THE ERBUD GROUP

THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1Q 2011

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THE ERBUD GROUP
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In the period of 1Q 2011:
REVENUES: PLN 276 017 000
EBIT: PLN - 14 477 000
NET PROFIT: PLN - 14 373 000
CASH: PLN 47 102 000

The financial information for the 1Q of 2011 shown below, as well as the comparables, is based on the Capital Group's consolidated financial statements. The contracts shown below are stated at their net values.

I. THE ERBUD GROUP'S FINANCIAL DATA FOR THE PERIOD OF 1Q OF 2011, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Growth in the building sector in Poland in the period of 1Q 2011 by 18.8%, buildings segment grows by 8%.
- An increase in the costs of materials and labour (by 4.3%) at the end of March 2011.
- Symbolic growth in building prices, a 0.6% notch up at the end of March 2011, pressure on margins in the sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between January and March 2011 totalled 22 contracts with an aggregate value of PLN 273 000 000, as against 44 contracts with a total value of PLN 390 000 000 in the corresponding period in 2010.
    - Lower pace of new contracts acquisition results from the high level of portfolio of contracts in progress.
- Completed sales at the Budlex Group in the period of 1Q 2011 amounted to 29 flats and commercial premises (based on notarial deeds) vis a vis 17 flats in 1Q of 2010. The presales for 2011-2012 amounted to 89 flats.

- **The Erbud Group's consolidated revenues in 1Q 2011 increased by 50% year on year and amounted to PLN 276 017 000 versus PLN 184 360 000 in 1Q 2010.**
    - The increase in the Group's revenues is attributable mainly to sales growth in cubature activities in Poland and abroad (+41%) and engineering segment (+107%).
    - Other segments, i.e. development and energy (constitute 6.5% of revenue in total) grew significantly.
- **The Group's EBIT in 1Q 2011 was negative PLN 14 477 000 vis a vis profit of PLN 7 934 000 in 1Q 2010.**
    - **Negative Group's EBIT in 1Q was due to:**

- Lower than expected result was due to lower results in cubature activities in Poland and on the back of loss generated on Silesia shopping centre project (i.e. PLN 9.8 million) and cost of reserve of PLN 6 million on the account of the risk of further losses on the said contract.
- Lower than expected results in other business segments, i.e. foreign cubature activities, i.e. sub-constructors contracts (former contracts of Erbud S.A. and Erbud International) in the amount of minus PLN 2 143 000, and development segment (PLN minus 1 146 000) that depressed the Group's EBIT by PLN 3.39 million.

- Positive impact on Group's EBIT had engineering and energy as well as GWI, that added PLN 2.2 million to the consolidated EBIT.

- **In 1Q 2011 the Group's net profit was negative and stood at minus PLN 14 373 000 in comparison with the previous year's profit of PLN 4 579 000.**

- At the end of March 2011 the Erbud Group had PLN 47 102 000 in cash, a line of credit and guarantees with banks and insurance companies for a total of PLN 519 500 000.

- As at the end of March the Group had a record order book worth PLN 1 256 000 000, of which 79%, i.e. PLN 990 000 000 was due for completion this year. In comparison, the Group's order book at the end of March 2010 was worth PLN 1 076 000 000 (16% growth of order book this year).

    - In the upcoming month the Group intend to clinch contracts for the total of PLN 200 -300 million.

- In IQ 2011 the Group submitted offers for a total value of PLN 4.23 billion.
- At the day of report release, the total value of the bids still to be resolved amounted to PLN 3.1 billion.

II. EXTERNAL AND INTERNAL FACTORS OF SIGNIFICANCE TO THE GROWTH OF THE ERBUD GROUP

1. EXTERNAL FACTORS

1.1. The macro-economic environment

According to the IBnGR institute the GDP of Poland in 1Q 2011 stayed at the level of 4.3%. According to market economists of ING Bank increase in the GDP was noted at the range of 4.1% while the Prime Minister's advisors forecast 4% growth.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office, the growth rate in the construction sector in the period of 1Q 2011 amounted to 18.8%, major growth in land and water engineering by 26.7% and specialist sector by 30.7%, while cubature grew by 8.3%. The growth is the result of the revival in the market in the II H of 2010 in particular in cubature and specialist building works segments.

The improvement in the sector was accompanied by an increase in employment (by 8.7% in March) and an increase in wages (by 4.3% in March). Construction prices remain static for the next consecutive month (a 0.6% notch up in March 2010). That drives pressure for margins in the sector.

2. INTERNAL FACTORS

The Group's core activities in 1Q 2011

The data below shows the results of the various areas after taking into account exclusions from consolidation

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**		Steel structures***	
	1Q 2011	1Q 2010	1Q 2011	1Q 2010	1Q 2011	1Q 2010	1Q 2011	1Q 2010	1Q 2011	1Q 2010	1Q 2011	1Q 2010
Sales revenues	215 638	+42% r/r	19 897	+17% r/r	7 722	+35% r/r	17 755	+107%	10 254	8000%	2 751	135%
Sales share	78%	83%	7.2%	7.2%	2.8%	3%	6.4%	4.6%	3.7%	0.07%	1.0%	0.6%
EBIT	-13 183	-	-2 143	-	- 1 146	-	746	+151%	1436	+1595 %	-179	-
EBIT margin (%)	-%	9.7%	-%	-%	-%	-%	4.2%	-%	14%	-	-	-

** PBDI; OBiD ** Erbud Energetyka and the Energy Construction Division; ***Ersteel*

2.1. Cubature activities

Between January and March 2011 the Group signed a total of 13 contracts with an aggregate value of PLN 218 000 000. At the end of quarter the order book for the core activities was worth PLN 883 000 000, out of it PLN 686 000 000 to be completed this year.
In the period of 1Q 2011 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka and Ersteel) amounted to PLN 235 535 000, a 40% increase over the corresponding period in 2010. The Group's EBIT on its cubature activities came through at minus PLN 15 326 000 vis a vis profit of 11 399 000 in 1Q 2010.

Cubature activities in Poland (Erbud S.A.)
In 1Q 2011 sales in Poland amounted to PLN 215 638 000 – a 42% increase year on year. The EBIT loss was at PLN 13 183 000 vis a vis PLN 11 733 000 profit in 2010. The negative result is due to cost of Silesia shopping centre contract in Katowice. In 1Q the Group recorded the loss on the project amounting to PLN 9 800 000 resulting from: undervalued cost of the project vis a vis growth in costs of materials and labour, local conditions cost undervalued, and renegotiations of sub-contraction works at higher rates. In addition, in 1Q 2011 the Group added a reserve of PLN 6.0 million on the risk of further over-budget cost related to the said project. Other cubature projects in the period were positive and contributed positive results, hence the loss of the segment amounted to PLN 13 183 000.

Overseas cubature activities

In the period of 1Q 2011, sales revenues overseas grew by 17% to PLN 19 897 000 vis a vis PLN 16 951 000 in 1Q 2010. At the end of March EBIT came through at minus PLN 2 143 000. At the end of March the order book for the Group's overseas activities was worth PLN 54 200 000 vis a vis PLN 39 000 000 in the corresponding period of 2010. The order book gives ground to assume positive result of the segment at operating level.

The positive figures were achieved only by German company GWI GmbH, which recorded revenue of PLN 10 298 000 in 1Q 2011 and EBIT of PLN 465 000, i.e. margin 4.5%, while net result came at PLN 521 000, margin of 5%.

The reason for the loss is difficult market conditions in Western Europe. The management monitors the situation and manages to optimize the structure of the segment. Last year the Dusseldorf division was closed. To increase financial results, last year the German subsidiary GWI acquired stake in development contract in Germany. The financial effects of the project will impact partly this year's results.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 1Q 2011 Budlex completed the sale of 29 flats and commercial premises vis a vis 17 in 1Q2010.

The Budlex Group's revenues at the end of March 2011 stood at PLN 7 722 000 (before consolidation), as against PLN 6 640 000 in the corresponding period of 2010, i.e. 35% growth y-o-y.

The Budlex Group's operating loss, before consolidation, amounted to PLN 1 153 000. In the 1Q the Group intensified activities to prepare investment plots, hence it increased costs.

Upon consolidation in 1Q 2011 Budlex added PLN 7 722 000 to Erbud Group's consolidated revenue, i.e. 2.8% share. The Budlex Group decreased the Erbud Group's consolidated operating profit by PLN 1 146 000 at the end of March 2011.

Currently the Company is building new residential developments: 2 in Bydgoszcz, and 2 in Toruń. Pre-sales contracts entered into by the Budlex Group for 2011-2012 concerned 89 flats and commercial units.

The current sales level is in line with the Group estimates and shows potential for growth in the residential market in the region.

2.2.2 Road building

incorporating the results of the Road Building division (OBiD), PBDI

In 1Q 2011 the road building sector added 4 new contracts to the Group's order book with a total value of PLN 5 648 000. In 1Q 2011 the revenue of the segment amounted to PLN 17 755 000, i.e. 107% growth. The sector showed an operating profit upon consolidation of PLN 746 000 in 1Q 2011 versus a loss of PLN 1 468 000 in 1Q 2010.

In order to optimise its business operations and maximize effectiveness of the segment in December 2010 the PRD SA and Rembet Plus were transformed in one company. The company PBDI S.A. has a new management team and works in road and engineering sector and wind farms.
On the analysis of the current portfolio Group assumes the contracts signed mainly in the 2H of 2010 to be completed mainly in 2011, i.e. Modlin airport, Budomierz contract, should bring positive margin of contracts and stabilize the segment margin in 2011.

At the end of March the Group's order book for road works was worth PLN 257 000 000 which is PLN 207 000 000 is due for completion this year. In the corresponding period of 2010 that order book was worth PLN 86 000 000. The management expects increase in order book in 2011.

2.2.3 Construction for the energy sector

incorporating the Energy Construction Division and the Erbud Energetyka subsidiary

In 1Q 2011 the Group signed 2 contracts in the energy sector, with a total value of PLN 18 616 000. The revenues in this sector amounted to PLN 10 253 000. EBIT amounted to PLN 1 435 000, i.e. 14% operating margin.

At the end of the quarter, the segment had an order book in this sector worth PLN 59 000 000 to be completed mainly in 2011 vis a vis PLN 38 000 000 at the end of December 2010.

2.2.4. Steel structures and products

incorporating the results of Ersteel, a Budlex Group subsidiary

The company ended 1Q2011 with revenues of PLN 2 751 000 and profit loss of PLN 179 000.

2.3 Operating revenues and costs

2.3.1. The balance of operating revenues and costs

The balance of the Group's operating revenues and other costs in 1Q of 2011 amounted to PLN 97 000.

2.3.2. Costs of payroll and benefits and the employment in the Group

Between January and March 2011 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 27 379 000 – up 6% year on year, result of employment growth.

At the end of March 2011 the Group employed 1 433 people – up by 10.4% year on year, on growth of sales.

3. PROSPECTS

3.1. The macroeconomic environment

The World Bank estimates that this year the GDP in Poland will grow by 4.1%, while in 2012 the GDP will grow by 4.5%. According to the Economy Ministry in 1H2011 the GPD will grow by 5% and in 2011 by 4%.

3.2. The construction market

According to the report "Construction sector in Poland in 2H 2010 - comparison of voivodships and forecast for 2010-2013" by PMR group, after difficult times in 2009-2010, the upcoming month will bring higher growth. Due to planned engineering projects as well as cubature sector 2011 will record a high growth in the sector by 10% if weather conditions are satisfactory in winter.

The growth engine for the sector will be engineering segment. However due to public character of the investment in the segment, some projects may be postponed. In comprise with forecast of 1H of the year, the conditions for non-housing sector improved as well, mainly due to stabilisation in commercial segment public utility investment (in 2010 growth of 40% year on year expected). Housing sector according to the report is also in good shape.

Despite positive signals in 1Q, the sector representatives are neutral in their expectations. The market growth expectations index PMR, according to PMR report of 5 May 2011, stood in March at 8.7 points versus 7.8 points in November 2010.

The firms expect lower margins on competition and risk of growth in cost of materials.

3.3. The directions and objectives of the Group's development

Financial results in 1 Q 2011

In 1Q 2011 the Group reached a revenues growth by 50% year-on-year. The growth in revenue is attributable mainly to the growth in sales in the cubature segment in Poland and abroad and engineering segment.

At the end of March the Group had a consolidated operating loss at PLN 14.48 million. The loss results from lower than expected result of the cubature segment in Poland and extra cost of Silesia shopping centre contract. At the beginning of May, the audit of the contract showed the risk of additional costs on works not to be included in calculations and made the company calculate real cost of the contract. Bearing in mind the risk of such cases in future, the management introduced additional procedures and calculations on contracts acquisition. This should minimize the risk of similar cases in the future.

The positive impact on EBIT upon consolidation had engineering and energy segments as well as GWI, that in total added PLN 2.2 million to the Group EBIT.

Further growth prospects in 2011

At the day of reporting the company had record order book of PLN 1.178 billion. Based on the order book the management assumes the growth in revenue at the level of 10 to 15% yoy. The growth engine in 2011 will be the cubature segment in Poland, road-engineering segment, and energy segment. The Group expects growth in sale of flats by Budlex.

Bearing in mind the negative result of road and engineering segment last year, the management intends to have positive result in 2011. The 1Q results show positive direction. The management priority will be also to eliminate the negative impact of foreign cubature activities, namely subconstruction segment on company's profit.

Based on the market situation, the management expects that it is highly difficult to keep margins, including cubature segment, at the level of 2010. According to the management, this year, the profits will be under pressure from market situation. The symbolic growth of 0.6% in building prices at the end of March 2011 shows pressure on margins in the sector remained. This, together with potential of growth in cost of materials, increases the risk of decline in profitability in the construction sector.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1Q 2011, embracing the consolidation of Erbud SA; Erbud International Sp. z o. o.; GWI GmbH, PBDI, the consolidated statement of the Budlex Group and Erbud Energetyka sp. z o.o and Ersteel sp. z o.o .

	1	1	Difference
in thousand PLN	Q	Q	2010 to 2009
	2011	2010	
Sales	276 017	184 360	91 657
Cost of products sold	278 338	163 703	114 635
Profit/loss on sales	-2 321	20 657	-22 978
Cost of products sold	495	323	172
Cost of managemnt	11 758	13 275	-1 517
Operating profit	97	875	-778
EBIT	-14 477	7 934	-22 411
Financial profit	-963	-2 152	1 189
Investmnet profit	0	263	-263
Gross profit	-15 440	6 045	-21 485
Net profit	-14 373	4 579	-18 952
EBIT Margin	-5,24%	4,30%	-10%
Amortisation	1 324	1 512	-188
EBITDA margin	-4,77%	5,12%	-10%

2. PROFIT AND LOSS ACCOUNT

Details In thousand PLN	For the first 3 months of 2011	For the first 3 months of 2010
Depreciation	1 324	1 512
Materials and energy consumed	53 037	19 757
External services	180 849	133 055
Taxes and charges	1 304	1 326
Payroll	22 466	21 833
Social security and other benefits	4 913	4 013
Other costs	2 581	3 265
The value of the goods and materials sold.	1 923	76
Total costs	**268 397**	**184 837**
Change in stocks	22 196	-7 536
Costs of production of product on own use *negative value	0	0
Costs of sales	- -495	- -323
Cost of management	- -11 758	-13 275
Cost of production of sold product	278 340	163 703

3. THE ERBUD GROUP BALANCE SHEET

Details PLN ,000	31.03.2011	31.03.2010	% of total 2011	% of total 2010
Fixed assets	116 845	89 905	17%	15%
Current assets	563 498	510 925	83%	85%
TOTAL ASSETS	**680 343**	**600 830**	**100%**	**100%**
Shareholders funds	234 933	242 989	35%	40%
Long-term liabilities and provisions	59 973	43 985	9%	7%
Short-term liabilities and provisions	385 437	313 856	57%	52%
TOTAL LIABILITIES	**680 343**	**600 830**	**100%**	**100%**

3.1. Fixed and current assets

The structure of the fixed and current assets has not changed in comparison to 2010, as not extra activities. It reflects the typical structure for companies whose main activity is the provision of services and which for years have followed a policy of keeping fixed costs to a minimum.

4. ERBUD GROUP CASH FLOW

	1Q	1Q
in ,000 PLN	**2011**	**2010**
Net operating cash flow	-124 292	-40 437
Net cash flow from investment activities	- -2 065	- -6 202
Net cash flow from financial activities	-26 230	- -3721
Total net cash flow	**- -100 127**	**-50 353**
Cash at the end of the period	**47 102**	**122 194**

The Group finished the year with negative balance at the financial level as the result of lower profitability on operating level, due to reserves on Silesia project.

5. SELECTED FINANCIAL RATIOS

No.	Item	1Q 2011	1Q 2010
1.	ROE	-2.11%	0.76%
2.	ROA	-6.12%	1.91%
3.	Overall gearing ratio	65%	60%
4.	Debt to equity ratio	1.90	1.47
5.	Current liquidity ratio	0.85	1.02
6.	Quick liquidity ratio	0.12	0.39
7	Return on sales	-5.59%	3.28%
8.	Net margin	-5.21%	2.48%

The financial ratios and the financial information show the profitability decrease. On the back of the fall in profitability ratios, the Group liquidity ratios decreased.