

PRESIDENT'S LETTER TO SHAREHOLDERS

In the first half of 2010, the Pfleiderer Grajewo Group reported sales revenue of PLN 621m, which represents an 11% increase relative to the corresponding period of 2009. The increase recorded in the second quarter alone was still stronger, exceeding 19%. The significant growth in sales revenue, driven chiefly by a sharp rise in the volume of furniture sold by Polish manufacturers to customers in Western Europe, suggests that the prevailing downtrend is likely to reverse.

In the second quarter of 2010, as part of its portfolio diversification efforts, the Group launched the new MFP board for use in the construction industry. We expect that the product will ultimately emerge as a key component of our product mix, contributing to its improved profitability. A new product on the market, the MFP wood-based board has won the title of *Odkrycie 2010* (Discovery of the Year), awarded by the Laur Konsumenta competition judging panel.

In the first six months of 2010, prices of strategic raw materials, notably wood, adhesives and mazout, rose both year on year and relative to the prior half-year. The first six months of 2010, a period marked by cost pressures, were followed by deceleration in price rises, or in some cases even price declines, which in the second quarter contributed to a substantial year-on-year improvement in our financial performance.

Although the second quarter of 2010 was a low season, the Group delivered a positive financial result for the period. Net loss for the first six months of the year, whose portion attributable to owners of the parent was PLN 10m (an over 62% year-on-year improvement), reflects chiefly a decline in operating profit/loss for the first quarter of 2010, higher interest expense under a newly executed syndicated loan, and day-to-day costs incurred in connection with the suspension of the MDF/HDF project in the Russian Federation.

Given a considerable scarcity of MDF board supply on the Russian market, the Group is making strenuous efforts to resume the MDF/HDF plant construction in Russia. Currently, the Company is in the process of securing financing for the project, which is at an advanced stage of implementation.

In the first half of 2010, the Group executed a PLN 700m syndicated loan agreement. The new debt was the cause of higher finance expenses reported in 2010. As at June 30th, the Company had satisfied the conditions stipulated under the loan agreement. Despite the lower currency risk exposure, the Group continues to be exposed to the effects of potential fluctuations in the exchange rates of the Polish złoty and the Russian rouble against the euro.

A substantial increase in sales and further year-on-year improvement of the financial performance is expected in the second half of the year. However, due to recent changes in economic and market conditions, the Management Board again resolved to refrain from publishing a financial guidance for 2010.

Yours faithfully,

Wojciech Gątkiewicz
President of the Management Board