THE ERBUD GROUP

THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-2Q 2011

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-2Q 2011

In the period of 2Q 2011:
REVENUES: PLN 408 470 000
EBIT: PLN - 13 289 000
NET PROFIT: PLN - 14 215 000

In the period of 1-2Q 2011:
REVENUES: PLN 684 487 000
EBIT: PLN - 27 766 000
NET PROFIT: PLN - 28 588 000
CASH: PLN 60 698 000

The financial information for the 1-2Q 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 1-2Q 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 1-2Q 2011 by 17%, buildings segment drops by 3.8%.
- An increase in the costs of materials and labour (by 4.0%) at the end of June 2011.
- Symbolic growth in building prices, a 0.8% notch up at the end of June 2011, pressure on margins in the sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between April and June 2011 totalled 27 contracts with an aggregate value of PLN 152 000 000. In the period of 1-2Q 2011 Group signed 49 contracts with a total value of PLN 397 000 000 versus 88 with a total value of PLN 529 000 000 in the corresponding period in 2010.
    - Lower pace of new contracts acquisition results from the high level of portfolio of contracts in progress.
    - Based on the construction market situation the management increased criteria regarding new projects acquisition.
- Completed sales at the Budlex Group in the period of 2Q 2011 amounted to 12 flats and commercial premises (based on notarial deeds) vis a vis 22 flats in 2Q of 2010. In the period of 1-2Q 2011 the Group sold 41 flats vis a vis 39 in 1-2Q 2010.
    - In July 2011 the Group sold 46 flats.

- **The Erbud Group's consolidated revenues in 2Q 2011 increased by 20.2% (i.e. PLN 68 653 000) year on year and amounted to PLN 408 470 000 versus PLN 339 817 000 in 2Q 2010.**
  - The increase in the Group's revenues is attributable mainly to sales growth in cubature activities in Poland (+27%) and road-engineering segment (+21,6%) as well as energy sector.
- **The Erbud Group's consolidated revenues in 1-2Q 2011 increased by 31% (i.e. PLN 160 310 000) year on year and amounted to PLN 684 487 000.**

- **The Group's EBIT in 2Q 2011 was negative PLN 13 289 000 vis a vis profit of PLN 19 627 000 in 2Q 2010.**
  - **Negative Group's EBIT in 2Q was due to:**
    - Lower than expected result was due to lower results in cubature activities in Poland and on the back of further loss generated on Silesia shopping centre project and cost of reserve of PLN 5 million on the account of the risk of further losses on the said contract.
    - Costs of settlements of Zamość shopping centre (project ended in 2Q 2011), road Włocławek-Toruń (final settlements with investor and subcontractors). The Group also recorded a loss on the Limanowa swimming pool contract.
    - The foreign cubature activities, i.e. sub-constructors contracts recorded a loss in the amount of minus PLN 1 164 000,
      - The German subsidiary GWI ended 2Q with profit of PLN 655 000 before consolidation.
- Positive impact on Group's EBIT had road-engineering (PLN 1.7 million) and energy (PLN 979 000) that added PLN 2.7 million to the consolidated EBIT.

- **The Group's EBIT in 1-2Q 2011 was negative PLN 27 766 000 vis a vis profit of PLN 27 561 000 in 1-2Q 2010.**

- **In 2Q 2011 the Group's net profit was negative and stood at minus PLN 14 215 000 in comparison with the previous year's profit of PLN 14 673 000.**
- **In 1-2Q 2011 the Group's net profit was negative and stood at minus PLN 28 588 000 in comparison with the previous year's profit of PLN 19 252 000.**

- At the end of June 2011 the Erbud Group had PLN 60 698 000 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 June the Group had a record order book worth PLN 1 082 000 000, of which 67%, i.e. PLN 729 000 000 was due for completion this year. In comparison, the Group's order book at the end of June 2010 was worth PLN 926 000 000 (16.8% growth of order book this year).

  - In the period of July-August the Group signed 9 contracts of PLN 200 million, i.e. PLN 30 million to be completed in 2011.

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

- At the end of 2Q 2011 the Group submitted offers for a total value of PLN 9.6 billion and out of that PLN 6.8 billion to be resolved.

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 Central Statistical Office (GUS) the GDP of Poland in 2Q 2011 stayed at the level of 4.3% versus 4.4% in 1Q 2011.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector in the period of 1-2Q 2011 amounted to 17%, major growth in land and water engineering by 40.2% and specialist sector by 22.8%.

The improvement in the sector was accompanied by an increase in employment (by 7.9% in June) and an increase in wages (by 4.0% in June). Construction prices remain static for the next consecutive month (a 0.8% notch up in June 2010). That drives pressure for margins in the sector.

2. INTERNAL FACTORS

The Group's core activities in 2Q 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***	
	2Q 2011	2Q 2010	2Q 2011	2Q 2010	2Q 2011	2Q 2010	2Q 2011	2Q 2010	2Q 2011	2Q 2010	2Q 2011	2Q 2010
Sales revenues	327 108	+27.16 % r/r	18 375	-48% r/r	3 780	-56% r/r	41 785	+21.6%	13 746	347%	3 676	143%
Sales share	80,3%	76%	4.5%	10.3%	0.9%	2.5%	10%	10%	3.4%	0.9%	0.9%	0.4%
EBIT	-14 006	20 356	-1 164	253	- 230	-	1 696	675	978	136	-563	-
EBIT margin (%)	-	7.05%	-	0.7%	-	-	4.0%	2%	7.11%	4.4%	-	-

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**		Steel structures***	
	1-2Q 2011	1-2Q 2010	1-2Q 2011	1-2Q 2010	1-2Q 2011	1-2Q 2010	1-2Q 2011	1-2Q 2010	1-2Q 2011	1-2Q 2010	1-2Q 2011	1-2Q 2010
Sales revenues	544 746	+33% r/r	38 272	-26% r/r	11 502	-20% r/r	59 540	+38.7%	24 000	651%	6 427	140%
Sales share	79.6%	78%	5.6%	10.0%	1.7%	2.7%	8.7%	8.2%	3.5%	0.6%	0.9%	0.5%
EBIT	-27 189	32 089	-3 307	-	- 1 376	-	2 442	-793	2 414	40	-750	-
EBIT margin (%)	-	7.8%	-	-	-	-	4.1%	-	10%	1.2%	-	-

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

2.1. Cubature activities

Between April and June 2011 the Group signed a total of 16 contracts with an aggregate value of PLN 108 000 000. In the period of 1-2Q 2011 the Group signed 29 contracts at total of PLN 326 000 000. At the end of quarter the order book for the core activities was worth PLN 738 000 000, out of it PLN 474 000 000 to be completed this year.
In the period of 2Q 2011 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka and Ersteel) amounted to PLN 345 483 000, a 18% increase over the corresponding period in 2010. The Group's EBIT on its cubature activities came through at minus PLN 15 170 000 vis a vis profit of 20 609 000 in 2Q 2010. In the period of -12Q 2011 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka and Ersteel) amounted to PLN 583 018 000, a 26.5% increase over the corresponding period in 2010. The Group's EBIT on its cubature activities came through at minus PLN 30 496 000 vis a vis profit of 32 008 000 in 1-2Q 2010.

Cubature activities in Poland (Erbud S.A.)
In 2Q 2011 sales in Poland amounted to PLN 327 108 000 – a 27% increase year on year. The EBIT loss was at PLN 14 006 000 vis a vis PLN 20 356 000 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. In 2Q Group added a reserve of PLN 5.0 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, however at lower rates than estimated. In 1-2Q 2011 sales in Poland amounted to PLN 544 746 000 – a 33% increase year on year. The EBIT loss was at PLN 27 189 000 vis a vis PLN 32 089 000 profit in 2010.

Overseas cubature activities

In the period of 2Q 2011, sales revenues overseas lost 48% to PLN 18 375 000. In 2Q EBIT came through at minus PLN 1 164 000. At the end of June the order book for the Group's overseas activities was worth PLN 46 000 000 vis a vis PLN 45 000 000 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 19 432 000 in 1-2Q 2011 and EBIT of PLN 1 126 000, i.e. margin 5.8%.

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 1-2Q 2011 Budlex completed the sale of 41 flats and commercial premises vis a vis 39 in 1-2Q 2010. In July Budlex sold a total of 46 flats.

The Budlex Group's revenues at the end of June 2011 stood at PLN 11 502 000, as against PLN 14 360 000 in the corresponding period of 2010, i.e. 20% loss y-o-y. Before consolidation Budlex recorded loss at the end of June. In the 1-2Q the Group intensified activities to prepare investment plots, hence it increased costs.

Upon consolidation in 1-2Q 2011 Budlex added PLN 11 502 000 to Erbud Group's consolidated revenue. The Budlex Group decreased the Erbud Group's consolidated operating profit by PLN 1 375 000 at the end of June 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 2011concerned 118 flats and commercial units and 2012 concerned 104 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 2Q 2011 the road building sector added 9 new contracts to the Group's order book with a total value of PLN 42 000 000. In 1-2Q 2011 the road building sector added 13 new contracts to the Group's order book with a total value of PLN 48 000 000. In 2Q 2011 the revenue of the segment amounted to PLN 41 785 000, i.e. 21.6% growth. The sector showed an operating profit upon consolidation of PLN 1 698 000 in 2Q 2011 versus a profit of PLN 675 000 in 2Q 2010. In 1-2Q 2011 the revenue of the segment amounted to PLN 59 540 000, i.e. 38.7% growth. The sector showed an operating profit upon consolidation of PLN 2 444 000 in 1-2Q 2011 versus a loss of PLN 793 000 in 1-2Q 2010.

At the end of June the Group's order book for road works was worth PLN 238 000 000 which is PLN 179 000 000 is due for completion this year. In the corresponding period of 2010 that order book was worth PLN 80 000 000. 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

The revenues in this sector for 1-2Q 2011 amounted to PLN 24 000 000. EBIT amounted to PLN 2 415 000, i.e. 10% operating margin.

At the end of the quarter, the segment had an order book in this sector worth PLN 33 000 000 to be completed in 2011.

2.2.4. Steel structures and products

incorporating the results of Ersteel, a Budlex Group subsidiary

The company ended 1-2Q2011 with revenues of PLN 6 427 000 and profit loss of PLN 750 000.

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 1-2Q of 2011 amounted to PLN 2 220 000.

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

Between April and June 2011 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 31 681 000 – up 8% year on year, result of employment growth.

At the end of June 2011 the Group employed 1 445 people – up by 6.6% year on year, on growth of sales.

3. PROSPECTS

3.1. The macroeconomic environment

JP Morgan estimates GDP by 3.8% in 2011 and 3.0% in 2012 versus 4.0% and 3.4% in earlier estimates. Citibank also lowered the forecast to 3.8% of GDP in 2011 from 4.2% and to 2.9% in 2012 from earlier 3.8%.

3.2. The construction market

In 1H 2011 the construction sector grew in real value by 20.8%. The June growth by 17% backed up the positive sentiment especially in engineering and specialist sectors.

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 1-2Q, the sector representatives are neutral in their expectations. Firms expect lower back log potential and margins. The firms expect lower margins on competition and risk of growth in cost of materials. According to the Public Tender Office the value of contracts in January-July 2011 was PLN 17.6 billion, i.e. drop of PLN 5.8 billion versus the corresponding period of 2010.

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

Financial results in 1-2 Q 2011

In 1-2Q 2011 the Group reached a revenues growth by 31% year-on-year to PLN 684.5 million. The growth in revenue is attributable mainly to the growth in sales in the cubature segment in Poland and engineering segment. Despite revenue growth, the Group recorded negative EBIT and net result, effect of 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. In 1Q the Group recorded the loss on the project amounting to PLN 9.8 million and added a reserve of PLN 6.0 million on the risk of further over-budget cost related to the said project. In 2Q Group added a further reserve of PLN 5.0 million on the risk of further over-budget cost related to the said project. On the basis of the internal audit results, the Management estimates that the Silesia project should not generate further losses.

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 June the company had record order book of PLN 1.082 billion, out of that PLN 729 million to be completed this year. 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 order book, the Management expects the financial results improvement in the consecutive quarters of 2011.

In the consecutive quarters – out of Silesia impact - the Management expects improvement in results in the cubature segment in Poland. Still the margins will be under pressure from market conditions. The symbolic growth of 0.8% in building prices at the end of June 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.

In the road and engineering segment the Management intends to have positive result in 2011. The Management intends to enter 2012 with order book of PLN 1 billion.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-2Q 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 .

2. PROFIT AND LOSS ACCOUNT

	2011	2010	difference 2011 do 2010	2011	2010	difference 2011 do 2010
	I-II Q 2011	I-II Q2010		II Q 2011	II Q 2011	
Revenue	684 487	524 177	160 310	408 470	339 817	68 653
Cost of good sold	690 081	470 265	219 816	411 743	306 562	105 181
Profit on sales	-5 594	53 912	-59 506	-3 273	33 255	-36 528
Cot of sales	1 616	1 070	546	1 121	747	374
Management cost	22 776	25 090	-2 314	11 018	11 815	-797
Result on operations	2 220	-191	2 411	2 123	-1 066	3 189
EBIT	-27 766	27 561	-55 327	-13 289	19 627	-32 916
Financial profit	-4 488	-2 805	-1 683	-3 525	-653	-2 872
Investment profit	0	263	-263	0	0	0
Gross profit	-32 254	25 019	-57 273	-16 814	18 974	-35 788
Net profit	-28 588	19 252	-47 840	-14 215	14 673	-28 888
EBIT Margin	-4,06%	5,26%	-9%	-3,25%	5,78%	-9%
Depreciation	3 884	3 941	-57	2 560	2 429	131
EBITDA Margin	-3,49%	6,01%	-9%	-2,63%	6,49%	-9%

DETAILS	30.06.2011	30.06.2010	DIFFERENCE	% CHANGE
A. Main activities	**686 480**	**525 630**	**160 850**	**30,60**
B. Cost	**716 466**	**497 878**	**218 588**	**43,90**
Depreciation	3 884	3 941	-57	-1,45
Use of materials and energy	131 016	59 593	71 423	119,85
Services	512 938	369 893	143 045	38,67
Taxes and payments	2 930	2 683	247	9,21
Payroll	47 104	46 743	361	0,77
Social security	11 060	8 450	2 610	30,89
Other cost	5 855	6 106	-251	-4,11
Value of goods sold	1 679	469	1 210	
C. Profit (loss) on slaes	**-29 986**	**27 752**	**-57 738**	**-208,05**
D. Other operating revenue	4 029	2 276	1 753	77,02
E. Pother operating cost	1 809	2 467	-658	-26,67
F. Profit (loss) on operating activities	**-27 766**	**27 561**	**-55 327**	**-200,74**
G. Financial revenue	3 249	1 631	1 618	99,20
H. Financial cost	7 737	4 436	3 301	74,41
I. Profit (loss) on enterpries operations	**-32 254**	**25 019**	**-57 273**	**-228,92**
J. Gross profit (loss)	**-32 254**	**25 019**	**-57 273**	**-228,92**
K. Income tax	-3 666	5 767	-9 433	-163,57
L. Other profit decreases	0	0	0	0,00
N Net profit	**-28 588**	**19 252**	**-47 840**	**-248,49**

3. THE ERBUD GROUP BALANCE SHEET

Item PLN thousand	2011-06-30	2010-06-30	% of total 2011	% of total 2010
Fixed assets	119 558.00	86 808.00	15.31%	13.38%
Current assets	661 245.00	561 913.00	84.69%	86.62%
TOTAL ASSETS	**780 803.00**	**648 721.00**	**100.00%**	**100.00%**
Shareholders funds	219 975.00	254 062.00	28.17%	39.16%
Long-term liabilities and provisions	61 161.00	70 117.00	7.83%	10.81%
Short-term liabilities and provisions	499 666.00	324 542.00	64.00%	50.03%
TOTAL LIABILITIES	**780 803.00**	**648 721.00**	**100.00%**	**100.00%**

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 - low level of fixed assets and high level of working capital. It also results from the fact that for years the Group have followed a policy of keeping fixed costs to a minimum.

4. ERBUD GROUP CASH FLOW

	1-2Q	1-2Q
in ,000 PLN	**2011**	**2010**
Net operating cash flow	-121 476	-39 972
Net cash flow from investment activities	-2 843	-3 545
Net cash flow from financial activities	37 648	-19 511
Total net cash flow	**- 86 671**	**-62 907**
Cash at the end of the period	**60 698**	**109 633**

The Group finished the year with negative balance at the financial level as the result of lower profitability on operating level, longer period of receivables rotation with payables period at the same level. It reflects the current construction market which is impacted by investors' dominance.

5. SELECTED FINANCIAL RATIOS

No.	Item	2Q 2011	2Q 2010
1.	ROA	-3.66%	2.97%
2.	ROE	-13.00%	7.58%
3.	Overall gearing ratio	72%	61%
4.	Debt to equity ratio	2.55	1.55
5.	Current liquidity ratio	1.50	1.73
6.	Quick liquidity ratio	1.10	1.41
7	Return on sales	-4.71%	5.28%
8.	Net margin	-4.18%	3.67%

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.