ERBUD CAPITAL GROUP

MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-2Q 2013

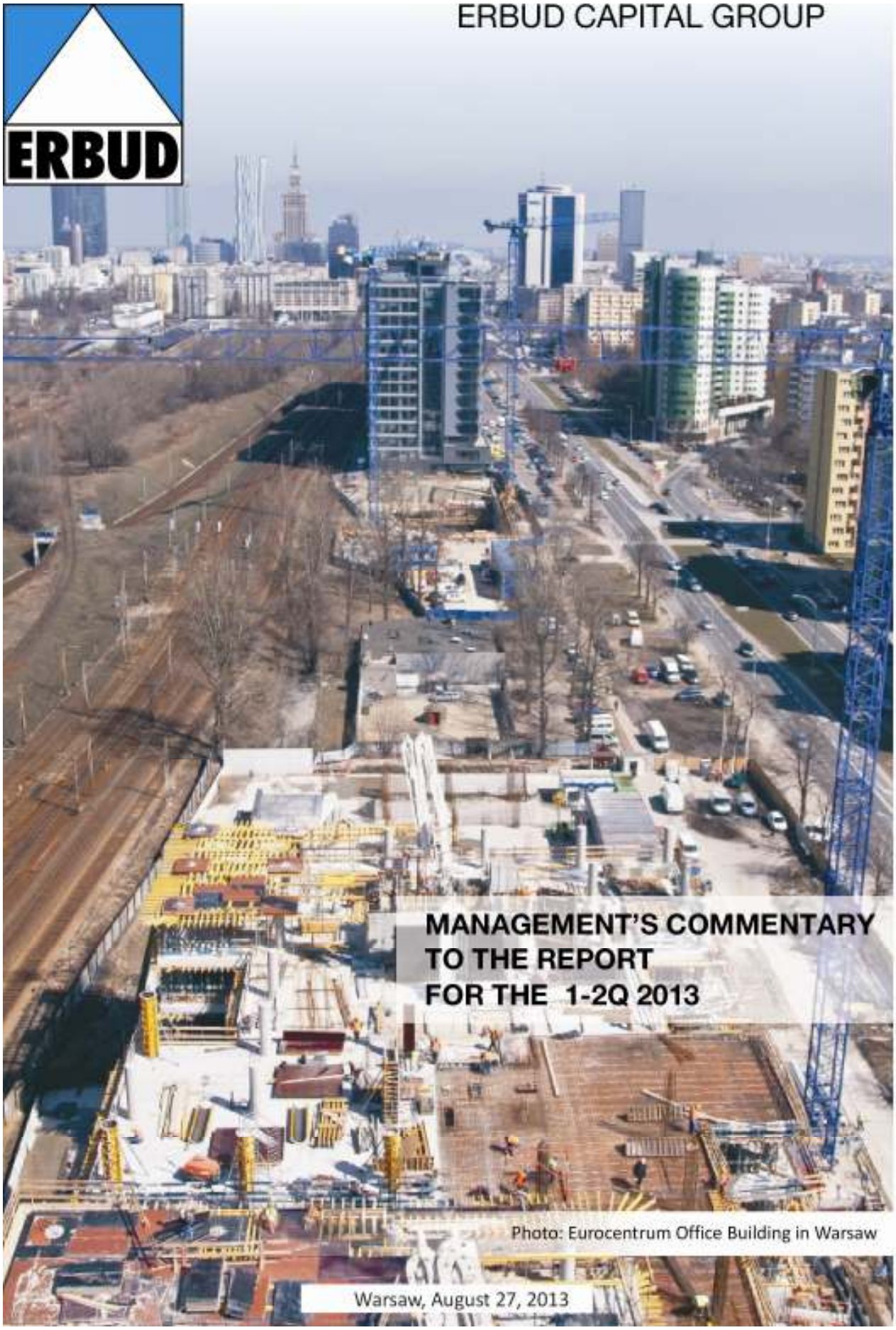

Photo: Eurocentrum Office Building in Warsaw

Warsaw, August 27, 2013

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1-2Q 2013

In the period of 2Q 2013:
REVENUES: PLN 319 469 000
EBIT: PLN 5 847 000
NET PROFIT: PLN 2 229 000

In the period of 1-2Q 2013:
REVENUES: PLN 525 902 000
EBIT: PLN 8 160 000
NET PROFIT: PLN 2 639 000
CASH: PLN 79 901 000
NET DEBT: 30 501 000

The financial information for the 1-2Q 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 1-2Q OF 2013, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Slowdown in the construction sector in Poland: a growth of 21.5% y-o-y in 1H 2013 versus 8% growth in 1H 2012. In May 2013 the sector jumped down by 27.5%. In June 2013 the sector dropped by 18.3% y-o-y.
- Decrease in the employment growth: 8.6% y-o-y up in June 2013.
- Decline in building prices, -2% y-o-y in June 2013, pressure on margins in the sector remains.
- The net margin on revenue in the sector was -3.3% in 1Q 2013 versus -1% in 1Q 2012.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between April and June 2013 totalled 26 contracts with an aggregate value of PLN 460 000 000 versus 39 contracts with a total value of PLN 450 000 000 in 2Q 2012. The portfolio of contracts signed within the Erbud Group in 1H 2013 totalled 50 contracts with an aggregate value of PLN 671 000 000. In the period of 1H 2012 Group signed 64 contracts with a total value of PLN 919 000 000. The backlog for the next quarters remains at the last year's level.
- Completed sales at the Budlex Group in the period of 2Q 2013 amounted to 53 flats and commercial premises (based on notarial deeds). In the period of 2Q 2012 the Group sold

34 flats. In 1H 2013 the Group sold 103 flats versus 71 flats in 1H 2012. The presales for 2013-2014 amount to 91 versus 196 flats in June 2012.

- **The Erbud Group's consolidated revenues in 2Q 2013 decreased by 13.4% year on year and amounted to PLN 319 469 000 versus PLN 369 010 000 in 2Q 2012.**

  - The decrease in the Group's revenues is attributable mainly to slowdown in cubature activities in Poland by 22% y-o-y in 2Q 2013. The road segment decreased sales by 56% y-o-y due to the strategy of decreasing the operations in the road sector because of the price risk in the public bids. In 1Q 2012 the segment decreased sales by 19% y-o-y.

- **The Erbud Group's consolidated revenues in 1H 2013 decreased by 12.8% year on year and amounted to PLN 525 902 000.**

  - 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 2013 was PLN 5 847 000 versus PLN 6 683 000 in 2Q 2012, i.e. 12.5% down y-o-y. EBIT margin stood at 1.8%.**
  - In 2Q of 2013 only the road segment noted a negative result and had a negative impact on the consolidated EBIT by PLN 1.2 million.
- **The Group's EBIT in 1H 2013 was PLN 8 160 000, i.e. 42.5% decline y-o-y versus PLN 14 183 000 in 1H 2012. EBIT margin stood at 1.6% versus 2.4% in 2012.**
  - In the period the road and energy segments declined the EBIT of the Group by PLN 6 million.
  - The management cost amounted to PLN 24 947 000, i.e. 2% down y-o-y.
- **The Group's net profit in 2Q 2013 was PLN 2 229 000 i.e. 0.7% of net margin versus PLN 5 059 000 and 1.4% in 2Q2012.**
  - The financial activity was negative and stood at PLN 1 522 000.
- **In 1H 2013 the net profit amounted to PLN 2 639 000, i.e. 68% down y-o-y. The net margin stood at 0.5% versus 1.4% in 1H 2012.**
  - In the period the balance on the financial activity was negative at PLN 3 010 000. The cost of bonds and credits in 1H 2013 stood at PLN 5 044 000, on growth of credit and insurance banking lines due to contracts growth.

- At the end of June 2013 the Erbud Group had PLN 79 901 000 in cash, i.e. 13.8% down y-o-y.
- The line of credit and guarantees with banks and insurance companies grew to the total of PLN 605 000 000 from a total of PLN 497 000 000 in March 2013. The lines grew in Poland and abroad, e.g. PZU by PLN 50 million.
- The net debt of the Group stood at PLN 30 501 000 in 1H 2013 versus PLN 50 872 000 in the same period of 2012 i.e. down by 40% y-o-y.
- As at the end of June 2013 the Group had a record order book worth PLN 1 523 000 000, of PLN 667 000 000 was due for completion this year. At the end of June 2012 the order book stood at PLN 1 500 000 000.

  - In July-August 2013 the Group signed 14 contracts of PLN 151 million.

- The main segments of the order book are public utility buildings (9%), hospitals (6.3%), housing segment (10.7%), office (46%), shopping centres (12.5%) and engineering (0.7%) and road segment (1.8%) and energy (10%).

- Out of it 21.4% are public sector projects versus 24% in 1Q 2013.
- At the end of June 2013 the Group submitted offers for a total value of PLN 10.6 billion and out of that PLN 6.7 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

The Main Statistical Office (GUS) reported the GDP in Poland in 2Q2013 grew by 0.8% y-o-y versus 0.5% growth in 1Q 2013. According to the Economy Ministry preliminary forecast, the GDP of Poland in 2Q 2013 stayed at the level of 0.8%.

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 2013 went down by 21.5%. Major drops were in all key sectors, but the engineering dropped by 30.7% y-o-y, and housing sectors by 26.4% y-o-y, trail sector by 22% y-o-y. Decrease is visible in the employment growth: 8.6% down in June 2013. Building prices remain down by 2% in June 2013, pressure on margins in the sector remains. The net margin on revenue in the sector was -3.3% in 1Q 2013 versus -1% in 1Q 2012.

2. INTERNAL FACTORS

The Group's core activities in 1-2Q 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**	
	2Q 2013	2Q 2012	2Q 2013	2Q 2012	2Q 2013	2Q 2012	2Q 2013	2Q 2012	2Q 2013	2Q 2012
Sales revenues	211 937	-22% y-o-y	56 546	+68% y-o-y	14 284	+60% y-o-y	19 534	-56% y-o-y	17 244	+66.5% y-o-y
Sales share	66%	74%	18%	9%	4.5%	2.5%	6%	12%	5.5%	3%
EBIT	4471	-11 556	979	-44%	1 242	+44%	- 1150	15 496	611	+26.2%
EBIT margin (%)	2.1%	-	1.7%	5.2%	8.7%	9.7%	-	1.9%	3.5%	4.7%

PLN ,000	Polish cubature activities		Overseas cubature activities		The development sector		Road building*		Construction for the energy sector**	
	1-2Q 2013	1-2Q 2012	1-2Q 2013	1-2Q 2012	1-2Q 2013	1-2Q 2012	1-2Q 2013	1-2Q 2012	1-2Q 2013	1-2Q 2012
Sales revenues	349 695	-23% y-o-y	100 06 0	+57% y-o-y	26 579	+48% y-o-y	26 888	-50% y-o-y	22 616	+66% y-o-y
Sales share	66.5%	75.3%	19%	11%	5%	3.0%	5%	9%	4.5%	2.3%
EBIT	9 251	- 6 243	3 117	+35%	2 299	-3.5%	- 4 007	15 667	-2 070	919
EBIT margin (%)	2.7%	-	3.1%	3.6%	8.7%	12%	-	30%	-	6.8%

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

2.1. Cubature activities

Between April and June 2013 the Group signed a total of 12 contracts with an aggregate value of PLN 383 840 000. In the period of 2Q 2012 the Group signed 12 contracts at total of PLN 389 000 000.

In the period of 2Q 2013 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka, Engorem) amounted to PLN 268 483 000, a 12.1% decrease over the corresponding period in 2012. Group's EBIT in 2Q 2013 on its cubature activities came through at PLN 5 450 000 vis a vis loss of 9 799 000 in 2Q 2012. The margin stood at 2%.

In 1H 2013 the Group had PLN 449 755 000 revenue, i.e. 13% down y-o-y. In 1H 2013 the EBIT stood at PLN 12 368 000 vis a vis PLN 3 939 000 loss in 1H 2012. The margin was at 2.8%.

At the end of 1-2Q of 2013 the order book for the core activities was worth PLN 1 297 000 versus PLN 1 330 000 000 in June 2012, out of it PLN 579 000 000 to be completed this year.

Cubature activities in Poland (Erbud S.A.)

In 2Q 2013 sales in Poland amounted to PLN 211 937 000 – a 22% decrease year on year. The EBIT in 2Q 2012 was at PLN 4 471 000, i.e. 2.1% of margin vis a vis PLN 11 556 000 loss in 2Q 2012. At the end of June 2013 revenue stood at PLN 349 695 000, i.e. 23% down y-o-y. In 1H 2013 EBIT stood at PLN 9 251 000 versus a loss of PLN 6 243 000 in 1H 2012. In June 2013 the margin was at 2.7%.

Overseas cubature activities

In the period of 2Q 2013, sales revenues overseas increased 68% to PLN 56 546 000. EBIT came through at PLN 979 000, versus PLN 1 757 000 in 2Q 2012 and margin came at 1.7% down from 5.2% margin in 2Q 2012. In 1H 2013 sales revenues overseas increased 57% y-o-y to PLN 100 060 000. EBIT came through at PLN 3 117 000 versus PLN 2 304 000 in 1H 2012. The margin was at 3.1% versus 3.6% margin in 2012.

At the end of the 1H 2013 the Group's overseas order book was PLN 141 000 000 versus PLN 153 000 000 in 1H 2012. Most of it to be completed this year.

German company GWI GmbH recorded revenue of PLN 51 773 000 in 1H 2013, i.e. 77% up y-o-y. EBIT stood at PLN 1 591 000, i.e. 50% growth y-o-y, while margin came at 3.1%.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 2Q 2013 Budlex completed the sale of 53 flats and commercial premises vis a vis 34 in 2Q 2012. In 1H 2013 the Group sold 103 flats versus 71 in the corresponding period of 2012.

The Budlex Group's revenues in 2Q 2013 was PLN 14 284 000, i.e. 60% up y-o-y. EBIT stood at PLN 1 242 000, i.e. 44% growth y-o-y. The EBIT margin was at 8.7%. In 1H 2013 the sales were at PLN 26 579 000 versus PLN 17 962 000, i.e. 48% up y-o-y. At the end of June 2013 EBIT came at PLN 2 299 000 versus PLN 2 221 000 i.e. 3.5% up y-o-y. EBIT margin stood at 8.7%.

In the period the company adjusted its housing prices to market situation. In the upcoming quarters the company expects the slowdown the sales on the market conditions. The growth are expected upon introduction of another housing building program.

Currently the Company is building new residential developments: 4 in Toruń and 3 in Bydgoszcz. Pre-sales contracts entered into by the Budlex Group at the end of June for 2013 concerned 91 flats and commercial units to be completed in 2013-2014 versus 196 flats in the corresponding period of 2012. The current sales level is in line with the Group estimates and shows slowdown in the residential market in the region.

2.2.2 Road and engineering building

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

In 2Q 2013 the road building sector added 7 new contracts to the Group's order book with a total value of PLN 23 800 000. In 1H 2013 sector added 11 new contracts to the Group's order book with a total value of PLN 32 000 000 versus 39 contracts of PLN 67 000 000 value in 1H 2012.

In 2Q 2013 the revenue of the segment amounted to PLN 19 534 000 i.e. down by 56% y-o-y. The sector showed an operating loss upon consolidation of PLN 1 150 000 in 2Q 2013 versus profit of PLN 15 496 000 in 2Q 2012. In 1H 2013 the revenue of the segment amounted to PLN 26 888 000 i.e. decrease by 50% y-o-y. EBIT came negative at PLN 4 007 000.

The subsidiary company PBDI will increase the project activities after seasonal slowdown which will translate into positive results. At the end of 2Q 2013 the Group's order book for road works was worth PLN 32 624 000. In July-August this year, the segment signed contracts for a total of PLN 42.6 million, mainly to be completed this year.

2.2.3 Construction for the energy sector

In 1H 2013 the sector added 15 new contracts to the Group's order book with a total value of PLN 57 000 000 versus 3 contacts for a value of PLN 30 000 000 in 2012. The revenues in this sector for 2Q 2013 was PLN 17 244 000, i.e. 67% up y-o-y. EBIT for 2Q 2013 was at PLN 611 000, 26% up y-o-y.

1H 2013 the revenue of the segment amounted to PLN 22 616 000 versus PLN 13 625 000 in 1H 2012, i.e. 66% up y-oy. EBIT was negative and amounted to PLN -2 070 000, versus profit of PLN 919 000 in 1H 2012. The upcoming quarters will improves the results after seasonal slowdown. At the end of 2Q 2013 the Group's order book was worth PLN 169 687 000, i.e. 290% up y-o-y. About PLN 43 million is to be completed this year. Key backlog project is Konin wasteplant worth of PLN 103 808 000. Erbud-led consortium signed in 2Q 2013 a contract for modernisation of Dalkia Łódź. The contract for Erbud is worth PLN 42.8 million. The specialist works of PLN 8 million are to be completed by Engorem, Erbud's energy subsidiary.

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 2Q 2013 amounted to PLN -913 000 while in 1H 2013 it amounted to PLN – 1 469 000.

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

In the period of April-June 2013 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 38 029 000 i.e. 22% up y-o-y, the result of Engorem, new subsidiary consolidation. 1H 2013 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 73 230 000 – up

16.4% year on year. At the end of June 2013 the Group employed 1 609 people - up by 16% year on year, out of it 273 employees of Engorem (i.e. 17% of total staff).

3. PROSPECTS

3.1. The macroeconomic environment

According to the European Commission (EC) the GDP in 2013 will stay at 1.1% this year. The analysts expect this year to be difficult and better trends will come next year to 2.3%. The EC points to low internal demand and low trade expectations with key partners. In 2014 the GDP will grow on the back of world's economic climate improvement.

3.2. The construction market

The construction climate index in July was at -14.9 points, a slight up by 2 points versus June 2013 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 protection in 2013

The management priority in 2013 will be sales growth in selected segments and profit protection. The acquisition of new projects will be linked to the Group's profitability targets. 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 2013 21.4% were public projects.

The management expects in the 2H 2013 the contracts completion and financial results and margins to be improved versus seasonal slowdown in 1H 2013. The full year results will come lower than in 2012.

The Erbud Group's revenue at the end of June 2013 was at PLN 526 million. The backlog for the 2H of 2013 amounts to PLN 667 million. The profits will stay under market pressure. Lower results in the road segment will be recovered in cubature and energy sectors.

Regarding the Modlin project, the industry, legal and financial analysis led to risk evaluation and decision upon optimum strategy for the company. The Modlin concrete surface was completed by DSH company, Metrostav subsidiary in Poland. Despite DSH contrary view on the repair of runway, Erbud, as substitute contractor acting in the public interest to restart airport operations as soon as possible, proposed to the investor on February 20, 2013 the timetable and recipe for the concrete laying (accepted by the investor) and started to repair the surface. On 17 June 2013 Civil Airforce Office and on 24 June 2013 the Voivodship Building Supervision Inspector withdrew the suspension of Modlin airport.

The initial cost of the work done in December 2012 January 2013 amounted to PLN 450 000 and were passed to subcontractor DSH and compensated on mutual receivables. Further cost of repair amounted to PLN 14.5 million. The cost will passed the responsible entities to pull out the financial consequences. The special analyses and expert assessments will also help to estimate the addressee of all financial demand. On the date of report release the company has no reserve on Modlin project. The company is currently analysis further strategies.

On the date of report release the investor, Port Lotniczy Modlin, presented financial demand in the amount of PLN 22.4 million. The investor did not provide the record to confirm the grounds of its demands. The general contractor does not accept the demand. In August 2013 the company received the Regional Court Warszawa-Mokotów decision to provide the security for the debt amounting to PLN

74 000 by obligatory mortgage on real estate property of Erbud in the name of Ploh company. Erbud protested to the court arguing the unjustified demand and not adequate court's decision versus the amount of the demand in the fact of good financial standing of the company.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-2Q 2013, embracing the consolidation of Erbud SA, Erbud International Sp. z o. o., GWI GmbH, PBDI, Budlex Group and Erbud Energetyka Sp. z o.o and Engorem Sp. z o.o. via Delta Sp. z o.o.

2. PROFIT AND LOSS ACCOUNT

ITEM PLN	2013	2012	difference 2013 to 2012	Change
	2Q 2013	2Q 2012		%
Sales revenue	319 469,00	369 010,00	-49 541,00	-13%
Cost of sales	300 876,00	348 927,00	-48 051,00	-14%
Profit on sales	**18 593,00**	**20 083,00**	**-1 490,00**	**-7%**
Cost of sales	1 086,00	633	453,00	72%
Management cost	10 747,00	13 100,00	-2 353,00	-18%
Result on operations	-913,00	333	-1 246,00	-374%
EBIT	**5 847,00**	**6 683,00**	**-836,00**	**-13%**
Financial profit	-1 522,00	-272,00	-1 250,00	-460%
Gross profit	**4 325,00**	**6 411,00**	**-2 086,00**	**-33%**
Net profit	**2 229,00**	**5 059,00**	**-2 830,00**	**-56%**
EBIT margin	1,83%	3,20%	-0,01	-43%
D&A	2 386,00	2 504,00	-118,00	-5%
EBITDA margin	2,58%	3,70%	-0,01	-30%

3. THE ERBUD GROUP BALANCE SHEET

BALANCE (PLN)	30.06.2013	30.06.2012	Part in 2013 balance seet	Part in 2012 balance sheet
Fixed assets	122 307	138 317	18%	18%
Current Assets	564 641	620 231	82%	82%
Total assets	**686 948**	**758 548**	**100%**	**100%**
Total shareholders funds	252 822	238 277	37%	31%
Long-term liabilities	106 075	113 555	15%	15%
Short-term liabilities	**328 051,00**	**406 716,00**	**48,00%**	**54,00%**
Total liabilities	**686 948**	**758 548**	**100%**	**100%**

3.1 Fixed and current assets

The structure of the balance sheet has remained stable versus 2012 and remains typical for companies operating in the construction industry –low fixed assets and high level of current assets. It is also due to the management policy to minimize fixed costs. The liabilities remain at the same structure as in 2012 the long term liabilities decrease improves liquidity by increase in total shareholders' funds.

4. Erbud Group CASH FLOW

	1H	1H
in ,000 PLN	**2013**	**2012**
Net operating cash flow	-122 640,00	-57 215,00
Net cash flow from investment activities	-349,00	-14 765,00
Net cash flow from financial activities	1 218,00	-19 079,00
Total net cash flow	**-121 771,00**	**-91 059,00**
Cash at the end of the period	**79 901**	**70 232**

The Group completed 2Q 2013 with negative cashflow due to lower margins on profits on the back of lower sales in the period. Negative impact was also due to shift in cycle of payables and receivables.

5. SELECTED FINANCIAL RATIOS

Item	2Q 2013	2Q 2012
ROA	0.38%	1.10%
ROE	1.04%	3.50%
Overall gearing ratio	63.20%	68.59%
Debt to equity ratio	171.71%	218.35%
Current liquidity ratio	1.72	1.52
Gross margin	0.50%	1.38%
Net margin	0.38%	1.10%

The ratios show decrease in this year vis a vis 2012. It is the effect of long seasonal slowdown in 1H 2013 which decreased sales in cubature, road segments. Additionally the consolidation of Engorem firm, Erbud's subsidiary as of 1Q 2013, which is seasonally low in 1H of a year had negative impact on results. In the full 2013 the management does not expect radios decrease vis a vis 2012. The net debt of the Group at the end of June 2013 amounted to PLN 30 501 000 i.e. 200% growth q-o-q, which results from credits increase on shift in payables-receivables cycle.