

PRESIDENT'S INTRODUCTION TO H1 2013 CONSOLIDATED REPORT

There was a number of important events and developments at the Pfleiderer Grajewo Group in the first half of 2013. The Group's Management Board closed the sale of its Russian assets. The proceeds were applied to repaying the Group's excessive debt, bringing down interest expense and enhancing its liquidity position. The Group earmarked a portion of the proceeds to finance future capex projects in Poland.

Sales of the furniture industry in Poland continue to be feeble, and although some recovery has been observed in the last two months, a more perceptible year-on-year growth it is expected in the second half of the year.

Despite the adverse market conditions and net of a one-off consulting expense of PLN 9m, the Group reported improved profitability on its continuing operations in Poland at all levels of the P&L compared with the H1 2012 data.

In spite of the downturn, the half-year revenues reported by the Polish companies remained relatively flat on H1 2012. The Group was able to maintain its sales volumes while changing its product mix, but the prices were reduced during 2012 and in H1 2013. Prices of wood (our key feedstock) trailed the decline of prices of other key raw materials. The decreasing prices of raw materials and a range of cost-saving measures implemented by the Company both helped us to fully offset the effects of the adverse market factors. The root cause of the market slump was a further deterioration of the overall economic situation both in Poland and in Europe.

The Group is implementing a PLN 100m capital expenditure programme, as part of which projects worth PLN 80m are to be completed by the year's end. Average capacity utilisation at the Group's production plants in Poland was 80-85% and for the whole year the annualised rate is planned at a level of 5% higher.

The Group repaid its syndicated loan and arranged new facilities for a total of PLN 300m to secure funding of the day-to-day operations and of the planned capex. Free cash available at the end of H1, of PLN 116, will be applied to partial repayment of the special-purpose facility used by Pfleiderer MDF Sp. z o.o., a subsidiary.

With the improving economic conditions, the Management Board believes that further improvement of the operating profit and net profit is a realistic goal taking into account the market's seasonality and the expected effects of capital expenditure incurred to date.

Kind regards.

Wojciech Gątkiewicz
President of the Management Board