

PRESIDENT'S INTRODUCTION TO THE H1 2014 CONSOLIDATED QUARTERLY REPORT

The first half of 2014 was a period of success for the Pfleiderer Grajewo Group.

A double-digit year-on-year growth was reported in furniture sales by value, chiefly fuelled by strong demand from the furniture industry, buoyed by continued robust furniture exports. Domestic demand felt the effects of instability in Ukraine. Amid the weaker hryvnia and falling sales to Ukrainian customers, production surpluses are being placed on the domestic market.

Revenue from continuing operations advanced 12% compared with the same period last year, on the back of higher sales volumes, achieved at similar price levels, and product mix changes.

The bottom-line performance also saw significant improvement. Net profit came in at PLN 50m, up by almost PLN 35m, with stronger operating profit and reduced debt servicing cost as the key growth factors.

Prices of key raw materials, including timber, remained stable year on year in the first six months of 2014. The stable prices, together with decisive steps taken to increase revenue and tighten cost discipline, further improved return on sales compared with the first half of 2013.

Furthermore, the Group has put in motion a comprehensive performance improvement programme, which is expected to deliver an increased turnover and improved cost efficiencies, ultimately contributing to a higher return on sales. In the first half-year of 2014, the programme delivered over PLN 30m in net gains.

In the first half of 2014, the average capacity utilisation of the Group's key process lines was above 98%. The Management Board has made the decision to increase capacity utilisation, which is to be achieved by removing technology bottlenecks.

The Group is pursuing an investment programme to upgrade its plants, better align its production capacities with market needs and generate cost efficiencies. Capital expenditure spent in the year to date amounts to PLN 46m.

In January, the parent company Pfleiderer Grajewo S.A. closed a transaction to buy a minority interest in MDF Grajewo. With this and other transactions, Pfleiderer Grajewo S.A. now owns 100% of the shares in all its subsidiaries.

Kind regards.

Wojciech Gątkiewicz
President of the Management Board