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THE ERBUD GROUP
THE MANAGEMENT'S COMMENTARY TO THE REPORT
FOR THE 1-3Q 2014

In the period of 3Q 2014:
REVENUES: PLN 428 274 000
EBITDA: PLN 11 435 000
EBIT: PLN 9 608 000
NET PROFIT: PLN 7 280 000

In the period of 1-3Q 2014:
REVENUES: PLN 1 137 363 000
EBITDA: PLN 32 137 000
EBIT: PLN 26 221 000
NET PROFIT: PLN 15 615 000
CASH: PLN 93 948 000
NET DEBT[1]: PLN 63 067 000

The financial information for the 1-3Q 2014 shown below, as well as the comparable, 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 2014, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Increase in the building and construction output in Poland: 5.5% growth y-o-y in 1-3Q 2014 versus 12% decline y-o-y in 2013.
- In September 2014 the building and construction output increased by 5.6% y-o-y.
    - Drop in September 2014 in building construction sector (-7.1% y-o-y), while engineering sector rose (+14.1% y-o-y). Specialist sector increased by 10.5% y-o-y.
- Decline in building prices: -0.8% in September 2014 versus September 2013.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between July and September 2014 totalled 40 contracts with an aggregate value of PLN 456 781 000 versus 30 contracts with a total value of PLN 312 600 000 on the corresponding period in 2013. The portfolio of contracts signed within the Erbud Group in 1-3Q 2014 totalled 95 contracts with an aggregate value of PLN 911 076 000 compared to 80 contracts with a total value of PLN 983 000 000 on the corresponding period in 2013.

[1] Net debt: all interest-bearing debt minus cash and cash equivalents

- Sales at the Budlex Group in the period of 3Q 2014 amounted to 43 flats and commercial premises (based on notarial deeds) versus 30 in 3Q 2013. In 1-3Q 2014 the Group sold 125 flats and commercial premises versus on the corresponding period in 2013.
    - The presales for 2014-2015 amount to 164 flats and commercial premises with a value of PLN 42 million versus 98 flats and commercial premises with an aggregate value of PLN 31 million at the end September 2013.

- **The Erbud Group's consolidated revenues in 3Q 2014 increased by 43.4% year on year and amounted to PLN 428 274 000 versus PLN 298 684 000 in 3Q 2013.**

    The building construction segment in Poland, which recorded rapid increase of sales 62% up y-o-y impacted positively on the Group´s sales, while engineering segment rose by 87% y-o-y. Energy sector increased the sales by 57% y-o-y. The development segment took a major upturn and in 3Q 2014 increased by 47% y-o-y.

- **In 1-3Q 2014 consolidated revenues of the Erbud Group increased by 38% y-o-y and amounted to PLN 1 137 363 000 versus PLN 824 586 000 in 1-3Q 2013,** due to higher sales in the building construction segment in Poland (+49% y-o-y) and the engineering segment, where sales rose by 78% y-o-y. In 1-3Q 2014 growth in the energy segment reached 69% y-o-y.

- **In 3Q 2014 EBIT of the Group amounted to PLN 9 608 000 versus PLN 12 518 000 in 3Q 2013, i.e. 23.3% y-o-y decrease. EBIT margin was 2.24% versus 4.2% in 3Q 2013. All segments recorded positive EBIT.**
    - In 3Q 2013 the engineering segment had non-recurrent high EBIT, affecting the base of comparison of the Group's results in 3Q 2014.
    - In 3Q 2014 also profit of the building construction segment in Poland increased less with respect to the portfolio structure (projects in process) and growth of new contracts, which generate higher costs at the first stage of the project.

- **In 1-3Q 2014 EBIT of the Group stood at PLN 26 221 000 versus 20 678 000 in 1-3Q 2013, i.e. 27% y-o-y growth. EBIT margin in 1-3Q 2014 was at 2.3% versus 2.5% in the corresponding period in 2013.** All segments impacted positively on consolidated operating results of the Group.
    - EBIT growth in 1-3Q 2014 was positively influenced by the building construction segment in Poland (14.85% y-o-y growth), the engineering segment and the energy segment.

- **In 3Q 2014 net profit of the Group was PLN 7 280 000, i.e. y-o-y decline by 8.31% versus PLN 7 940 000 on the corresponding period in 2013. Net margin was 1.7% compared to 2.7% in 3Q 2013.**
    - In 3Q 2014 the result from financial activity of the Group was negative and amounted to PLN 2 096 000 (interest payments for loans and bonds) i.e. 14.1% y-o-y decline versus PLN - 2 446 000 in 3Q 2013.

- **In 1-3Q 2014 net profit of the Group amounted to PLN 15 615 000, i.e. 47.6% y-o-y growth (PLN 10 579 000 in 1-3Q 2013). Net margin remained at 1.37% as in the corresponding period of 2013.**
    - In 1-3Q 2014 the Group had a negative result from their financial activity (interest payments for loans and bonds) at PLN 5 433 000, i.e. y-o-y decline by 0.4% versus PLN - 5 456 000 in 1-3Q 2013.

- At the end of September 2014 the Erbud Group had **PLN 93 948 000 in cash versus 95 151 000 in September 2013.** The credit and guarantees line with banks and insurance companies amounts to PLN 751 670 000, i.e. 22% y-o-y growth.
- Net debt of the Group was PLN 63 067 000 in September 2014.
- In 1-3Q 2014 interest-bearing debt of the Group increased, derived from:
    - Building construction turnover in Poland grew by 49% y-o-y (insurance and guarantee lines),
    - Activity growth at subsidiaries in the energy sector – in 1-3Q 2014 this segment grew by nearly 70% during realisation of projects which demanded pre-financing (e.g. carburising system construction project for Dalkia),
    - Growth of the level of bonds at Budlex and Erbud SA (PLN 13 000 000 and PLN 52 000 000, respectively).
- At the end of 3Q 2014 the Group had an order book with a value of approx. PLN 1 526 000 000, from which the realisation in 2014 is planned for about PLN 430 000 000. For comparison, at the end of September 2013 the order portfolio of the Group amounted to PLN 1 551 000 000.
    - In October 2014 the Group signed another 7 contracts with a total value of PLN 326 million.
- Main segments in the portfolio are: office buildings (27.1%), commercial buildings (18.8%), power and energy buildings (11.6%), hospital buildings (10.5%), public utility buildings (8.3%) and residential properties (8.7%), engineering projects (7.8%) and road building (2.6%).
    - In the portfolio mentioned above public projects represent 14.1%, declining from 20% in the corresponding period of 2013.
- At the end of September 2014 the total value of offers made in 2014 amounted to PLN 12.3 billion, of which at date of publication unsettled offers constitute PLN 5.4 billion.

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 2014 will reach approx. 3.3% 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 in 1-3Q 2014 went up by 5.5% y-o-y versus 12% decline in 2013. In September 2014 improvement of the industry was shown: the construction sector grew by 5.6% y-o-y versus 4.8% y-o-y decrease in September 2013. In September 2014 the building construction segment was decreasing (-7.1% y-o-y) while the engineering segment was increasing (+14.1% y-o-y). The specialist construction sector grew by 10.5% y-o-y. The prices of building construction output decreased by 0.8% in September 2014 compared to September 2013.

2. INTERNAL FACTORS

The Group's core activities in 3Q 2014

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 activities in Poland*		The development sector		Engineering and road building segment		Energy segment		Operations in Poland		Operations abroad	
	3Q 2014	3Q 2013	*3Q 2014*	*3Q 2013*	3Q 2014	3Q 2013	3Q 2014	3Q 2013	3Q 2014	3Q 2013	3Q 2014	3Q 2013	3Q 2014	3Q 2013
Sales revenues	335 228	38.4% y-o-y	*291 319*	*+62% y-o-y*	11 722	+47.4% y-o-y	42 480	+87% y-o-y	38 843	+57% y-o-y	384 363	+62% y-o-y	43 909	-29% y-o-y
Sales share	78.3 %	81%	*68%*	*60%*	2.7%	2.7%	9.9%	7.7%	9.1%	8.3%	89.7%	79.3%	10.2%	21%
EBIT	5806	5580	*4537*	*4530*	70	-84	1 044	4073	2689	2413	8 340	11468	1269	1050
EBIT margin (%)	1.7%	2.3%	*1.6%*	*2.5%*	0.6%	-	2.46%	18%	6.92	9.73%	2.17%	4.84%	2.9%	1.7%

PLN ,000	Cubature activities in Poland and abroad		*Cubature activities in Poland*		The development sector		Engineering and road building segment		Energy segment		Operations in Poland		Operations abroad	
	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013	1-3Q 2014	1-3Q 2013
Sales revenues	935 334	+35% y-o-y	*790 979*	*+49%* y-o-y	33 867	-2% y-o-y	88 232	+78% y-o-y	79 929	+69% y-o-y	993 007	+49.8% y-o-y	144 355	-11% y-o-y
Sales share	82.3%	84%	*70%*	*64,3%*	3%	4.2%	7.8%	6%	7,03%	5.8%	87%	80%	12.6%	19.6%
EBIT	19 357	17 948	*15 827*	*13 781*	1628	2215	1748	66	3488	343	22 691	16 511	3 530	4 167
EBIT margin (%)	2.7%	2.6%	*2.0%*	*2.6%*	4.8%	6.4%	2%	0.13%	4.4%	0.7%	2.3%	2.5%	2.5%	2.6%

2.1. Cubature activities (Poland and abroad)

Between July and September 2014 the Group signed a total of 14 contracts for cubature activities with an aggregate value of PLN 301 000 000 compared to 7 contracts with a total value of PLN 178 019 000 in 3Q in 2013. In 1-3Q 2014 the Group signed 35 contracts at a total value of PLN 603 808 000 versus 31 contracts for PLN 760 000 000 in 1-3Q 2013. At the end of September 2014 the order book for building construction activities was worth PLN 1 148 000 000, out of it PLN 320 000 000 to be completed in 2014.

In 3Q 2014 sales amounted to PLN 335 228 000 compared to PLN 242 196 000 in the corresponding period of 2013, which means 38.4% growth y-o-y. In 1-3Q 2014 the Group had PLN 935 334 000 revenue versus PLN 691 951 000, i.e. 35% y-o-y growth. EBIT of the Group on its building construction activities in 3Q 2014 increased by 4% y-o-y and amounted to PLN 5 806 000, i.e. 1.73% margin compared to PLN

5 580 000 in 3Q 2013, i.e. 2.3% margin. In 1-3Q 2014 EBIT of the Group increased by 7.85% y-o-y and amounted to PLN 19 357 000, i.e. 2.7% EBIT margin, versus PLN 17 948 000 in 1-3Q 2013 (i.e. 2.6% margin in 2013). The building construction segment constitutes 82.3% of total sales of the Group.

Cubature activities in Poland (carried out by Erbud SA)

In 3Q 2014 cubature activities sales in Poland amounted to PLN 291 319 000 versus PLN 180 302 000 in 3Q 2013, i.e. 62% y-o-y growth. At the end of September 2014 revenue stood at PLN 790 979 000 versus 529 997 000 in the corresponding period of 2013, i.e. 49.3% y-o-y growth. EBIT in 3Q 2014 was at PLN 4 537 000 compared to PLN 4 530 000 on the corresponding period last year. In 3Q 2014 EBIT margin stood at 1.56% versus 2.5% on the corresponding period in 2013. In 1-3Q 2014 the segment´s operating profit amounted to PLN 15 827 000 compared to PLN 13 781 000 in 2013, up 14.85% y-o-y. At the end of September 2014 order book in cubature activities in Poland amounted to PLN 1 069 000 000, out of it PLN 267 000 000 is to be completed 2014.

Activities abroad (in geographic terms)

In the period of 3Q 2014, abroad sales revenues decreased by 29% to PLN 43 909 000 from PLN 61 894 000 in 3Q 2013. EBIT amounted to PLN 1 269 000, i.e. 21% y-o-y growth versus PLN 1 050 000 in 3Q 2013. Margin was 2.9% versus 1.7% in 3Q 2013.

In 1-3Q 2014 the segment revenue was PLN 144 355 000 compared to PLN 161 954 000 in 2013, i.e. 11% y-o-y decrease. EBIT of this segment amounted to PLN 3 530 000 versus PLN 4 167 000, i.e. 15.3% decrease y-o-y. EBIT margin in 1-3Q 2014 was at the level of 2.45%. At the end of the quarter the abroad order book amounted to approx. PLN 79 million compared to PLN 99.8 million in the corresponding period of 2013. Majority of the orders, i.e. PLN 53 million is to be carried out in 2014.

German company GWI GmbH recorded revenue of PLN 103 336 000 in 1-3Q 2014 versus PLN 93 300 000 in 1-3Q 2013, i.e. 10.8% y-o-y growth. EBIT of this company was PLN 2 560 000, compared to PLN 2 717 000 in 2013. EBIT margin was 2.5% versus 2.9% in 2013. Net profit of the company came at PLN 1 793 000, versus PLN 1 927 000 in 2013. Net margin was 1.75%

2.2. Other areas of activity of the Group

2.2.1 Developer activities

In 3Q 2014 Budlex completed sales of 43 flats and commercial premises based on notarial deed versus 30 in 3Q 2013. In 1-3Q 2014 the Group sold 125 flats and commercial premises versus 133 in the corresponding period of 2013.

In 3Q 2014 revenue of Budlex Group was PLN 11 722 000 versus PLN 7 952 000 in 3Q 2013, i.e. 47.4% y-o-y growth. Operational profit was PLN 70 000 versus operational losses of PLN 84 000 in 3Q 2013.

In 1-3Q 2014 the sales were at PLN 33 867 000 versus PLN 34 531 000 in 1-3Q 2013, i.e. 2% y-o-y decline. At the end of September 2014 operational profit came at PLN 1 628 000 versus PLN 2 215 000, i.e. 26.5% y-o-y decline. EBIT margin at the end of September 2014 stood at 4.8% versus 6.4% in the corresponding period of 2013.

In 1-3Q 2014 Budlex completed new residential projects, including two projects in Toruń and one in Bydgoszcz. In pre-sales for 2014-2015 the Group has signed preliminary contracts for building 164 flats and commercial premises.

In the development segment the Board continues executing the Deptak project in Poznań. The building is being developed by special-purpose company Deptak Projekt P2 and will have an area for lease of about 9 000 m^2, including 6.500 m^2 retail area as well as 2.500 m^2 office area. Project advancement is at 90%. Usage permission and opening of the shopping mall is due in March 2015. Financing of the project is guaranteed by credit line.

2.2.2 Engineering construction and road building

Taking into account results of subsidiary PBDI

In 3Q 2014 the road building sector added 15 new contracts to the Group's orders on hand with a total value of PLN 82 600 000 versus 10 new contracts of an aggregate value PLN 99 600 000 in 2013. In 1-3Q 2014 sector added 27 new contracts to the Group's orders on hand with a total value of PLN 112 000 000, compared to 21 contracts for PLN 131 000 000 in 1-3Q 2013.

In 3Q 2014 the revenue of the segment amounted to PLN 42 480 000, versus 22 674 000 in 2013, i.e. up 87% y-o-y. In 1-3Q 2014 the revenue of the segment amounted to PLN 88 232 000 compared to PLN 49 562 000 last year, i.e. 78% growth y-o-y.

Operating results in 3Q amounted to PLN 1 044 000, versus PLN 4 073 000 in 3Q 2013, down 74% y-o-y.

Margin in 3Q 2014 came at 2.46%. In 1-3Q 2014 the sector showed an operating EBIT consolidation of PLN 1 748 000, versus PLN 66 000 on the corresponding period in 2013.

At the end September 2014 the Group's order book for road works was worth approx. PLN 159 000 000, versus approx. PLN 101 000 000 on the corresponding period in 2013. PLN 60 000 000 out of PLN 159 000 000 is to be completed in 2014. The order book of the segment mainly includes engineering projects.

2.2.3 Energy segment

Energy projects in Poland and abroad are taken into account

In 1-3Q 2014 the sector added 33 new contracts to the Group's order book with a total value of PLN 195 000 000, compared to 28 contracts of an aggregate value PLN 92 000 000 in 1-3Q 2013.

The revenues in this sector for 3Q 2014 amounted to PLN 38 843 000, versus 24 811 000 in 2013, i.e. 57% growth y-o-y. The segment's EBIT was at PLN 2 689 000, versus PLN 2 413 000, i.e. 11.44% up y-o-y. EBIT margin came at 6.92%, compared to 9.7% in 2013.
At the end of September 2014 YTD revenues amounted to PLN 79 929 000 versus PLN 47 427 000, i.e. 68.5% growth y-o-y. Operating profit amounted to PLN 3 488 000, versus PLN 343 000 on the corresponding period in 2013. At the end of 3Q 2014, the segment's operating margin came at 4.4% compared to 0.7% on the corresponding period in 2013.

At the end of 3Q 2014 the Group's order book in the energy segment were worth PLN 176 000 000, versus 186 000 000 on the corresponding period in 2013, out of it PLN 39 000 000 is to be carried out in 2014.

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 operating costs in 1-3Q 2014 amounted to PLN 1 264 000.

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

At the end of September 2014 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 113 095 000, i.e. 2.1% up y-o-y. The Group employed 1 771 people versus 1 457 persons on the corresponding period in 2013, i.e. 21.5% growth y-o-y.

3. PROSPECTS

3.1. The macroeconomic environment

According to the Ministry of Finance the GDP of Poland in 2014 will reach approx. 3.3%. Research Institute for Market Economy (IBnGR) predicts approx. 3.5% GDP growth in 2014, while in 2015 – approx. 3.8%.

In 2015, the construction sector situation will improve - the added value will increase by 8.5% In 2015 economic outlook in construction industry will be positively impacted by infrastructure projects financed under the new EU budget perspective.

3.2. The construction market

According to a market intelligence company PMR, in 2015 the building market in Poland should remain in an upward trend and reach approx. 8%. The growth will be stimulated by the developing investments in the energy and railways segment, as well as stabilization in road building. Moreover, the projects from the prior EU budget perspective are to be settled down by the end of 2015.

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

Growth of revenues in the industry

The Erbud Group's revenue at the end of September 2014 was at PLN 1 137 billion, i.e. 38% growth compared to 1-3Q 2013. In the corresponding period of 2013 the building industry grew by 5.5% y-o-y.

Given the current pace of projects execution, the Erbud Group is to complete approx. 430 million this year, which indicates the potential for double-digit revenue growth in 2014.

Based on the structure of the order book as well as taking into account the rising costs of subcontractors, the Management Board does not expect an increase in margins on projects in the current year. Margins at the end of 3Q 2014 show the current potential of the Group's performance.

Prospects for 2015-2016

The Group enters into 2015 with order book worth more than PLN 1.4 billion. The majority of projects (more than 80%) involve the cubature sector.

The main projects to be implemented in 2015 encompass private projects in the field of office buildings, retail and services, healthcare, public utility buildings and energy units alike. Only 14.1% of the projects come from a public investor.

The Management Board is convinced that the first half of 2015 will bring further recovery in the sector, particularly in segments related to projects backed by the EU means. Along with the improvement of the economic situation, the Management Board expects a further increase in the cost of subcontracting, given the continuing pressure on margins in the general contractor's sector.

In 2015-2016, the Management Board notices potential opportunities for further development of the Group, particularly in cubature and energy segments. At the end of 3Q 2014 building construction sector had an order book worth PLN 1 148 billion, out of that more than 800 million is to be implemented in 2015.

The energy segment ended 3Q 2014 with an order book worth PLN 176 million. In the upcoming quarter, construction for the energy sector should maintain revenue growth. In 3Q 2014 engineering segment also generated an order book with a value of PLN 159 million. The Management Board expects further development of an order book in both segments.

In the development sector, the Management Board expects a significant increase in sales in the following year in connection with a commercial project in Poznan and the development of new housing projects.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The consolidated financial statement of the ERBUD Group for 2014 embraces the consolidation of: Erbud SA, Erbud International Sp. z o.o., GWI GmbH, PBDI, Budlex Group, Delta Sp. z o.o., Engorem Sp. z o.o., Erbud Industry Sp. z. o.o. (formerly Ersteel Sp. z o.o.) and Erbud Rzeszów Sp. z o.o.

2. PROFIT AND LOSS ACCOUNT

IN ,000 PLN	2014	2013	2014 to 2013	%
	3Q 2014	**3Q 2013**	**difference**	**change**
Sales revenues	428 274	298 684	129 590	43%
Cost of sales	405 838	273 239	132 599	49%
Profit/loss on sales	**22 436**	**25 445**	**-3 009**	**-12%**
Sales cost	1 231	809	422	52%
Overall management costs	12 964	13 078	-114	-1%
Result on operating activity	1 367	960	407	42%
Operating profit - EBIT	**9 608**	**12 518**	**-2 910**	**-23%**
Financial result	-2 096	-2 446	350	14%
Gross profit	**7 512**	**10 072**	**-2 560**	**-25%**
Net profit	**7 280**	**7 940**	**-660**	**-8%**
EBIT margin	2.24%	4.19%	-0.02	-46%
D & A	1 827	1 672	155	9%
EBITDA margin	2.67%	4.75%	-0.02	-44%

3. THE ERBUD GROUP BALANCE SHEET

IN ,000 PLN	**30.09.2014**	**30.09.2013**	**Share in total 2014**	**Share in total 2013**
Fixed assets	128 887	116 817	14%	15%
Current assets	822 406	646 397	86%	85%
ASSETS	**951 293**	**763 214**	**100%**	**100%**
Equity	275 578	260 409	29%	34%
Reserves and long term liabilities	146 946	52 147	15%	7%
Reserves and short term liabilities	528 769	450 658	56%	59%
LIABILITIES	**951 293**	**763 214**	**100%**	**100%**

During the period asset value of the Group increased resulting from revenue growth, which involves an increase in current assets item (receivables) and short term liabilities (trade payables). Increase in long term provisions and liabilities is primarily connected with the three-year bond issue by the Issuer and its subsidiary Budlex SA

The structure of assets and liabilities remained unchanged. The Group did not record any extraordinary events that could have an impact on the structure of assets and sources of funding.

4. ERBUD GROUP CASH FLOW

	30.09.2014	30.09.2013
in ,000 PLN		
Net operating cash flow	-62 384	-89 416
Net cash flow from investment activities	-10 635	-1 463
Net cash flow from financial activities	40 920	-15 739
Total net cash flow	**-32 099**	**-106 618**
Cash at the end of the period	**93 948**	**95 151**

The Group ended 3Q 2014 with the negative financial flows. Negative total cash flow was related to increased volumes and the persistent disparity between the rotation cycle of receivables and liabilities, from which the latter benefited.

The increase in negative cash flow from investing activities results from loans for the execution of a joint project carried out by the German company GWI GmbH.
To a positive result of net cash flows from financing activities contributed, among the other, funds raised from the bonds (Erbud and Budlex).

5. SELECTED FINANCIAL RATIOS

Item	3Q 2014	3Q 2013
ROA	1.64%	1.39%
ROE	5.67%	4.06%
Overall gearing ratio	71.03%	65.88%
Debt to equity ratio	245.20%	193.08%
Current liquidity ratio	1.56	1.43
Gross margin	1.82%	1.85%
Net margin	1.37%	1.28%