ERBUD CAPITAL GROUP

MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1 QUARTER 2013

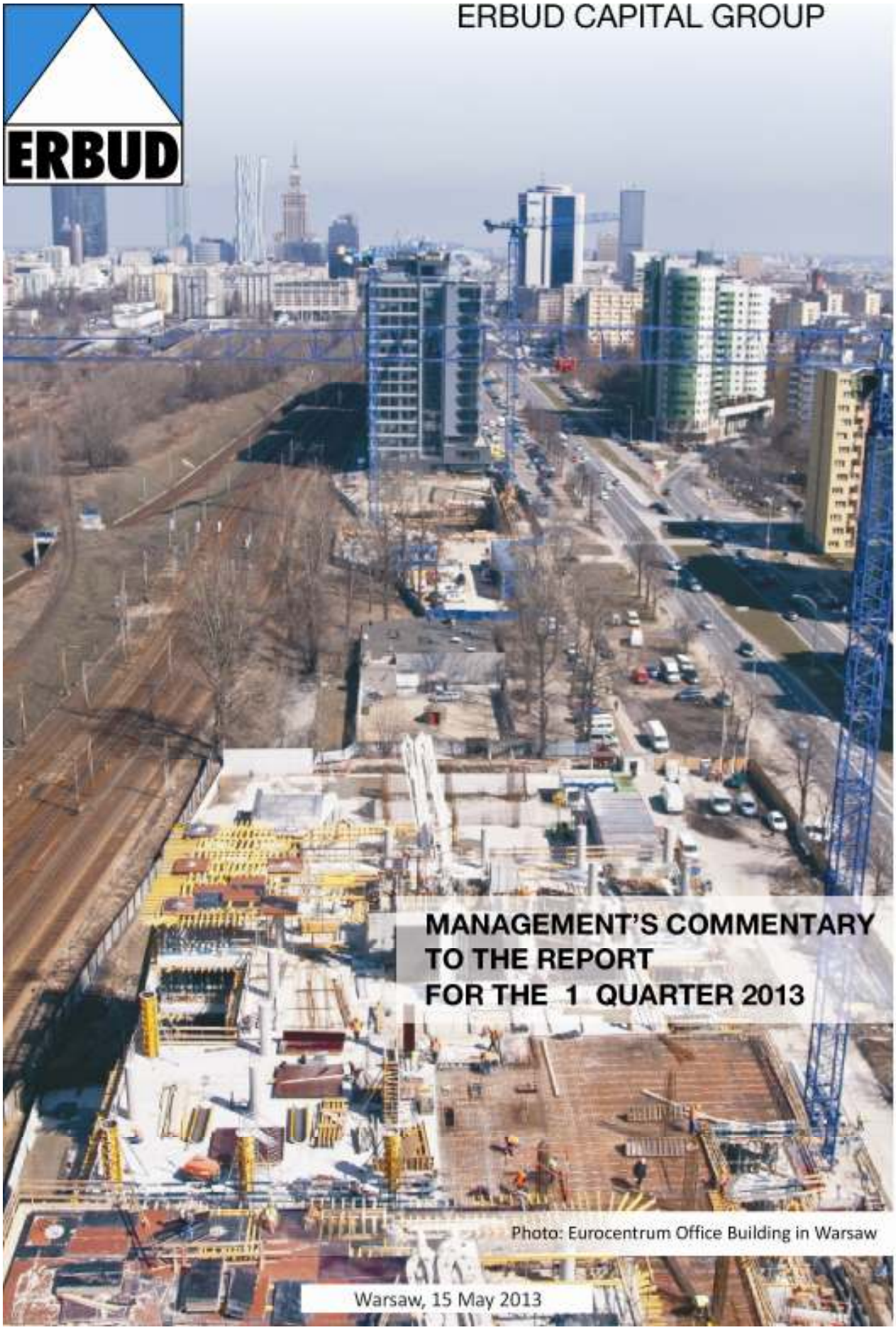


Photo: Eurocentrum Office Building in Warsaw

Warsaw, 15 May 2013

CONTENTS

I.THE ERBUD GROUP'S FINANCIAL DATA FOR THE PERIOD OF 1Q 2013, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS ..... - 3 -

II. EXTERNAL AND INTERNAL FACTORS OF SIGNIFICANCE TO THE GROWTH OF THE ERBUD GROUP ..... - 5 -

1. EXTERNAL FACTORS ..... - 5 -
1.1. The macro-economic environment ..... - 5 -
1.2. The construction market ..... - 5 -

2. INTERNAL FACTORS ..... - 5 -
2.1. Cubature activities ..... - 5 -
2.2. The Group's other areas of activity ..... - 6 -
2.3 Operating revenues and costs ..... - 7 -

3. PROSPECTS 7
3.1. The macro-economic environment 7
3.2. The construction market 7
3.3. The directions and objectives of the Group's development 7

III. FINANCIAL RESULTS ..... - 9 -
1. COMPANIES COMPRISING THE ERBUD GROUP ..... - 9 -

2. PROFIT AND LOSS ACCOUNT .... -9-

3. THE ERBUD GROUP BALANCE SHEET ..... - 10 -

4. THE ERBUD GROUP CASH FLOW ..... - 10 -

5. SELECTED FINANCIAL RATIOS ..... - 10 -

THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1Q 2013

In the period of 1Q 2013:
REVENUES: PLN 206 433 000
EBIT: PLN 2 313 000
NET PROFIT: PLN 410 000
CASH: PLN 86 573 000
NET DEBT: PLN 10 535 000

The financial information for the 1Q of 2013 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 2013, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Decrease in the building sector in Poland in 1Q 2013 by 15.1% y-o-y versus 16.2% growth in 1Q 2012. In March 2013 construction output fell by 18.5% y-o-y. Only hotels and industrial installations sectors noted single digit growth.
- Decrease in the employment: 7.4% y-o-y at the end of March 2013. Significant slowdown in wages: 3.6% decline in March this year.
- The fall in construction prices of 1.8% in March 2013, pressure on margins in the construction sector remains.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between January and March 2013 totalled 24 contracts with an aggregate value of PLN 212 500 000 compared to 25 contracts with total value of PLN 469 000 000 in the corresponding period in 2012.
- In 1Q 2013 the Budlex Group's sales amounted to 50 flats and commercial premises (based on notarial deeds) as against 37 in the period of 1Q 2012. In the pre-sales for 2013-2014 Budlex has signed preliminary contracts for 111 flats and commercial premises, as against 216 in 1Q 2012.

- **The Erbud Group's consolidated revenues in 1Q 2013 decreased by 12% year on year and amounted to PLN 206 433 000 versus PLN 234 402 000 in 1Q 2012.**
  - The decrease in the Group's revenues is attributable mainly to winter slowdown in project development in cubature activities in Poland and road-engineering segment (seasonal factor). The cubature segment in Poland and road-engineering segment respond for around 70% of Group's sales.

- **The Group's EBIT in 1Q 2013 was PLN 2 313 000 versus PLN 7 500 000 in 1Q 2012, 69% fall y-o-y. EBIT margin in 1Q 2013 amounted to 1.12% as against 3.2% in respond period of 2012.**
  - **The cubature activities segment** had positive effect on the Group results and it noted **operating profit amounted to PLN 6 918 000, 18% growth y-o-y.**
    - Cubature segment in Poland despite the fall of sales by 25% y-o-y in the 1Q 2013 improved its EBIT margin to 3.5%.
    - Cubature segment abroad reached 4.9% margin at the end of March 2013.
  - In the 1Q 2013 development segment added PLN 1 057 000 EBIT profit to the Group consolidated results.
  - The road-engineering segment had negative influence on the Group results and it noted loss amounted to PLN 2 857 000 - as a result of the seasonal factor and downscaling of risk in road segment. The energy - related segment lowered the Group's EBIT by PLN 2 681 000, that is the result of consolidation of the Engorem company which notes weak sales in the 1H seasonally while the cost base is stable.
  - In the analysed period management costs increased by 15% y-o-y to PLN 14 200 000 as an effect of including the Engorem company in Group's consolidated results.

- **The Group's net profit in 1Q 2013 was PLN 410 000 vis a vis PLN 3 725 000 in 1Q 2012 that is 87.5% down y-o-y.**
  - The Group's financial costs amounted to PLN 3 091 000 in the 1Q 2013 that is 38% down y-o-y, as against PLN 4 971 000 in 1Q 2012.
    - In the financial costs PLN 1 million is the cost of bonds service.
  - The balance of financial costs and revenues was minus PLN 1 488 000.

- At the end of March 2013 the Erbud Group had PLN 86 573 000 in cash that is 10% up y-o-y (PLN 78 544 000 in corresponding period of 2012) and available bank and insurance lines companies in the total amount of PLN 497 000 000.

- The net debt of the Group was PLN 10 535 000 at the end of March 2013.

- At the end of March 2013 the Group had a portfolio of orders with value of ca. PLN 1 326 000 000, of which ca. 63% are expected to be completed this year (PLN 820 000 000). To compare, the order portfolio at the end of March 2012 amounted to PLN 1 340 000 000 (from that PLN 842 000 000 was to realize in 2012).
  - In April-May this year the Group signed 3 contracts of PLN 90.5 million.

- The main segments of the order book are public utility buildings (17.8%), residential buildings (16.7%), office (32.5%), shopping centres (16.8%) and energy-related facilities (10%), engineering (2.9%) and road segment (0.7%). Public projects comprise around 24% compared to 40% in the corresponding period of 2012.

- At the end of March 2013 the total value of the bids submitted amounted to PLN 8.2 billion.

- At the time of publication the value of bids have not yet been resolved amounted to PLN 5.9 billion.

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 Institute of Economic Science of PAN forcasts, the GDP of Poland in 1Q 2013 grew 1.1% y-o-y.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), building output fell by 15.1% in 1Q 2013. The greatest falls were noted among others by the road constructions (-35.8% y-o-y), engineering sector (-19.9% y-o-y) and residential building (-18.1% y-o-y). Significant slowdown was visible in employment and in wages: 3.6% decrease in March this year versus 2.1% decrease in February 2013. At the end of March the employment in construction sector fell by 7.4% y-o-y. Decrease of building prices was 1.8% in March 2013 and this puts pressure on margins in the construction industry.

2. INTERNAL FACTORS

The Group's core activities in 1Q 2013

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 2013	1Q 2012	1Q 2013	1Q 2012	1Q 2013	1Q 2012	1Q 2013	1Q 2012	1Q 2013	1Q 2012
Sales revenues	137 758	-25% y-o-y	43 512	+44% y-o-y	12 295	+36% y-o-y	7 454	-19% y-o-y	5 372	+64% y-o-y
Sales share	66.8%	78%	21%	13%	6%	3.8%	3.6%	3.9%	2.6%	1.4%
EBIT	4 780	-10%	2 138	290%	1 057	-22%	- 2 857	-	-2 681	435%
EBIT margin (%)	3.5%	2.9%	4.9%	1.8%	8.6%	15%	-	1.9%	-	13.3%

**PBDI and OBiD **Erbud Energetyka, the Energy Construction Division and Engorem*

2.1. Cubature activities

Between January and March 2013 the Group signed a total of 12 contracts with an aggregate value of PLN 198 000 000 compared to 10 contracts signed in 1Q 2012 value of PLN 432 000 000. At the end of 1Q of 2013 the order book for cubature activities was worth PLN 1 115 000 000 as against PLN 1 197 000 000 at the end of March in 2012. The orders worth PLN 703 000 000 are to be completed this year.

In the period of 1Q 2013 sales (excluding the revenues generated by Budlex Group, PBDI, Erbud Energetyka, OBiD Division and Engorem) amounted to PLN 181 272 000, that is fall by 15% y-o-y compared to the corresponding period in 2012. The Group's EBIT on its cubature activities was PLN 6 918 000 as against PLN 5 860 000 in 1Q 2012, 18% up y-o-y.

Cubature activities in Poland (Erbud SA)
In 1Q 2013 sales in Poland amounted to PLN 137 758 000, that is 25% decrease y-o-y. The EBIT was at PLN 4 780 000 vis a vis PLN 5 313 000 in corresponding period in 2012, that is 10% fall y-o-y. EBIT margin was at 3.5% in 1Q 2013 compared to 2.9% in 1Q 2012.

Overseas cubature activities

In the period of 1Q 2013, sales revenues overseas increased 44% to PLN 43 514 000. At the end of March 2013 this segment's EBIT came through at PLN 2 138 000 as against PLN 547 000 in 1Q 2012. EBIT margin amounted to 4.9% compared to 1.8% in the corresponding period in 2012. At the end of the 1Q 2013 the Group's overseas order book was PLN 158 800 000 versus PLN 81 700 000 in 1Q 2012, that is 100% growth y-o-y. Majority of the orders portfolio will be realized this year.

German company GWI GmbH revenues amounted to PLN 24 453 000 in 1Q 2013, that is 50% up y-o-y. EBIT came through at PLN 1 017 000. Margin EBIT was 4.16%. Net profit amounted to PLN 834 000.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 1Q 2013 Budlex completed the sale of 50 flats and commercial premises (based on notarial deeds) vis a vis 37 in 1Q 2012.

The Budlex Group's revenues (before consolidation) at the end of March 2013 stood at PLN 12 649 000 versus PLN 9 310 000 in 1Q 2012, i.e. 36% growth y-o-y. Before consolidation Budlex recorded EBIT amounting to PLN 1 461 000 in 1Q 2013 versus PLN 1 878 000 in 1Q 2012, that is 22% down y-o-y. At the end of March EBIT margin stood at 11.5%.

In 1Q 2013 Budlex added PLN 12 295 000 to Erbud Group's consolidated revenue, i.e. 6% of consolidated sales of the Group. The Budlex Group increased the Erbud Group's consolidated operating profit by PLN 1 057 000.

Currently the Budlex is building new residential developments: 4 in Toruń and 3 in Bydgoszcz. In pre-sales for the years 2013-2014, the Group has signed preliminary agreement for 111 flats and commercial premises. 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 Civil engineering and road building

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

In 1Q 2013 the civil engineering and road building segment added 4 new contracts to the Group's order book with a total value of PLN 8 300 000.

In analysed period the revenue of the segment amounted to PLN 7 454 000 i.e. decrease by 19% y-o-y. The segment's EBIT (after consolidation) in 1Q 2013 was negative and amounted to minus PLN 2 857 000 compared to profit of PLN 171 000 in 1Q 2012. The subsidiary company PBDI should to speed up carrying out of its projects after seasonal slowdown what will have positive influence on the results.

At the end of 1Q 2013 the segment had an order book worth ca. PLN 47 800 000 and majority of this to be completed 2013.

Regarding the Modlin project, the work that is laying of concrete surface at two runway thresholds is going on. The cost of the work which is realizing is estimated at ca. PLN 12.5 million. The cost of the complete repair of the runway will be put at respective companies. There have been commissioned special analyses and expert assessments which should show the cause of cavities and this allows to pull out the financial consequences to the responsible entities. The company has reserve in amount of PLN 2.0 million for the cost of the Modlin project's service that is the costs of the expert assessments, the legal and consulting services.

2.2.3 Construction for the energy sector

In 1Q 2013 the Group signed 8 contracts with the energy sector, with a total value of PLN 5 500 000. The revenues in this sector at the end of March 2013 amounted to PLN 5 372 000. Operating loss amounted to PLN 2 681 000 and it was caused mainly by the subsidiary Engorem which notes loss in 1H of the year seasonally. Engorem company is consolidated with the Groups results since 22 November 2012. The revenues of Engorem amounted to PLN 5 404 000 in 1Q 2013 i.e. around 12% annual sales. The company assumes to repeat the last year results when the sales amounted to around PLN 50 million.

At the end of 1Q 2013 the Group's order book was worth PLN 132 500 that is 754% up y-o-y. Significant part of the portfolio is realization of the incineration plant in Konin worth PLN 103 808 000.

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 1Q 2013 amounted to minus PLN 556 000.

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

In 1Q 2013 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 35 201 000, 11% up y-o-y (that is PLN 3 505 000). This growth reflects including the payroll costs of new company Engorem in 1Q 2013 - the costs in this company amounted to PLN 3 400 000 in 1Q 2013. At the end of March 2013 the Group employed 1 614 people (including 250 people in Engorem), that is around 10% up y-o-y.

3. PROSPECTS

3.1. The macro-economic environment

According to the European Commission (EC), the growth in GDP in Poland in 2013 will amount to 1.1%. EC analysts expect this year to be difficult and moderate recovery may take place next year to 2.3% level. The EC expects weak internal demand and weak prospects for our main trading partners. According to the Commission in 2014 economic activity will be increasing wit the global prospects improvement.

3.2. The construction market

In April 2013, the CSO construction market index came through at minus 23.1 pts that is 2.9 pt. improvement compared to March 2013. Despite the mood's improvement construction companies feel the rising payroll costs and the remaining price war as well the arrears.

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

The improvement of efficiency and the protection of profits in 2013.

The priority of the Erbud Group's Management for 2013 is the develop sales in selected areas of the market and to further grow profits. The policies regarding new projects will be dependent on the achieving predefined parameters concerning the Group's operating efficiency and the limiting of risk. The Board also intends to maintain the current structure of the order book with a split between commercial buildings constructed for well financed developers and public buildings which can be built on terms which guarantee an appropriate margin. At the day of publication 24% of the Group's projects comprised public projects.

The Management believes that the first half of 2013 will remain overshadowed by the deteriorating situation in the construction industry. The weakening market conditions will be accompanied by a deterioration in the general conditions for the completion of projects and a reduction in margins as a resulting of the continuing price war. In 2012 return on net turnover ratio (wskaźnik rentowności obrotu netto) in construction sector was negative and amounted to -0.5%.

Further stable development of the Group

Despite the slowdown in the industry, the Management hopes that the current year will allow for the further growth of the Group. The Management expects to generate revenues at the same level as in 2012 – assuming that the level of sales of large-scale buildings is maintained and that growth is achieved in the energy sector, which should compensate for the slowdown in civil engineering and road building markets. The profits of the Groups should be retained in 2013 at the level compared to the previous year.

In 2013 the Management is assuming that there will be improvement in the large-scale building market in Poland compared to 2012 when the market had 0.93% EBIT margin. The current order portfolio in this area for 2013-2014 has a value of ca. PLN 956 million. The prospects for further development are particularly visible in large scale buildings for the public and commercial sectors as well as the office and residential building.

The Group's activities abroad will be concentrated on the further development in its existing Western European markets. The order portfolio abroad for 2013-2014 has a value of ca. PLN 159 million. The operating result in 2013 of the segment will be oscillating around the last year level i.e. around 3%.

Given the unfavourable situation in the road building sector, the Group will concentrate on civil engineering activities. The Management expects that the engagement of civil engineering activities in the Group's structure in 2013 will remain at the 2012 level, i.e. some 10%. The PBDI associated company will concentrate on projects in the renewable energy sector and on the construction and modernisation of local roads.

During 2013 development activities will involve the completion of projects started in 2012. Market conditions will determine the level of flat sales. The lack of governments' supporting programs for residential sector will have negative influence on the demand for flats.

The Group is taking part in energy-related tenders which have value of PLN 1.7 billion. At the end of March 2013 the value of the Group's order book in this sector had value of PLN 132 million.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The ERBUD Group consolidated financial statement for 1Q 2013, embracing the consolidation of Erbud SA; Erbud International Sp. z o. o.; GWI GmbH, PBDI SA, the consolidated statement of the Budlex Group, Erbud Energetyka sp. z o.o. and Engorem Sp. z o.o. via Delta Sp. z o.o.

2. PROFIT AND LOSS ACCOUNT

	Q	Q		
	2013	2012	2013 to 2012	%
PLN, 000	**1Q 2013**	**1Q 2012**	**change**	**change**
Sales	206 433.00	234 402.00	-27 969.00	-12%
Cost of sales	188 514.00	214 366.00	-25 852.00	-12%
Profit/loss on sales	**17 919.00**	**20 036.00**	**-2 117.00**	**-11%**
Costs of sales	850.00	572.00	278.00	49%
Management cost	14 200.00	12 364.00	1 836.00	15%
Result on operation	-556.00	400.00	-956.00	-239%
EBIT	**2 313.00**	**7 500.00**	**-5 187.00**	**-69%**
Financial profit	-1 488.00	-3 098.00	1 610.00	52%
Gross profit	**825.00**	**4 402.00**	**-3 577.00**	**-81%**
Net profit	**410.00**	**3 275.00**	**-2 865.00**	**-87%**
EBIT margin	1.12%	3.20%		
D&A	1 311.00	1 165.00	146.00	13%
EBITDA margin	1.76%	3.70%		

PLN, 000	**For the period of three months ended March 31, 2013**	**For the period of three months ended March 31, 2012**
a) Amortisation	1 311	1 165
b) *Use of materials and energy*	33 245	44 665
c) External services	148 463	146 053
d) *Taxes and payments*	2 293	1 962
e) Payroll	29 131	25 957
f) Social security and other	6 070	5 739
g) Other costs	3 946	2 448
h) Value of sales	246	5 793
Total costs	**224 704**	**233 782**
Change in stock, product and interchange settlements on contracts	-21 140	-6 480
Cost of production for the unit (negative)	0	0
Cost of sales (negative)	-850	-572
Cost of managemnet (negative)	-14 200	-12 364
Cost of production of products sold	**188 514**	**214 366**

3. THE ERBUD GROUP BALANCE SHEET

Item PLN thousand	2013-03-31	2012-03-31	% of total 2013	% of total 2012
Fixed assets	117 411.00	125 864.00	17%	17%
Current assets	582 582.00	615 655.00	83%	83%
TOTAL ASSETS	**699 993.00**	**741 519.00**	**100.00%**	**100.00%**
Shareholders funds	250 230.00	232 773.00	36%	31%
Long-term liabilities and provisions	99 782.00	106 990.00	14%	14%
Short-term liabilities and provisions	349 981.00	401 756.00	50%	54%
TOTAL LIABILITIES	**699 993.00**	**741 519.00**	**100.00%**	**100.00%**

3.1. Fixed and current assets

In 1Q 2013 the structure of the fixed and current assets has not changed in comparison to 2012, 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. Also the structure of liabilities doesn't vary significantly from the previous year. The only change is increase in long-term liabilities ups liquidity rations due to assets increase.

4. The Erbud Group CASH FLOW

in ,000 PLN	2013-03-31	2012-03-31
Net operating cash flow	-111 944	-57 688
Net cash flow from investment activities	5 583	- 78
Net cash flow from financial activities	-8 836	-24 981
Total net cash flow	**- 115 197**	**- 82 747**
Cash at the end of the period	**86 573**	**78 544**

The Group finished 1Q 2013 with negative balance at the financial level as the result of lower profitability at all levels and seasonal factor in construction sector.
The positive cash flow on investment activity is the consequence of return of the loan from development projects in which subsidiary GWI GmbH was in involved (old people's homes building).

5. SELECTED FINANCIAL RATIOS

No.	Item	1Q 2013	1Q 2012
1.	ROA	0.06%	0.44%
2.	ROE	0.16%	1.41%
3.	Overall gearing ratio	64%	69%
4.	Debt to equity ratio	36%	32%
5.	Current liquidity ratio	1.05	1.00
6.	Quick liquidity ratio	0.25	0.20
7.	Return on gross sales	0.40%	1.88%
8.	Return on net sales	0.20%	1.40%

The analyse of profitability ratios reflects the fall of profits in 2013 versus 2012. It was mainly caused by long lasting winter and that fact influence negatively on cubature and engineering-road activities. Additionally the consolidation of Engorem sp. z o.o. influenced negatively – it is characteristic for this company that has weak beginning of the year seasonally. Regarding the full current year the Management doesn't predict that the financial ratios will be lower compared to 2012.