

## **INTERIM CONSOLIDATED ACTIVITY REPORT OF SVILOSА 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.

The consolidation covers the reports of Sвилоса AD – a mother-company, and its daughter companies Ecosvil EOOD – Svishtov, Hotel Complex – Sвилоса EOOD – Svishtov, Sвилосell EAD – Svishtov, and Sвилоса Bio SRL. The consolidated financial report excludes the accounting value of the participation of the mother-company in the capital of its daughter companies. Also excluded are the inter-group revenues, expenditures and cash flows. There are no unutilized profits or losses occurred from inter-group transactions.

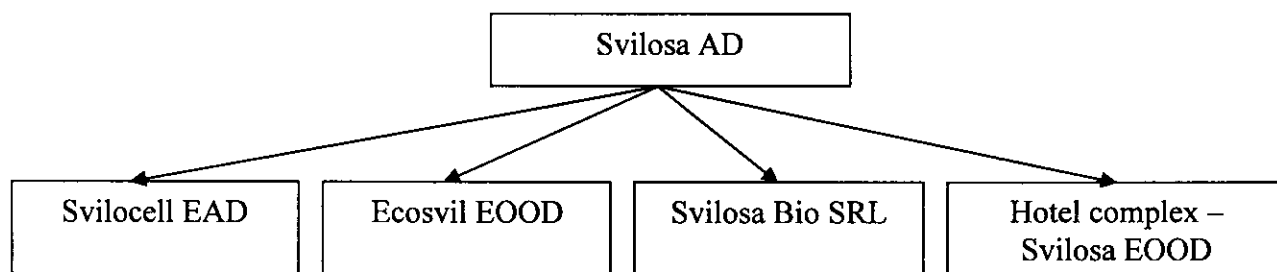
Sвилоса AD is a public joint-stock company registered in the Company Division of Veliko Tarnovo Regional Court by Decision № 1595/1993. The Company is headquartered in Svishtov, postal code 5253, Veliko Tarnovo region. The amount of the capital as at 31.03.2008 is BGN 31 754 944 and it is paid in full.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

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

- Sвилосcell 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. This company started its activity on 01.01.2006. Sвилоса AD has a 100% participation in its capital through a contribution in kind.
- 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.



The companies of the Svilosa Group perform a non-seasonal type of activities.

The activity of the Svilosa Group is concentrated in a highly profitable production, marketing and selling of bleached hardwood kraft pulp. That activity is performed by Svilocell EAD. Svilosa AD exerts a constant control over the operation of its daughter companies, in that it approves their business plans, discusses and adopts their financial and economic results.

Svilocell EAD is a main daughter company and its results are crucial to the mother-company. The largest comparative share in the consolidated revenues of the Svilosa Group is held by the revenues from production sales, which for the first quarter of 2008 amount to BGN 14 328 thousand. The financial result of the Svilosa Group though as at 31.03.2008 is a net loss to the amount of BGN 2 536 thousand because of the unforeseen delay by approximately three months in the implementation of the investment project, which was due to factors outside the Svilosa Group, such as damage of pieces of equipment during their supplies and their repair afterwards, complications during the installation works, harsh atmospheric conditions during the winter of 2007-2008, etc.

In this connection, during the first quarter of 2008 the pulp production was carried out under conditions different from those that should be achieved given a stable and regular loading of the production capacities close to the maximum capacity. During

the first two months of this year starting works and tunings were done, in connection with which frequent stops were necessary, which pushed up the energy and other expenses. Only in March the production was comparatively stabilized. The produced quantity of pulp for March is 7 539 tons, a quantity exceeding the one provided for in Svilocell EAD's Business plan for 2008 – 7 000 tons. However, still substantial are the losses due to stops for breakdown elimination or regulation of some chemical processes. The total pulp production quantity for the whole reported period is 14 996 tons. The total quantity of production sales reaches 15 232 tons, of which 14 937 tons of pulp and 295 tons of carboxy methyl cellulose. The accounted EBITDA, in total for all activities of Svilocell EAD, for the first quarter of 2008 amounts to BGN (921) thousand, including that of the pulp production – BGN (1122) thousand. EBT (profit/loss before taxation), in total for Svilocell EAD, for the first quarter of 2008, is BGN (2682) thousand.

It remains a top priority for Svilocell EAD to reach a production of over 8000 tons in April and achieve as soon as possible a monthly production quantity of 11 000 tons in the coming months.

Another important task for Svilocell EAD for the next period is in coordination with Ecosvil EOOD to conduct initiatives for decreasing the price and cost of wood. A decrease of the relative share of imported wood or a reduction of the relative share of poplar wood would have a substantial impact on the cost of pulp.

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

- In March, the pulp production in Svilocell EAD was relatively stabilized.
- Svilocell EAD adopted a Program stipulating particular measures for reduction of technological expenses for chemicals after the production stabilization to levels of 11 000 tons per month.
- Svilosa AD subscribed to the 'E-Register' System of the Financial Supervision Commission on the basis of an application with an ingoing No. PF-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 important events regarding Svilocell EAD have a direct impact on the financial results, as indicated above.

The main risks and uncertainties which the Svilosa Group will face for the rest of this financial year are described in the Consolidated 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\\_consolidated\\_activity\\_report\\_07\\_eng.pdf](http://www.svilosa.bg/documents/FR2007/Annual_consolidated_activity_report_07_eng.pdf)). There are no changes regarding the main risks and uncertainties during the first quarter of 2008. A clarification should be made regarding the trends and forecasts for the price levels, as follows:

The average gross price of mixed sheet pulp for the reported financial quarter was BGN 923,00 compared to a price of BGN 919,86 provided for in the Business Plan and an average gross price of mixed sheet pulp for the corresponding financial quarter to the value of BGN 855,76. The achieved average selling prices are close to the forecast levels. We do not expect a material change in the price level in a short term, unless a dramatic change in the USD exchange rates occurs.

For Svilosa AD:

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

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/Z. Parvanova, Chief Accountant/