

## **Letter from the President of the Management Board**

### **Ladies and Gentlemen,**

In the first half of 2015, the Pflaiderer Grajewo Group maintained revenues and exhibited a strong financial performance in comparison to HY 2014. This was supported by stable demand on the domestic furniture manufacturing market, despite weakened demand in the markets east of Poland, mainly due to geopolitical instability and deteriorating economic conditions in the region and rising imports of competitive products, prompted by devaluation of local currencies.

In the first half 2015, our revenues amounted to PLN 786.5m, slightly above the level posted in the same period last year. Prices of key raw materials (wood and resin) decreased, while the cost of energy increased and paper stayed on a comparable level. The available capacities at our key production lines were almost fully utilised, ensuring efficient distribution of fixed costs. These developments, together with special programmes designed to improve operating efficiency, led to a 1 percentage point increase in gross margin.

The Group improved its results of operations in the first half of 2015. EBITDA reached almost PLN 108.7m, which constitutes an increase of 15% when compared to HY 2014. The growth in profits reflected the improved cost structure, supported by lower prices of key raw materials, and operational efficiency improvements delivered by our investment projects as well as marketing initiatives designed to promote growth of the wholesale and distribution network. Net profit attributable to majority shareholders came in at PLN 59.9m, a rise of over 20% when compared to same period of prior year, mainly due to improved operating profit and reduced debt servicing cost.

The Group is pursuing a long-term investment programme to upgrade its plants, better align its production capacities with market demands, and generate cost efficiencies. Capital expenditure totalled PLN 31.8m in the first half year of 2015, with a significant portion of the CapEx budget planned to be spent in the third quarter of the year. The Group expects that the total amount of CapEx in 2015 to remain close to the level of 2014 (PLN 112.9 m). The Group has plans for capacity expansion on its existing lines, to be able to serve the growing market demand in the near term.

In 2015, we intended to acquire all shares of Pflaiderer GmbH, building multi-level cooperation within the Pflaiderer Group, providing increased integration of the organisational structures and harmonisation of internal processes and unlocking the potential for synergies from joint operations. We expect the newly integrated Pflaiderer to improve its competitiveness in the market, offer more value added products and be aimed towards selective geographical expansion. The integration process is intended to further improve the financial performance of the Pflaiderer Grajewo Group companies.

Yours faithfully,

Michael Wolff  
President of the Management Board