ERBUD CAPITAL GROUP

MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1-3Q 2013



Photo:Engine Room for Cooling Tower and Pump House in Stendal / Germany

Warsaw, 14 November, 2013

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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1-3Q 2013

In the period of 3Q 2013:
REVENUES: PLN 298 684 000
EBITDA: PLN 12 913 000
EBIT: PLN 12 518 000
NET PROFIT: PLN 7 940 000

In the period of 1-3Q 2013:
REVENUES: PLN 824 586 000
EBITDA: PLN 26 047 000
EBIT: PLN 20 678 000
NET PROFIT: PLN 10 579 000
CASH: PLN 95 151 000
NET DEBT: PLN 0

The financial information for the 1-3Q 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 1-3Q 2013, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Slowdown in the construction sector in Poland: down by 15.6% y-o-y in 1-3Q 2013 versus 1.4% growth in 1-3Q 2012. In September 2013 the sector jumped down by 4.8% y-o-y. In comparison with August 2013 the sector increased by 9.4% y-o-y.
- Drop in cubature sector (-7.8% y-o-y) and engineering sector (-7.0% y-o-y). Specialist sector increased by 4% y-o-y in September 2013.
- Decline in building prices: -0.1% in September 2013 versus August this year and down by 1.8% y-o-y.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between July and September 2013 totalled 30 contracts with an aggregate value of PLN 312 600 000 versus 24 contracts with a total value of PLN 111 000 000 in 3Q 2012. The portfolio of contracts signed within the Erbud Group in 1-3Q 2013 totalled 80 contracts with an aggregate value of PLN 983 000 000. In the period of 1-3Q 2012 Group signed 88 contracts with a total value of PLN 1 030 000 000.

- Completed sales at the Budlex Group in the period of 3Q 2013 amounted to 30 flats and commercial premises (based on notarial deeds). In the period of 3Q 2012 the Group sold 47 flats. In 1-3Q 2013 the Group sold 133 flats and commercial premises versus 118 flats in 1-3Q 2012. The presales for 2013-2014 amount to 98 flats with a value of PLN 31 million versus 178 flats in September 2012.
- **The Erbud Group's consolidated revenues in 3Q 2013 decreased by 17.6% year on year and amounted to PLN 298 684 000 versus PLN 362 368 000 in 3Q 2012.**

  - The engineering-road segment decreased sales by 65% y-o-y, the development segment by 51.4% y-o-y.
  - The energy sector increased the sales of the Group by 73% y-o-y.
  - The cubature activities increased the project works in 3Q 2013: revenue y-o-y decreased by 9.1% while in 2Q 2013 the drop was 12.1% y-o-y.

- **The Erbud Group's consolidated revenues in 1-3Q 2013 decreased by 14.6% year on year and amounted to PLN 824 586 000, due to lower sales in cubature activities in Poland (-22% y-o-y) and in road segment by 58% y-o-y.**

- **The Group's EBIT in 3Q 2013 was PLN 12 518 000 versus PLN 9 359 000 in 3Q 2012, i.e. 33.75% up y-o-y. EBIT margin stood at 4.2% versus 2.6% in 3Q 2012.**
  - In 3Q of 2013 positive impact on consolidated EBIT gave cubature activities in Poland and abroad, engineering and road segment and energy segment.
- **The Group's EBIT in 1-3Q 2013 was PLN 20 678 000, i.e. 12.2% decline y-o-y versus PLN 23 542 000 in 1-3Q 2012. EBIT margin stood at 2.51% versus 2.44% in the corresponding period of 2012.**
  - In the period all segments had positive contribution to consolidated results.
- **The Group's net profit in 3Q 2013 was PLN 7 940 000 i.e. up by 73.5% y-o-y versus PLN 4 577 000 in 3Q 2012. Margin stood at 2.7% versus 1.3% in 3Q 2012.**
  - The financial activity was negative and stood at PLN 2 446 000, i.e. 33% down y-o-y versus PLN 3 637 000 in 3Q 2012.
- **In 1-3Q 2013 the net profit amounted to PLN 10 579 000, i.e. 18.1% down y-o-y (PLN 12 911 000 in 1-3Q 2012). The net margin stood at 1.3%.**
  - In the period the balance on the financial activity was negative at PLN 5 456 000 which is down by 22.14% y-o-y versus PLN 7 007 000 in 1-3Q 2012.

- At the end of September 2013 the Erbud Group had **PLN 95 151 000 in cash, i.e. 1.7% up y-o-y.** The line of credit and guarantees with banks and insurance companies totalled of PLN 614 000 000.
- The net debt of the Group decreased to PLN 0, from PLN 30,5 million in 1H 2013.
- As at the end of September 2013 the Group had an order book worth PLN 1 551 000 000, of PLN 400 000 000 was due for completion this year. At the end of September 2012 the order book stood at PLN 1 300 000 000.

  - In October 2013 the Group signed 8 contracts of PLN 131 million.

- The main segments of the order book are: offices (41.6%), shopping centres (12.5%), energy (10.7%), hospitals (9.8%), public utility buildings (8.6%), housing segment (6.7%), and engineering (3.6%) and road segment (2.9%).
- Out of it 20% are public sector projects.
- At the end of September 2013 the Group submitted offers for a total value of PLN 13.5 billion and out of that PLN 7.6 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 Finance Ministry preliminary forecast, the GDP of Poland in 3Q 2013 stayed at the level of 2%.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), the growth rate in the construction sector in 1-3Q 2013 went down by 15.6% y-o-y versus 21.5% y-o-y in 1H 2013. September brought slight improvement: 4.8% down y-o-y. Major drops were in cubature sector (-7.8% y-o-y) and engineering dropped by 7% y-o-y. In comparison with August 2013 the construction sector grew by 9.4%. Specialist sector in September grew by 4% y-o-y. Building prices remain down by 0.1% in September 2013 versus August 2013 and 1.8% down y-o-y.

2. INTERNAL FACTORS

The Group's core activities in 1-3Q 2013

The data below shows the results of the various areas after taking into account exclusions from consolidation, and geographical segmentation

PLN ,000	**Cubature activities in Poland and abroad**		*Cubature segment in Poland*		**The development sector**		**Road building***		**Energy sector in Poland and abroad ****		**Operations in Poland**		**Operations abroad**	
	3Q 2013	3Q 2012	*III kw. 2013*	*III kw. 2012*	3Q 2013	3Q 2012	3Q 2013	3Q 2012	3Q 2013	3Q 2012	3Q 2013	3Q 2012	3Q 2013	3Q 2012
Sales revenues	242 196	-9.2% y-o-y	*180 302*	*-19.5% r/r*	7 952	-51.4 % y-o-y	22 674	-65% y-o-y	24 811	+73% y-o-y	236 790	-25.9% y-o-y	61894	+45.5% y-o-y
Sales share	81.1%	74%	*60.4 %*	*62%*	2.7%	4.5%	7.6%	18%	8,3%	4%	79%	88%	21%	12%
EBIT	5580	9608	*453 0*	*9055*	-84	2 947	4073	- 4 294	2 413	1 292	11 468	8805	1050	553
EBIT margin (%)	2.3%	3.6%	*2.5%*	*4%*	-	18%	19%	-	9.7%	9%	4.85%	2.75%	1.7%	1.3%

PLN ,000	**Cubature activities in Poland and abroad**		*Cubature activities in Poland*		**The development sector**		**Road building***		**Energy sector in Poland and abroad****		**Operations in Poland**		**Operations abroad**	
	1-3Q 2013	1-3Q 2012	*1-3Q 2013*	*1-3Q 2012*	1-3Q 2013	1-3Q 2012	1-3Q 2013	1-3Q 2012	1-3Q 2013	1-3Q 2012	1-3Q 2013	1-3Q 2012	1-3Q 2013	1-3Q 2012
Sales revenues	691 951	-11.9% y-o-y	*529 997*	*-22% r/r*	34 531	+0,6% y-o-y	49 562	-58% y-o-y	47 427	+70% y-o-y	662 632	-22.9% y-o-y	161 954	+52.13% y-o-y
Sales share	84%	81%	*64.3%*	*70.2%*	4.2%	3.6%	6%	12.3%	5.8%	2.9%	80%	89%	20%	11%
EBIT	17 948	5 669	*13 781*	*2 812*	2 215	5 168	66	11 373	343	2 211	16511	20 685	4 167	2 857
EBIT margin (%)	2.6%	0.7%	*2.6%*	*0.4%*	6.4%	15.0%	0.13%	9.6%	0.7%	7.9%	2.5%	2.4%	2.6%	2.7%

** PBDI; OBiD ** Erbud Energetyka and the Energy Construction Division; Engorem since 2013*

2.1. Cubature activities (Poland and abroad)

Between July and September 2013 the Group signed a total of 7 contracts with an aggregate value of PLN 178 019 000. In the period of 3Q 2012 the Group signed 6 contracts at total of PLN 98 000 000. In 1-3Q 2013 the Group signed 31 contracts for a value of PLN 760 000 000 versus 28 contracts for PLN 920 000 000 in 1-3Q 2012. At the end of 1-3Q of 2013 the order book for the core activities was worth PLN 1 232 000 000, out of it PLN 300 000 000 to be completed this year.

In the period of 3Q 2013 sales (excluding the revenues generated by Budlex Group, PBDI, OBiD, Erbud Energetyka, Engorem) amounted to PLN 242 196 000, a 9.2% decrease over the corresponding period in 2012. In 1-3Q 2013 the Group had PLN 691 951 000 revenue, i.e. 11.9% down y-o-y. Group's EBIT in 3Q 2013 on its cubature activities came through at PLN 5 580 000 vis a vis 9 608 000 in 3Q 2012. The margin stood at 2.3%. In 1-3Q 2013 the EBIT stood at PLN 17 948 000, i.e. 2.6% margin vis a vis PLN 5 669 000 in 1-3Q 2012. The cubature segment constitutes 84% of total sales of the Group.

Cubature activities in Poland (Erbud S.A.)

In 3Q 2013 sales in Poland amounted to PLN 180 302 000 – a 19.5% decrease year on year. At the end of September 2013 revenue stood at PLN 529 997 000, i.e. 22% down y-o-y. The EBIT in 3Q 2013 was at PLN 4 530 000, vis a vis PLN 9 055 000 in 3Q 2012. EBIT margin stood at 2.5% versus 4% in the corresponding period of 2012. In 1-3Q 2013 EBIT stood at PLN 13 781 000 versus PLN 2 812 000 in 1-3Q 2012. In September 2013 the backlog was at PLN 1 132 000 out of PLN 243 000 000 for 2013.

Overseas activities

In the period of 3Q 2013, sales revenues overseas increased 45.5% to PLN 61 894 000 versus PLN 42 535 000 in 3Q 2012. EBIT came through at PLN 1 051 000, i.e. 90% up y-o-y versus PLN 553 000 in 3Q 2012 and margin came at 1.7% up from 1.3% margin in 3Q 2012.

In 1-3Q 2013 sales revenues overseas increased 52% y-o-y to PLN 161 954 000. EBIT came through at PLN 4 168 000 versus PLN 2 857 000 in 1-3Q 2012, i.e. 46% up y-o-y. The margin was at 2.6%. At the end of the 1-3Q 2013 the Group's overseas order book was PLN 99 840 000 versus PLN 112 415 000 in 1-3Q 2012. About PLN 50 million is to be completed this year.

German company GWI GmbH recorded revenue of PLN 93 300 000 in 1-3Q 2013 versus PLN 54 822 000, i.e. 70.2% up y-o-y. EBIT stood at PLN 2 717 000, i.e. 30% growth y-o-y, while margin came at 2.9% versus 3.9% in 2012. Net profit came at PLN 1 927 000 i.e. 25.3% growth y-o-y. Net margin was 2.6%

2.2. The Group's other areas of activity

2.2.1 Development activities

In 3Q 2013 Budlex completed the sale of 30 flats and commercial premises vis a vis 47 in 3Q 2012. In 1-3Q 2013 the Group sold 133 flats versus 118 in the corresponding period of 2012. The sales level is due to lack of housing sector government support program that are to start in the upcoming year.

The Budlex Group's revenues in 3Q 2013 was PLN 7 952 000, versus PLN 16 638 000 in 3Q 2012, i.e. 51.4% down y-o-y. EBIT loss stood at PLN 84 000 versus profit of PLN 2 947 000 in 3Q 2012.

In 1-3Q 2013 the sales were at PLN 34 531 000 versus PLN 34 321 000, i.e. 0.6% up y-o-y. At the end of September 2013 EBIT came at PLN 2 215 000 i.e. 57.1% down y-o-y. EBIT margin stood at 6.4% versus 15% in the corresponding period of 2012.

Currently the Company is building new residential developments: 2 in Toruń and 2 in Bydgoszcz. Pre-sales contracts entered into by the Budlex Group at the end of September for 2013 concerned 98 flats and commercial units to be completed in 2013-2014.

2.2.2 Road and engineering building

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

In 3Q 2013 the road building sector added 10 new contracts to the Group's order book with a total value of PLN 99 600 000. In 1-3Q 2013 sector added 21 new contracts to the Group's order book with a total value of PLN 131 000 000 versus 57 contracts of PLN 79 000 000 value in 1-3Q 2012.

In 3Q 2013 the revenue of the segment amounted to PLN 22 674 000 i.e. down by 65% y-o-y. In 1-3Q 2013 the revenue of the segment amounted to PLN 49 562 000 i.e. decrease by 58% y-o-y. PBDI completes wind farms projects.

EBIT came at PLN 4 073 000 in 3Q 2013, i.e. 19% of margin. The sector showed an operating EBIT consolidation of PLN 66 000 in 1-3Q 2013.

At the end of 3Q 2013 the Group's order book for road works was worth PLN 101 000 000, out of it PLN 44 000 000 to be completed in 2013, major engineering including wind farms.

2.2.3 Energy segment (in Poland and abroad)

In 1-3Q 2013 the sector added 28 new contracts to the Group's order book with a total value of PLN 92 000 000. The revenues in this sector for 3Q 2013 was PLN 24 811 000, i.e. 73% up y-o-y. EBIT for 3Q 2013 was at PLN 2 413 000, 87% up y-o-y. EBIT margin came at 9.7%. In 1-3Q 2013 revenue was PLN 47 427 000 i.e. 70% up y-o-y. EBIT stood at PLN 343 000 i.e. 0.7% of margin.

At the end of 3Q 2013 the Group's order book was worth PLN 186 000 000, versus PLN 36 000 000, i.e. 408% up y-o-y, out of it PLN 51 000 000 to be done 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 2013 amounted to PLN -509 000.

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

In the period of 1-3Q 2013 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 110 742 000 i.e. 17.5% up y-o-y, the result of Engorem, new subsidiary consolidation. At the end of September 2013 the Group employed 1 457 people - up by 5.8% year on year versus 1377 employees in 2012.

3. PROSPECTS

3.1. The macroeconomic environment

According to the Finance Ministry the GDP in 4Q 2013 will stay at 2-2.5% this year. The whole year GDP will grow by 1.3-1.5%. The forecast for 2014 levels GDP at 2.5% and may be above the ministry says.

3.2. The construction market

The construction climate index in September was at -15 points versus August 2013 index results at -13. The decrease in climate is seen in payment delays and sector bankruptcies. The bankruptcies in construction sector constitute 25% of all bankruptcies in 1-3Q 2013 in comparison with 24% in 1-3Q 2012. (source KUKE).

The significant improvement may be seen in 2014 on the back of EU investments to be financed by 2015, former budget as well as 2014-2020 perspectives. Exceptional for the sector will be 2015 as 2007-2013 perspective is to be settled down as well as new budget project start to be completed. There is also a perspective of energy sector projects speed-up that may have positive impact on the sector.

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

The 2013 year determined by results stabilization and growth in selected sectors

The Erbud Group's revenue at the end of September 2013 was at PLN 824.6 million. The backlog for the 4Q of 2013 amounts to PLN 400 million.

The management expects in 4Q 2013 revenue growth in cubature segment in Poland and abroad. To be completed in 4Q is about PLN 300 million. The margins will be about 2-2.5% of margin.

It is expected that the development segment will keep its average margin of this year with sales significantly lower than 4Q of last year on the back of sector slowdown.

The decrease in sales in road sector will lower the revenue of the engineering and road segment in 2013. In 1-3Q 2013 the segment has PLN 49.6 million of revenue. The current backlog goes with PLN 101 million, out of it PLN 44 million to be completed this year.

The energy segment's revenue in 1-3Q 2013 came at PLN 47.4 million. Out of the total backlog, some PLN 51 million is to be completed this year. The 2H margins seasonally increase to a few percent.

Modlin project

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 the Voivodship Building Supervision Inspector and on 24 June 2013 Civil Airforce Office withdrew the suspension of Modlin airport.

Cost of repair amounted to PLN 16 million. The cost will passed the responsible entities to pull out the financial consequences.

The special analyses and expert assessments ordered by Erbud are to be finalized soon to define the responsible entities. This will also help to estimate the addressee of all financial demand as well as to prepare the optimum legal strategy to refund all the costs incurred by the company. The analysis results prove high concrete parameters and the fact it is in line with all documentations and public order specifications.

Perspectives for 2014

According to the management 1H of 2014 will stabilize the situation the industry. The 2H of the year will bring climate improvement.

Erbud will enter 2014 with backlog of above PLN 1.1 billion. The management priority in 2014 will be sales growth in selected segments, mainly cubature and energy sectors. The acquisition of new projects will be linked to the Group's profitability targets and risk management. 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 2013, 20% were public projects.

The management started Deptak project in Poznań in the development segment. The project is allowed for office-commercial investment in Poznań in Poznański Deptak area. The project will be completed by SPV Deptak Project P2 with lease area of 9.0 thousand sqm, including 6.5 thousand sqm of commercial premises and 2.5 thousand sqm of office area. The project will be completed by March 2015. The project financing is secured by credit lines.
Energy segment will increase acquisition of projects of services and modernization works in energy sector as well as building investments of renewable energy.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the ERBUD Group for 1-3Q 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, Delta Sp. z o.o, Engorem Sp. z o.o, Ersteel sp. z o.o.

2. PROFIT AND LOSS ACCOUNT

items	2013	2012	difference 2013 do 2012	2013	2012	difference 2013 do 2012
	I-III Q 2013	I-III Q 2012		III Q 2013	III Q 2012	
Sales	824 586	965 780	-141 194	298 684	362 368	-63 684
Cost of sales	762 629	905 966	-143 337	273 239	342 673	-69 434
Profit on sales	61 957	59 814	2 143	25 445	19 695	5 750
Sales cost	2 745	1 803	942	809	598	211
Overall management costs	38 025	34 979	3 046	13 078	9 515	3 563
Result on operating activity	-509	510	-1 019	960	-223	1 183
Operating profit EBIT	20 678	23 542	-2 864	12 518	9 359	3 159
Financial result	-5 456	-7 007	1 551	-2 446	-3 637	1 191
Profit on investment	0	0	0	0	0	0
Gross profit	15 222	16 535	-1 313	10 072	5 722	4 350
Net profit	10 579	12 911	-2 332	7 940	4 577	3 363
EBIT margin	2,51%	2,44%		4,19%	2,58%	
D&A	5 369	5 244	125	1 672	1 575	97
EBITDA margin	3,16%	2,98%		4,75%	3,02%	

Costs in detail

ITEM	30.09.2013	30.09.2012	difference	% change
A. Revenue from core activity	**830 522**	**949 044**	**-118 522**	**-12,49**
B. Operating costs	**809 335**	**926 012**	**-116 677**	**-12,60**
D&A	5 369	5 244	125	2,38
Energy and materials	122 711	173 527	-50 816	-29,28
Services	550 355	622 187	-71 832	-11,55
Tax and payments	6 665	5 525	1 140	20,63
Payroll	91 693	76 985	14 708	19,11
Social security payments	19 049	17 286	1 763	10,20
Other costs	11 537	8 390	3 147	37,51
Value of goods sold	1 956	16 868	-14 912	
C. Gross margin on sales	**21 187**	**23 032**	**-1 845**	**-8,01**
D. Other operating revenue	7 998	3 232	4 766	147,46
E. Other operating costs	8 507	2 722	5 785	212,53
F. Operating profit	**20 678**	**23 542**	**-2 864**	**-12,17**
G. Financial revenue	2 982	4 512	-1 530	-33,91
H. Financial costs	8 438	11 519	-3 081	-26,75
I. Enterprise profit	**15 222**	**16 535**	**-1 313**	**-7,94**
J. Gross profit	**15 222**	**16 535**	**-1 313**	**-7,94**
K. Tax	4 643	3 624	1 019	28,12
L. Other dues	0	0	0	0,00
M. Net profit	**10 579**	**12 911**	**-2 332**	**-18,06**

3. THE ERBUD GROUP BALANCE SHEET

IN ,000 PLN	30.09.2013	30.09.2012	Share in total 2013	Share in total 2012
Fixed assets	116 817	117 578	15%	13%
Current assets	646 397	773 126	85%	87%
ASSETS	**763 214**	**890 704**	**100%**	**100%**
Equity	260 409	242 597	34%	27%
Reserves and long term liabilities	52 147	103 517	7%	12%
Reserwves and short term liabilities	450 658	544 590	59%	61%
LIABILITIES	**763 214**	**890 704**	**100%**	**100%**

In the period the asset value decreased by 14.31%. The result of sales decrease which has a negative impact on current assets item (receivables) and short term liabilities (trade payables). The structure of assets and liabilities has not changes. There were no one-offs in the period that could have an impact on the financing structure.

4. Erbud Group CASH FLOW

	30.09.2013	30.09.2012
in ,000 PLN		
Net operating cash flow	-89 416.00	-42 540.00
Net cash flow from investment activities	-1 463.00	-13 671.00
Net cash flow from financial activities	-15 739.00	-11 544.00
Total net cash flow	**-106 618.00**	**-67 755.00**
Cash at the end of the period	**95 151**	**93 536**

The tendency to shift in cycle of payables and receivables results in negative total net cash flow. Negative impact on it had expenses on Modlin project. The spending will be refunded in the following financial periods as the entities responsible for the defects in project are defined.

5. SELECTED FINANCIAL RATIOS

Item	2013	2012
ROA	1.39%	1.45%
ROE	4.06%	5.32%
Overall gearing ratio	36.79%	48.25%
Debt to equity ratio	107.81%	177.16%
Current liquidity ratio	2.37	2.16
Gross margin	1.85%	1.71%
Net margin	1.28%	1.34%