President's Letter to the Shareholders

In the first half of 2011, the Polish and Russian markets were on a rising trend. Our sales grew by almost 30% on the back of both the improved market climate and intensified sales and marketing efforts. The higher sales translated into a marked improvement of our consolidated financial performance at all levels. Despite an adverse seasonality effect, growing prices of raw materials, and relatively high debt servicing costs, the Group achieved a net profit attributable to equity holders of the parent in the amount of PLN 3.7m, compared with a loss in excess of PLN 10m posted in H1 2010. An improvement was seen in sales margin and financial performance at the operating and EBITDA levels. A noteworthy fact was a few-percent share of sales of products launched on the market in H2 2010, which contributed measurably to the overall financial results.

The capacity use on the main production lines at all plants exceeded 90%. This allows us to cover fixed costs more effectively.

It is highly probable that the continuing rise in market demand will absorb the excessive supply which emerged in 2007-2008, and thus improve the profitability of our operations. Both the market climate and the results for H1 2011 indicate that this process is taking place. The Management Board believes that - if the favourable market conditions continue over the next two years - demand and supply will become fairly well balanced.

The prices of our strategic raw materials, notably wood and adhesive resins, grew considerably from the levels reported in H1 2010, which is largely an outcome of higher demand for raw materials. The negative effect of the growing raw material prices on our financial performance was compensated by higher selling prices.

Our investment projects to be implemented in 2011 have been limited to essential replacement investments. However, given the improvement in our financial performance recorded for a few quarters now, we plan to increase the replacement and modernisation spending in the coming years, which should also contribute to a further reduction of production costs and improvement in sales margins.

The investment project under way in Russia is planned to be resumed in the second half of this year. At present, its resumption depends on decisions of credit institutions, to be made in the third quarter and on possibility to secure own contribution by project sponsors. The project is to be financed with a bank loan and share issue proceeds.

As at June 30th 2011, the Group was in compliance with the financial covenants under its credit facility agreements.

Despite an active approach to hedging, the Group remains exposed to currency risk related to potential fluctuations in the PLN/EUR and RUB/EUR exchange rates, which may affect its future performance.

In the first half of 2011, the Group delivered improved operating performance. The second half of the year should see a further improvement in financial results due to the seasonal rise in demand. However, the Management Board still prefers not to publish a performance forecast.

Yours faithfully,

Wojciech Gątkiewicz,
President of the Management Board