bank guarantee to be issued by the new customers in favour of the Group, amounting to the value of the inventories under the terms of deferred payment. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a cash basis. In rare cases as a security may be used a promissory note.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Group of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Notes to the consolidated financial statements

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for different periods (1 year, 60 days and weekly) including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

As a whole, the Group is exposed to currency risk because:

- Purchases of the basic goods and materials, which the Group trades or puts into production are denominated in BGN or EUR.
- The prevailing part of the export sales is denominated in EUR. Depending on the market conditions the percentage of the sales denominated in USD may reach 30% of the total revenue amount, in which cases the currency risk in respect of the revenue may be estimated as significant. Nevertheless the relatively short payment terms reduce the currency risk to the extent to which a correlation exists between the selling prices level and the exchange rate of USD against BGN.
- All the long-term loans and borrowings are denominated in EUR or BGN, which reduces the currency risk.

Capital management

The management's policy is to maintain a strong capital base so as to maintain owners and market confidence and to sustain future development of the business

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to contractual or legally imposed capital requirements.

Notes to the consolidated financial statements

6. Segment reporting

Segment information is disclosed in respect of the geographical segments of the Group. Geographical segments are based on the base of markets and customers of the Group. The basic format of segment reporting is based on the organizational structure and internal reporting structure of the Group.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities comprise mainly income-earning assets and revenues, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments

The Group consists of the following main geographical segments:

Euro-zone:. This segment includes the countries, whose official monetary unit is EUR.

Non-Euro-zone s. This segment includes the countries whose official monetary unit is not EUR.

Domestic market. This segment includes the territory of Bulgaria.

Business segments

The Group comprises the following main business segments:

Pulp. The production and sale of Sulfate Bleached Hardwood Pulp used in the paper industry and in the other industries related to the production of Sulfate Pulp.

Investment properties

Renting out of investment properties.

Notes to the consolidated financial statements

6. Segment reporting (continued)

Geographical segments

	Euro-zone		Non Euro-zone		Domestic market		Group as a whole	
In thousands of BGN	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Revenue from external customers:								
Sales	16,943	14,848	22,743	25,972	5,273	6,151	44,959	46,971
Other income (expenses)	(124)	(257)	(165)	(458)	5,338	863	5,049	149
Total revenue	16,819	14,591	22,578	25,514	10,611	7,014	50,008	47,120
Segment result	2,383	3,108	3,286	5,003	6,060	1,902	11,729	10,013
Unallocated expenses							(6,246)	(6,898)
Profit from operations							5,483	3,115
Net financing costs							(3,133)	(1,899)
Income tax income (expense)							(260)	328
Net profit (loss) for the year							2,090	1,544
Segment assets	280	112	145	215	4,080	6,523	4,505	6,850
Unallocated assets							131,505	77,888
Total assets							136,010	84,738
Segment liabilities	-	-	-	-	-	-	-	-
Unallocated liabilities							82,801	58,744
Total liabilities							82,801	58,744
Segment depreciation expenses	-	-	-	-	-	-	-	-
Unallocated depreciation expenses							2,343	3,356
Total depreciation expenses							2,343	3,356
Capital expenditure	-	-	-	-	-	-	-	-
Unallocated capital expenditure							59,168	3,350
Total capital expenditure							59,168	3,350

Notes to the consolidated financial statements

6. Segment reporting (continued)

Business segments

	Pulp		Investment property		Unallocated		Group as a whole	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Sales	44,959	46,971	-	-	-	-	44,959	46,971
Other income (expenses)	(412)	(497)	4,099	597	1,362	48	5,049	148
Total revenue	44,547	46,474	4,099	597	1,362	48	50,008	47,119
Segment assets	133,108	83,323	2,467	1,407	435	8	136,010	84,738
Capital expenditure	59,168	3,350	-	-	-	-	59,168	3,350

7. Revenues

In thousands of BGN	**2007**	**2006**
Pulp	41,681	43,149
Dull viscose rayon filament yarn	30	-
Carboxymethyl cellulose	2,066	2,401
Other	1,182	1,421
	44,959	46,971

8. Cost of sales

In thousands of BGN	**2007**	**2006**
Pulp	35,402	35,687
Dull viscose rayon filament yarn	29	-
Carboxymethyl cellulose	-	-
Other	2,791	1,419
	38,222	37,106

Cost of sales

In thousands of BGN	**2007**	**2006**
Material expenses	31,572	31,155
Hired services	2,567	781
Personnel expenses	2,298	2,082
Social securities contributions	536	487
Depreciation and amortization expenses	838	2,422
Other	411	179
	38,222	37,106

Notes to the consolidated financial statements

9. Distribution expenses

In thousands of BGN	**2007**	**2006**
Material expenses	15	48
Hired services	2,872	3,324
Depreciation and amortization expenses	22	23
Personnel expenses	142	132
Other	18	-
	3,069	3,527

10. Administrative expenses

In thousands of BGN	**2007**	**2006**
Material expenses	176	173
Hired services	1,046	1,040
Depreciation and amortization expenses	179	422
Personnel expenses	1,656	1,467
Other	177	270
	3,234	3,372

11. Other income

In thousands of BGN	**Note**	**2007**	**2006**
Sales of fixed assets		4,731	14,156
Net book value of fixed assets sold		(1,159)	(13,755)
Sales of goods		121	462
Cost of goods sold		(121)	(462)
Sales of materials		1,634	1,555
Cost of materials sold		(273)	(1,508)
Written off receivables		(197)	-
Impairment loss on materials		(145)	-
Sales of services		721	1,513
Cost of services		(194)	(1,316)
Fixed overheads on stoppage of production		(467)	-
Loss from work under the normal production capacity		-	(769)
Expenses for provisions	29	-	(551)
Reversal of provisions related to the personnel		-	314
Gain on sale of gas emission		240	251
Other income		348	354
Other expenses		(190)	(95)
		5,049	149

In 2007 the Company sold items of Property, plant and equipment of briquettes production warehouse to “Svilosa Service” EOOD at market value of BGN 2,705 thousand and net book value of the assets of BGN 971 thousand; as well as assets of recreational centre – Balchik to Koprina EOOD at market value of BGN 2,026 thousand and net book value of the assets of BGN 161 thousand.
Gain on sale of property, plant and equipment for 2006 includes BGN 365 thousand of sale of fixed tangible assets, representing a part of a discontinued operation from 2005.

Notes to the consolidated financial statements

12. Personnel expenses

In thousands of BGN	**2007**	**2006**
Wages and salaries	4,289	3,397
Compulsory social security contributions	883	766
	5,172	4,163

The average number of employees during the year ended 31 December 2007 is 566 (2006: 563).

13. Net financing costs

In thousands of BGN	**2007**	**2006**
Interest expense	(3,783)	(1,953)
Net loss from foreign exchange rates change	(53)	(38)
Other financing costs	(76)	(64)
Financing costs	(3,912)	(2,055)
Interest income	779	156
Financial income	779	156
	(3,133)	(1,899)

14. Income tax expense

Recognised in the income statement

In thousands of BGN	**2007**	**2006**
Current tax expense	(23)	(322)
Current year	(23)	(322)
Deferred tax (expense)/ income		
Origination and reversal of temporary differences	(237)	138
Reduction in tax rate	-	512
	(237)	650
Total income tax expense in income statement	(260)	328

Effective tax rate
In thousands of BGN

	2007	2007	2006	2006
Profit before tax		2,350		1,216
Tax on profit at rate of 10%	10%	(235)	15%	(182)
Unrecognised expenses	-	-	-	-
Reduction in tax rate	-	-	32%	512
Other	-	(25)	1.5%	(2)
	10%	(260)	48.5%	328

Recognised in equity
In thousands of BGN

	Note	2007	2006
Property, plant and equipment	20	-	100

Notes to the consolidated financial statements

15. Property, plant and equipment

In thousands of BGN	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Fixtures and fittings**	**Assets under construction**	**Total**
Cost						
Balance at 1 January 2006	10,256	45,554	3,264	448	4,906	64,428
Acquisitions	-	165	195	-	2,990	3,350
Disposals	(2,753)	(11,200)	(2,517)	(242)	(1,185)	(17,897)
Transfers to investment property	(1,756)	-	-	-	(18)	(1,774)
Transfers from investment property	151	-	-	-	-	151
Transfers	129	57	-	-	(186)	-
Balance at 31 December 2006	6,027	34,576	942	206	6,507	48,258
Balance at 1 January 2007	6,027	34,576	942	206	6,507	48,258
Acquisitions	28	1,444	53	2	57,641	59,168
Disposals	(258)	(1,701)	(107)	(4)	-	(2,070)
Transfers from investment property	495	-	-	-	-	495
Transfers	2,031	3,443	-	-	(5,474)	-
Balance at 31 December 2007	8,323	37,762	888	204	58,674	105,851
Depreciation and revaluation						
Balance at 1 January 2006	1,803	14,442	2,142	359	-	18,746
Disposals	(768)	(8,871)	(2,002)	(194)	-	(11,835)
Depreciation charge for the year	234	2,251	331	18	-	2,834
Transfers to investment property	(825)	-	-	-	-	(825)
Transfers from investment property	12	-	-	-	-	12
Balance at 31 December 2006	456	7,822	471	183	-	8,932
Balance at 1 January 2007	456	7,822	471	183	-	8,932
Disposals	(77)	(881)	(79)	(3)	-	(1,040)
Depreciation charge for the year	215	1,975	87	8	-	2,285
Transfers from investment property	236	-	-	-	-	236
Balance at 31 December 2007	830	8,916	479	188	-	10,413

Notes to the consolidated financial statements

15. Property, plant and equipment (continued)

In thousands of BGN	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Fixtures and fittings**	**Assets under construction**	**Total**
Carrying amount						
At 1 January 2006	8,453	31,112	1,122	89	4,906	45,682
At 31 December 2006	5,571	26,754	471	23	6,507	39,326
At 1 January 2007	5,571	26,754	471	23	6,507	39,326
At 31 December 2007	7,493	28,846	409	16	58,674	95,438

Distribution of the depreciation charges for the period
Depreciation expenses for the year are included in the following items of the financial statements:

In thousands of BGN	**2007**	**2006**
Cost of sales (inventories and services)	2,111	2,422
Distribution expenses	22	23
Administrative expenses	152	389
	2,285	2,834

As at 1 January 2003 the Group has revalued the property, plant and equipment to their fair value determined by licensed external valuers.

Management believes that the net carrying amount of the items of property, plant and equipment is not significantly different from their fair value as at the balance sheet date and therefore no valuations were performed after 2003.

Acquisition of assets
In 2007 is finalized the main part of the investment for increase of three times of the capacity of the pulp plant. Most of the acquired assets are part of this investment project.

Property, plant and equipment under construction
Property, plant and equipment under construction are part of the investment for increase of three times the pulp production's capacity and the implementation of the best European practices in the fields of ecology. Starting tests have begun in December 2007 and continued in January 2008. New purifying station for waste waters and a turbine for electricity production will be finalized as scheduled and will be put into operation in 2008.

Mortgaged assets
In relation to collaterals for the bank overdraft loans of Svilocell EAD and Ecosvil EOOD (100% subsidiaries) the Group mortgaged items of property, plant and equipment with carrying amount of BGN 223 thousand as at 31 December 2007.

Notes to the consolidated financial statements

16. Intangible assets

In thousands of BGN	Development costs	Licenses	Software	Other	Total
Cost					
Balance at 1 January 2006	29	139	320	18	506
Acquisitions	-	2	-	-	2
Disposals	-	-	(3)	-	(3)
Balance at 31 December 2006	29	141	317	18	505
Balance at 1 January 2007	29	141	317	18	505
Acquisitions	-	2	-	-	2
Balance at 31 December 2007	29	143	317	18	507
Amortisation and impairment losses					
Balance at 1 January 2006	19	89	303	5	416
Amortisation charge for the year	4	20	6	3	33
Disposals	-	-	(3)	-	(3)
Balance at 31 December 2006	23	109	306	8	446
Balance at 1 January 2007	23	109	306	8	446
Amortisation charge for the year	4	14	6	3	27
Balance at 31 December 2007	27	123	312	11	473
Carrying amount					
At 1 January 2006	10	50	17	13	90
At 31 December 2006	6	32	11	10	59
At 1 January 2007	6	32	11	10	59
At 31 December 2007	2	20	5	7	34

Distribution of the amortisation charges for the period

Amortisation expenses for the year are represented in the following items of the financial statements:

In thousands of BGN	2007	2006
Cost of sales	-	-
Distribution expenses	-	-
Administrative expenses	27	33
	27	33

Notes to the consolidated financial statements

17. Investment property

In thousands of BGN	**2007**	**2006**
Cost at 1 January	1,509	16,817
Transfers	-	17
Transfers from land and buildings	-	1,756
Transfers to land and buildings	(495)	(151)
Disposals	(391)	(16,930)
Cost at 31 December	623	1,509
Accumulated depreciation at 1 January	776	8,566
Depreciation charge for the year	31	489
Transfers from land and buildings	-	825
Transfers to land and buildings	(236)	(12)
Disposals	(221)	(9,092)
Accumulated depreciation at 31 December	350	776
Carrying amount as at 31 December	273	733

The Group rents lands and buildings to the Companies operating on the territory of Svilosa AD. Therefore lands and buildings are transferred from property, plant and equipment and are represented as investment property as at 31 December 2007.

The Group's management believes that the fair value of the investment property is close to their carrying amount as 31 December 2007.

Distribution of the depreciation charges for the period

Depreciation expenses for the year are represented in the following items of the financial statements:

In thousands of BGN	**2007**	**2006**
Cost of sales	31	489
Distribution expenses	-	-
Administrative expenses	-	-
	31	489

18. Investments

Available-for-sale long term investments

In thousands of BGN	**2007**	**2006**
KK Baldumor	2	2
Fond Industria	6	6
	8	8

Notes to the consolidated financial statements

19. Loans granted

In thousands of BGN	2007	2006
Current receivables		
Loans granted to individuals	192	-
	192	-

20. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
In thousands of BGN	2007	2006	2007	2006	2007	2006
Property, plant and equipment		-	1,926	1,350	1,926	1,350
Payables to personnel	(59)	(43)	-	-	(59)	(43)
Impairment of receivables	(6)	(6)	-	-	(6)	(6)
Provision for restoration	(52)	(55)	-	-	(52)	(55)
Impairment of inventory	(14)	-	-		(14)	-
Loss carried forward	(90)	-	-		(90)	-
Thin capitalisation	(222)	-	-		(222)	-
Tax (assets)/liabilities	(443)	(104)	1,926	1,350	1,483	1,246
Setting off of deferred tax	347	104	(347)	(104)	-	-
Net tax (assets)/liabilities	96	-	1,579	1,246	1,483	1,246

Movement in temporary differences during the year

In thousands of BGN	Balance at 1 January 2006	Recognised in income	Recognised in equity	Balance at 31 December 2006
Property, plant and equipment	2,060	(610)	(100)	1,350
Payables to personnel	(56)	13	-	(43)
Impairment of receivables	(8)	2	-	(6)
Provision for restoration	-	(55)	-	(55)
	1,996	(650)	(100)	1,246

In thousands of BGN	Balance at 1 January 2007	Recognised in income	Recognised in equity	Balance at 31 December 2007
Property, plant and equipment	1,350	576	-	1,926
Payables to personnel	(43)	(16)	-	(59)
Impairment of receivables	(6)	-	-	(6)
Provision for restoration	(55)	3	-	(52)
Impairment of inventory	-	(14)	-	(14)
Loss carried forward	-	(90)	-	(90)
Thin capitalisation	-	(222)	-	(222)
	1,246	237	-	1,483

Notes to the consolidated financial statements

21. Inventories

In thousands of BGN	**2007**	**2006**
Raw materials and consumables	9,639	4,684
Finished goods	564	796
Work in progress	172	122
Merchandise	18	18
	10,393	5,620
Inventories reported at net realisable value	811	-

Raw materials and consumables reported at net realisable value have been impaired by the amount of BGN 145 thousand in 2007.

22. Other receivables

In thousands of BGN	**2007**	**2006**
Trade receivables	3,691	6,145
Prepayments	11,448	10,861
Litigations and writs	178	117
Other receivables	497	588
	15,814	17,711

23. Cash and cash equivalents

In thousands of BGN	**2007**	**2006**
Cash in hand	5	1
Bank balances	609	5,953
Cash for letters of credits	10,828	13,678
Cash and cash equivalents in the balance sheet	11,442	19,632
Overdrafts	(4,422)	(2,100)
Cash and cash equivalents in the cash flow statement	7,020	17,532

As at 31 December 2007 and 2006 cash for letters of credits represent letters of credit issued in favour of suppliers of the equipment related to the reconstruction project for expansion of the plant. of pulp production.

Notes to the consolidated financial statements

24. Capital and reserves

Share capital	**Ordinary shares**	
In thousands of shares	**2007**	**2006**
On issue at 1 January	6,658	6,658
Issued for cash	25,097	-
On issue at 31 December – fully paid	31,755	6,658

By a decision № 884/15.03.2007 of the District Court of Veliko Tarnovo in the Commercial register was registered an increase of the share capital of the Group from BGN 6,658,034 to BGN 31,754,944 by issuance of new 25,096,910 number of ordinary and dematerialized shares with par value of BGN 1 each. As at 31 December 2007 share capital is distributed to 31,754,944 number of shares with a par value of BGN 1, as follows:

	2007		**2006**	
Shareholder	*Number of shares*	*%*	*Number of shares*	*%*
A.R.U.S. Ltd.	25,397,674	80	5,797,674	87
KBD	4,000,000	13	-	-
HVB AG ATHENS	726,711	2	-	-
Svilosa 2000	598,790	2	599,268	9
Machine Manufacturing	218,000	1	218,000	3
Other	813,769	2	43,092	1
	31,754,944	100	6,658,034	100

Revaluation reserve

Revaluation reserve relates to property, plant and equipment. Under Bulgarian legislation the revaluation reserve formed from the revaluation of the tangible fixed assets performed in 1998 and the following years is not distributable to shareholders during the life of the Group. The revaluation reserve includes the effect from revaluation of the in-kind contribution from Svilosa AD to Svilocell EAD as at 31 December 2005.

Reserves

Reserves have been accumulated in previous periods resulting from retained earnings. A part of them is formed in accordance with the requirements of the Bulgarian accounting legislation to compensate the effect of hyperinflation related to these periods. According to the requirements of the Bulgarian legislation these reserves are distributable to shareholders.

Notes to the consolidated financial statements

25. Earnings per share

The calculation of earnings per share at 31 December 2007 was based on the net profit attributable to the ordinary shareholders amounting to BGN 2,090 thousand (2006: loss amounting to BGN 817 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2007 – 27,572,126 (2006: 6,658,000).

26. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more details about the Group's exposure to interest rate and currency risk, refer to note19.

Bank overdrafts

In thousands of BGN	**2007**	**2006**
Bank overdraft contracts	4,422	2,100
	4,422	2,100
Short-term liabilities		
Loans	-	5,084
Loans, interest payables	1,466	523
	1,466	5,607

Long-term liabilities	**2007**	**2006**
Bank loans	53,593	31,628
	53,593	31,628

The Group has concluded the following loan contracts:

Loan contracts with European Bank for Reconstruction and Development (EBRD) and Nordic Investment Bank (NIB)

In November and December 2005 the Group concluded loan contracts with EBRD and NIB for financing a project for increasing the capacity of pulp production. The expected amount of the project is EUR 48,7 million. According to the terms of the loans, in December 2005 Svilosa AD made an in-kind contribution to its subsidiary Svilocell EAD, related to the pulp production.

On 28 March 2006 was signed an amended and approved loan contract as per which Svilocell EAD joins as co-receiver and executor of the investment project. The loan of the European Bank for Restructuring and Development (EBRD) and Nordic Investment Bank (NIB) has the following terms- EBRD grants long-term loan with maximum amount of the principal EUR 18,000,000 and NIB – long-term loan with maximum amount of the principal EUR 10,000,000. As at 31 December 2007 the Group has utilized the whole loan amount – EUR 28,000,000. The maturity of the principal is ten years with three years gratis period. According to the terms of the loan contracts all the current and future assets and properties of Svilocell EAD are pledged as collateral as well as the whole enterprise has been pledged.

Notes to the consolidated financial statements

26. Interest-bearing loans and borrowings (continued)

Overdraft contracts

Svilocell EAD uses overdraft for working capital purposes with a limit of BGN 1,900 thousand, granted by Municipal Bank AD. As at 31 December 2007 the amount of BGN 650 thousand has been utilized. The maturity of the contract is 22 January 2009, and the authorized limit gradually decreases during the last three months, as follows:
BGN 1,900,000 - until 22.11.2008
BGN 1,500,000 - after 22.11.2008
BGN 1,000,000 - after 22.12.2008
- - after 22.01.2009
The loan is secured by assets of Svilosa AD.

Svilocell EAD uses overdraft for working capital purposes with a limit of EUR 2,250 thousand, granted by United Bulgarian Bank AD. As at 31 December 2007 the amount of EUR 1,778 thousand has been utilized. The maturity of the contract is until 25 November 2008, as the authorized limit gradually decreases during the last three months, as follows:
EUR 2,250,000 - until 25.09.2008
EUR 1,500,000 - after 25.09.2008
EUR 750 000 - after 25.10.2008
- - after 25.11.2008

As at 31 January 2007 the overdrafts contract for current purposes with a limit of BGN 1, 9 million with ING Bank has been terminated because the maturity has expired. The loan was fully paid within the agreed period. As at 31 December 2006 the utilized part of the loan was amounting BGN 966 thousand.

Ecosvil EOOD uses overdraft for current purposes with a limit of BGN 300 thousand, granted by Expressbank AD. As at 31 December 2007 the amount of BGN 295 thousand has been utilized. The maturity of the contract is until 13 February 2008.
The loan is secured by assets of Svilosa AD.

Notes to the consolidated financial statements

26. Interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

In thousands of BGN

	Currency	Nominal interest rate	Maturity	31 December 2007 Face value	31 December 2007 Carrying amount	31 December 2006 Face value	31 December 2006 Carrying amount
Secured loans							
Bank loan EBRD and NIB	EUR	6 month EURIBOR + 3.5%	2015	54,763	55,059	32,858	32,151
Bank overdraft from Municipal Bank AD	BGN	BIR + 3.95%	2009	650	650	-	-
Bank overdraft from United Bulgarian bank AD	EUR	3 month EURIBOR+ 2.75%	2009	3,477	3,477	-	-
Bank overdraft from ING Bank	EUR	3 month EURIBOR+ 3.25%	2008	-	-	966	966
Bank overdraft from DZI bank AD	BGN	BIR + 3%		-	-	835	835
Bank overdraft from Expressbank AD	BGN	BIR + 3%		295	295	299	299
Unsecured loans							
Trade loan – Naren EOOD	EUR	6 month EURIBOR+2%	2007	-	-	157	157
Trade loan – Daros Ins	EUR	6 month EURIBOR	2007	-	-	162	162
Trade loan – GTM A. Balevski	EUR	3 month EURIBOR+4%	2007	-	-	4,575	4,575
Trade loan – Aluengineering	EUR	Interest free	2007	-	-	190	190
				59,175	59,481	40,042	39,335

Carrying amount calculation of the interest-bearing loans and borrowings:

In thousands of BGN	31 December 2007	31 December 2006
European Bank for Reconstruction and Development		
Utilized principal at face value	35,204	21,123
Reduced by not-amortised costs	(752)	(789)
Increased by due unpaid interest	943	331
Utilized loan at amortised cost (carrying amount)	35,395	20,665
Nordic Investment Bank		
Utilized principal at face value	19,558	11,735
Reduced by not-amortised costs	(418)	(438)
Increased by due unpaid interest	524	189
Utilized loan at amortised cost (carrying amount)	19,664	11,486

Notes to the consolidated financial statements

27. Financial Instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of BGN	**31 December 2007**	**31 December 2006**
Loans granted	192	-
Trade and other receivables	4,505	6,850
Tax receivables	2,181	1,649
Cash and cash equivalents	11,442	19,632
	18,320	28,131

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

In thousands of BGN	**31 December 2007**	**31 December 2006**
Domestic	4,080	6,523
Euro-zone	280	112
Non euro-zone	145	215
	4,505	6,850

Credit risk

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of BGN	**31 December 2007**	**31 December 2006**
Customers rentals and other services	161	976
Customers sales of assets	3,844	5,687
Customers other sales	500	187
	4,505	6,850

Customers of the Group are plants for printing and sanitary paper and high-quality packing cardboard in the region or whole customers in the Euro-zone.

Notes to the consolidated financial statements

27. Financial Instruments (continued)

Impairment losses on receivables

The aging of trade receivables at the reporting date was:

In thousands of BGN	**2007 Gross amount**	**2007 Impairment**	**2006 Gross amount**	**2006 Impairment**
Not past due	3,814	-	4,605	-
Past due 90 days	38	-	96	-
Past due 91-180 days	270	-	504	-
More than 180 days	437	54	1,699	54
	4,559	54	6,904	54

As at 31 December 2007 the Group has past due receivables amounting to BGN 18 thousand – BGN 13 thousand from Metalcom SLZ – Pleven and BGN 5 thousand from Ecotehnika Svishtov. As at the date of signing of the current financial statements these receivables are paid.

(Recognition)/Reversal of allowance for impairment in respect of trade and other receivables during the year was as follows:

In thousands of BGN	**2007**	**2006**
Impairment at 1 January	54	54
Impairment loss recognized in the year	-	-
Reversals	-	-
Impairment at 31 December	**54**	**54**

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Trade and other payables	16,674	(16,674)	(16,194)	(330)	(150)	-	-
Bank overdrafts	4,422	(4,422)	(4,422)	-	-	-	-
Secured credit facilities	55,059	(76,242)	(2,261)	(2,261)	(12,184)	(32,675)	(26,861)
	76,155	(97,338)	(22,877)	(2,591)	(12,334)	(32,675)	(26,861)

Notes to the consolidated financial statements

27. Financial Instruments (continued)
Liquidity risk

31 December 2006
In thousands of BGN

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured credit facilities	32,151	(46,310)	(1,170)	(1,170)	(2,339)	(19,847)	(21,784)
Unsecured bank loans	5,084	(5,184)	(5,184)	-	-	-	-
Trade and other payables	16,684	(16,684)	(15,649)	-	(1,035)	-	-
Bank overdraft	2,100	(2,100)	(2,100)	-		-	-
	56,019	(70,278)	(24,103)	(1,170)	(3,374)	(19,847)	(21,784)

Currency risk

Exposure to currency risk
Group’s exposure to currency risk is significant because 33% of the sales for 2007 are realized in USD (2006: 39%); and 54% of the sales for 2007 г. are realized in EUR (2006: 49%).

The import of goods in USD in 2007 is amounting to USD 2,405 thousand (2006: USD 2,617 thousand).

Loans denominated in foreign currency are in EUR.

Sensitivity analysis
Sensitivity analysis from a change of the exchange rates of the BGN and Euro against other currencies would not have impact on the Group’s financial statements due to the low exposure in USD as at 31 December 2007 and 2006.
Group’s exposure to currency risk is as follows:

Notes to the consolidated financial statements

27. Financial Instruments (continued)

	BGN	EUR	USD	BGN	EUR	USD
	31 December 2007			31 December 2006		
Trade and other receivables	4,247	80	39	5,087	69	1,088
Loans granted	192	-	-	-	-	-
Cash and cash equivalents	1,971	4,822	30	110	9,981	-
Trade and other payables	(11,978)	(2,679)	(198)	(15,508)	(95)	(665)
Interest-bearing loans and borrowings	(650)	(30,527)	-	(1,801)	(19,039)	-
Net exposure	(6,218)	(28,304)	(129)	(12,112)	(9,084)	423

The following exchange rates applied during the year:

	Average rate		Reporting date rate	
	2007	2006	2007	2006
USD 1	1.42937	1.55944	1.33122	1.48506

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of BGN	31 December 2007	31 December 2006
Fixed rate instruments		
Financial assets	11,437	19,631
Financial liabilities	-	-
	11,437	19,631
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(59,481)	(39,145)
	(59,481)	(39,145)

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
A change of 1% in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

Notes to the consolidated financial statements

27. Financial Instruments (continued)

Effect of a change of 1% of the interest rate on instruments with variable interest:

In thousands of BGN	**Effect in profit or loss**		**Effect in equity**	
	1% increase	**1% decrease**	**1% increase**	**1% decrease**
31 December 2007				
Variable rate instruments	(595)	595	-	-
Cash flow sensitivity (net)	(595)	595	-	-
31 December 2006				
Variable rate instruments	(391)	391	-	-
Cash flow sensitivity (net)	(391)	391	-	-

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In thousands of BGN	**31 December 2007**		**31 December 2006**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Trade and other receivables	6,686	6,686	8,499	8,499
Investments	8	8	8	8
Interest-bearing loans and receivables	192	192	-	-
Cash and cash equivalents	11,442	11,442	19,632	19,632
Secured bank loans	(59,481)	(59,481)	(34,251)	(34,251)
Unsecured loans	-	-	(5,084)	(5,084)
Trade and other payables	(16,674)	(16,674)	(16,684)	(16,684)
	(57,827)	(57,827)	(27,880)	(27,880)

Notes to the consolidated financial statements

28. Retirement benefits

According to the requirements of the Labour Code and the Collective Labour Agreement (CLA) in case of termination of the labour relationships when the employee has obtained the right for retirement, based on length of employment service and age, the Group is obliged to pay him/her a compensation equal to the amount of two gross salaries. In case that the employee has worked in the Group for the last ten years the amount of the compensation is equal to the six-time amount of his/her gross salary.

The provision for retirement benefits as at 31 December 2007 amounts to BGN 297 thousand. The estimated amount of the liability as at 31 December 2007 are based on a report from an actuary, which was prepared based on the following assumptions:

- Discount rate: 8%;
- Expected salary increase: 0% in the first three years, 3% for the next years;
- Retirement date: in accordance with the agreed time served and age.

Net liabilities for retirement benefits in the balance sheet

In thousands of BGN	**31 December 2007**	**31 December 2006**
Present value of the obligation as at 1 January	300	-
Retirement benefits paid	(50)	-
Expenses recognized in the income statement (see below)	47	300
Present value of the obligation as at 31 December	297	300

Expenses recognized in income statement

In thousands of BGN	**31 December 2007**	**31 December 2006**
Rights acquired during the year	47	300
Interest charged on the liabilities	-	-
Actuarial gain/loss for the period	-	-
	47	300

Retirement benefits

In thousands of BGN	**31 December 2007**	**31 December 2006**
Non-current liabilities	242	254
Current liabilities	55	46
	297	300

Notes to the consolidated financial statements

29. Provisions

In thousands of BGN	**Environment**
As at 01 January 2007	551
New provision during the year	-
Release of provision during the year	(23)
As at 31 December 2007	528

The Group accrued provision of environment liabilities related to waste removal and the necessary expenses for restoration of storage of waste according to the requirements of the current legislation. In 2006 the Group made a provision amounting to BGN 551 thousand. The management assumed that the site will be restored using technology, materials and services that are available as at the balance sheet date.

30. Other long-term liabilities

In thousands of BGN	**Note**	**2007**	**2006**
Long-term liabilities			
Liabilities to CMAEP		150	1,035
Prepayment on sale of reduced emissions	35	4,084	-
		4,234	1,035
Short-term liabilities			
Payables to suppliers		13,187	4,876
Liabilities to CMAEP		660	-
Payables to personnel		525	470
Payables to contract agreement		666	742
Payables to state budget		157	151
Water use fee payables		96	922
Social security payables		131	122
Advances received		158	628
Other payables		946	1,697
		16,526	9,608

Liabilities to CMAEP

As liabilities to a Company For Management Of Activities For Environmental Protection (CMAEP) as at 31 December 2007 the Group has represented its liabilities under loan agreement with a Company For Management Of Activities For Environmental Protection, Ministry of Environment and Waters. According to the agreement the Group will receive a loan amounting to BGN 1,800 thousand. The loan is interest-free and should be repaid till 2009. The Group will use the loan for implementation of the project for expanding the capacity of the plant for production of hardwood pulp.

Notes to the consolidated financial statements

31. Related parties

Identity of related parties

Related parties of the Group are:

- AR.U.S. Ltd. (USA)- majority shareholder;
- Ecotechnika EOOD - joint venture company;

The Chairman of the Board of Directors (BD)- Mr. Krassimir Dachev is a member of the Management Boards of the following companies:

- Technology of Metals Group – Angel Balevski (Sofia) [GTM A. Balevski] - Executive Director;
- Vaptsarov AD (Pleven) – member of the BD;
- Alukom AD (Pleven) – member of the BD;
- Metakom AD (Pleven) – member of the BD;
- Osam AD (Lovech) – member of the BD;
- Tsentromet AD (Vratsa) – member of the BD;
- Technology of Metals Group Energia EOOD – owner.

The closing balances of the related party receivables and payables as at the end of the year are as follows:

Receivables

In thousands of BGN	**2007**	**2006**
Short-term receivables		
Ecotechnika EOOD	139	-
	139	-

Payables

In thousands of BGN

Short-term payables	**2007**	**2006**
In thousands of BGN		
AR.U.S. Ltd	133	6,582
Other	2	2
	135	6,584

The remuneration of the members of the Board of Directors and the Executive Director is BGN 259 thousand (2006: BGN 191 thousand)

Notes to the consolidated financial statements

31. Related parties (continued)

Sales *In thousands of BGN*	**2007**	**2006**
Ecotehnika EOOD	76	-
	76	-

Purchases *In thousands of BGN*	**2007**	**2006**
Ecotehnika EOOD	5	-
	5	-

32. Group entities

Control over the Group

The majority shareholder of Svilosa AD is A.R.U.S. Ltd.- USA. The company holds 25,397,674 ordinary shares with voting right, which represent 80% of the share capital of Svilosa AD.

Significant subsidiaries

	Country	**Shareholding**	
		2007	**2006**
Svilocell EAD	Bulgaria	100%	100%
Ekosvill EOOD	Bulgaria	100%	100%
Hotelski Komplex EOOD	Bulgaria	100%	100%
Svilosa Bio EOOD	Romania	100%	-

33. Commitments related to protection of the environment

At 24 October 2007 the Group has received a complex permission according to the requirements of Law for environmental protection. In connection with the conditions for issuance of the complex permission the Group launched an investment program for overhaul and maintenance of the existing equipment as well as constructing new one for the purpose of preventing the environment from pollution above the permissible standards.

The total amount of the investment program approved by the management of the Group as at the date of issuance of the complex permission is BGN 15,620 thousand. Investment engagements should be fulfilled as follows:

In thousands of BGN

As at 31 December	**2007**	**2008**	**2009**	**Total**
	14,420	850	350	15,620

Notes to the consolidated financial statements

33. Commitments related to protection of the environment (continued)

The Group's investments engagement that should be executed until 31 December 2007, as well as the remainder of the foreseen expenses will be made in 2008, in compliance with the activity restructuring program of the Group. The management has informed the regulators for the fulfillment of the engagements regarding the change of terms of their fulfillment.

34. Agreement for sale of reduced emissions

Svilosa AD

In September 2003 the Group entered an agreement with the World Bank (as a trustee of the Prototype Carbon Fund), for sale and delivery of greenhouse gases emission reductions (ERs). The terms of the agreement are consistent with the United Nations Framework Convention on Climate Change, the Joint Implementation mechanism of Kyoto protocol and any decisions, guidelines, modalities and procedures adopted under the foregoing. Under the provisions of the agreement, the trustee agrees to purchase the first 500,000 metric tones CO_2 equivalent of ERs generated by the "Biomass Project" and receives the option to purchase further quantities of ERs in total not exceeding 1,000,000 metric tones CO_2 equivalent. This project consists of installation and operation of a biomass-fired boiler fueled by wood wastes produced by the pulp production in Svilosa AD. In 2004 the contract is changed, the trustee agreed to buy first 450,000 metric tones CO_2 equivalent of ERs to the total amount of USD 1,575 thousand. For 2004, 2005 and 2006 the Company reduced respectively 18,935, 45,449 and 48,445 tones. For 2007 the management has assessed that the quantity of reduced emissions for 2007 is amounting to 33,053 tones, whose audit is expected to be executed in March 2008.

Svilocell EAD

In July 2006 Svilocell EAD has signed an agreement for sale and delivery of greenhouse gases emission reductions (ERs) with European Bank for Reconstruction and Development at expense of the Kingdom of the Netherlands. The agreement covers the period 2007 - 2012 and foresees advance payment. As at 31 December 2007 Svilocell EAD has received the advance payment as a part of the provisions of the agreement for the amount of EUR 2,088 thousand.

35. Contingencies

As at 31 December 2007 a supplier has prosecuted a claim against the Group at the amount of BGN 390 thousand. In 2007 the respective District Court has hold hearings aiming collection of evidences. Judicial accounting expert's examination was presented; identifying that Svilosa AD has not obligations to the claimant. As at 31 December 2007 the case had no development. The management of Svilosa AD has taken measures for protection of the Company and based on statement of the involved lawyers of the Group it is convinced that the claim is groundless and the probability of an outflow of resources embodying economic benefits is remote.

Notes to the consolidated financial statements

36. Allocation of the emission quotas

Bulgaria has joined the European Emissions trading scheme from 1 January 2007 following its accession into the European Union. The allocations for Bulgarian installations for 2007 have not yet been approved by the European Commission and the Group is not in a position to provide for the potential cost or benefits of the scheme. The proposed allocations Svilosa AD are sufficient to cover its emissions and no additional costs are provided for.

37. Subsequent events

There are no subsequent events after the balance sheet date that require disclosures in the financial statements.