ERBUD CAPITAL GROUP



MANAGEMENT COMMENTARY TO THE 4 QUARTERS 2011 FINANCIAL RESULTS

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1-4Q 2011

In the period of 4Q 2011:
REVENUES: PLN 388 178 000
EBIT: PLN 8 372 000
NET PROFIT: PLN 3 304 000

In the period of 1-4Q 2011:
REVENUES: PLN 1 497 434 000
EBIT: PLN - 12 623 000
NET PROFIT: PLN - 20 924 000
CASH: PLN 161 291 000

The financial information for the 1-4Q 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 1-4Q OF 2011, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Growth in the building sector in Poland in 2011 by 16.3% y-oy. The growth engine were land and water engineering segment (up by 25.9% y-o-y), and specialist segment grew by 29.8% y-o-y) while buildings segment rose by 2.0%.
- Symbolic growth in building prices, from 0.3% notch up in January 2011 to a 1.8% up at the end of December 2011, pressure on margins in the sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between October and December 2011 totalled 20 contracts with an aggregate value of PLN 399 000 000. In the period of 1-4Q 2011 Group signed 105 contracts with a total value of PLN 1 125 811 000 versus 200 with a total value of PLN 1 404 000 000 in the corresponding period in 2010.
- Completed sales at the Budlex Group in the period of 4Q 2011 amounted to 95 flats and commercial premises (based on notarial deeds). In the period of 1-4Q 2011 the Group sold 224 flats vis a vis 151 in 1-4Q 2010.

- **The Erbud Group's consolidated revenues in 4Q 2011 increased by 46% (i.e. PLN 122 000 000) year on year and amounted to PLN 388 178 000.**
- **The Erbud Group's consolidated revenues in 1-4Q 2011 increased by 36% (i.e. PLN 394 000 000) year on year and amounted to PLN 1 498 000 000.**

- The increase in the Group's revenues is attributable mainly to sales growth in cubature activities in Poland (+25%) and road-engineering segment (+148%).

- **In line with the management expectations the Group's EBIT in 4Q 2011 was PLN 8 372 000. In 4Q 2011 the Group's net profit stood at PLN 3 304 000.**

- **The Group's EBIT in 1-4Q 2011 was negative PLN 12 623 000 vis a vis profit of PLN 20 872 000 in 1-4Q 2010.**
  - Positive impact on Group's EBIT had:
    - road-engineering (PLN 11.5 million),
    - and development (PLN 4.6 million).
    - Also foreign cubature segment and energy segment added in total PLN 1.3 million to the consolidated EBIT.

- **In 1-4Q 2011 the Group's net profit was negative and stood at minus PLN 20 924 000 in comparison with the previous year's profit of PLN 12 150 000.** In 2011 the Group's financial costs stood at PLN 16 515 000 (including bond issue, exchange rate and credit costs).

- At the end of December 2011 the Erbud Group had PLN 161 291 000 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 December 2011 the Group had a record order book worth PLN 1 084 000 000, of PLN 850 000 000 was due for completion this year.
  - In the January-February the Group signed 6 contracts of PLN 200 million, i.e. 2/3 to be completed in 2012.
  - In the upcoming month the Group intend to clinch contracts for the total of PLN 200-400 million.

- At the end of December the Group submitted offers for a total value of PLN 14.5 billion and out of that PLN 7.14 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) preliminary forecast, the GDP of Poland in 2011 stayed at the level of 4.3% vis a vis 3.9% growth in 2010.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector in 2011 amounted to 16.3%. Major growth were in land and water engineering by 25.9% and specialist sector by 29.8%.

At the end of December employment growth in the sector was at 6.0% vis a vis 6.7% at the end of 3Q2011. The growth in the sector corresponded with the wages growth, a jump by 7.3% in October and November-December growth by 3.6% and 3.5% respectively.

Construction prices remain almost static in 2011, growth from 0.3% in January 2011 to 1.8% in December 2011. That together with costs increase drives pressure for margins in the sector.

2. INTERNAL FACTORS

The Group's core activities in 4Q 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***	
	4Q 2011	4Q 2010	4Q 2011	4Q 2010	4Q 2011	4Q 2010	4Q 2011	4Q 2010	4Q 2011	4Q 2010	4Q 2011	4Q 2010
Sales revenues	253338	+23.0% y-o-y	37 661	53% y-o-y	25 132	+23% y-o-y	65685	+21020 % y-o-y	5168	-57% y-o-y	1194	-62% y-o-y
Sales share	65%	77%	9.7%	9.3%	6.5%	7.7%	17%	0.12%	1.33%	4.5%	0.3%	1%
EBIT	2815	-9 323	2022	-1046	2438	-694	3899	-5452	-1570	152	-1232	-
EBIT margin (%)	1.11%	-	5.4%	-	9.7%	-	6.0%	-	-	1.3%	-	-

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**		Steel structures***	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Sales revenues	1 073 000	+27.6% y-o-y	106 336	5.7% y-o-y	58 547	+29.1% y-o-y	206 846	+148% y-o-y	42484	+74% y-o-y	10221	+10.8% y-o-y
Sales share	71%	76%	7.1%	9%	3.9%	4.1%	13.8%	7.5%	2.8%	2.2%	0.7%	0.9%
EBIT	-26081	40 836	537	-3 705	4628	-2006	11480	-9177	737	545	-3924	
EBIT margin (%)	-	4.9%	0.5%	-	7.9%	-	5.5%	-	1.7%	2.2%	-	-

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

2.1. Cubature activities

Between October and December 2011 the Group signed a total of 17 contracts with an aggregate value of PLN 319 368 000. In the period of 1-4Q 2011 the Group signed 63 contracts at total of PLN 954 000 000. At the end of 4Q of 2011 the order book for the core activities was worth PLN 966 700 000, out of it PLN 632 000 000 to be completed this year.

In the period of 4Q 2011 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka and Ersteel) amounted to PLN 290 999 000, a 26.4% increase over the corresponding period in 2010. The Group's EBIT on its cubature activities came through at PLN 4 837 000 vis a vis loss of 10 369 000 in 4Q 2010.EBIT margin stood at 1.7%. In the period of 1-4Q 2011 sales (excluding the revenues

generated by Budlex Group, PBDI, OBiD, Erbud Energetyka and Ersteel) amounted to PLN 1 179 000 000, a 25% increase over the corresponding period in 2010. The Group's EBIT on its cubature activities came through at minus PLN 25 528 000 vis a vis profit of 37 131`000 in 1-4Q 2010.

Cubature activities in Poland (Erbud S.A.)
In 4Q 2011 sales in Poland amounted to PLN 253 338 000 – a 23% increase year on year. The EBIT was at PLN 2 815 000 vis a vis PLN 9 323 000 loss in 2010. EBIT margin stood at 1.1% in 4Q 2011.
In 1-4Q 2011 sales in Poland amounted to PLN 1 073 000 000 – a 27.6% increase year on year. EBIT loss was at PLN 26 081 000 vis a vis PLN 40 836 000 profit in 2010. The loss is due to extra costs of the company in 1H 2011 on the back of unprofitable Silesia contract.

Overseas cubature activities

In the period of 4Q 2011, sales revenues overseas (i.e. GWI, Erbud S.A. and Erbud International) increased 53% to PLN 37 661 000. In 4Q EBIT came through at PLN 2 022 000, i.e. 5.4% margin. At the end of December 2011 the Group's overseas activities revenue was PLN 106 336 000 and operating profit of PLN 537 000.

The positive figures were achieved by German company GWI GmbH, which recorded revenue of PLN 44 797 000 in 1-4Q 2011 and net profit of PLN 2 207 000, i.e. margin 4.9%.
The order book at the end of December 2011 stood at PLN 45 000 000.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 1-4Q 2011 Budlex completed the sale of 224 flats and commercial premises vis a vis 151 in 1-4Q 2010.

The Budlex Group's revenues (before consolidation) at the end of December 2011 stood at PLN 59 568 000, i.e. 32.4% growth y-o-y. Before consolidation Budlex recorded EBIT amounting to PLN 10 136 000 versus PLN 7 287 000 in 2010. EBIT margin stood at 17%.

Upon consolidation in 1-4Q 2011 Budlex added PLN 58 547 000 to Erbud Group's consolidated revenue. The Budlex Group increased the Erbud Group's consolidated operating profit by PLN 4 628 000 at the end of December 2011.

Currently the Company is building new residential developments: 3 in Bydgoszcz, and 4 in Toruń. Pre-sales contracts entered into by the Budlex Group at the end of December for 2011 concerned 180 flats and commercial units to be completed in 2012. 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 2011 the road building sector added 34 new contracts to the Group's order book with a total value of PLN 145 000 000. In 4Q 2011 the revenue of the segment amounted to PLN 65 685 000 versus PLN 311 000 in 4Q 2010. In 2011 the revenue of the segment amounted to PLN 206 846 000 i.e. 148% growth y-o-y.

The sector showed an operating profit upon consolidation of PLN 3 899 000 in 4Q 2011 versus a loss of PLN 5 452 000 in 4Q 2010. In 2011 EBIT stood at PLN 11 480 000 vis a vis loss of PLN 9 177 000 in 2010. The EBIT margin at the end of December was at 5.5%

At the end of the year the Group's order book for road works was worth PLN 166 500 000. In the corresponding period of 2010 that order book was worth PLN 286 000 000. The Group is taking part in a few tenders for road and engineering contracts, and the tenders are to be decided within a few months. The management hopes the order book will increase within months.

2.2.3 Construction for the energy sector

incorporating the Energy Construction Division and the Erbud Energetyka subsidiary

The revenues in this sector for 1-4Q 2011 amounted to PLN 42 484 000. EBIT amounted to PLN 737 000, i.e. 1.7% operating margin.

2.2.4. Steel structures and products

incorporating the results of Ersteel, a Budlex Group subsidiary

The company ended 2011 with revenues (upon consolidation) of PLN 10 221 000 and EBIT loss of PLN 3 924 000. The loss is the effect of completing the operations in the steel sector and massive layoffs. Last contracts were completed in October 2011.

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 1-4Q of 2011 amounted to PLN 295 000.

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

In 4Q 2011 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 34 479 000 – up 16% year on year, result of employment growth. In 2011 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 127 352 000, i.e. 14.4% growth y-o-y.

At the end of December 2011 the Group employed 1 519 people – up by 10% year on year, on growth of sales.

3. PROSPECTS

3.1. The macroeconomic environment

In the Polish budget for 2012 GDP estimates was set by 2.5%. The central bank expects GDP growth by 3.0% in 2012.

3.2. The construction market

The construction sector climate in January 2012 showed minus 20.5 points i.e. up by 2.2 points in December and is the lowest level for January in the last 7 consecutive years. The firms grow on climate expectoration at the beginning of this year vis a vis end of last year, still there are a lot of negative expectations too. The construction sector climate in February is also negative – 20 points and worse than last year's February (-21 points in January). The firms expect lower backlog growth and decreasing margins in the sector. 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

Effectiveness increase and profit reconstruction

The Erbud Group entered 2012 with order book of above PLN 1 billion. Due to price pressure in the sector, the Management will concentrate in 2012 on projects that guarantee positive margins on contracts. The acquisition of new projects will linked to the Group's profitability targets. Due to law

changes for investors, the sector expects worse liquidity conditions. Hence the management will concentrate on cautious cooperation with subcontractors and investors during projects.

The Management intends to maintain the current backlog structure with commercial projects (around 50%) with investors of financial stability and public projects that guarantee positive margins. The Management' priority for 2012 is to regain profits and keep revenue at the level above PLN 1 billion. The growth engine will be the cubature segment in Poland and engineering segment.

The foreign cubature segment will concentrate on development on the market it's operated. The engineering segment has focused on local small and mid size project to build competence in the Group. This year the Group is taking part in tenders for a total value of PLN 2 billion.

Bearing in mind the stable demand for apartments in the region Budlex Group started new investment projects in Toruń and Bydgoszcz. We expect this year's sales at the minimum level of last year. The 2012 should also bring new decisions on the office project in Poznań. The management expects for administrative decision that allow to speed up the project.

The management focus this year is on effectiveness improvement within the Group. The controlling and internal audit departments will be adjusted to the needs of growing company. The optimization of business processes should improve effectiveness and minimize the financial risk in the long term.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-4Q 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-IV Q 2011	I-IV Q 2010		IV Q 2011	IV Q 2010	
Revenue	1 497 547	1 103 907	393 640	388 178	266 094	122 084
Cost of good sold	1 461 125	1 028 031	433 094	364 046	268 918	95 128
Profit on sale	36 422	75 876	-39 454	24 132	-2 824	26 956
Cost of sales	3 670	2 991	679	1 014	1 306	-292
Management cost	45 673	50 831	-5 158	10 695	14 063	-3 368
Result on operations	298	-1 182	1 480	-4 051	-1 037	-3 014
EBIT	-12 623	20 872	-33 495	8 372	-19 230	27 602
Financial profit	-8 525	-3 834	-4 691	-4 015	263	-4 278
Investment profit	0	1 950	-1 950	0	180	-180
Gross profil	-21 148	18 988	-40 136	4 357	-19 050	23 407
Net profit	-20 924	12 150	-33 074	3 304	-15 556	18 860
EBIT Margin	-0,84%	1,89%	-3%	2,16%	-7,23%	9%
Deprecation	7 903	8 162	-259	2 281	2 369	-88
EBITDA Margin	-0,32%	2,63%	-3%	2,74%	-6,34%	9%

According to calculative method (IAS)

DETAILS	30.09.2011	30.09.2010	DIFFERENCE	% CHANGE
A. Main activities	**1 522 414**	**1 107 370**	**415 044**	**37,48**
B. Cost	**1 535 335**	**1 085 316**	**450 019**	**41,46**
Depreciation	7 903	8 162	-259	-3,17
Use of materials and energy	230 661	163 284	67 377	41,26
Services	1 148 262	782 655	365 608	46,71
Taxes and payments	6 490	4 962	1 528	30,79
Payroll	104 333	92 929	11 404	12,27
Social security	23 020	18 396	4 623	25,13
Other cost	12 096	12 879	-784	-6,08
Value of goods sold	2 571	2 049	522	
C. Profit (loss) on slaes	**-12 921**	**22 054**	**-34 975**	**-158,59**
D. Other operating revenue	10 965	5 769	5 196	90,07
E. Other operating cost	10 667	6 951	3 716	53,46
F. Profit (loss) on operating activities	**-12 623**	**20 872**	**-33 495**	**-160,48**
G. Financial revenue	7 990	4 347	3 643	83,80
H. Financial cost	16 515	8 181	8 334	101,87
I. Profit (loss) on investment	0	1 950	-1 950	-100,00
I. Profit (loss) on enterpries operations	**-21 148**	**18 988**	**-40 136**	**-211,38**
J. Gross profit (loss)	**-21 148**	**18 988**	**-40 136**	**-211,38**
K. Income tax	-224	6 838	-7 062	-103,28
L. Other profit decreases	0	0	0	0,00
N Net profit	**-20 924**	**12 150**	**-33 074**	**-272,21**

According to comparative method (PAS)

3. THE ERBUD GROUP BALANCE SHEET

Item PLN thousand	2011-21-31	2010-12-31	% of total 2011	% of total 2010
Fixed assets	129 664	112 611	15.70%	18.04%
Current assets	696 243	511 275	84.30%	81.96%
TOTAL ASSETS	**825 907**	**623 886**	**100.00%**	**100.00%**
Shareholders funds	227 691	248 580	27.60%	40.00%
Long-term liabilities and provisions	113 783	53 904	13.77%	8.64%
Short-term liabilities and provisions	484 433	321 402	58.63%	51.36%
TOTAL LIABILITIES	**825 907**	**623 886**	**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. Together with the loss the Group incurred in the period the change in liabilities took place. The share of the own capital decreased from 40% to 27.6%. Due to bond issue by Erbud S.A. was the change in structure of financing of operations from short term to long-term capital. The increase in assets is result of higher sales.

4. Erbud Group CASH FLOW

	1-4Q	1-4Q
in ,000 PLN	**2011**	**2010**
Net operating cash flow	-71 807	23 558
Net cash flow from investment activities	4 638	-44 301
Net cash flow from financial activities	81 231	-4 574
Total net cash flow	**14 062**	**-25 317**
Cash at the beginning of the period	**147 229**	**172 546**
Cash at the end of the period	**161 291**	**147 229**

The Group finished with negative balance at the financial level as the result of lower profitability on operating level. High level of net cash from financial activities is contributed to bond issue by Erbud S.A. Moreover, the Group has shortened its payment time for subcontractors due to market conditions in comparison with the receivables payment logs.

5. SELECTED FINANCIAL RATIOS

No.	Item	2011	2010
1.	ROA	-2.53%	1.95%
2.	ROE	-9.19%	4.90%
3.	Overall gearing ratio	72%	60.00%
4.	Debt to equity ratio	2.63	1.51
5.	Current liquidity ratio	1.44	1.60
6.	Quick liquidity ratio	0.85	1.01
7	Return on sales	-1.41%	1.72%
8.	Net margin	-1.40%	1.10%

The financial ratios and the financial information show the profitability decrease on 1-2Q 2011 results. The profitability ratios increased vis a vis 3Q 2011.