PRESIDENT'S INTRODUCTION TO THE 2012 CONSOLIDATED ANNUAL REPORT

2012 was an eventful year which saw a number of important developments for the Pfleiderer Grajewo Group. One of these was the Management Board's strategic decision to shed the Group's Russian assets, by entering into a conditional sale agreement. The sale's proceeds have been applied towards repaying excessive debt carried by the Group, bringing down interest expense and enhancing the Group's liquidity position. A portion of the funds will also be earmarked to finance future capex projects on the home market.
Accordingly, the total capital expenditure budget will be raised over the next two years, to a substantial level of more than PLN 180m. This is especially noteworthy because due to financial constraints, the consolidated annual capex in the past five years has been significantly below the level of depreciation charges. Modernisation of the Polish plants, combined with the growth-oriented capex, should be reflected in improved financial performance and sales margins.

The Group also posted an improvement in net profit, including the portion attributable to owners of the parent. Net profit attributable to the owners of the parent amounted to PLN 50m, having gone up PLN 16m year on year.

Sales across the Polish furniture industry slipped by over 10% compared with the year before, due to the deteriorating economic climate both in Poland and throughout Europe. The weaker sales exacerbated competitive pressures, which had the effect of depressing prices and squeezing sales margins. A downtrend in the prices of raw materials and a range of cost saving measures implemented by the Company failed to fully compensate for the effects of those adverse market factors.
By contrast, the Russian market stood at the other extreme. A double-digit growth rate fuelled by internal demand drove up financial performance to robust levels, and helped us obtain a good price for the Russian shareholdings and assets. Although the Russian operations have been discontinued, we plan to maintain - and even expand - our marketing activities in Russia.

Despite the market downswing, annual revenues reported by the Polish companies remained on a par with the previous year's results. Prices in 2012 were reduced to reflect the falling prices of key raw materials. The price of wood (our key production input) dropped in 2012 by 9%.

Capital expenditure incurred by the Group in Poland totalled PLN 25m, which fell short of the budgeted figure as a key project involving a new laminating press was postponed. Average capacity utilisation stood at 87%.

The Group's debt with banks was reduced relative to the previous year by PLN 153m to PLN 678m at the end of 2012, with the ratio of net bank debt to EBITDA having decreased to a level acceptable to the banks.

Net profit/loss on continuing operations in Poland fell by PLN 10m year on year. However, we need to allow for the expenditure of PLN 11m incurred on a one-off basis in connection with the planned restructuring of the Polish operations. Excluding the effect of this one-off item, operating profit/loss did not deteriorate on the prior year.

Even though economic headwinds are likely to continue in the coming quarters, the Management Board believes that further improvement in operating and net results is a realistic goal, achievable by reducing the burden of financing costs. The Group's efforts will be geared towards developing new products and market segments, tailoring its product mix to market expectations, lowering costs and enhancing product quality.

Yours faithfully,
Wojciech Gątkiewicz
President of the Management Board