PRESIDENT'S INTRODUCTION TO THE 2012 SEPARATE ANNUAL REPORT

2012 was an eventful year, bringing a number of important developments for Pfleiderer Grajewo S.A. One of these was the Management Board's strategic decision to divest its shareholding in the Russian company, by entering into a conditional sale agreement. The sale's proceeds have been applied towards repaying excessive debt carried by the Company, bringing down interest expense and enhancing the Company's liquidity position. In addition, the Management Board intends to earmark a portion of the funds 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 80m. 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 plant, combined with the growth-oriented capex, should be reflected in improved financial performance and sales margins.

The Company posted a slight year-on-year improvement in its 4% operating result. However, we need to allow for the expenditure of PLN 5m 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 result improved on the previous 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 price of raw materials and a range of cost saving measures implemented by the Group failed to fully compensate for the effects of those adverse market factors.

But despite the market downswing, annual revenues reported by Pfleiderer Grajewo S.A. 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 feedstock) dropped in 2012 by 9%.

Capital expenditure incurred by the Company in Poland totalled PLN 10m, which fell short of the budgeted figure as part of project were postponed. Average capacity utilisation stood at 96%.

The Company's debt with banks was reduced relative to the previous year by PLN 42m, to PLN 457m at the end of 2012, with the ratio of net bank debt to EBITDA having decreased to a level acceptable to the banks.

The company reported a deterioration in the net result, which amounted to PLN 12m and decreased by PLN 29m year on year. The deterioration was caused mainly by unrealized foreign exchange differences arising from the valuation of loans to foreign entities and realized exchange differences arising from the receipt of loan repayments.

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