ERBUD CAPITAL GROUP



MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-3 QUARTER 2012

Photo: Brown coal power station in Wilhelmshaven

Warsaw, 14 November 2012

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-3Q 2012

In the period of 3Q 2012:
REVENUES: PLN 362 368 000
EBITDA: PLN 10 934 000
EBIT: PLN 9 359 000
NET PROFIT: PLN 4 577 000

In the period of 1-3Q 2012:
REVENUES: PLN 965 780 000
EBITDA: PLN 28 786 000
EBIT: PLN 23 542 000
NET PROFIT: PLN 12 911 000
CASH: PLN 93 536 000

The financial information for the 1-3Q 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 1-3Q OF 2012, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Slowdown in the construction sector in Poland in 1-3Q 2012: a growth of 1.4% y-o-y. In September 2012 the sector dropped by 17.8% y-o-y.
  - The sliding segments in September 2012 were cubature (-22.9% y-o-y), engineering (-14.9% y-o-y) and specialist segment (-13.9% y-o-y).

- Decrease in the employment growth: 0.1% y-o-y up in September 2012. Significant slowdown in wages: 2.9% down in September 2012.
- Decline in building prices, from 0.7% y-o-y notch up in September 2012, pressure on margins in the sector remains.
- Net margin in the sector in 1H 2012 was negative at -1.9% versus positive margin of 1.5% in 1H 2011.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between July and September 2012 totalled 24 contracts with an aggregate value of PLN 111 000 000 versus 23 contracts with total value of PLN 282 000 000 in 3Q 2011. In the period of 1-3Q 2012

Group signed 88 contracts with a total value of PLN 1 030 000 000 versus 81 contracts of total value of PLN 693 000 000 in 1-3Q 2011.

- Completed sales at the Budlex Group in the period of 3Q 2012 amounted to 47 flats and commercial premises (based on notarial deeds). In the period of 3Q 2011 the Group sold 88 flats. In 1-3Q 2012 the Group sold 118 flats versus 129 in 1-3Q 2011. The presales for 2012-2013 amount to 178 flats for about PLN 50 million versus 222 flats in September 2011.
- **The Erbud Group's consolidated revenues in 3Q 2012 decreased by 15% year on year and amounted to PLN 362 368 000 versus PLN 424 882 000 in 3Q 2011. The Erbud Group's consolidated revenues in 1-3Q 2012 decreased by 13% year on year and amounted to PLN 965 780 000.**
  - 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. In the period of 1-3Q 2012 the cubature segment in Poland decreased by 17.2% y-o-y and engineering and road segment dropped by 16% y-o-y.
- **The Group's EBIT in 3Q 2012 was PLN 9 359 000 versus PLN 6 771 000 in 3Q 2011, i.e. 38% growth y-o-y. EBIT margin stood at 2.6% versus 1.6% in 3Q 2011.**
  - The decrease in sales in the period had a positive impact on operating and net margin. In 3Q 2012 the positive impact on EBIT had cubature sector in Poland and abroad, development and energy buildings sectors.
- **The Group's EBIT in 1-3Q 2012 was PLN 23 542 000 versus a loss of PLN 20 995 000 in 1-3Q 2011. EBIT margin stood at 2.44%.**
- **The Group's net profit in 3Q 2012 was PLN 4 577 000 i.e. 1.26% of net margin.**
  - In 3Q the Group had PLN 3 637 000 negative result on financial operations, financial cost of credits and bonds.
- **In 1-3Q 2012 the net profit amounted to PLN 12 911 000, i.e. 1.34% of margin.**

- At the end of September 2012 the Erbud Group had PLN 93 536 000 in cash, i.e. 33% growth versus PLN 70 232 000 at the end of June 2012, a line of credit and guarantees with banks and insurance companies for a total of PLN 511 000 000.
- As at the end of September 2012 the Group had a order book worth PLN 1 300 000 000, of PLN 300 000 000 was due for completion this year. At the end of September 2011 the order book stood at PLN 1 005 000 000.

  - In October-November 2012 the Group signed 4 contracts of PLN 76 million.

- The main segments of the order book are public utility buildings (24%), housing segment (14.6%), office (32.5%), shopping centres (13%) and engineering (3.8%) and road segment (1.5%). Out of it 20% are public sector projects versus 40% in 1Q 2012.
- At the end of September 2012 the Group submitted offers for a total value of PLN 13.8 billion and out of that PLN 11 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 IBnGR think thank preliminary forecast, the GDP of Poland in 3Q 2012 stayed at the level of 1.9% y-o-y.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector from the level of 32.2% growth in January this year amounted to -17.8% in September 2012. In September major drops were in cubature (-22.9% y-o-y) and engineering (-14.9%), and specialist segment (-13.9%). Significant slowdown came in wages: 2.9% down in September 2012 versus 1.5% down in August 2012. Decrease is visible in the employment growth: 0.1% up in September 2012 versus 0.9% in August 2012. Drop in building prices: 0.7% notch up in September 2012.

2. INTERNAL FACTORS

The Group's core activities in 3Q 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**	
	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011
Sales revenues	224 068	-18.5% y-o-y	42 535	+40% y-o-y	16 359	-25% y-o-y	65 048	-20.3% y-o-y	14 339	+7.7% y-o-y
Sales share	62%	65%	11.7%	7.2%	4.5%	5.2%	18%	19.2%	4%	3%
EBIT	9 055	-1 707	553	1 822	2 947	3 566	- 4 294	5 139	1 292	- 107
EBIT margin (%)	4%	-	1.3%	6%	18%	16.3%	-	6.3%	9%	-

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**	
	1-3Q 2012	1-3Q 2011	1-3Q 2012	1-3Q 2011	1-3Q 2012	1-3Q 2011	1-3Q 2012	1-3Q 2011	1-3Q 2012	1-3Q 2011
Sales revenues	678 559	-17.2% y-o-y	106 458	+55% y-o-y	34 321	+2,7% y-o-y	118 409	-16.1% y-o-y	27 964	-25% y-o-y
Sales share	70.2%	74%	11%	6.2%	3.6%	3.0%	12.3%	12.7%	2.9%	3.4%
EBIT	2 812	-28 896	2 857	-1 485	5 168	2 190	11 373	7 581	2 211	2 307
EBIT margin (%)	0.4%	-	2.7%	-	15.0%	6.6%	9.6%	5.4%	7.9%	6.2%

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

2.1. Cubature activities

Between July and September 2012 the Group signed a total of 6 contracts with an aggregate value of PLN 98 000 000. In the period of 3Q 2011 the Group signed 12 contracts at total of PLN 276 000 000. In 1-3Q 2012 the Group signed a total of 28 contracts with an aggregate value of PLN 920 000 000 versus 41 contracts of PLN 602 000 000 in 1-3Q 2011. At the end of September 2012 the order book for the core activities was worth PLN 1 148 000 000, out of it PLN 257 000 000 to be completed this year.

In the period of 3Q 2012 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka) amounted to PLN 266 603 000, a 12.7% decrease over the corresponding period in 2011. In 1-3Q 2012 the Group had PLN 785 017 000 revenue, i.e. 11.6% down y-o-y. The Group's EBIT in 3Q 2012 on its cubature activities came through at PLN 9 608 000 (3.6% margin) vis a vis PLN 115 000 in 3Q 2011. In 1-3Q 2012 the EBIT stood at PLN 5 669 000 vis a vis PLN 30 381 000 loss in 1-3Q 2011. The segment constitutes 81.2% share in Group's total revenue.

Cubature activities in Poland (Erbud S.A.)

In 3Q 2012 sales in Poland amounted to PLN 224 068 000 – a 18.5% decrease year on year. At the end of September 2012 revenue stood at PLN 678 559 000, i.e. 17.2% down y-o-y. The EBIT in 3Q 2012 was at PLN 9 055 000 vis a vis PLN 1 707 000 loss in 3Q 2011. EBIT margin in 3Q 2012 stood at 4%. In 1-3Q 2012 EBIT stood at PLN 2 812 000 versus a loss of PLN 28 896 000 in 2011. The order book at the end of September 2012 stood at PLN 1 036 000, out of it PLN 187 000 000 to be completed this year.

Overseas cubature activities

In the period of 3Q 2012, sales revenues overseas increased 40% to PLN 42 535 000 versus PLN 30 403 000 in 3Q 2011. In 3Q 2012 EBIT came through at PLN 533 000, i.e. 1.3% margin. In 1-3Q 2012 sales revenues overseas increased 55% y-o-y to PLN 106 458 000. EBIT came through at PLN 2 857 000, i.e. 2.7% EBIT margin.

At the end of the 1-3Q 2012 the Group's overseas order book was PLN 112 415 000 versus PLN 49 000 000 in 1-3Q 2011. Most of it, i.e. PLN 70 million to be completed this year.

German company GWI GmbH recorded revenue of PLN 54 822 000 in 1-3Q 2012 versus PLN 29 521 000 in 1-3Q 2011, i.e. 86% up y-o-y. EBIT stood at PLN 2 097 000, i.e. margin of 3.9% and net profit was PLN 1 538 000, i.e. 2.8% net margin.

2.2. The Group's other areas of activity

2.2.1. Development activities

In 3Q 2012 Budlex completed the sale of 47 flats and commercial premises vis a vis 88 in 3Q 2011. In 1-3Q 2012 Budlex completed the sale of 118 flats and commercial premises vis a vis 129 in 1-3Q 2011. The current sales level is in line with the Group estimates and shows stable trend in the residential market in the region.

The Budlex Group's revenues (before consolidation) in 3Q 2012 stood at PLN 16 638 000 versus PLN 22 195 000 in 2011. EBIT in 3Q 2012 stood at 5 022 000, i.e. versus PLN 6 627 000 in 3Q 2011. In 1-3Q 2012 the Budlex revenue before consolidation was at PLN 35 160 000 versus PLN 34 153 000 in 1-3Q 2011, i.e. 2.9% of growth. EBIT in 1-3Q 2012 was PLN 8 091 000 versus PLN 5 800 000 in 1-3Q 2011, i.e. 38% growth y-o-y. EBIT margin came at 23% in 1-3Q 2012.

Upon consolidation in 1-3Q 2012 Budlex added PLN 34 321 000 to Erbud Group's consolidated revenue, i.e. 3.6% of consolidated sales of the Group. The Budlex Group increased the Erbud Group's consolidated operating profit by PLN 5 168 000.

In 1-3Q 2012 the Company was building new residential developments: 5 in Toruń and 4 in Bydgoszcz. Pre-sales contracts entered into by the Budlex Group at the end of September for 2012 concerned 178 flats and commercial units to be completed in 2012-2013.

2.2.2. Road and engineering building

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

In 3Q 2012 the road building sector added 18 new contracts to the Group's order book with a total value of PLN 12 500 000. In 1-3Q 2012 sector added 57 new contracts to the Group's order book with a total value of PLN 80 000 000 versus 30 contracts of PLN 66 000 000 value in 1-3Q 2011.

In 3Q 2012 the revenue of the segment amounted to PLN 65 048 000 i.e. decrease by 20.3% y-o-y. In 1-3Q 2012 the revenue of the segment amounted to PLN 118 409 000 i.e. decrease by 16.1% y-o-y.

The sector showed an operating loss upon consolidation of PLN 4 294 000 in 3Q 2012. In the period the Group got into final settlements of a few large contracts and showed gross of cost, that influenced the result in the period. The EBIT at the end of September 2012 was PLN 11 373 000, i.e. 9.6% of operating margin.

At the end of 3Q 2012 the Group's order book for engineering and road works was worth PLN 45 000 000 mainly to be completed this year. The order book comprises mainly engineering projects, only 1.5% are road contracts. The Group takes part in 28 bids for a total of PLN 470 000 000.

2.2.3. Construction for the energy sector

In 1-3Q 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 3Q 2012 amounted to PLN 14 339 000, i.e. 7.7% of growth y-o-y. EBIT amounted to PLN 1 292 000, i.e. 9% operating margin. At the end of 1-3Q 2012 the revenue was at PLN 27 964 000, i.e. 25% down y-o-y. EBIT stood at PLN 2 211 000, i.e. 7.9% of EBIT margin. In September 2012 the Group's order book was worth PLN 36 000 000, i.e. around PLN 12 000 000 to be completed this year.

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 1-3Q 2012 amounted to PLN 510 000.

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

In 1-3Q 2012 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 94 271 000 – up 1.5% year on year, result of growth in cost of work. At the end of September 2012 the Group employed 1377 people - down by 14% year on year.

3. PROSPECTS

3.1. The macroeconomic environment

According to the Central Statistical Office (GUS) the GDP growth in 3-4Q this year will be maintained versus 1H. The GDP can slow down a bit versus 2Q in 2012. According to IBnGR, the GDP stayed at 1.9% in 3Q 2012 and 1.8% in 4Q 2012 and 2.4% in 2012.

3.2. The construction market

The construction sector climate in October 2012 was at -25.9 points, down by 3.7 points versus September 2012 index results. The firms have negative opinion on upcoming trends this year, the most pessimistic were large firms.

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

Effectiveness increase and profit protection in 2012

The Management priority in 2012 is sales growth in selected segments and - due to market conditions - profit protection. The Management concentrates in 2012 on projects that guarantee positive margins on contracts. The acquisition of new projects is linked to the Group's profitability targets. Hence the Management concentrates on cautious cooperation with subcontractors and investors during projects.

In 2013 the Management focus will be on effectiveness improvement and risk minimizing within the Group. 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 3Q 2012 20% were public projects.

The Erbud Group's revenue at the end of September 2012 was at PLN 965.8 million. The backlog for the 4Q of 2012 amounts to PLN 300 million. The Management expects in 4Q 2012 the margin of cubature contracts in Poland at the average level in the period of 1-3Q this year, if cost of project completion remain still. The foreign cubature segment will keep the profit trend from 3Q 2012. The development segment will maintain the average margin of the 1-3Q 2012 at the sales much higher than in 3Q 2012. In 4Q 2012 the engineering and road segment will continue the sales and profit decrease. The engineering segment will have lower sales and profit volume.

According to the Management the 1H 2013 will bring the worse climate in building market. It will be accompanied by worse conditions for projects completions and further margins decrease on competitive pressure.

Despite worsening market conditions, Erbud will enter 2013 with an order book above PLN 1 billion. On the back of results stabilisation in 1-3Q 2012, the Management expects next year to build profits. The optimization of business processes completed this year, should improve effectiveness and minimize the financial risk in the long term.

In 2013 the Management expects further improvement in cubature segment in Poland. The order book for 2013-2014 stands at PLN 700 million.

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 order book for 2013-2014 stands at PLN 50 million.

The engineering and road segment takes part in 28 bids for PLN 470 million. The 1H 2013 should bring decisions in some bids. Due to competitive pressure in road segment the Group will concentrate on engineering projects. The Management expects the segment to remain in 2013 at the level of this year, at least. The PBDI company will focus on wind farm projects and local road contracts.

The energy segment takes part in bids for a total of PLN 2.5 billion. The Management expects the segment to increase revenue in 2013, as we expect some bids to be resolved in the upcoming months. Due to good prospects in the segment, the Management intend to further build competence in the area.

In 2013 Budlex Group will continue projects from 2012.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-3Q 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
	1-3Q 2012	1-3Q 2011	2012 to 2011	3Q 2012	3Q 2011	2012 to 2011
Sales revenue	965 780	1 109 369	-143 589	362 368	424 882	-62 514
Cost of goods sold	905 966	1 097 079	-191 113	342 673	406 998	-64 325
Profit on sales	59 814	12 290	47 524	19 695	17 884	1 811
Cost of sales	1 803	2 656	-853	598	1 040	-442
Management cost	34 979	34 978	1	9 515	12 202	-2 687
Result on operations	510	4 349	-3 839	-223	2 129	-2 352
EBIT	23 542	-20 995	44 537	9 359	6 771	2 588
Financial profit	-7 007	-4 510	-2 497	-3 637	-22	-3 615
Investment profit	0	0	0	0	0	0
Gross profit	16 535	-25 505	42 040	5 722	6 749	-1 027
Net profit	12 911	-24 228	37 139	4 577	4 360	217
EBIT margin	2.44%	-1.89%	4%	2.58%	1.59%	1%
D&A	5 244	5 622	-378	1 575	1 738	-163
EBITDA margin	2.98%	-1.39%	4%	3.02%	2.00%	1%

Item	30.09.2012	30.09.2011	CHANGE	% CHANGES
A. Sales	**949 044**	**1 130 126**	**-181 082**	**-16,02**
B. Operating cost	**926 012**	**1 155 470**	**-229 458**	**-19,86**
D&A	5 244	5 622	-378	-6,72
use of materials and energy	173 527	187 351	-13 824	-7,38
external services	622 187	853 856	-231 669	-27,13
taxes and payments	5 525	4 715	810	17,18
wages	76 985	75 802	1 183	1,56
social security and other	17 286	17 071	215	1,26
other costs	8 390	9 387	-997	-10,62
vale of goods sold	16 868	1 666	15 202	
C. Gross profit on sales	**23 032**	**-25 344**	**48 376**	**-190,88**
D. Other operating revenue	3 232	7 726	-4 494	-58,17
E. Other operating cost	2 722	3 377	-655	-19,40
F. Operating profit	**23 542**	**-20 995**	**44 537**	**-212,13**
G. Financial revenue	4 512	7 545	-3 033	-40,20
H. Financial cost	11 519	12 055	-536	-4,45
I. Enterprise profit	**16 535**	**-25 505**	**42 040**	**-164,83**
J. Gross profit	**16 535**	**-25 505**	**42 040**	**-164,83**
K. Taxes and payments	3 624	-1 277	4 901	-383,79
L. Other profit decreases	0	0	0	0,00
M. Net profit	**12 911**	**-24 228**	**37 139**	**-153,29**

3. THE ERBUD GROUP BALANCE SHEET

BALANCE	30.09.2012	30.09.2011	share in 2012 total	share in 2011 total
Fixed assets	117 578	130 241	13%	15%
Current Assets	773 126	731 055	87%	85%
Total assets	**890 704**	**861 296**	**100%**	**100%**
Total shareholders equity	242 597	225 831	27%	26%
Long-term liabilities	103 517	131 193	12%	15%
Short-term liabilities	544 590	504 272	61%	59%
Total liabilities	**890 704**	**861 296**	**100%**	**100%**

The structure of the balance sheet has increased by 3.41% versus 2011. The assets and liabilities structure remains stable. There were no one-offs in the period.

4. Erbud Group CASH FLOW

	30-06-2012	30-09-2012	30-09-2011
in ,000 PLN			
Net operating cash flow	-57 215	-42 540	-133 829
Net cash flow from investment activities	-14 765	-13 671	-4 319
Net cash flow from financial activities	-19 079	-11 543	67 168
Total net cash flow	**-91 059**	**-67 754**	**-70 980**
Cash at the end of the period	**70 232**	**93 536**	**76 249**

The Group improves the operating cash flow on the back of profit improvement. In 1-3Q 2012 y-o-y the operating cash flow improved to negative PLN -42 540 000 from PLN -133 829 000. Negative balance at the operating and financial level is the result of longer payments for works on projects.

5. SELECTED FINANCIAL RATIOS

Item	30-09-2012	30-09-2011
ROE	5.32%	-2.81%
ROA	1.45%	-10.73%
Debt ratio	72.76%	74%
Debt to equity ratio	2.67	2.80
Current liquidity ratio	1.68	1.45
Quick liquidity ratio	1.33	0.86
Gross margin on sales	1.71%	-2.30%
Net margin	1.33%	-2.18%