ERBUD CAPITAL GROUP



MANAGEMENT COMMENTARY TO THE 1 QUARTER 2012 FINANCIAL RESULTS

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1Q 2012

In the period of 1Q 2012:
REVENUES: PLN 234 402 000
EBIT: PLN 7 500 000
NET PROFIT: PLN 3 275 000
CASH: PLN 78 544 000

The financial information for the 1Q of 2012 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 2012, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Growth in the building sector in Poland in 1Q 2012 by 16.2% y-o-y versus 19.1% growth in 1Q 2011. The growth engine were railway and housing segments.
- Decrease in the employment growth: 4.2% y-o-y up in March. Significant slowdown in wages:0.5% growth in March versus 6% in February 2012.
- Symbolic growth in building prices, from 1.3% y-o-y notch up in March 2012, pressure on margins in the sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between January and March 2012 totalled 25 contracts with an aggregate value of PLN 469 000 000. In the period of 1-Q 2011 Group signed 23 contracts with a total value of PLN 273 000 000.
- Completed sales at the Budlex Group in the period of 1Q 2012 amounted to 37 flats and commercial premises (based on notarial deeds). In the period of 1Q 2011 the Group sold 29 flats. The presales for 2012-2013 amount to 216 versus 89 flats in 1Q 2011.

- **The Erbud Group's consolidated revenues in 1Q 2012 decreased by 15% year on year and amounted to PLN 234 402 000 versus PLN 276 017 000 in 1Q 2011.**
  - The decrease in the Group's revenues is attributable mainly to slowdown in project development in cubature activities in Poland and road-engineering segment (seasonal factor).

- **The Group's EBIT in 1Q 2012 was PLN 7 500 000 versus a loss of PLN 14 477 000 in 1Q 2011. EBIT margin stood at 3.2%.**
  - All the segments reached positive EBIT and contributed to Group's consolidated profit.

- The financial cost in the period amounted to PLN 4 971 000, i.e. 158% up y-o-y, PLN 1 mln attributable to bond costs.

- **The Group's net profit in 1Q 2012 was PLN 3 275 000 vis a vis loss of PLN 14 373 000 in 1Q 2011.**

- At the end of March 2012 the Erbud Group had PLN 78 544 000 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 2012 the Group had a record order book worth PLN 1 340 800 000, of 63% or PLN 842 000 000 was due for completion this year. At the end of March 2011 the order book stood at PLN 1 256 000 000

    - In April the Group signed 7 contracts of PLN 96 million

- The main segments of the order book are public utility buildings (27%), housing segment (24%), office (16%), shopping centres (14%) and engineering and road segment (11%). Out of it 40% are public sector projects.
- At the end of March 2012 the Group submitted offers for a total value of PLN 8.4 billion and out of that PLN 7.5 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 Economy Ministry preliminary forecast, the GDP of Poland in 1Q 2012 stayed at the level of 3.5%. The estimates of the National Bank of Poland stay at 4.0%

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector in 1Q 2012 amounted to 16.2%. Major growth were in railway (142,3% y-o-y)and housing sectors (27.5% y-o-y). The engineering sector slowed down to 10.5% y-o-y. Significant slowdown came in wages: 0.5% growth in March versus 6% in February 2012. Decrease is visible in the employment growth: 4.2% up in March 2012 versus 6% in December 2011. Symbolic growth in building prices remains, from 1.3% notch up in March 2012, pressure on margins in the sector remains.

2. INTERNAL FACTORS

The Group's core activities in 1Q 2012

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****	
	1Q 2012	1Q 2011	1Q 2012	1Q 2011	1Q 2012	1Q 2011	1Q 2012	1Q 2011	1Q 2012	1Q 2011
Sales revenues	182 664	-16% y-o-y	30 228	+52% y-o-y	9028	+17% y-o-y	9214	-48% y-o-y	3267	-68% y-o-y
Sales share	78%	79%	13%	7.2%	3.9%	2.8%	3.9%	6.4%	1.4%	3.7%
EBIT	5313	-	547	-	1357	-	171	-77%	435	-70%
EBIT margin (%)	2.9%	-	1.8%	-	15%	-	1.9%	4.2%	13.3	14%

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

2.1. Cubature activities

Between January and March 2012 the Group signed a total of 10 contracts with an aggregate value of PLN 432 000 000. In the period of 1Q 2011 the Group signed 13 contracts at total of PLN 218 000 000. At the end of 1Q of 2012 the order book for the core activities was worth PLN 1 197 000 000, out of it PLN 710 000 000 to be completed this year.
In the period of 1Q 2012 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka) amounted to PLN 212 892 000, a 10% decrease over the corresponding period in 2011. The Group's EBIT on its cubature activities came through at PLN 5 860 000 vis a vis loss of 15 326 000 in 1Q 2011.

Cubature activities in Poland (Erbud S.A.)
In 1Q 2012 sales in Poland amounted to PLN 182 664 000 – a 16% decrease year on year. The EBIT was at PLN 5 313 000 vis a vis PLN 13 183 000 loss in 2011. EBIT margin stood at 2.9% in 1Q 2012.

Overseas cubature activities

In the period of 1Q 2012, sales revenues overseas increased 52% to PLN 30 228 000 versus PLN 19 897 000 in 1q 2011. In 1Q 2012 EBIT came through at PLN 547 000. At the end of the 1 quarter 2012 the Group's overseas order book was PLN 81 700 000 versus PLN 54 200 000 in 1Q 2011.

German company GWI GmbH recorded revenue of PLN 16 337 000 in 1Q 2012. The company expects profits in the upcoming quarters after completion of projects (including housing project in Dusseldorf).

2.2. The Group's other areas of activity

2.2.1 Development activities

In 1Q 2012 Budlex completed the sale of 37 flats and commercial premises vis a vis 29 in 1Q 2011.

The Budlex Group's revenues (before consolidation) at the end of March 2012 stood at PLN 9 310 000 versus PLN 7 722 000 in 1Q 2011, i.e. 21% growth y-o-y. Before consolidation Budlex recorded EBIT amounting to PLN 1 878 000 in 1Q 2012 versus PLN 1 153 000 in 1Q 2011. EBIT margin stood at 20%.

Upon consolidation in 1Q 2012 Budlex added PLN 9 028 000 to Erbud Group's consolidated revenue, i.e. 3.9% of consolidated sales of the Group. The Budlex Group increased the Erbud Group's consolidated operating profit by PLN 1 357 000 at the end of March 2012.

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 March for 2012 concerned 216 flats and commercial units to be completed in 2012-2013. 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 2012 the road building sector added 13 new contracts to the Group's order book with a total value of PLN 20 900 000. In 1Q 2012 the revenue of the segment amounted to PLN 9 214 000 i.e. decrease by 48% y-o-y. The subsidiary company PBDI had a revenue (before consolidation) of PLN 36 072 000, on back of contracts completed for Erbud SA, i.a. engineering works in commercial projects and wind farms.

The sector showed an operating profit upon consolidation of PLN 171 000 in 1Q 2012 versus PLN 746 000 in 1Q 2011. The EBIT margin at the end of March 2012 was at 1.9% versus 4.2% in 1Q 2011.

At the end of 1Q 2012 the Group's order book for road works was worth PLN 127 600 000 to be completed this year. The management hopes the order book will increase in 2H 2012.

2.2.3 Construction for the energy sector

incorporating the Energy Construction Division and the Erbud Energetyka subsidiary

In 1Q 2012 the sector added 2 new contracts to the Group's order book with a total value of PLN 15 700 000. The revenues in this sector for 1Q 2012 amounted to PLN 3 267 000. EBIT amounted to PLN 435 000, i.e. 13.3% operating margin. At the end of 1Q 2012 the Group's order book was worth PLN 15 500 000 to be completed this year. The company takes part in bids of the total value of PLN 3 billion and the management hopes some of the bids will be added to the order book.

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 2012 amounted to PLN 400 000.

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

In 1Q 2012 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 31 696 000 – up 16% year on year, result of employment costs growth.

At the end of March 2012 the Group employed 1 473 people – up by 3% year on year.

3. PROSPECTS

3.1. The macroeconomic environment

According to the World Bank the GDP of Poland will stay at 2.5-2.9% in 2012. According to the European Commission the GDP will stay at 2.7% this year.

3.2. The construction market

The construction sector climate in 1Q 2012 despite market growth is still hesitant. The construction climate index in April was at 10.2 points, a slight up by 1.6 points versus March index results. The firms experience growth in wages, price war and cash backlogs as negative factors influencing the industry in the upcoming quarters of this year.

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 1.3 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.

The foreign cubature segment will concentrate on development on the market it's operated in Western Europe and to expand its operations by entering into energy project such as waste burning plants, energy plants in Germany, mainly. 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 3 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 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.

According to the Management the current margins reflect the quality of the Group's backlog and market situation. In the upcoming quarters the Group does not expect the changes in the level of margins to be achieved on projects.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1Q 2012, 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.

2. PROFIT AND LOSS ACCOUNT

	Q	**Q**	
	2012	2011	2012 do 2011
PLN in thousand	**I Q 2012**	**I Q 2011**	**difference**
Sales	234 402.00	276 017.00	-41 615.00
Cost of sales	214 366.00	278 338.00	-63 972.00
Profit on sales	**20 036.00**	**-2 321.00**	**22 357.00**
Cost of sales	572.00	495.00	77.00
Management cost	12 364.00	11 758.00	606.00
Result on operations	400.00	97.00	303.00
EBIT	**7 500.00**	**-14 477.00**	**21 977.00**
Financial profit	-3 098.00	-963.00	-2 135.00
Gross profit	**4 402.00**	**-15 440.00**	**19 842.00**
Net profit	**3 275.00**	**-14 373.00**	**17 648.00**
EBIT margin	3.20%	-5.24%	
D&A	1 165.00	1 324.00	-159.00
EBITDA margin	3.70%	-4.77%	

	31.03. 2012	31.03.2011
a) amortisation	1 165	1 324
b) *Use of materials and energy*	44 665	53 037
c) external services	146 053	180 849
d) *Taxes and payments*	1 962	1 304
e) Payroll	25 957	22 466
f) social security and other	5 739	4 913
g) other costs	2 448	2 581
h) value of sales	5 793	1 923
Total costs	**233 782**	**268 395**
Change in stock, product and interchange settlements on contracts	-6 480	22 196
Cost of production for the unit (negative)	0	0
Cost of sales (negative)	-572	-495
Cost of managemnet (negative)	-12 364	-11 758
Cost of production of products sold	**214 366**	**278 338**

3. THE ERBUD GROUP BALANCE SHEET

Item PLN thousand	2012-03-31	2011-03-31	% of total 2012	% of total 2011
Fixed assets	125 864.00	116 845.00	16.97%	17.17%
Current assets	615 655.00	563 498.00	83.03%	82.83%
TOTAL ASSETS	**741 519.00**	**680 343.00**	**100.00%**	**100.00%**
Shareholders funds	232 773.00	234 933.00	31.39%	34.53%
Long-term liabilities and provisions	106 990.00	59 973.00	14.43%	8.82%
Short-term liabilities and provisions	401 756.00	385 437.00	54.18%	56.65%
TOTAL LIABILITIES	**741 519.00**	**680 343.00**	**100.00%**	**100.00%**

3.1. Fixed and current assets

The structure of the fixed and current assets has not changed in comparison to 2011, 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. The increase in long-term liabilities ups liquidity rations due to assets increase.

4. Erbud Group CASH FLOW

	1Q	1Q
in ,000 PLN	**2012**	**2011**
Net operating cash flow	-57 688	-124 292
Net cash flow from investment activities	- 78	-2 065
Net cash flow from financial activities	-24 981	-26 230
Total net cash flow	**- 82 747**	**- 100 127**
Cash at the end of the period	**78 544**	**47 102**

The Group finished 1Q 2012 with negative balance at the financial level as the result of lower profitability on operating level and longer rotation cycle of receivables by 15 days versus payables payment log.

5. SELECTED FINANCIAL RATIOS

No.	Item	1Q 2012	1Q 2011
1.	ROA	0.44%	-2.11%
2.	ROE	1.41%	-6.12%
3.	Overall gearing ratio	68%	65%
4.	Debt to equity ratio	2.18	1.90
5.	Current liquidity ratio	1.53	0.85
6.	Quick liquidity ratio	0.65	0.12
7	Return on sales	1.88%	-5.59%
8.	Net margin	1.40%	-5.21%

The financial ratios and the financial information show the profitability growth in 1Q 2012. It also shows the increase in liquidity ratios vis a vis 1Q 2011.