

INTERIM ACTIVITY REPORT OF SVILOSA AD

FOR THE FIRST QUARTER OF 2008

This report was drafted in accordance with the requirements of the applicable legislation, including the Commercial Act, the Accounting Act, the Public Offering of Stocks Act and Ordinance No.2 of 17.09.2003 on the Financial Supervision Commission on the prospects for initial public offering of stocks and the disclosure of information by the public companies and other issuers of stocks.

Svilosa AD is a public joint-stock company registered in the Company Division of Veliko Tarnovo Regional Court by Decision № 1595/1993. The Company is headquartered in Svishtov, postal code 5253, Veliko Tarnovo region. The amount of the capital as at 31.03.2008 is BGN 31 754 944 and it is paid in full. The Company's capital is distributed into 31 754 944 personal cashless voting shares with a nominal value of BGN 1 each.

Svilosa AD's shareholding structure as at 31.03.2008 is the following:

Shareholders	Number of shares held	Percentage (%)
<i>I. Shareholders – legal persons</i>	31 302 070	98.40
1. A.R.U.S. Ltd.	25 397 674	79.98
2. KBD	4 000 000	12.60
3. HVB AG Athens	724 711	3.24
4. Svilosa 2000 AD	598 790	1.89
5. Machine manufacturing and Engineering Ltd	218 000	0.69
6. Investbank AD	123 380	0.19
7. DF UBB Premium Shares	93 295	0.04
8. Dias Investment Company	58 200	0.18
9. OND OOD	20 200	0.06
10. ID UBB Balanced Fund AD	16 133	0.04
11. First Investment Bank AD	14 375	0.04
12. Dexter Capital OOD	9675	0.03
13. DF Varchev Highly Profitable Fund AD	7345	0.02
14. Expert Consult 5 OOD	6000	0.01
15. K Capital OOD	3261	0.01

16. EFG Eurobank Clients ACC	2300	0.006
17. IMF Finance SA	2174	0.006
18. Rubicon Transport Express OOD	1785	0.005
19. Vikvision EOOD	1590	0.006
20. Bulbrokers AD	1380	0.004
21. Active Management OOD	829	0.002
22. Edge Capital Partners OOD	300	-
23. Strategies EOOD	282	-
24. Mariner OOD	250	-
25. Sappira EOOD	90	-
26. ET Karat – AB – Lyubomir Andonov	50	-
27. Otechestvo 2000 Holding AD	1	-
II. Shareholders –physical persons	452 874	1.6
TOTAL	31 754 944	100.00

Svilosa AD owns 100% of the capital of the following companies:

- Svilocell EAD – a commercial company registered at Veliko Tarnovo Regional Court in September 2005; its main sphere of corporate activity is production and sale of bleached kraft pulp and products thereof.
- Ecosvil EOOD – a commercial company registered at Veliko Tarnovo Regional Court in March 2002, specialized in delivering wood supplies from the country and abroad. The company possesses a full licence according to the Forestry Act for carrying out any activities relating to forest cultivation.
- Svilosa Bio SRL – a commercial company registered in the Republic of Romania in 2007, specialized in trading technological wood.
- Hotel complex – Svilosa EOOD – a commercial company registered at Veliko Tarnovo Regional Court in the year 2000; it has not carried out any activity during the first quarter of 2008, either.

Svilosa AD is a regional market leader on the Balkan Peninsula in the pulp-and-paper industry. With a view to the fact that the Company does not perform direct production activity, but through its daughter company Svilocell EAD, the revenues of Svilosa AD are mainly formed by rents for let long-term tangible assets (to Svilocell EAD, Svilosa – Service EOOD and Naren EOOD), rendered services (fire-protection, information servicing, security, a central telephone exchange, gardening, etc. – to the companies Svilocell EAD, Svilosa – Service EOOD, Svilosa – Yarn EOOD, Naren EOOD, Ekotechnika OOD, Svilosa – TPP AD) and revenues from sales of assets.

The financial result of Svilosa AD as at 31.03.2008 is a net profit to the value of BGN 187 thousand.

The main directions of Svilosa AD's activity, in its capacity of a sole owner of the capital of the above stated daughter companies, were followed during the first quarter of 2008, too. They were reported in the Annual Activity Report of the Company for 2007.

During the first quarter of 2008 the following events have occurred which are of importance to the Company:

- Svilosa AD subscribed to the 'E-Register' System of the Financial Supervision Commission on the basis of an application with an ingoing No. ПГ-05-455/2 of the Financial Supervision Commission dated 24.01.2008.
- On 30.01.2008 Svilosa AD announced to the Financial Supervision Commission, Bulgarian Stock Exchange and the public its financial activity reports (individual and consolidated) for the first quarter of 2007, through the 'EXTRI' integrated electronic system.
- As from 30.01.2008 Svilosa AD has a valid subscription to the information system 'Investor Bulletin' for public disclosure of regulated information for public companies, managed by the specialized financial media 'Investor.bg'
- Svilosa AD signed a Contract for Information Services with 'Serviz Finansovi Pazari' EOOD in its capacity of an operator of the information system and media named 'X3News' of 'Bulgarian Stock Exchange – Sofia' AD. Svilosa made its payment in connection with the contract on 13.02.2008 and the contract has entered into force as at the day of the actual receipt of the contracted price to the account of the contractor. On 27.02.2008 Svilosa AD was notified that its account in the 'X3News' system was activated.
- On 28.03.2008 Svilosa AD announced to the Financial Supervision Commission and the public its annual financial activity reports (individual and consolidated) for the year 2007. The information was disclosed to the Financial Supervision Commission through the 'E-Register' system, and to the public – through the 'X3News' and 'Investor Bulletin' systems.

- In March 2008 Svilosa AD joined the Bulgarian network of the Global Compact of UNO on the basis of a membership application dated 27.02.2008. In this connection, Svilosa AD is committed to applying the ten universal principles of the Global Compact for social responsibility and environment protection grouped in four major categories as follows:

„Human Rights:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence;

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards:

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: eliminate discrimination in respect of employment and occupation.

Environment:

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption:

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.”

- During the first quarter of 2008 the working committees for good corporate governance continued to assist the activity of Svilosa AD’s Board of Directors and the governing bodies of its daughter companies, in

that the committees delivered statements and proposals in their respective competence scope. Sessions were held, as follows:

- Corporate Governance Committee – on 18.01.2008
- Internal Audit Committee – on 22.01.2008, 29.02.2008 and 24.03.2008
- Human Resources Committee – on 31.01.2008
- Environmental Committee – on 22.01.2008 and 13.03.2008
- Site and Image Committee – on 18.01.2008.

The important events during the first quarter of 2008 have occurred in implementation of the enhanced normative requirements of the applicable legislation regarding the public companies, including the Public Offering of Stocks Act and Ordinance No. 2 of the Financial Supervision Commission, as well as of the Good Corporate Governance Program of Svilosa AD. That leads to the Company's compatibility, transparency and efficiency increase, but has no direct impact on the results in the interim financial report so far.

The main risks and uncertainties which Svilosa AD will face for the rest of this financial year are described in the Individual annual financial activity report of Svilosa AD for 2007, which was presented to the Financial Supervision Commission and the public and is also available in an electronic format on the Internet page of the Company (direct link: http://www.svilosa.bg/documents/FR2007/Annual_activity_report_07_eng.pdf). There are no changes regarding the main risks and uncertainties during the first quarter of 2008.

Related parties to Svilosa AD are the following companies:

- A.R.U.S. Ltd. – majority shareholder
- Svilocell EAD – a 100% daughter company to Svilosa AD
- Ecosvil EOOD – a 100% daughter company to Svilosa AD
- Hotel Complex – Svilosa EOOD – a 100% daughter company to Svilosa AD
- Svilosa Bio EOOD – a 100% daughter company to Svilosa AD
- Ecotechnika OOD – a company under a joint control.

During the reported period no transactions between related persons have been concluded, which have had a substantial impact on the financial status or the results of the Company's activity, and no changes have occurred in the concluded contracts with related parties as announced in the annual report, which have a substantial

impact on the financial status or the results of the Company's activity during the reported period.

The receivables from related parties for the reported period amount to BGN 18 400 thousand. This is the used amount of the credit granted by Svilosa AD to Svilocell EAD under a contract dated 18.03.2007, which is described in the Additional Information to this set of an interim individual financial report for Svilosa AD's activity.

For Svilosa AD:

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/dipl. eng. M. Kolchev, Executive Director/

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/Z. Parvanova, Chief Accountant/