



Annual Report 2007

SLOVAK HYGIENIC PAPER GROUP
THE MEMBER OF ECO - INVEST



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Annual Report 2007 SHP Group



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1. Management Report

Dear ladies and gentlemen,

in 2007, consolidate group SHP Group (“the Group”) recorded positive economic development in view of main economic parameters. This result has been achieved despite some negative influences: sharp price fighting among retail chains resulting in decrease of already too low supplier margins, the revaluation of the Slovak crown (the Group is a net exporter), and growing prices of inputs, mainly the basic raw material - waste-paper. The consolidated Group’s sales were 104 million EUR - an increase of 10.2% in comparison with 2006. The sales of final products were 79 million EUR, the sales of jumbo reels were 25 million EUR.

SHP Group remains even for the future the leader in the area of production and sale of hygienic paper products in its strategic markets in Central and Southeast Europe. The total SHP Group’s share in the markets of Slovakia, Czech Republic, Bosnia and Herzegovina, Macedonia, Croatia, and Serbia, is 20% in average. The Group is a long - standing relevant supplier of strong retail international chains as Makro/Metro, Ahold, Tesco, Lidl, Kaufland, Rewe, IKEA and others.

On the markets of Croatia and Bosnia and Herzegovina, the Group is strengthening its position through specific marketing campaigns, whose target is to build the brand awareness of Group’s brand Harmony. The Group expects that the standards of living in these countries will grow. It means that customer’s purchasing power will also grow,

so that these markets are potential in view of increasing sales. On Slovak and Czech markets, brand Harmony strengthens its position through building its customer’s loyalty club and by various activities direct on sale places so-called in-store marketing.

The production plants of the Group manufactured 103,700 tons of paper. The Group’s sales to third parties achieved 101,237 - 69.3% in the form of finished goods (in 2006, it was 64.9 %). The Group sold 70,147 tons of hygienic paper products and 31,090 tons of semi-finished products (jumbo reels). For the future years, the share of the sales of finished goods in the total sales will increase and the share of semi-finished goods will decrease, namely in connection with effort to maximize creation of added value. The forecast of this integration is 75% in 2008 and 90% in 2011.

Sales growth together with the growing share of sales of its own products had positive influence on net profit. In 2007, the Group’s net profit totalled 1.7 million EUR. Profit before tax has increased by 5.2% in comparison with 2006. This increase has also been achieved thanks to good results in finance area. The decrease in result from operating activities in comparison with 2006 has been caused mainly by the negative influences mentioned above on the revenue side (influence of exchange rate) as well as on the costs side (higher prices of inputs, e. g. the price of waste-paper).

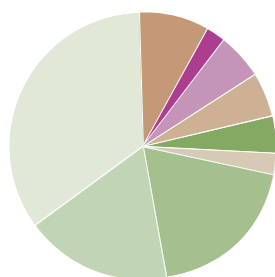


In 2007, the result in the financial area was slightly positive (+28 TEUR), but the positive development (from -708 TEUR in 2006) significantly compensated the loss from operating activities. The positive result in financial sphere rests mainly in successful usage of assuring instruments in the area of exchange rate risks as well as in the area of protection of interest rate for financing. In 2007, in addition to the positive consolidated net profit, also individual net profits of all companies of the Group were positive.

Cash and cash equivalents balance was 3.01 million EUR. During the whole accounting period of 2007,

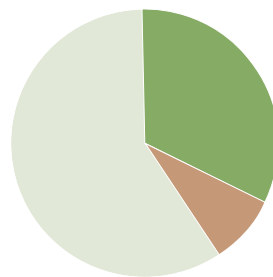
the Group was financially stable and fulfilling all its financial commitments in time and in full amounts. The Group had also steady performance in fulfilling of all parameters resulting from the Loan Agreement concluded between the Group and the Syndicate of financing Banks. The trade receivables are healthy and covered up to 93% by insurance as well as by creation of provisions. The evidence of the strong Group property structure is also the share of its owner's equity (including minority interests) in its total assets - 46.1%.

Teritorial Structure of Sales of Finished Goods



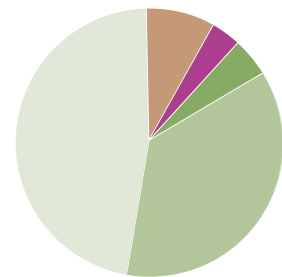
Slovakia	15%
Czech Republic	27%
Hungary	11%
Bulgaria, Romania	3%
Croatia, Slovenia	9%
Poland	9%
Serbia, Monte Negro, Macedonia	6%
Bosnia and Herzegovina	3%
Other EU countries	17%

Brand Sales



Harmony	29%
Other Brands	10%
Private Brands	61%

Product Structure of Sales



Toilet Paper	44%
Kitchen Towels	11%
Hankies	6%
Napkins	8%
Jumbo Reels	31%

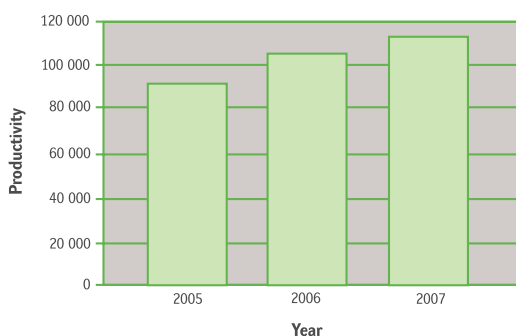


At the end of 2007, the Group had 1094 employees whose real wages increased in comparison with previous periods thanks to the positive development in net profit. The increase of sales led to positive trend in productivity of labor.

In 2008, further increase of sales is expected - up to 107.7 million EUR - as well as a net profit growth. The planned profit before tax is 1.89 million EUR.

The Group will orient its investment program mainly to modernization and production effectiveness growth. One of the projects belonging to this area is the project oriented to „Achievement of higher stage of utilization of waste-paper in production process“. The supposed budget of this project is more than 6.3 million EUR. The amount will be invested to bleaching/discoloring (deinking)

Productivity in the SHP Group (EUR/employee)



and additional whitening technologies. Higher brightness of fibers entering into process means higher quality of final products. This project will also enable the Group to change the raw material base for selected sorts of these products, which are now produced from virgin pulp. The necessity for this program implementation is to have the purification plant with the proper stage of biological purification of waste-water. The purification plant has been built and represents investment almost 3.2 million EUR.

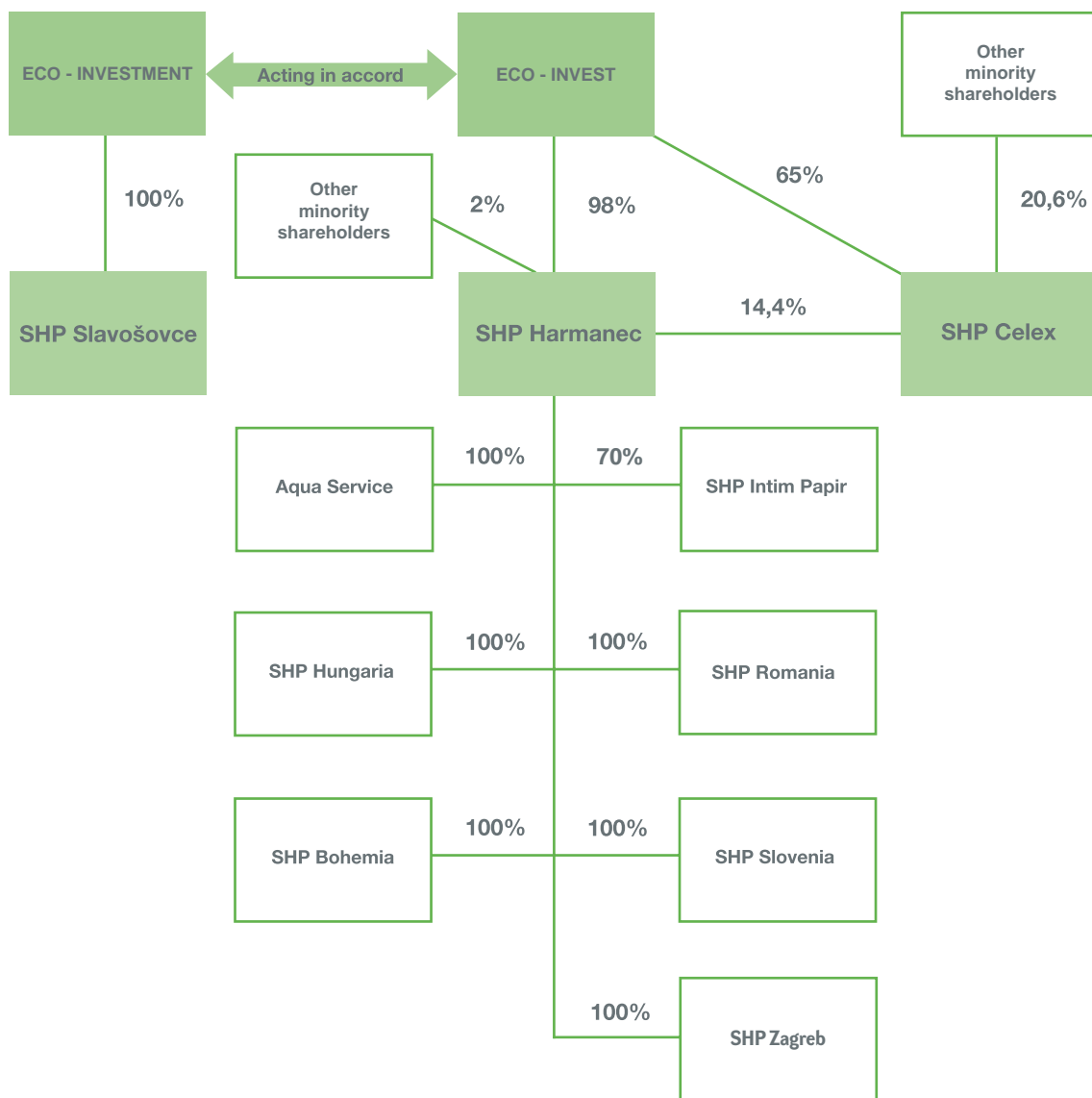
Dipl. Ing. Daniel Krchňavý
President of SHP Group

* Consolidation includes the following companies: SHP Harmanec, a.s., SHP Slavošovce, a.s., SHP Celex, a.d., SHP Bohemia, s.r.o., SHP Hungaria, Kft., Aqua Service, d.o.o., SHP Intim Papir, d.o.o.

* * Related parties ECO-INVEST, ECO-INVESTMENT and SHP Harmanec own either 100% shares or major shares in all companies of the consolidation circuit.; but in view of the used method, ECO-INVEST and ECO-INVESTMENT are regarded as minor owners. However, their share is highest within all minor owners and hence for comparability of results it is needed to evaluate the development of net profit including of the minor shares.



Topical structure of ownership relations of the SHP Group



2. Consolidated Balance Sheets

SHP Harmanec, a.s

As of December 31st, 2007 and December 31st, 2006 (in Sk '000)

	2007	2006
ASSETS:		
NON-CURRENT ASSETS		
Property, plant and equipment	2 050 586	1 915 628
Intangible fixed assets	6 010	9 483
Investments in securities	1 452	501
Total non-current assets	2 058 048	1 925 612
CURRENT ASSETS		
Inventories	655 863	694 061
Receivables	895 866	800 156
Income tax receivables	1 957	-
Cash and cash equivalents	101 703	99 282
Total current assets	1 655 389	1 593 499
TOTAL ASSETS	3 713 437	3 519 111
EQUITY AND LIABILITIES:		
EQUITY		
Registered capital	631 456	631 456
Other reserves	177 739	205 280
Translation reserve	(11 464)	(9 106)
Retained earnings	286 175	253 881
Total equity attributable to the shareholders of the Company	1 083 906	1 081 511
Minority interest of other owners of subsidiaries	628 787	634 385
Total equity	1 712 693	1 715 896
NON-CURRENT LIABILITIES		
Interest-bearing borrowings	567 488	416 680
Deferred tax liability	48 923	51 548
Other non-current liabilities	79 202	65 109
Total non-current liabilities	695 613	533 337
CURRENT LIABILITIES		
Trade and other payables	714 512	729 908
Interest-bearing borrowings	534 969	488 208
Income tax payable	1 562	4 012
Other current liabilities	54 088	47 750
Total current liabilities	1 305 131	1 269 878
Total liabilities	2 000 744	1 803 215
TOTAL EQUITY AND LIABILITIES	3 713 437	3 519 111



3. Consolidated Statements of Profit and Loss

	2007	2006
Sales of own products and merchandise	3 498 126	3 498 964
Other revenues	13 688	16 834
Change in inventory	30 185	(44 629)
Own work capitalized	6 761	4 918
Consumption of material and energy	(2 323 358)	(2 285 738)
Costs of merchandise sold	(14 863)	(21 319)
Services	(655 812)	(588 871)
Staff costs	(296 204)	(304 727)
Depreciation and amortisation	(169 953)	(180 691)
Other costs - net	(30 550)	(11)
Interest income	1 220	502
Interest expense	(50 573)	(37 952)
Other financial income - net	48 564	2 769
INCOME BEFORE INCOME TAXES	57 231	60 049
Income taxes	(10 844)	(12 214)
NET INCOME	46 387	47 835
Attributable to:		
Minority interest of other owners of subsidiaries	10 716	(2 010)
Shareholders of the Company	35 671	49 845

Environment

The Group continued to decrease production of waste and to increase percentage of its recovery (especially paper sludge in brick-making industry and for composting). The efficiency of inner circuit of circulating water in the paper production process was increased, which led to decrease of specific consumption of fresh water. Environmental activities of the Group were judged in a positive way also as far as inspections of public authorities, which were focused on observing the valid legislature regarding environmental protection in Slovakia.

In SHP Harmanec, a.s. throughout the year 2007 a great deal of attention was paid especially to construction of the biological waste water treatment plant. The project started with the 2nd stage of action. „Increasing the level of recovery of wasted paper in the production process - Deinking“, which was currently accommodated to EU regulations and valid legislature regarding environmental protection in Slovakia. Realization of the biological waster water treatment plant was completed in December 2007 and at the same time it was put into trial operation for the period of two years.

4. Independent Auditor's Report

Deloitte.

Deloitte Audit s.r.o.
Apollo BC
Prievozská 2/B
821 09 Bratislava 2
Slovenská republika

Obchodný register
Okresného súdu Bratislava I
Oddiel: Sro
Vložka č.: 4444/B
IČO: 31 343 414

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
www.deloitte.sk

INDEPENDENT AUDITOR'S REPORT ON ANNUAL REPORT

To members of the Board of Directors of SHP Harmanec, akciová spoločnosť

1. We have audited the consolidated financial statements of SHP Harmanec, akciová spoločnosť and its subsidiaries (hereinafter as the "Company") prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, which comprise the consolidated balance sheet as of 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.
2. The simplified consolidated financial statements included in the Annual Report were derived from the audited consolidated financial statements. The simplified consolidated financial statements comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement for the year then ended. The completeness and correctness of the information included in the annual report is the responsibility of the Company's Board of Directors.
3. In our report dated 14 May 2008, we expressed an opinion that the consolidated financial statements from which the simplified consolidated financial statements included in this Annual Report were derived, present fairly, in all material respects, the financial position of SHP Harmanec a.s. and its subsidiaries, as of 31 December 2007, and their financial performance and cash flows for the year then ended in accordance with IFRS as adopted by European Union, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to satisfy ourselves as to the matter described in paragraph 4.
4. As described in Note 5 to the consolidated financial statements, SHP Celex, a.d., a consolidated subsidiary, revalued its property, plant and equipment in 2003 based on an independent appraisal. This revaluation was not performed in accordance with International Financial Reporting Standards as adopted by the European Union. There is no sufficient information that would enable us to quantify the impact of this matter on the valuation of property, plant and equipment related to this subsidiary (as at 31 December 2007, its net book value represented SKK 621 million). We were unable to satisfy ourselves as to the valuation of property, plant and equipment and related depreciation of this subsidiary by other audit procedures.
5. In our opinion, the Company's simplified consolidated financial statements included in the annual report are, in all material respects, consistent with the audited consolidated financial statements referred to above, from which they were derived.
6. For a better understanding of the financial position of the Company as at 31. December 2007, its financial performance and cash flows for the year then ended and the scope of our audit, the simplified consolidated financial statements and other financial information included in this Annual Report should be read in conjunction with our audit report and the consolidated financial statements from which they were derived.

Bratislava 21 May 2008



Deloitte Audit s.r.o.
Licence SKAu No. 014



Ing. Wolda Kidan Grant, FCCA
Responsible auditor
Licence SKAu No. 921

5. Production Companies of the SHP Group

SHP Harmanec, a.s., Harmanec, Slovakia

PAPER MILL PM 7: capacity 45 000 t/year

Production: toilet paper, paper hankies, kitchen towels.

Basic data		2003	2004	2005	2006	2007	2007/2006
		%					
Production of paper	tons	42 780	45 126	44 992	45 042	46 406	103.03
Production of products	tons	37 411	41 089	41 801	43 135	42 484	98.51
Investments	TEUR	740	1 037	2 630	1 560	4 485	287.50
Headcount	persons	716	504*	472*	453*	417*	92.05

*adjustment to common methodology in individual years, which includes termination of outsourcing activities

In 2007 investment projects totalling 4.485 million EUR were carried out at the SHP Harmanec.

Investments in hygiene paper manufacturing technology were focused especially on further modernization of the technology for stock preparation for waste paper and on activities for synchronization of operations with the valid legislature in the area of waste water.

Within the Deinking initiative - 2nd stage, the following things were carried out in 2007:

- Anaerobic pre-cleaning of waste water (1.365 million EUR).
- Homogenization tank for draining the sludge (170 TEUR).
- Industrial water circling (43 TEUR).

The second stage of DEINKING II realization continues into 2008 and 2009. After completion a higher utility value of goods will be attained with lower costs, which will enable a flexible reaction to market demand in connection with brightness of products also in combination with virgin pulp. Construction of the biological waste water treatment plant in 2007 was inevitable for limiting the amount of polluting substances in waste water in accordance with valid legislature.

The complete technology of the new biological degree of waste water treatment cost 2.942 million EUR, out of which the anaerobic degree was 1.365 million EUR and the aerobic degree another 1.551 million EUR.

In the field of hygienic paper converting the following initiatives were carried out to promote sales and to lower operating costs:

- a new embossing station and modification of the packaging machine on the toilet production line TL 5 (303 TEUR),
- a new palette wrapping system for TL 1 and TL 2 (80 TEUR),
- new formats for the rewinder TL 3 (52 TEUR),
- adjustment of electro-technical devices according to currently valid legislature (172 TEUR).

An important investment in the logistics area was the initiative for stock control intensification (172 TEUR), which after completion in 2008 will have cost 561 TEUR. After its completion the quality of warehousing process for the time when production volumes rises will improve in such way that the demands of customers will be met better.

SHP Slavošovce, a.s., Slavošovce, Slovakia

PAPER MILL PM 8: 19 000 t/year

Production: paper napkins, kitchen towels.

Basic data		2003	2004	2005	2006	2007	2007/2006
							%
Production of paper	tons	16 634	17 716	18 253	17 797	19 060	107.10
Production of products	tons	4 359	4 078	4 818	6 002	12 179	202.91
Investments	TEUR	719	1 546	2 071	922,7	3 897	422.34
Headcount	persons	265	220	194	197	226	114.72

In 2007 investment projects totalling 3.897 million EUR were carried out.

Investment into paper production was focused on increasing the degree of grinding - fibrillator for the paper machine PM 8 (23.9 TEUR). Pick up of side run from paper machine wire PM 8 (technical and commercial preparation in 2007, implementation in April 2008).

In 2007 two more extensive investment initiatives dominated in SHP Slavošovce, a.s. In the area of hygienic paper converting construction readiness was carried out, supply and installation of machine - technological part of the line TL 8 for production of kitchen towels. The total cost of the investment was 4.500 million EUR. The line was put into operation in March 2007. The second investment project focused on increasing the quality and expanding the production of printed napkins was the embossing station for already existing machine NL 14 with the total cost of 67 TEUR. Technical and commercial

preparation was carried out in 2007 and implementation was completed in January 2008.



SHP Celex, a.d., Banja Luka, Bosnia and Herzegovina

PAPER MILL PM 2 : 40 000 t/year

Production: toilet paper, paper tissues, paper napkins.

Basic data		2003	2004	2005	2006	2007	2007/2006 %
Production of paper	tons	22 388	28 889	31 530	33 438	33 552	100.34
Production of products	tons	4 514	6 985	10 670	10 998	16 029	145.74
Investments	TEUR	345	559	2 857	3 199	927	28.98
Headcount	persons	405	412	390	378	387	102.38

In SHP Celex, a.d. investment projects totalling 927 TEUR were carried out in 2007.

In 2007 the following significant actions were taken with the aim to attain higher operating reliability:

- exchange of high-voltage switchboards of the electric distributor (171 TEUR) - security of devices will increase and fire danger will be eliminated,
- exchange of the analogue system for digital in the BBC device (73 TEUR) - it is the 1st stage of innovation of the existing analogue systems that control driver engines of the press and the wire section of paper machine,
- air conditioning of the electric station systems for driver of the paper machine PM 2 (46 TEUR) - the goal to restore old devices, which are out of date,
- new warehouse for finished goods (49 TEUR) - fixing the state of the roof, which is unacceptable as far as statics,
- sanitation of manufacturing buildings (64 TEUR).

In the year 2007 significant initiatives from the previous period that had been in process were com-

pleted. The manufacturing quality of hygienic paper increased because of the system of quality control and the 1st pressure cylinder of the paper machine PM 2 was restored in order to increase its operating reliability.



SHP Intim Papir, d.o.o., Pazin, Croatia

Production: folded towels, folded toilet paper, paper napkins, industrial rolls, toilet paper and rolled towels.

Basic data		2005	2006	2007	2007/2006
					%
Production of products	tons	421	447	894	200.00
Investments	TEUR	43	36	80	222.22
Headcount	persons	8	8	19	237.50

In 2007 the total of 80 TEUR were invested.

The investments were focused on modernization of machines, purchase of machines, increasing the production and sales volume, higher flexibility and better utilization of paper waste.

In 2007 the production of SHP Intim Papir, d.o.o. moved from Poreč into newly leased premises in Pazin. Additional smaller machines were purchased

(napkin machine, folded products machine, handling devices, waste paper press), which increased the production and sales volume. Also collected paper waste from own resources started to be utilized for manufacturing of recycled goods also in other plants within the Group. The total cost of replacement was 80 TEUR. Replacement and modernization of machines began in March 2007 and was completed in July 2007.

Significant events that occurred after the closing date

On March 2nd, 2008 a fire started in a leased warehouse of finished goods of SHP Celex, a.d., Banja Luka. The damage on finished goods inventories was estimated at 846 thousand KM., i.e. 14.1 million SKK.

The inventories were fully covered by insurance.

Proposed personnel changes in corporate bodies: see page 20.

6. Corporate Bodies of the SHP Group

Executive Board of the SHP Group

SHP Harmanec, a.s.

Board of Directors:

Peter Hlaváč (Chairman)
Daniel Krchňavý (from February 2nd, 2007)
Jozef Horák (from February 2nd, 2007)
Anna Mončeková (from February 2nd, 2007)
Ivan Fábry (till February 1st, 2007)
Miroslav Vajs (till February 1st, 2007)

Supervisory Board:

Milan Fiľo (Chairman)
Lubomír Messinger (till June 26th, 2007)
Miroslav Vajs (from June 27th, 2007)
Peter Švec

SHP Slavošovce, a.s.

Board of Directors:

Peter Hlaváč (Chairman from March 1st, 2007)
Ivan Fabry (Chairman till February 28th, 2007)
Daniel Krchňavý
Milan Hadač

Supervisory Board:

Milan Fiľo (Chairman)
Miroslav Vajs
Bartolomej Tomášik (till December 13th, 2007)
Janka Genderová (till December 13th, 2007)

SHP Celex, a.d.

Administrative Board:

Peter Hlaváč (Chairman)
Daniel Krchňavý
Jozef Horák

Supervisory Board:

Milan Fiľo (Chairman)
Dragan Vasiljević
Miljenko Brajković

Proposed personnel changes in corporate bodies

In May 2008 personnel changes were proposed to be discussed at general meetings of the companies in June 2008.

SHP Harmanec, a.s.

Board of Directors:

Daniel Krchňavý (Chairman)
Jozef Horák
Anna Mončeková

Supervisory Board:

Milan Fiľo (Chairman)
Miroslav Vajs
Peter Švec

SHP Slavošovce, a.s.

Board of Directors:

Daniel Krchňavý (Chairman)
Milan Hadač
Jozef Horák

Supervisory Board:

Milan Fiľo (Chairman)
Miroslav Vajs
Janka Genderová

SHP Celex, a.d.

Administrative Board:

Daniel Krchňavý (Chairman)
Jozef Horák
Oldrich Lauko

Supervisory Board:

Milan Fiľo (Chairman)
Dragan Matič
Miljenko Brajković

Executive Board of the SHP Group



From left to right:

Ing. Daniel Krchňavý, Ing. Oldrich Lauko, Mgr. Anna Mončeková, Ing. Jozef Horák, Ing. Milan Hadač,
Ing. Predrag Zgonjanin, Ing. Rastislav Petrík.



Contact Addresses

SHP Harmanec, a.s.

976 03 Harmanec
Slovakia
Phone: + 421 48 4322 111/535
Fax: + 421 48 4198 105

SHP Slavošovce, a.s.

Slavošovce 298
049 36 Slavošovce
Slovakia
Phone: + 421 58 7999 117/121
Fax: + 421 58 7999 235/252

SHP Celex, a.d.

Veljka Mladjenovića bb
781 02 Banja Luka
Bosna and Herzegovina
Phone: + 387 51 332 202
Fax: + 387 51 332 222

SHP Bohemia, s.r.o.

Černokostelecká 613/145
108 00 Praha 10
Czech Republic
Phone: + 420 272 915 284
Fax: + 420 272 915 255

SHP Hungaria, Kft.

Röppentyü utca 65
1139 Budapest
Hungary
Phone: + 361 394 0098
Fax: + 361 200 6641

SHP Romania, s.r.l.

Calea Calarasilor, Nr. 309, Bloc 70, Scara 2
Etaj 4, Ap 51, Sector 3
030 621 Bucuresti
Romania
Phone: + 40 213 227 341
Fax: + 40 213 227 341

SHP Celje, d.o.o.

Kidričeva 36
3000 Celje
Slovenia
Phone: + 386 3 42 42 243
Fax: + 386 3 42 42 244

SHP Intim Papir, d.o.o.

Dubravica 2A
524 45 Baderna
Croatia
Phone: + 385 52 621 162
Fax: + 385 52 621 162

SHP Zagreb, d.o.o.

Koturaška 53
100 00 Zagreb
Croatia
Phone: + 385 1 617 1330/32
Fax: + 385 1 617 1331

