ERBUD CAPITAL GROUP



MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-2 QUARTER 2012

Photo: Brown coal power station in Wilhelmshaven

Warsaw, August 30, 2012

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1-2 QUARTER 2012

In the period of 2Q 2012:
REVENUES: PLN 369 010 000
EBIT: PLN 6 683 000
NET PROFIT: PLN 5 059 000

In the period of 1-2Q 2012:
REVENUES: PLN 603 412 000
EBIT: PLN 14 183 000
NET PROFIT: PLN 8 334 000
CASH: PLN 70 232 000

The financial information for the 1-2Q 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 1-2Q OF 2012, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Slowdown in the construction sector in Poland: a growth of 8% y-o-y in 1H 2012 versus 16.2% growth in 1Q 2012. In June 2012 the sector dropped by 5.1% y-o-y.
    - The sliding segments were road (-8% y-o-y) and sports and recreation segments (-51.1% y-o-y).
- Decrease in the employment growth: 2.4% y-o-y up in June 2012. Significant slowdown in wages: 0.4% down in June 2012 versus 0.5% up in March 2012.
- Growth in building materials on increasing costs of production and transport: by 4% in June 2012.
- Symbolic growth in building prices, from 0.4% y-o-y notch up in June 2012, pressure on margins in the sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between April and June 2012 totalled 39 contracts with an aggregate value of PLN 450 000 000. In the period of 1Q 2011 Group signed 27 contracts with a total value of PLN 152 000 000.

- The portfolio of contracts signed within the Erbud Group in 1H 2012 totalled 64 contracts with an aggregate value of PLN 919 000 000. In the period of 1H 2011 Group signed 49 contracts with a total value of PLN 397 055 000.
- Completed sales at the Budlex Group in the period of 2Q 2012 amounted to 34 flats and commercial premises (based on notarial deeds). In the period of 2Q 2011 the Group sold 12 flats. In 1H 2012 the Group sold 71 flats. The presales for 2012-2013 amount to 196 versus 222 flats in June 2011.
- **The Erbud Group's consolidated revenues in 2Q 2012 decreased by 9.7% year on year and amounted to PLN 369 010 000 versus PLN 408 470 000 in 2Q 2011.**

    - The decrease in the Group's revenues is attributable mainly to slowdown in cubature activities in Poland (17% y-o-y in 2Q 2012).

- **The Erbud Group's consolidated revenues in 1H 2012 decreased by 11.8% year on year and amounted to PLN 603 412 000.**

    - Due to the market conditions the management introduced the selective project acquisition policy based on the evaluation of potential business, financial and contractor's risk.
- **The Group's EBIT in 2Q 2012 was PLN 6 683 000 versus a loss of PLN 13 289 000 in 2Q 2011. EBIT margin stood at 1.8%.**
    - The decrease in profit and margin in 2Q versus 1Q of 2012 is due to lower margins on projects in cubature segment, including public sector projects. In 2Q of 2012 the margins were reestimated down by 2pp versus average estimates in 1Q 2012. It is attributable to evaluation of market conditions and increase in project costs.
- **The Group's EBIT in 1H 2012 was PLN 14 183 000. EBIT margin stood at 2.35%.**
    - The management cost amounted to PLN 25 464 000, i.e. 11.8% growth y-o-y due to activities that in long-term will optimize the business (development of audit division).
- **The Group's net profit in 2Q 2012 was PLN 5 059 000 i.e. 1.37% of net margin. In 1H 2012 the net profit amounted to PLN 8 334 000.**

- At the end of June 2012 the Erbud Group had PLN 70 232 000 in cash, a line of credit and guarantees with banks and insurance companies for a total of PLN 450 000 000.
- As at the end of June 2012 the Group had a record order book worth PLN 1 500 000 000, of PLN 600 000 000 was due for completion this year. At the end of June 2011 the order book stood at PLN 1 082 000 000.

    - In July-August 2012 the Group signed 10 contracts of PLN 93 million.

- The main segments of the order book are public utility buildings (23%), housing segment (18.4%), office (23%), shopping centres (15.4%) and engineering (5.2%) and road segment (2.5%). Out of it 24% are public sector projects versus 40% in 1Q 2012.
- At the end of June 2012 the Group submitted offers for a total value of PLN 9.6 billion and out of that PLN 8.2 billion to be resolved.

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

1. EXTERNAL FACTORS

1.1. The macroeconomic environment

According to the Economy Ministry preliminary forecast, the GDP of Poland in 2Q 2012 stayed at the level of 2.9%.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector in 1H 2012 amounted to 8% versus 16.2% growth in 1Q 2012. In June the sector dropped by 5.1% y-o-y. Major drops were in road (-8% y-o-y)and distribution (including water and waste) sectors (- 6.6% y-o-y) and sports and recreation (-51.1%). Significant slowdown came in wages: 0.4% down in June versus 0.5% up in March 2012. Decrease is visible in the employment growth: 2.4% up in June 2012 versus 4.2% in March 2012. Symbolic growth in building prices remains, from 0.4% notch up in June versus 1.3% up y-o-y in March 2012, pressure on margins in the sector remains.

2. INTERNAL FACTORS

The Group's core activities in 2Q 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**	
	2Q 2012	2Q 2011	2Q 2012	2Q 2011	2Q 2012	2Q 2011	2Q 2012	2Q 2011	2Q 2012	2Q 2011
Sales revenues	271 827	-17% y-o-y	33 695	+83% y-o-y	8934	+136% y-o-y	44 147	+6% y-o-y	10 358	-24% y-o-y
Sales share	74%	80%	9%	4%	2%	0.9%	12%	10%	3%	3.4%
EBIT	-11 556	-14 006	1757	-1 164	864	-230	15 496	1 696	484	978
EBIT margin (%)	-	-	5.2%	-	9.7%	-	35%	4%	4.7%	7%

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**	
	1-2Q 2012	1-2Q 2011	1-2Q 2012	1-2Q 2011	1-2Q 2012	1-2Q 2011	1-2Q 2012	1-2Q 2011	1-2Q 2012	1-2Q 2011
Sales revenues	454 491	-16,6% y-o-y	63923	+67% y-o-y	17 962	+136% y-o-y	53 361	-10,4% y-o-y	13 625	-43% y-o-y
Sales share	75%	80%	10.6%	5.6%	3%	1.7%	8.8%	8.7%	2.3%	3.5%
EBIT	- 6243	-27 189	2 304	-3 307	2 221	-1376	15 667	2442	919	2 414
EBIT margin (%)	-	-	3.6%	-	12.4%	-	29.4%	4.1%	6.7%	10%

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

2.1. Cubature activities

Between April and June 2012 the Group signed a total of 12 contracts with an aggregate value of PLN 389 000 000. In the period of 2Q 2011 the Group signed 16 contracts at total of PLN 108 000 000. In 1H 2012 the Group signed a total of 22 contracts with an aggregate value of PLN 822 000 000. At the end of 1-2Q of 2012 the order book for the core activities was worth PLN 1 330 000 000, out of it PLN 500 000 000 to be completed this year.

In the period of 2Q 2012 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka) amounted to PLN 305 522 000, a 11.6% decrease over the corresponding period in 2011. In 1H 2012 the Group had PLN 518 414 000 revenue, i.e. 11% down y-o-y. The Group's EBIT loss in 2Q 2012 on its cubature activities came through at PLN 9 799 000 vis a vis loss of 15 170 000 in 2Q 2011. In 1H 2012 the EBIT loss stood at minus PLN 3 939 000 vis a vis PLN 30 496 000 loss in 1H 2011.

Cubature activities in Poland (Erbud S.A.)

In 2Q 2012 sales in Poland amounted to PLN 271 827 000 – a 17% decrease year on year. At the end of June 2012 revenue stood at PLN 454 491 000, i.e. 16.6% down y-o-y. The EBIT loss in 2Q 2012 was at PLN 11 556 000 vis a vis PLN 15 006 000 loss in 2011. In 1H 2012 EBIT loss stood at PLN 6 243 000. In 2Q of 2012 the margins were reestimated down by 2pp versus average estimates in 1Q 2012 as well as final settlements of Silesia contract (the additional cost of PLN 6 million). It is attributable to evaluation of market conditions and increase in project costs.

Overseas cubature activities

In the period of 2Q 2012, sales revenues overseas increased 83% to PLN 33 695 000 versus PLN 18 375 000 in 2Q 2011. In 2Q 2012 EBIT came through at PLN 1 757 000, i.e. 250% growth and 5.2% margin. In 1H 2012 sales revenues overseas increased 67% y-o-y to PLN 63 923 000. EBIT came through at PLN 2 304 000, i.e. 3.6% margin.

At the end of the 1H 2012 the Group's overseas order book was PLN 153 000 000 versus PLN 46 200 000 in 1H 2011. Most of it to be completed this year.

German company GWI GmbH recorded revenue of PLN 29 307 000 in 1H 2012 versus PLN 18 124 000 in 1H 2011, i.e. 62% up y-o-y. EBIT stood at PLN 1 057 000.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 2Q 2012 Budlex completed the sale of 34 flats and commercial premises vis a vis 12 in 2Q 2011. In 1H 2012 the Group sold 71 flats versus 41 in the corresponding period of 2011. The current sales level is in line with the Group estimates and shows potential in the residential market in the region.

The Budlex Group's revenues (before consolidation) at the end of June 2012 stood at PLN 18 522 000 versus PLN 11 958 000 in 2Q 2011, i.e. 55% growth y-o-y. Before consolidation Budlex recorded EBIT amounting to PLN 3 287 000 in 1H 2012 versus PLN 809 000 loss in 1H 2011. EBIT margin stood at 17.8%.

Upon consolidation in 1H 2012 Budlex added PLN 17 962 000 to Erbud Group's consolidated revenue, i.e. 3.0% of consolidated sales of the Group. The Budlex Group increased the Erbud Group's consolidated operating profit by PLN 2 221 000 at the end of June 2012.

Currently the Company is building new residential developments: 5 in Toruń and 4 in Bydgoszcz. Pre-sales contracts entered into by the Budlex Group at the end of June for 2012 concerned 196 flats and commercial units to be completed in 2012-2013. The Group intend to sell in 2012 flats at the level of 2011.

2.2.2 Road and engineering building

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

In 2Q 2012 the road building sector added 26 new contracts to the Group's order book with a total value of PLN 46 412 000. In 1H 2012 sector added 39 new contracts to the Group's order book with a total value of PLN 67 312 000 versus 13 contracts of PLN 48 003 000 value in 1H 2011.

In 2Q 2012 the revenue of the segment amounted to PLN 44 147 000 i.e. increase by 6.6% y-o-y. In 1H 2012 the revenue of the segment amounted to PLN 53 361 000 i.e. increase by 5.7% y-o-y.

The sector showed an operating profit upon consolidation of PLN 15 496 000 in 2Q 2012. In the period the Group completed a few engineering projects and showed gross of profit, that influenced the result in the period. The EBIT at the end of June 2012 was PLN 15 667 000, i.e. 29.4% of operating margin.

The subsidiary company PBDI had a revenue (before consolidation) of PLN 18 097 000, and EBIT at PLN 1 017 000.

At the end of 2Q 2012 the Group's order book for road works was worth PLN 92 526 000 mainly to be completed this year.

2.2.3 Construction for the energy sector

In 1H 2012 the sector added 3 new contracts to the Group's order book with a total value of PLN 30 000 000. The revenues in this sector for 1H 2012 amounted to PLN 13 625 000. EBIT amounted to PLN 919 000, i.e. 6.7% operating margin. At the end of 2Q 2012 the Group's order book was worth PLN 43 528 000, i.e. 43% 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 1H 2012 amounted to PLN 733 000.

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

In 1H 2012 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 63 885 000 – up 6.5% year on year, result of growth in cost of work.

At the end of June 2012 the Group employed 1 391 people - down by 3.7% year on year.

3. PROSPECTS

3.1. The macroeconomic environment

According to the European Commission the GDP in 2012 will stay at 2.7% this year. The OECD downgraded the GDP level growth in 2012 to 2.9% from 3.0% of forecast.

3.2. The construction market

The construction sector climate in 1H 2012 despite market growth is still hesitant. The construction climate index in July was at -13.8 points, a slight up by 0.5 points versus June 2012 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. The end of road and infrastructure investments cofinanced with EU funds will have a negative impact on sector growth potential in the upcoming months.

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

Effectiveness increase and profit protection in 2012

The management priority in 2012 will be sales growth in selected segments and - due to market conditions - profit protection. The management will concentrate in 2012 on projects that guarantee positive margins on contracts. The acquisition of new projects will be linked to the Group's profitability targets. Due to law changes for investors (development sector), 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 with investors of financial stability and public projects that guarantee positive margins. At the end of 2Q 2012 24% were public projects.

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 level of last year.

The management focus this year 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.

The Erbud Group's revenue at the end of June 2012 was at PLN 603 400 000. The backlog for the 2H of 2012 amounts to PLN 600 000 000. The management expects in 2H 2012 the margin on projects at the level of 1H if cost of project completion remain still. The current margin level reflects the market situation.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-2Q 2012, embracing the consolidation of Erbud SA, Erbud International Sp. z o. o., GWI GmbH, PBDI, Budlex Group and Erbud Energetyka Sp. z o.o.

2. PROFIT AND LOSS ACCOUNT

ITEM	2012	2011	difference	2012	2011	difference
	1-2Q 2012	1-2Q 2011	2012 to 2011	2Q 2012	2Q 2011	2012 to 2011
Sales revenue	603 412	684 487	-81 075	369 010	408 470	-39 460
Cost of sales	563 293	690 081	-126 788	348 927	411 743	-62 816
Profit on sales	40 119	-5 594	45 713	20 083	-3 273	23 356
Cost of sales	1 205	1 616	-411	633	1 121	-488
Management cost	25 464	22 776	2 688	13 100	11 018	2 082
Result on operations	733	2 220	-1 487	333	2 123	-1 790
EBIT	14 183	-27 766	41 949	6 683	-13 289	19 972
Financial profit	-3 370	-4 488	1 118	-272	-3 525	3 253
Investment profit	0	0	0	0	0	0
Gross profit	10 813	-32 254	43 067	6 411	-16 814	23 225
Net profit	8 334	-28 588	36 922	5 059	-14 215	19 274
EBIT margin	2.35%	-4.06%	6%	1.81%	-3.25%	5%
D&A	3 669	3 884	-215	2 504	2 560	-56
EBITDA margin	2.96%	-3.49%	6%	2.49%	-2.63%	5%

Item	30.06.2012	30.06.2011	CHANGE	% CHANGES
A. Sales	**579 983**	**686 480**	**-106 497**	**-15,51**
B. Operating cost	**566 532**	**716 466**	**-149 934**	**-20,93**
D&A	3 669	3 884	-215	-5,54
use of materials and energy	112 184	131 016	-18 832	-14,37
external services	362 357	512 938	-150 581	-29,36
taxes and payments	3 896	2 930	966	32,97
wages	51 341	47 104	4 237	8,99
social security and other	11 544	11 060	484	4,38
other costs	5 494	5 855	-361	-6,17
vale of goods sold	16 047	1 679	14 368	
C. Gross profit on sales	**13 451**	**-29 986**	**43 437**	**-144,86**
D. other operating revenue	2 374	4 029	-1 655	-41,08
E. other operating cost	1 641	1 809	-168	-9,29
F. Operating profit	**14 184**	**-27 766**	**41 950**	**-151,08**
G. financial revenue	3 265	3 249	16	0,49
H. financial cost	6 635	7 737	-1 102	-14,24
I. Enterprise profit	**10 814**	**-32 254**	**43 068**	**-133,53**
J. Gross profit	**10 814**	**-32 254**	**43 068**	**-133,53**
K. taxes and payments	2 479	-3 666	6 145	-167,62
L. other prifit decreases	0	0	0	0,00
M. Net profit	**8 335**	**-28 588**	**36 923**	**-129,16**

3. THE ERBUD GROUP BALANCE SHEET

BALANCE	30.06.2012	30.06.2011	CHANGE	% CHANGES
I Fixed assets	**138 317,00**	**119 558,00**	**18 759,00**	**15,69**
1. Tangible Assets	29 649,00	32 944,00	-3 295,00	-10,00
2. Investment real estate	5 536,00	5 770,00	-234,00	-4,06
3. Shareholders funds	20 102,00	20 102,00	0,00	0,00
4. Intangible assets	588,00	531,00	57,00	10,73
5. Long-term financial assets	31 780,00	28 148,00	3 632,00	12,90
6. Long-term liabilities	770,00	30,00	740,00	2 466,67
7. Long-term cash	0,00	0,00	0,00	0,00
8. Deferred tax	49 892,00	32 033,00	17 859,00	55,75
II Current Assets	**620 231,00**	**661 245,00**	**-41 014,00**	**-6,20**
1. Stocks	128 806,00	113 936,00	14 870,00	13,05
2. Short-term receivables	259 271,00	393 264,00	-133 993,00	-34,07
3. Financial assets	792,00	3 936,00	-3 144,00	-79,88
4. Short-term investments	70 232,00	60 698,00	9 534,00	15,71
5. Building contracts	122 164,00	55 402,00	66 762,00	120,50
6. Short-term cash	1 975,00	515,00	1 460,00	283,50
7. Building deposits	36 991,00	33 494,00	3 497,00	10,44
Total assets	**758 548,00**	**780 803,00**	**-22 255,00**	**-2,85**
I Total shareholders funds	**238 277,00**	**219 976,00**	**18 301,00**	**8,32**
1. Shareholders funds attributable to the shareholders of the dominant entity	**228 148,00**	**210 674,00**	**17 474,00**	**8,29**
2. Minority shares	**10 129,00**	**9 302,00**	**827,00**	**8,89**
II Long-term liabilities	**113 555,00**	**61 161,00**	**52 394,00**	**85,67**
including loans	61 870,00	18 988,00	42 882,00	225,84
III Short-term liabilities	**406 716,00**	**499 666,00**	**-92 950,00**	**-18,60**
including loans	55 414,00	63 777,00	-8 363,00	-13,11
incl. liabilities for supplies and services	211 422,00	303 134,00	-91 712,00	-30,25
including building deposits	78 549,00	72 311,00	6 238,00	8,63
including building contracts	17 418,00	14 618,00	2 800,00	19,15
Total liabilities	**758 548,00**	**780 803,00**	**-22 255,00**	**-2,85**

The structure of the balance sheet has decreased by 2.85% versus 2011. 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.

4. Erbud Group CASH FLOW

	1H	1H
in ,000 PLN	**2012**	**2011**
Net operating cash flow	-57 215	-121 476
Net cash flow from investment activities	- 14 765	-2 843
Net cash flow from financial activities	-19 079	37 648
Total net cash flow	**- 91 059**	**- 86 671**
Cash at the end of the period	**70 232**	**60 698**

The Group started the financial year with PLN 161 291 000 cash and at the end of June 2012 it had PLN 70 232 000. Negative balance at the operating level as the result of longer rotation cycle of receivables versus payables payment log as well as completion of a few contracts on the basis of FIDC. The change in investment activities cash item results from conditional agreement on investment in commercial and service centre in Warsaw downtown.

5. SELECTED FINANCIAL RATIOS

Item	1H 2012	1H 2011
ROE	3.50%	-13.00%
ROA	1.10%	-3.66%
EBIT margin	2.35%	-4.06%
EBITDA margin	2.96%	-3.49%
Return on sales	6.65%	-0.83%
Gross margin	1.79%	-4.71%
Net margin	1.38%	-4.18%
Current liquidity ratio	1.70	1.50
Quick liquidity ratio	0.96	1.1
Overall gearing ratio	61%	64%
Debt to equity ratio	1.93	2.28