*Translation from Polish*

# ERBUD S.A.

# MANAGEMENT BOARD REPORT ON BUSINESS OPERATIONS OF THE COMPANY IN 2013

**WARSAW, 28 APRIL 2014**

## 1. OVERVIEW OF ECONOMIC AND FINANCIAL HIGHLIGHTS DISCLOSED IN THE ANNUAL FINANCIAL STATEMENTS

The financial position of Erbud SA in 2013 is characterized by selected economic and financial figures disclosed in the statements of balance sheet, profit and loss, cash flow and explanatory notes, together with the auditor's opinion and report.

### *1.1. Analysis of 2013 Balance Sheet Statement*

| Balance Sheet (in PLN '000) | 31.12.2013 | 31.12.2012 | Change in PLN '000 | % change |
|---|---|---|---|---|
| **I Fixed assets** | **206 029** | **214 391** | | |
| 1. Intangible fixed assets | 424 | 437 | -13 | -2.97 |
| 2. Tangible fixed assets | 6 132 | 7 605 | -1 473 | -19.37 |
| 3. Long-term receivables | 0 | 0 | 0 | 0.00 |
| 4. Long-term investments | 176 120 | 185 489 | -9 369 | -5.05 |
| 5. Long-term prepayments | 23 353 | 20 860 | 2 493 | 11.95 |
| **II Current assets** | **423 617** | **504 883** | **-81 266** | **-16.10** |
| 1. Inventories | 2 513 | 1 110 | 1 403 | 126.40 |
| 2. Short-term receivables | 220 355 | 260 197 | -39 842 | -15.31 |
| 3.Short-term investments | 58 077 | 152 193 | -94 116 | -61.84 |
| 4. Short-term prepayments | 142 672 | 91 383 | 51 289 | 56.13 |
| 5. Assets available for sale | 0 | 0 | 0 | 0.00 |
| **Total assets** | **629 646** | **719 274** | **-89 628** | **-12.46** |
| **I Equity** | **244 341** | **235 313** | 9 028 | **3.84** |
| **II Liabilities and provisions for liabilities** | **385 305** | **483 961** | **-98 656** | **-20.39** |
| 1. Provisions for liabilities | 37 702 | 33 829 | 3 873 | 11.45 |
| 2. Long-term liabilities | 266 | 50 556 | -50 290 | -99.47 |
| 3. Short-term liabilities | 280 227 | 358 003 | -77 776 | -21.72 |
| 4. Accruals | 67 110 | 41 573 | 25 537 | 61.43 |
| **Total liabilities** | **629 646** | **719 274** | **-89 628** | **-12.46** |

| | | | | |
|---|---|---|---|---|
| *Book value in PLN '000* | *244 341* | *235 313* | *9 028* | *3.84* |
| *Number of shares/stocks* | *12 714 546* | *12 677 956* | *36 590* | *0.29* |
| *Book value per share / stock in PLN* | *19.22* | *18.56* | *0.66* | *3.54* |

| Balance Sheet (in PLN '000) | 31.12.2013 | 2013 strukture in % | 31.12.2012 | 2012 strukture in % |
|---|---|---|---|---|
| **I Fixed assets** | **206 029** | **32.72** | **214 391** | **29.81** |
| 1. Intangible fixed assets | 424 | 0.07 | 437 | 0.06 |
| 2. Tangible fixed assets | 6 132 | 0.97 | 7 605 | 1.06 |
| 3. Long-term receivables | 0 | 0.00 | 0 | 0.00 |
| 4. Long-term investments | 176 120 | 27.97 | 185 489 | 25.79 |
| 5. Long-term prepayments | 23 353 | 3.71 | 20 860 | 2.90 |
| **II Current assets** | **423 617** | **67.28** | **504 883** | **70.19** |
| 1. Inventories | 2 513 | 0.40 | 1 110 | 0.15 |
| 2. Short-term receivables | 220 355 | 35.00 | 260 197 | 36.17 |
| 3.Short-term investments | 58 077 | 9.22 | 152 193 | 21.16 |
| 4. Short-term prepayments | 142 672 | 22.66 | 91 383 | 12.70 |
| 5. Assets available for sale | 0 | 0.00 | 0 | 0.00 |
| **Total assets** | **629 646** | **100.00** | **719 274** | **100.00** |
| **I Equity** | **244 341** | **38.81** | **235 313** | **32.72** |
| **II Liabilities and provisions for liabilities** | **385 305** | **61.19** | **483 961** | **67.28** |
| 1. Provisions for liabilities | 37 702 | 5.99 | 33 829 | 4.70 |
| 2. Long-term liabilities | 266 | 0.04 | 50 556 | 7.03 |
| 3. Short-term liabilities | 280 227 | 44.51 | 358 003 | 49.77 |
| 4. Accruals | 67 110 | 10.66 | 41 573 | 5.78 |
| **Total liabilities** | **629 646** | **100.00** | **719 274** | **100.00** |

The Company's assets decline by 12.46% in 2013, of which current assets by 16.10%. This was primarily due to a decrease in sales, which resulted in fall of debts and a higher rotation in receivables and decrease in cash and cash equivalents. As reflection of these reasons is also decline in short term liability items.

Issuer's equity increased by 3.84%.

***1.2. Analysis of 2013 Profit and Loss Statement***

| Item | 2013 | 2012 | Change in PLN | % change |
|---|---|---|---|---|
| **A. Revenue from core business** | **861 441** | **1 078 582** | **-217 141** | **20.13** |
| **B. Costs of products sold** | **807 397** | **1 031 874** | **-224 477** | **21.75** |
| **C. Profit (loss) on sales before tax** | **54 044** | **46 708** | **7 336** | **15.71** |
| *Sales costs* | 0 | 0 | 0 | |
| *Overhead costs* | 34 967 | 32 211 | 2 756 | 8.56 |
| **D. Profit (loss) on sales** | **19 077** | **14 497** | **4 580** | **31.59** |
| *Result of operating activity* | -1 983 | -1 207 | -776 | 64.29 |
| **E. Profit (loss) on operating activity** | **17 094** | **13 290** | **3 804** | **28.62** |
| **EBIT (%)** | **1,98%** | **1,23%** | | |
| *Result on financial activity* | -5 328 | -5 709 | 381 | -6.67 |
| **F. Profit (loss) on business activity** | **11 766** | **7 581** | **4 185** | **55.20** |
| *Income tax* | 3 350 | 1 990 | 1 360 | 68.34 |
| **F. Net profit (loss)** | **8 416** | **5 591** | **2 825** | **50.53** |
| **Net profit (loss) in %** | **0.98%** | **0.52%** | | |

In 2013, revenues from the core business reached PLN 861,441 thousand .In comparison with the previous year, the Issuer recorded a drop in revenues of PLN 217,141 thousand (20.13%).
2013 was another year of falling income. This was a consequence of the continuation of the policy of securing margins. A reduced investment demand cause that construction companies compete in tenders primarily through prices. The Issuer's Management Board upheld in 2013 the priority of margins in projects executed, even at the expense of lower revenues.

EBIT in 2013 was 1.98%. Net profit ratio for 2013 reached a value of 0.98%.

***1.3. Basic results on operations in 2013 and 2012***

**KEY FINANCIAL RATIOS**

| Item | 2013 | 2012 |
|---|---|---|
| ROE[1] | 3.44% | 2.38% |
| ROA[2] | 1.34% | 0.78% |
| EBIT margin[3] | 1.98% | 1.23% |
| EBITDA margin[4] | 2.22% | 1.43% |
| Sales profitability[5] | 6.27% | 4.33% |
| Profitability before tax[6] | 1.37% | 0.70% |
| Net profitability[7] | 0.98% | 0.52% |
| Current liquidity ratio[8] | 1.51 | 1.41 |
| Quick liquidity ratio[9] | 1.50 | 1.40 |
| Overall debt ratio[10] | 61% | 67% |
| Equity-debt ratio[11] | 1.58 | 2.06 |

[1] *Net income / Equity*
[2] *Net income / Total assets*
[3] *Operating profit / Net income on sales*
[4] *Operating profit + Amortization / Net income on sales*
[5] *Gross income on sales / Net income on sales*
[6] *Gross income / Net income on sales*
[7] *Net income / Net income on sales*
[8] *Current assets / Current liabilities*
[9] *Current assets – Inventories / Current liabilities*
[10] *Liabilities and provisions for liabilities / Total assets*
[11] *Liabilities and provisions for liabilities / Equity*

1. In this index and its trend are particularly interested shareholders (investors) of the company. A high Return on Equity shows them whether the capital has been allocated properly. It suggests that the company is developing what creates opportunities for higher dividends.
   Usually, the value of ROE is compared with the bank interest rate on long-term deposits. The level of this ratio should exceed the rate of long-term bank deposits.

2. This index informs about the company's ability (and more strictly - its assets) to generate a profit. It shows how effectively a company manages its assets. The higher value of Return on Assets, the better is the company's financial position.

3. EBIT shows sales profitability achieved by the company. So calculated profitability is free form the influence that on the profit have equity interest, taxes and extraordinary events. In 2013, the industry's average rate oscillated below 0.

4. Three presented profitability ratios inform about return on sales at different levels of the company's operations. In the opinion of the Board, indexes are satisfactory as regards the construction industry.

5. Debt ratios indicate a company's ability to repay liabilities. The rates are expected to be ranged between 1 and 2.

6. Overall debt ratio shows the structure of financing company's assets. It indicates the percentage of debt in sources of financing assets. The higher is the index, the higher is the debt, and the higher the financial risk. Too high level of overall debt ratio may raise reservations as to the financial credibility of the company. According to the standards, the index should be in the range of 0.57 - 0.67.

7. The growth of this ratio means that borrowing sources are involved in a greater scale than the own sources of the company, and thus indicates an increase in the debt value. This directly affects the level of financial risk due to higher repayments of instalments and interest. Ratio of 3:1 is a limit value for small businesses, and 1:1 for medium and large companies

***1.4. Cash Flow Statements***

The Company began the 2013 fiscal year with cash amounted to PLN 152,193 thousand, and ended with closing balance of PLN 57,920 thousand.

Negative operating cash flows (PLN 92,273 thousand) were primarily due to a substantial difference between the receivables turnover period compared to the payables turnover period. So the change in receivables was 15% (down), while short-term liabilities decreased by 22%, and after eliminating the value of the bonds, which as at the balance sheet date became current liabilities - by 36%.

***1.5. Prospects for the Issuer's development in the next FY***

2013 was another year for the Issuer to rebuild profits and capitals depleted by losses generated in 2011, to build a stable backlog and to establish a new business branch within the Erbud Group. At the end of 2013 ERBUD SA had an order portfolio of PLN 1,355,039 thousand. Despite the fact that 2013 was another year of decline in construction industry (12%) ERBUD SA completed a record portfolio that provides stabilization of revenues in 2014.

Construction market experts agree that 2013 was the ultimate year for the industry since 2004. Construction was the worst sector in the economy. Value added in construction in 2013 decreased by 9% and the rate of production sold by12%. Some say that in was the year of bankruptcies for construction companies.

However, on a positive note is that 2014 will be a period in which the construction branch is to go "in plus".

Quoting the Construction Market Chief Analyst of the research company PMR, Mr. Bartłomiej Sosna, the construction market is expected to increase in 2014 by about 3% - (interview with Nikodem Chinowski from Polish Press Agency PAP):

*”In the opinion of PMR, the largest decline in construction segment in 2013 reported the infrastructure."*

*“In 2013, the declines have occurred in all three segments of the construction industry; however, the market was pulled down mainly by civil engineering, which recorded a fall of about 20 per cent. A correction of about 15 per cent reported housing, while residential construction was the most stable and decreased only by about 5 per cent. "- he said.*

*According to Sosna, the beneficial aura will have a positive impact on the performance in the construction sector at the beginning of the year.*

*"We expect that due to good weather conditions, construction will begin the 2014 from a single-digit increase. However, it will be not a permanent growth" - he said.*

*“A steady market growth cannot begin until the second half of the year, after the first of new road projects under the new EU budget have been started, that together with the construction of several power units and intensive execution of delayed railway projects will bring an increase in civil engineering of approximately 5 per cent." - added Sosna.*

*He believes that civil engineering will be the driving force for the entire construction sector in 2014.*

*"Despite the relatively small increases this will probably be the strongest growing segment of the construction industry, as large volume building (residential and non-residential) has a chance to record only symbolic increase, although that small declines are not out of the question when the investors refraining from the execution of projects ready for commencement" - he said.*

*"However, the number of new dwellings which construction were started in 2013 decreased by 10 per cent., which will result in bad throughput in 2012. Also building permits for non-residential sphere in 2013 reached in the best case the level of 2012, and we cannot see yet a clear recovery "- he added.*

Nikodem Chinowski (PAP)

Projected growth in construction, the new EU perspective and a stable financial situation of the Issuer are an absolutely good sign for the years 2014-2106.

In the first quarter of 2014 ERBUD SA issued unsecured bonds "B" with a 4-year redemption term, what allowed rollouting the series A bonds.

At the end of 2013, ERBUD SA successfully extended all credit and guarantee lines and on 31.03.2014 it has been increased the line with Alior Bank.

Availability of financing, own resources, availability of financial guarantees required in the construction process, references, group of repeat investors, development of new prospective sectors of activity allow us to be optimistic for the coming years.

### ***1.6. Description of relevant risk factors, threats and their impact on the Issuer's operations***

As shown by historical data related to the construction industry, the sector is exposed to market fluctuations same like automotive industry but is not so protected.

A wave of bankruptcy destabilizing construction branch, which started in 2012, was directly connected with large Euro 2012 projects. Such situation caused a considerable mistrust of financial institutions against the industry. In comparison with 2012, the year 2013 was a year of slight thaw and a sentimental return to the construction industry. However, the lack of capital availability is one of the greatest threats to the construction business. It is enhanced by the liquidity problem and increasing payment delays across the industry.

At the moment, both short-term and long-term (bonds) financing as well as availability of guarantee are lines provided to the Issuer, which gives a large margin of safety. However, it requires constant monitoring and searching for alternatives, because the situation is very unstable as regards to attitude of financial institutions against the companies in the construction business

It is known that the reduction in construction output will intensify the price war, which already devastates industry. It is hard to say whether the spectre of bankruptcy will slow the tendency of companies to build portfolios. The Management Board of the Issuer clearly indicates through its policy that ERBUD will be not a participant in the price war. The relatively low margins in the construction do not allow executing contracts where the calculation shows a profit nearly the margin of zero.

Reduced investments together with the Issuer's policy on the minimum, acceptable margins will affect the structure of the backlog for 2015 and 2016. It is not excluded that the Issuer will reduce its revenue from building construction to protect profits.

Apart from the above mentioned sources of threats, the Issuer's Board sees no other risks.

### ***1.7. Research & Development***

During the financial year ended 31 December 2013, the Company did not carry out R&D activity.

## 2. DESCRIPTION OF KEY PRODUCTS AND MARKETS

### ***2.1. Core products***

The Issuer rendered services associated with construction of buildings and structures. Since 2006, a hundred per cent of contracts in the country are executed by Erbud as General Contractor. As far as export of construction services, the company operates as a subcontractor (France, Belgium, Germany and Luxembourg).

The Issuer has five branches in: Torun (with technical offices in Szczecin and Poznań), Warszawa, Rzeszow, Wroclaw, Krakow and Katowice.

The Issuer's reference list is very long and new projects are added every year. Among the completed buildings and structures are: hospitals, schools, swimming pools, office buildings, shopping centres, museum of contemporary art in Torun, a number of residential buildings in Warszawa and Kraków as well as production halls. Abroad, operating as a subcontractor, Erbud implements complicated engineering projects - compressed gas tanks, tunnels and power plants.

The structure of contracts executed in the country over the last two reporting periods was as follows:

**2012 order backlog by segment**

| | | | |
|---|---|---|---|
| M | Residential buildings | 156 713 | 13.7% |
| HT | Hotels | 0 | 0.0% |
| B | Offices | 358 724 | 31.5% |
| HU | Retail centres | 272 081 | 23.9% |
| PM | Industrial buildings and warehouses | 1 995 | 0.2% |
| UP | Public buildings and structures | 219 286 | 19.2% |
| DR | Road engineering | 0 | 0.0% |
| IN | Civil engineering | 27 840 | 2.4% |
| E | Power engineering | 103 469 | 9.1% |
| KS | Steel structures | 0 | 0.0% |
| UES | ER Services | 0 | 0.0% |
| DW | Housing and commercial development | 0 | 0.0% |
| PZ | Other | 0 | 0.0% |
| | **TOTAL** | **1 140 107** | **100.0%** |

**2013 order backlog by segment**

| | | | |
|---|---|---|---|
| M | Residential buildings | 90 951 | 6.7% |
| B | Offices | 568 532 | 42.0% |
| HU | Retail centres | 288 316 | 21.3% |
| PM | Industrial buildings and warehouses | 0 | 0.0% |
| UP | Public buildings and structures | 106 553 | 7.9% |
| SZ | Hospitals | 139 517 | 10.3% |
| DR | Road-engineering | 1 751 | 0.1% |
| IN | Civil engineering | 0 | 0.0% |
| E | Power engineering | 159 419 | 11.8% |
| US | Services | 0 | 0.0% |
| DW | Housing and commercial development | 0 | 0.0% |
| PZ | Other | 0 | 0.0% |
| | **TOTAL** | **1 355 039** | **100.0%** |

As can be seen from the breakdown above, in 2013 there was an increase in the number of contracts for erection of office buildings. The number of residential construction contracts has declined. According to the strategy of the Management Board, the share of energy engineering is growing.

***2.2. General characteristics of the domestic market***

According to the development of Professor Maria Podgórska published by Economic Development Institute of the Warsaw School of Economics (IRG SGH), the first quarter of 2013 was the last quarter of negative growth in the construction industry.

Construction companies that have not been swept by a wave of bankruptcy initiated in 2012 show growing forecast optimism which refers both to the portfolio of orders, employment and financial situation. However, it is not covered by the investment outlay forecasts. 2013 was another year in respect of reduced capital expenditures.

Quoting the IBnGR, 2014 will bring the growth in GDP of 2.8% which is significantly more than in 2013. The Institute expects the further GDP growth in 2015 by 3.5%.

According to the Institute's forecast, there will be a significantly improvement in the business outlook in the construction sector, where the added value will increase by 3.0%, after falling by 9.0% in the previous year.

| **Annual and quarterly macroeconomic forecasts of the Institute for Market Economics 2013** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2013** | | **2014** | | | | **2013** | **2014** | **2015** |
| | | **III** | **IV** | **I** | **II** | **III** | **IV** | | | |
| GDP | % y/y | 1.9 | *2.7* | *2.7* | *2.7* | *2.9* | *3* | **1.6** | ***2.8*** | ***3.5*** |
| GDP | % | 0.6 | *0.9* | *0.7* | *0.8* | *0.8* | *0,9* | **x** | ***x*** | ***x*** |
| **Value added in** | | | | | | | | | | |
| - industry | % y/y | 4.4 | *4* | *4* | *4.9* | *5.1* | *4.7* | **2.9** | ***4.7*** | ***5.4*** |
| - construction | % y/y | -4.2 | *-3.2* | *-0.6* | *2.3* | *3.8* | *4.5* | **-9** | ***3*** | ***6.5*** |
| -market services | % y/y | 2.3 | *2.9* | *2.2* | *2.4* | *2.5* | *2.5* | **2.5** | ***2.4*** | ***3.2*** |
| **Domestic demand** | % y/y | 0.5 | *1.2* | *2* | *2.5* | *3.1* | *3.9* | **-0.2** | ***2.9*** | ***3.3*** |
| Total consumption | % y/y | 1.2 | *2.1* | *2.1* | *2.4* | *2.7* | *2.9* | **1.1** | ***2.5*** | ***3.2*** |
| - of which individual | % y/y | 1 | *1.9* | *1.9* | *2.4* | *2.7* | *3* | **0.8** | ***2.5*** | ***3.3*** |
| Gross outlays on fixed assets | % y/y | 0.6 | *1.3* | *1.6* | *3.1* | *4.9* | *6.8* | **-0.4** | ***4.7*** | ***5.5*** |
| **Sold production of** | | | | | | | | | | |
| - industry | % y/y | 5 | 4.5 | *3.7* | *4.4* | *5.3* | *5.8* | **2.2** | ***4.8*** | ***5.5*** |
| - construction | % y/y | -7.1 | *-7.3* | *-2.4* | *1.5* | *3.6* | *4.5* | **-12** | ***2.6*** | ***6*** |
| Inflation (CPI; in average) | % | 1.1 | 0.7 | *1.6* | *1.7* | *2* | *2.1* | **0.9** | ***1.9*** | ***2*** |
| Inflation (CPI; period end) | % | 1 | 0.7 | *1.6* | *1.8* | *2.1* | *2.2* | **0.7** | ***2.2*** | ***2.1*** |
| Cash supply (M3, period end) | % | 6.1 | 6.1 | *7.8* | *8.4* | *8.4* | *8.5* | **6.1** | ***8.5*** | ***8.7*** |
| Real gross salary | % y/y | *3* | *3.2* | *3* | *2.8* | *2.9* | *2.9* | ***2.6*** | ***2.9*** | ***3.1*** |
| Average Employment in National Economy | % y/y | *-1.2* | *0.2* | *1.2* | *1.4* | *1.6* | *1.8* | ***-0.7*** | ***1.5*** | ***2*** |
| Registered unemployment rate (period end) | % | 13 | 13.4 | *13.8* | *12.4* | *12.3* | *12.6* | **13.4** | ***12.6*** | ***11.8*** |
| Export (GUS/RN) | % | 6.4 | *4.9* | *3.3* | *4.2* | *4.7* | *3.7* | ***4*** | ***4*** | ***7.2*** |
| Import (GUS/RN) | % | 3.4 | *2.6* | *2.6* | *3.9* | *5.2* | *6* | ***0.7*** | ***4.5*** | ***6.8*** |
| C/A Balance | GDP % | -1.9 | *-1.4* | *-1* | *-.,5* | *-1.7* | *-2* | ***-1.4*** | ***-2*** | ***-2.4*** |

***2.3. Construction market in Europe***

As analysed by Ernst & Young and Oxford Economics EUR zone will grow by only 1% in 2014 and by 1.4% in 2015.

***2.4. Characteristics of the EU markets on which the Issuer operates***

In 2012, Erbud SA returned to its construction activity in Belgium and the Netherlands.

The crisis in the construction industry is not very noticeable on these markets (especially in the field of public buildings such as hospitals, schools, dormitories). In subsequent years, this sector growth is expected to remain unchanged. Downward forecast applies only to the housing sector.

Moreover, the foreign activities are conducted by subsidiaries of Erbud SA - ERBUD International Sp. z o.o. and GWI GmbH.

***2.5. Prospects for market development***

**Construction market in the nearest future**

In March, the overall economic climate in the construction business is estimated less pessimistic than in February and in the same month of last year. Assessment of current backlog, construction output and financial situation are less negative than reported in the previous month. Forecasts for the portfolio of orders and construction output are optimistic, better than those formulated in February. Financial situation forecasts are less pessimistic than those reported in the last month. Contractors expect that the decline in prices of construction works will be slightly lower than projected in February.

The overall economic climate in construction in March stands at minus 12 (in February minus 18). An upturn trend is indicated by 14% of enterprises and the deterioration by 26% (a month before accordingly 12% and 30%). Other companies state that their situation does not change.

*THE OVERALL ECONOMIC CLIMATE IN CONSTRUCTION*
*Assessment of the current order backlog, construction output and financial situation are less negative than reported in the previous month. Forecasts for the portfolio and construction output are optimistic, better than negative ones formulated in February. Forecasts for financial situation are less pessimistic than those reported in the last month. It lasts an increase in late payments for construction works that was signalled in February. Planned job cuts may be smaller than announced last month.*
*Entrepreneurs expect that the fall of construction prices* will be *a slightly smaller than expected in February.* Twenty *percent of the respondents (i.e. the same as last year) plans to carry out construction activity abroad. The directors of these companies expect - the first time since April 2012 - a slight growth in backlogs for construction works on overseas markets. (Source: GUS)*

***2.6. Brief description of the economic environment in the context of customers and suppliers***

***2.6.1. Customers***

The Issuer operates in the investment market. Its main customers are large businesses entities and public sector. Among the major clients can be distinguished those with which the Issuer cooperates for the long time: Dom Development S.A., Rank Progress Group, LC Corp. Group, Red Real Estate, Dakota Investments, HINES Group, Auchan Polska, CGL, Capital Park Group and local self-government units.
At this point, the Management Board of Erbud SA would like to express its thanks to all investors for their confidence in the Company by ordering.

***2.6.2. Suppliers***

The Issuer's suppliers consist of suppliers of materials and subcontractors. As mentioned above, only shell and core projects are executed by the Issuer with its own potential.
Therefore, all other works are subcontracted. In accordance with the ISO principles, the Issuer shall have a range of qualified suppliers. Such a procedure is necessary due to the verification of prices and the possibility of dependence on one supplier/customer.
In addition to these two aspects, the Issuer's activity is widespread geographically and due to technical reasons, each region has its own base of suppliers and subcontractors.
In view of the above, there is no threat to become dependent on one supplier or subcontractor.

**3. INFORMATION ON CONTRACTS CONCLUDED**

***3.1. Sales structure in conjunction with the organizational structure***

As in the previous period so in 2013 the Issuer operated across the country and the "old" European Union. For this purpose, the organizational structure of the Issuer's includes branch offices in Torun (with site office in Szczecin), Warszawa, Rzeszow, Szczecin, Wroclaw, Krakow, Katowice and technical office in Poznań.

At the end of the last year there was a change in the intra- structure of the Issuer. Branch in Szczecin lost its independence and became a technical office of the Branch Torun. This was primarily to optimize the fixed costs and communication.

Such a structure allows the Issuer to become independent from the local market and actively expand into new geographical regions.

**The value of agreements signed in 2013 in Poland is as follows (figures in thousands of PLN)**

***SIGNIFICIANT CONTRACTS SIGNED IN 2013***

| No. | Branch | Project | Customer | Contract concluded on | Net contract value in PLN '000 |
|---|---|---|---|---|---|
| **ERBUD S.A. - DOMESTIC** | | | | | |
| **1** | Warszawa | Nowe Bielany IV | GLI Sp. z o.o. Komandytowa , Warszawa Domaniewska | 2013-02-27 | 25 499 |
| **2** | Rzeszów | Comprehensive execution of construction works and delivery, installation and commissioning of equipment and devices in three hospitals: Szpital Specjalistyczny im. Ludwika Rydygiera Sp. z o.o. in Kraków, Krakowski Szpital Specjalistyczny im. Jana Pawła II in Kraków, Szpital Wojewódzki im. Św. Łukasza in Tarnów | Szpital Specjalistyczny im. Ludwika Rydygiera Sp. z o.o. w Krakowie, Krakowski Szpital Specjalistyczny im. Jana Pawła II w Krakowie, Szpital Wojewódzki im. Św. Łukasza w Tarnowie | 2013-02-28 | 34 951 |
| **3** | Katowice | Construction of a waste treatment and recycling facility, plot No. 92/32 in Skarbimierz Estate | MO-BRUK S.A. | 2013-02-28 | 950 |
| **4** | Katowice | Construction of a powder coating workshop with welfare facilities in the Rockwell Automation production hall in Katowice | Rockwell Automation Sp. z o.o. | 2013-02-28 | 701 |
| **5** | Rzeszów | Extension of the District Hospital in Wadowice – Construction of Building „E" | Powiat Wadowicki - Starostwo Powiatowe w Wadowicach | 2013-03-25 | 2 619 |
| **6** | Warszawa | Dekada Centre | Dekada Grójec Sp. z o.o., Al. Niepodległości 124, 02-577 Warszawa | 2013-03-25 | 15 800 |
| **7** | Warszawa | Building office at 111 Puławska St. | Puławska 113 Sp. z o.o. Spółka Komandytowo-Akcyjna, Marynarska 11, 02-674 Warszawa | 2013-04-05 | 20 322 |
| **8** | Rzeszów | Detailed design and extension of the Clinical Hospital of the Wrocław Medical University | Uniwersytet Medyczny im. Piastów Śląskich we Wrocławiu | 2013-05-10 | 51 800 |
| **9** | Rzeszów | Civil engineering design and alteration of the Delivery Suite at the Św. Łukasz Regional Hospital in Tarnów at 178a Lwowska St.ul. Lwowska 178 a | Szpital Wojewódzki im. Św. Łukasza SPZOZ w Tarnowie, ul. Lwowska 178a, 33-100 Tarnów | 2013-05-21 | 2 385 |
| **10** | Wrocław | Construction of the POGODNE CENTRUM Shopping Gallery in Oleśnica | E.F. Progress XI Sp. z o.o. Spółka Komandytowo-Akcyjna ul. Konopnicka 3 lok 5a, 00-491 Warszawa | 2013-06-03 | 15 500 |
| **11** | Toruń | Construction of Kosciuszko Business Point (office building) in Toruń | Rywal RHC Sp. z o.o. w Toruniu | 2013-06-11 | 25 800 |
| **12** | Warszawa | Construction of an office and retail building with underground car park on Czerska St. | Facinelli 1 Sp. z o.o., ul. Fabryczna 5 , 00-446 Warszawa | 2013-06-17 | 45 000 |
| **13** | Warszawa | ,,Royal Wilanów " - Comprehensive construction of a multi-use office and retail building , incl. basement car park and on-site infrastructure and site development works | Hazel Investments Sp. z o.o., ul. Marynarska 11 , 02-674 Warszawa | 2013-06-18 | 212 477 |
| **14** | Wrocław | Connecting road in Wrocław | PRW Sp. z o.o., ul. św. Mikołaja 12, Wrocław | 2013-06-10 | 6 316 |
| **15** | Katowice | Dalkia - Refurbishment of the cool handling plant | Dalkia Łódź S.A. | 2013-06-27 | 42 789 |
| **16** | Toruń | Mangalia office and retail building - relocations | Arkady Sobieskiego Sp. z o.o. | 2013-06-28 | 1 764 |

| | | | | | |
|---|---|---|---|---|---|
| **17** | Katowice | Elektromont – Office building in Tarnowskie Góry | PPUH ELEKTROMONT Leszek Gorol Spółka Jawna, ul. Asfaltowa 103, 42-289 Woźniki | 2013-07-01 | 1 225 |
| **18** | Katowice | Rafako Power Plant Kraków – foundation | Rafako S.A., ul. Łąkowa 33, Racibórz | 2013-07-04 | 10 912 |
| **19** | Kraków | Multidisciplinary hospital in Katowice on Ceglana St. | CMC „Geo Projekt 2 „ Sp. z o. o., Sp. k. | 2013-07-18 | 54 933 |
| **20** | Warszawa | Lipsk Office Building | Polskie Inwestycji Sp. z o.o. | 2013-08-02 | 11 700 |
| **21** | Toruń | Alteration of the District Health Centre in Brzeziny | Powiatowe Centrum Zdrowia w Brzezinach Sp. z o.o., ul. M.Sklodowskiej-Curi 6, 95-060 Brzeziny | 2013-08-08 | 1 650 |
| **22** | Toruń | Retail and Entertainment Centre GALERIA PILSKA, Zygmunta Starego St. / Zakopiańska St. / 14-lutego St. | Progress XX Sp. z o.o. | 2013-09-13 | 58 400 |
| **23** | Rzeszów | Construction of the A4 Motorway Operation and Maintenance Centre - Wierzbna interchange | Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Rzeszowie 35-959 Rzeszów, ul. Legionów nr 20 | 2013-09-20 | 10 367 |
| **24** | Katowice | Mo-Bruk - Zabrze | Mo-BRUK SA, 33-322 Korzenna, Niecew 68 | 2013-09-05 | 4 760 |
| **25** | Rzeszów | Construction of the Psychiatric Centre together with the Consulting Clinic, incl. office area and technical facilities for the Psychiatric Centre at the Św. Łukasz Regional Hospital in Tarnów | Szpital Wojewódzki im. Św. Łukasza SPZOZ w Tarnowie ul. Lwowska 178a 33-100 Tarnów | 2013-10-02 | 17 475 |
| **26** | Katowice | Construction of a waste treatment and recycling facility in Skarbimierz Estate, phase II | Mo-BRUK SA, 33-322 Korzenna, Niecew 68 | 2013-10-03 | 6 250 |
| **27** | Wrocław | Promenady Wrocławskie II | Promenady II VD Sp. z o.o. | 2013-10-08 | 31 600 |
| **28** | Wrocław | ZITA Office Building, Phase B | Promenady Zita Sp. z o.o. | 2013-10-08 | 24 700 |
| **29** | Rzeszów | Conversion of the historic fortress Twierdza Przemyśl for cultural tourism purpose -Stage I | Związek Gmin Fortecznych Twierdzy Przemyśl ul. Kościuszki 7, 37-700 Przemyśl | 2013-10-22 | 9 674 |
| **30** | Toruń | Mangalia - preliminary contract | Arkady Sobieskiego Sp. z o.o. | 2013-11-27 | 31 700 |
| **31** | Wrocław | Nowy Rynek Retail Mall in Jelenia Góra | Euro Mall Polska XXIII Sp. z o.o. | 2013-12-20 | 133 700 |
| **32** | Kraków | Perla Verona residential building in Kraków | Perla Verona Building Sp. z o.o. Sp. k z siedzibą w Krakowie | 2013-12-18 | 15 700 |

**Projects carried out abroad by ERBUD SA in 2013**

| No. | Project | Customer | Contract concluded on | Net contract value in PLN '000 |
|---|---|---|---|---|
| **1** | Prefaco BE1301 | Prefaco | 2013-01-02 | 270 |
| **2** | Tooren II BE1304 | MBG | 2013-03-01 | 3 921 |
| **3** | Cezanne II BE1305 | Vanhout | 2013-06-01 | 310 |

***3.2. Other significant contracts signed in 2013 and by the date of the report preparation.***

In 2013 and over the period to the report preparing, the Issuer did not sign significant contracts other than for construction works.

***3.3. Significant insurance agreements***

As of the day of the report publication, the Issuer has the following insurance agreements.

| Policy number | Insuring company | Valid from | Valid to | Subject of Insurance | Covering value |
|---|---|---|---|---|---|
| 2361000337 | Chartis Europe S.A. | 01-04-2013 | 31-03-2014 | D&O insurance | PLN 20,000,000 |
| 2361000337 | Chartis Europe S.A. | 01-04-2014 | 31-03-2015 | D&O insurance | PLN 30,000,000 |
| 901006650989 | STU Ergo Hestia S.A. | 01-01-2014 | 31-12-2014 | Construction risk insurance | Open car |
| 901006650986 | STU Ergo Hestia S.A. | 01-01-2014 | 31-12-2014 | Liability for business conducting insurance | PLN 50,000,000.00 for one event PLN 100,000,000.00 for all events |

***3.4. Significant financing agreements***

**On 17 April 2013,** Erbud S.A. signed a mandate agreement for periodic establishment of insurance guarantees with Powszechny Zakład Ubezpieczeń Spółka Akcyjna headquartered in Warsaw. The agreement includes granting of contractual guarantees on behalf of ERBUD SA. The maximum exposure limit is PLN 50,000,000.00, provided that the exposure limit for advance amount repayment shall not exceed PLN 6,000,000.00. These limits have been set out by 25.03.2014; an extension for a further period is possible.

**On 05 September 2013,** Erbud S.A. signed an Annex to the loan agreement with Alior Bank. The parties to the Agreement extended the term of the line amounted to PLN 50m for another 12 months, by 4 September 2014.

**On 30 October 2013,** the Issuer signed an Annex to the Agreement on multi-purpose credit line with PNB Paribas Bank Polska SA seated in Warsaw. By virtue of this annex the value of the credit line has been decreased from PLN 30m to PLN 40m and the availability has been extended by 29.10.2014.

**On 20 December 2013,** ERBUD SA signed an annex extending the cooperation agreement with mBank S.A by another 12 months. By virtue of this annex the Issuer will be able to use the products in the form of bank overdraft and lines for financial guarantees. The total line value is PLN 80 million (say: eighty million Zlotys) of which the sublimit for debt financing amounts to PLN 10 million (say: ten million). The line is secured by assignments of receivables from construction contracts and a mortgage established on cooperative ownership right to the office area in Warsaw.

**On 30 December 2013,** ERBUD SA signed an annex extending the cooperation agreement with ING Bank Slaski SA by another 12 months. Pursuant to the Annex, the Issuer and its subsidiaries Budlex SA, PBDI SA and ENGOREM Sp. z o.o. will be able to use bank products in the form overdraft and financial guarantees line. The line totalls PLN 80m (eighty million Zlotys), of which the sublimit for debt financing is PLN 32m (thirty-two million Zlotys).

**On 31 March 2014**, the Issuer signed the Amendment No. 2 to the Agreement on the Loan increasing the level of the Issuer's funding by Alior Bank SA from PLN 50m to PLN 80m. The increased limit applies to the sublimit for financial guarantees. Therefore, overdraft facilities of PLN 10m are available to the Issuer at present, while the possible limit for contract performance bonds rose from PLN 40m to PLN 70m.

**On 18 March 2014**, the Management Board of the Issuer adopted a resolution resolved to issue up to 5,200 bearer bonds, dematerialized, unsecured, (the "Bonds") with a total nominal value of not more than PLN 52 million (say: fifty-two million Zlotys). The par value of one Bond will be PLN 10,000 (say: ten thousand). The issue price will be 9,587 PLN (say: nine thousand five hundred eighty-seven Zlotys). The bond issue date was set for 26 March 2014 and the date of redemption for 26 March 2018. The interest rate on bonds will be variable and based on WIBOR 6M plus a margin equal to 3.0 percentage points. The Bonds will be issued as per Art. 9 sec. 3 of the Act of 29 June 1995 on bonds (Journal of Laws of 2001 No. 120, item. 1300 as amended). The Issuer will apply for placing bonds on the trading platform for debt financial instruments carried by the Stock Exchange in Warsaw SA in the form of alternative trading system.

**1. Purpose of the issue**

Assuming that all Bonds will be purchased by investors, it is expected that the gross proceeds from Bonds issued will amount to PLN 49,852,400 (say: forty-nine million eight hundred fifty-two thousand four hundred Zlotys). However, the Issuer's Management Board does not preclude, that a part of the Bonds will be paid by way of offsetting claims relating to Series A bonds against the payment for

Bonds. In case that all or part of the Bonds issued will be settled in the above manner gross proceeds from the issue will be correspondingly lower.

The Issuer intends to use the financial means for:

(1) Redemption of Series A bonds issued by the Issuer. The Issuer does not preclude that some of investors holding bonds of Series A bonds will be interested in further supporting the development of the Issuer and may participate in the issuance of new Bonds. It cannot be ruled out that some of the investors will be willing to pay for the Bonds by offsetting claims due to Series A bonds against the payment for Bonds.

(2) Financing an increased demand for working capital associated with a record backlog of the ERBUD Capital Group. At the end of 2013, the Group had a record order portfolio in its history ever equal to PLN 1.6 billion, which represents an increase of approximately 26% as compared to 2012. Acquiring new asstes or extending the maturity for series A bonds will provide funds for the further development of the Group in subsequent years.

The Issuer reserves the right to change the above-mentioned manner of use of proceeds from the Bonds, if there are unforeseen circumstances that may have an adverse effect on the Issuer's Capital Group. Information regarding any changes in the way the use of proceeds from the issuance of Bonds will be made public in the form prescribed by applicable law, immediately after the relevant decisions has been made.

**2. Type of bonds issued**

Bearer Bonds, dematerialized, unsecured with a nominal value of PLN 10,000 (say: ten thousand Zlotys) each, 4-year maturity.

**3. Issue size**

The Issuer intends to issue up to 5,200 bearer bonds, dematerialized, unsecured, with a total nominal value of not more than PLN 52,000,000 (say: fifty-two million Zlotys).

**4. Nominal value and issue price**

The Issuer intends to issue bonds with a nominal value of PLN 10,000 (say: ten thousand Zlotys) and the issue price of PLN 9,587 (in words: nine thousand five hundred eighty-seven Zlotys) each.

**5. Terms and conditions for redemption and interest payment**

The Bonds will be redeemed by the payment of money equal to the par value plus the interest due effected to the bondholders on the Maturity Day and calculated in the manner indicated in the conditions of the Bonds issuance. The bondholders will have the right to require an early redemption of the Bonds in the event of breaches as referred to in terms and conditions of the issue of the Bonds, on terms specified in the conditions of the Bonds issue.

The interest rate on Bonds will be variable and based on WIBOR 6M plus a margin equal to 3.0 percentage points. Interest on the nominal Bonds value will accrue from the issue date (inclusive) and payable on each day of interest payment in accordance with the terms of issue of the Bonds. The last date for accrual of interest will be the day preceding the Bonds redemption date.

**6. Amount and form of security and identification of the entity providing the security**

The bonds will be unsecured ones.

**7. Value of commitments as at the last day of the quarter preceding the publication of the acquisition offer and the prospects for the future Issuer's liabilities until the whole bonds offered for the purchase has been redeemed**

Liabilities as at 31 December 2013.

As of 31 December 2013, the total balance of liabilities of the Issuer’s parent company amounted to PLN 280.0m, of which PLN 0.3m was attributed to long-term liabilities and PLN 279.7m to current liabilities.

Within the liabilities of the parent of the Issuer, the most important items were: (i) trade liabilities of PLN 211.6m (ii) liabilities due to Series A bonds of PLN 50m and (iii) other financial liabilities (financial leasing) of PLN 2.6m.

Furthermore, the balance of cash and cash equivalents of the Issuer’s parent as at 31 December 2013 amounted to PLN 58.1m. Cash surplus over interest-bearing liabilities reached PLN 5.5m.

Contingent off-balance liabilities (banking and insurance) of the parent of the Issuer in the form of guarantees provided as at 31 December 2013 were as follows: (i) guarantees to pay liabilities equal to PLN 15.2m, (ii) performance bonds equal to PLN 145.5m and (iii) remedial works guarantees of PLN 127.0m.

The total balance of liabilities in the form of guarantees granted at the end of the 4Q 2013 mounted to PLN 287.7m.

In addition, the parent company of the Issuer has provided to the subsidiaries of the Issuer's Capital Group loans and guarantees. The balances of loans granted to the subsidiaries as at 31 December 2013 were as follows: (i) loans granted to Budlex SA - PLN 24.0m and (ii) loans granted to ERBUD International Sp. o.o. - PLN 11.0m.

Guarantees and sureties granted by the Issuer to the companies included in the Issuer's Capital Group as at 31 December 2013 were as follows: (i) civil surety granted on 28 September 2009 by GWI GmbH to KBC with a value of € 2m related to overdrafts (guarantee expires on 31 July 2014), (ii) guarantee of EUR 2m provided on 25 May 2011 by BRE on behalf of ERBUD SA given by GWI GmbH to Commerzbank due to overdrafts (guarantee expires on 1 July 2014), (iii) civil surety granted on 30 May 2012 by GWI GmbH, Erbud International to Euler Hermes amounted to € 7.5m due to the insurance guarantees line (expiration date: 29 May 2014), (iv) civil surety of € 3.5m granted on 27 April 2012 by GWI GmbH to Zurich (guarantee expiration date: continuing).

As of 31 December 2013, the total balance of liabilities of the Issuer's Capital Group, excluding provisions for liabilities, construction contracts and accruals amounted to PLN 368.5m, of which PLN 19.9m were long-term liabilities and PLN 348.6m short-term liabilities.
Within the liabilities of the Issuer, the most important items were: (i) trade liabilities and other liabilities - PLN 193.6m, (ii) Series A bonds in the amount of PLN 50m, (iii) long-term bank loans and borrowings: PLN 14.5m, (iv) short-term bank loans and borrowings: PLN 24.5m and (v) other financial liabilities (financial lease): PLN 5.4m.
The consolidated balance of cash and cash equivalents as of 31 December amounted to PLN 124.6m.

Prospects for the Issuer's obligations and commitments until full redemption of the Bonds.

The business sector, in which the Issuer's Capital Group is operating, is characterized by high variability in terms of demand for working capital. This is due to seasonal factors and the current situation in the construction market.
At the end of 2013, the Group had a record order portfolio in its history ever equal to PLN 1.6bn.
After the issuance of the Bonds, the Issuer's parent company does not anticipate any further increase due to loans, borrowings or debt instruments. Additional debt may still be incurred by the subsidiaries of the Issuer's Capital Group, primarily by the development company Budlex SA, whose operations are capital intensive.
The Issuer will lead a conservative policy of funding to maintain Net Financial Debt-To-Separate Equity Rate below 0.6, and Net Financial Debt-To-Consolidated Equity Rate below 1.

**On 25 March 2014**, the Issuer has been notified that the Board of the National Depository for Securities adopted Resolution No. 332/14 on the registration with the NDS of 5,200 bearer bonds of series B. The bonds were issued pursuant to the Resolution of the Management Board of ERBUD SA No. 1/2014 dated 18 March 2014. The nominal value of bonds – PLN 10,000 each. Maturity date – 26 March 2018. Code: PLERBUD00053.

**On 26 March 2014,** the Management Board of Erbud SA passed a resolution on purchasing 40,000 (say: forty thousand zlotys) own Bonds of series A, issued following the resolution of the Company's Management Board dated 29 June 2011, with a par value of PLN 1,000.00 (say: one thousand zlotys) each, placed on the market on trading platform of debt financial instruments managed by BondSpot in the form of an alternative trading system ("Bonds"), and the Company bought back the Bonds on the same day, i.e. on 26 March 2014. The Bonds were purchased in order to redeem them. The aggregate nominal value of own Bonds bought back by the Company amounted to PLN 40,000,000.00 (say: forty million zlotys), and the total purchase price was PLN 40,462,800.00 (say: forty million four hundred and sixty-two thousand eight hundred zlotys).

**On 26 March 2014,** the Company completed the issue process of series "B" Bonds.

**On 9 April 2014,** the Company filed an application to the Board of the Warsaw Stock Exchange on the introduction of debt instruments to the alternative trading system on the Catalyst.

**4. INFORMATION ON ORGANIZATIONAL AND CAPITAL ASSOCIATIONS BETWEEN THE ISSUER WITH RELATED PARTIES**

***4.1. Description of the Issuer's equity relations***

The Capital Group ERBUD S.A. consists of the following consolidated business entities:

1. The Parent company (the Issuer):
   Erbud S.A. headquartered in Warszawa
2. Subsidiaries:
   - Erbud International Sp. z o.o. seated in Toruń
   - GWI GmbH seated in Düsseldorf, Germany
   - Budlex S.A. seated in Warszawa
   - PBDI S.A. seated in Toruń
   - Erbud Energetyka Sp. z o.o. seated in Katowice
   - Erbud Industry Sp. z o.o. (formerly Ersteel Sp. z o.o.) seated in Toruń;
   - Delta Sp. z o.o.
   - Engorem Sp. z o.o. seated in Łódź

As at 31.12.2013 the Parent company Erbud S.A. held 100 per cent of share capital in the subsidiary Erbud International Sp. z o.o.

As at 31.12.2013, the Parent company Erbud S.A. held 85 per cent of share capital in the subsidiary GWI GmbH, after disposal of 15 per cent of the shares to the President of GWI GmbH on 5 March 2009. The shares were sold at face value, i.e. EUR 15 thousand.

As at 31.12.2013, the Parent company Erbud S.A. held 90 per cent of share capital in the subsidiary Budlex Sp. z o.o.

As at 31.12.2013, the Parent company Erbud S.A. held 94.27 per cent of share capital in the subsidiary PBDI S.A.

As at 31.12.2013, the Parent company Erbud S.A. held 100 per cent of share capital in the subsidiary Erbud Energetyka Sp. z o.o.

As at 31.12.2013, the Parent company Erbud S.A. held 100 per cent of share capital in the subsidiary Erbud Industry Sp. z o.o. (formerly Ersteel Sp. z o.o.)

As at 31.12.2013, the Parent company Erbud S.A. held 100 per cent of share capital in the subsidiary Delta Sp. z o.o.

As at 31.12.2013, the Parent company Erbud S.A. held 98.62 per cent of share capital in the subsidiary Engorem Sp. z o.o.

Erbud SA as the Parent and Erbud International Sp. z o.o., Budlex S.A., GWI GmbH, PBDI S.A., Erbud Industry Sp. z o.o. (formerly Ersteel Sp. z o.o.); Erbud Energetyka Sp. z o.o.; Delta Sp. z o.o. and Engorem Sp. z o.o. o as subsidiaries compose affiliated units within the meaning of IAS/ IFRS.

In the year ended 31 December 2013 the Company had no branches (establishments) and did not repurchase its own shares (stocks).

***4.2 Agreements concluded by Erbud S.A. with related entities in 2013 and by the publication date of the report***

**Erbud International**

| Contracts concluded with Erbud S.A. in 2013 | | | | | |
|---|---|---|---|---|---|
| **No.** | **Company contracting** | **Contract subject matter** | **Contract value in in PLN '000** | **Contract concluded on** | **Comments** |
| 1 | Erbud International | Contract No. Sz/E02/2013/1 - Supervision and assistance in carrying out the construction of Municipal Waste Thermal Incineration Plant in Konin | 250 | 2013-01-02 | |
| 2 | Erbud International | Contract No. 01/EI/S-1230/2013 - Civil engineering works - Waste incineration plant in Konin | 70 000 | 2013-01-04 | |
| 3 | Erbud International | Contract No. 03/EI/W-1308/2013 - Civil works – Office building in Warszawa on Puławska St. | 5 000 | 2013-04-01 | |
| 4 | Erbud International | Contract No. 01/EI/W-1304/2013 - Civil works - NOWE BIELANY Estate, Warszaw | 10 000 | 2013-02-04 | |
| 5 | Erbud International | Contract No. 02/EI/W-1307/2013 - Civil works - DEKADA Shopping Centre, Grójec | 5 000 | 2013-02-04 | |
| 6 | Erbud International | Contract No. 01/EI/R-1309/2013 - Civil works - Wrocław Medical University | 250 | 2013-04-23 | |
| 7 | Erbud International | Contract No. 01/EI/T-1312/2013 - Civil works - KOŚCIUSZKO POINT Office Building, Toruń | 18 000 | 2013-06-11 | |
| 8 | Erbud International | Annex No. 1 to the contract No. /EI/W-1207/2013 - Civil works - EUROCENTRUM | 8 500 | 2013-06-30 | postponing the deadline from 30.06.2013 to 30.10.2014 and value from PLN 20 000 000 to PLN 8 500 000 |
| 9 | Erbud International | Contract No. 04/EI/W-1321/2013 - Civil works - LIPSK, Warszawa | 5 000 | 2013-08-01 | |
| 10 | Erbud International | Contract No. 03/EI/T-1322/2013 - Civil works - Alteration and upper storey addition - District Health Centre in Brzeziny | 13 000 | 2013-08-19 | |

| | | | | | |
|---|---|---|---|---|---|
| 11 | Erbud International | Contract No. 05/EI/W-1317/2013 - Civil works - ROYAL WILANÓW, Warszawa | 30 000 | 2013-09-01 | |
| 12 | Erbud International | Contract No. 06/EI/W-1315/2013 - Civil works – CZERSKA Residential, Warszawa | 30 000 | 2013-09-01 | |
| 13 | Erbud International | Contract No. 02/EI/T-1324/2013 - Civil works - GALERIA PILSKA Shopping Centre, Piła | 18 000 | 2013-09-13 | |

**PBDI S.A.**

| Contracts concluded with Erbud S.A. | | | | | |
|---|---|---|---|---|---|
| **No.** | **Company contracting** | **Contract subject matter** | **Contract value in in PLN '000** | **Contract concluded on** | **Comments** |
| 1 | PBDI | Construction of the connection between the streets Jedności Narodowej and Trzebnicka in Wrocław | 2 061 | 2013-06-10 | |
| 2 | PBDI | Consortium agreement to prepare, submit and win a contract for construction of Gawłowice Wind Farm | 29 711 | 2013-08-20 | value of the contract with the Employer |
| 3 | PBDI | Consortium agreement to prepare, submit and win a contract for construction of Rajgród Wind Farm | 18 967 | 2013-08-20 | value of the contract with the Employer |

**Engorem Sp. z o.o.**

| Contracts concluded with Erbud S.A. | | | | | |
|---|---|---|---|---|---|
| **No.** | **Company contracting** | **Contract subject matter** | **Contract value in in PLN '000** | **Contract concluded on** | **Comments** |
| 1 | Engorem Sp. z o.o. | Optimization of Dalkia Łódź heating system - Refurbishment of the cool handling plant EC3 for Dalkia Łódź SA | 5 330 | 2013-07-18 | cooperation agreement |

## 5. INFORMATION ON GRANTED AND RECEIVED LOANS, BORROWINGS AND PROVIDED GUARANTEES, IN PARTICULAR THOSE GRANTED TO AFFILIATED COMPANIES

### *5.1. Information about off-balance sheet loans and liabilities*

In 2013, the Company financed out its business exclusively from its own means from operating activities.

Potential debts of the Erbud SA under the contracts signed as at the day of preparing the financial statements were as follows:

| **Bank name** | **Type of liability** | **Amount in PLN '000** | **Currency unit** | **Interest rate** | **Maturity date** | **Instalments payment** | **The Borrower** |
|---|---|---|---|---|---|---|---|
| BNP Paribas S.A. | Overdraft credit | 3 000 | PLN | WIBOR 1M + margin | 2014-09-29 | In one amount | Erbud S.A. |
| mBank S.A | Overdraft credit | 10 000 | PLN | WIBOR 1M + margin | 2014-12-31 | In one amount | Erbud S.A. |
| PKO BP S.A. | Overdraft credit | 10 000 | PLN | reference rate of PKO BP + margin | 2014-06-30 | In one amount | Erbud S.A. |
| Alior Bank S.A. | Overdraft credit | 10 000 | PLN | WIBOR 1M + margin | 2014-09-04 | In one amount | Erbud S.A. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ING Bank Śląski S.A. | Overdraft credit | 32 000 | PLN | WIBOR 1M + margin | 2014-08-20 | In one amount | Erbud S.A.; Budlex S.A.; PBDI S.A. |

Furthermore, contract performance bonds are available to the Issuer in the following banks:

| Bank name | Type of liability | Amount in PLN '000 | Currency unit | Company |
|---|---|---|---|---|
| BNP Paribas S.A. | Bid bond, performance bond, repair works and remedying defects guarantee, payment guarantee, re-guarantee | 37 000 | PLN | Erbud S.A. |
| mBank S.A. | Bid bond, performance bond, repair works and remedying defects guarantee | 70 000 | PLN/USD/USD | Erbud S.A |
| PKO BP | Bid bond, performance bond, repair works and remedying defects guarantee | 25 000 | PLN | Erbud S.A |
| Kredyt Bank S.A. | Performance bond, payment guarantee, repair works and remedying defects guarantee | 34 000 | PLN | Erbud S.A |
| Alior Bank S.A. | Performance bond, payment guarantee, repair works and remedying defects guarantee | 40 000 | PLN | Erbud S.A |
| ING S.A. | Performance bond, payment guarantee, repair works and remedying defects guarantee | 80 000 | PLN | Erbud S.A; PBDI S.A., Budlex SA |

The guarantee line with Alior Bank S.A. has been increase as at the date of this report:

| | | | | |
|---|---|---|---|---|
| Alior Bank S.A. | Performance bond, payment guarantee, repair works and remedying defects guarantee | 70.000 | PLN | Erbud S.A |

## 6. DESCRIPTION OF THE USE OF PROCEEDS FROM THE BONDS ISSUED BY THE PARENT

### *6.1. Debut on the Stock Exchange*

**On 15 April 2013**, the Issuer's Management Board adopted Resolution on increasing the share capital within the authorized capital through the issuance of Series H shares and depriving the existing shareholders of the pre-emptive right to acquire shares of Series H. The share capital of the Company shall be increased from the amount of PLN 1,267,795.60 (one million, two hundred and sixty-seven thousand, seven hundred and ninety-five, point six zero) by no more than PLN 5,000.00 (five thousand), that is, to an amount not exceeding PLN 1,272,795.60 (one million, two hundred and seventy-two thousand, seven hundred and ninety-five, point six zero). The capital increase will be effected by issuing up to 50,000 (fifty thousand) ordinary bearer shares of Series H with a nominal value of PLN 0.10 (ten Groszy) each one.

On **30.10.2013**, the Issuer's Management Board received information, that the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register, registered the increase of the Issuer's share capital to PLN 1,271,454.60.
The increase was a result of the issue of H shares under the Employee Incentive Scheme.

| Series | Number of shares | Price per share in PLN | Value in PLN |
|---|---|---|---|
| A | 2 000 000 | 0.10 | 200 000.00 |
| B | 8 000 000 | 0.10 | 800 000.00 |
| C | 71 025 | 0.10 | 7 102.00 |
| D | 2 500 000 | 0.10 | 250 000.00 |
| E | 31 686 | 0.10 | 3 168.60 |
| F | 41 458 | 0.10 | 4 145.80 |
| G | 33 787 | 0.10 | 3 378.70 |
| H | 36 590 | 0.10 | 3 659.00 |
| **Total** | **1 2714 546** | **0.10** | **1 271 454.60** |

**On 6 December 2013**, shares of series H were introduced to trading on the WSE and finally registered with NDS.

By the Resolution No. 22/2012, the Annual General Meeting of Shareholders of Erbud S.A. agreed that the Company will conduct a Manager Option Scheme over the period of 2013-2015, within the scope of which entitled persons will be granted the possibility to subscribe for shares of the Company issued within the scope of the authorised capital. Shares will be offered to the persons entitled

to subscribe in the years 2013 - 2015 in a number not more than 50 000 shares per year. The Manager Option Scheme refers to financial years 2012-2014. The employee may be covered by an option program, if he/she has been working for at least 24 months. As far as concerned persons working in subsidiaries, the company must be a member of the group for at least two years. Moreover, the subscription will be effected on the condition that the Capital Group will achieve in the financial year for which the shares will be offered a consolidated net profit of at least ten million Zlotys. Moreover, the person who would be entitled may not be upon notice of termination of the employment contract

***6.2. Guarantees provided by financial institutions to the Issuer***

As of 31.12.2013 the Company had the following contingent liabilities:

- Liabilities due to guarantees provided in thousands of PLN

| **Item** | **31.12.2013** | **31.12.2012** | **31.12.2011** |
|---|---|---|---|
| Guarantee for payment obligations | 6 927 | 48 196 | 53 728 |
| Performance bonds | 145 491 | 156 615 | 181 704 |
| Repair works and remedying defects guarantees | 131 772 | 107 835 | 95 702 |
| **Total contingent liabilities** | **284 190** | **312 646** | **331 134** |

- Guarantees and loans provided to subsidiaries in thousands of PLN

| **Item** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Budlex Sp. z o.o. – loan | 28 505 | 23 974 |
| Budlex Pestalozziego Sp. z o.o. – guarantee | 12 286 | 12 286 |
| Erbud International Sp. z o.o. – loan | 9 206 | 0 |
| **Total guarantees** | **12 286** | **12 286** |
| **Total loans** | **37 711** | **23 974** |

- Guarantees and loans provided to subsidiaries in thousands of EUR

| **Item** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| GWI GmbH – civil surety for loan repayment | 3 000 | 2 000 |
| GWI GmbH – guarantee by BRE Bank S.A. for loan repayment | 2 000 | 2 700 |
| GWI GmbH – guarantee by BRE Bank S.A. for loan repayment | 0 | 1 000 |
| GWI GmbH, Erbud International – civil guarantee to EULER Hermes, Zurich | 0 | 7 500 |
| **Total contingent liabilities** | **5 000** | **13 200** |

***6.3. Risks associated with financial instruments.***

***6.3.1 Interest rate risk***

The Issuer has a debt based on WIBOR reference rates. In case of bank loans it is a short-term debt. In case of bonds, the debt is a long-term one, with a maturity of 3 years. When observing the variability of reference rates and the current NBP monetary policy, the Issuer does not see the necessity to secure the risk.

**6.3.2 Currency risk**

The Issuer does not perform contracts which are denominated in foreign currencies. The foreign activity is naturally protected through purchases of materials and services in the contracts currency.

## 7. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULT SHOWN IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED FORECASTS

The Issuer did not publish separate forecasts.

## 8. EVALUATION OF MANAGING THE FINANCIAL RESOURCES, INCLUDING POSSIBLE THREATS

To conduct business, the Issuer uses funds from operations and funds from debt and working capital loans and bonds issued. The Issuer's activity requires a financial commitment, even in order to provide guarantees for all contracts executed.
Both as at today and in a longer time horizon, the Board does not see any risk of liquidity.

Due to the fact that the line of credit with ING SA is granted for three entities of the Erubd Group, covenants are based on consolidated data. In other events, the covenants apply to the separate figures.

| No. | Ratio/Bank | mBank |
|---|---|---|
| 1 | **Net profit margin** | minimum 0.7% |
| 2 | **Current liquidity ratio** (inventories + receivables + cash) / short-term liabilities | 1.1 |
| 3 | **Debt ratio** (Debt amount / assets) | no more than 65% |
| 4 | **EBITDA** ( Earnings before interest, tax, depreciation and amortization) | 16,5 mln |

| No. | Ratio/Bank | ING |
|---|---|---|
| 1 | **Debt / EBITDA** | no more than 3 |
| 2 | **Debt / Equity** | no more than 1.25 |
| 3 | **Equity / Total assets** | no less than 0.3 |

| No. | Ratio/Bank | PKO BP SA |
|---|---|---|
| 1 | **Return on sales** (Profit on sales / Income on sales) | no less than 3% |
| 2 | **Current liquidity ratio** (current assets less short-term receivables with maturity of over 12 months and less short-term prepayments / current liabilities less short-term liabilities with maturity of more than 12 months less special funds) | no less than 1.3 |
| 3 | **Debt-to-assets ratio** (Total liabilities / Total assets) | no more than 0.8 |

| No. | Ratio/Bank | Alior Bank S.A. |
|---|---|---|
| 1 | **Net profitability** | minimum 1% |
| 2 | Debt (balance use of loans and leases) / EBITDA | maksimum 3.5 |
| 3 | Current liquidity – 1.3 | 1.3 |
| 4 | Capitalization (equity / assets) | no less than 30% |

| No. | Ratio/Bank | **BZ** WBK **S.A.** |
|---|---|---|
| 1 | **Net debt /EBITDA** (total long and short term liabilities / total profit before tax + interest paid and less interest received + depreciation and amortization) | less than or equal to 3.5 |
| 2 | **Current liquidity ratio** (total of inventories, current receivables, short-term investments and short-term accruals / total of provisions for current liabilities, other current provisions, short-term liabilities and other short-term accruals) | more than 1 |

## 9. INFORMATION ON SHARE CAPITAL, MOVEMENTS IN EQUITY AND MANAGING AND SUPERVISING BODIES OF THE ISSUER

### *9.1. Shareholding of the Company, incl. description of movements in equity during 2013 and after the balance sheet date*

**As at 31 December 2013**, the registered share capital amounted to PLN 1,271,454.60 (one million, two hundred and seventy-one thousand, two hundred and fifty-four, point six zero) and was divided into 12,714,546 shares with a nominal value of PLN 0.10 per share.

Shares have been acquired in the following manner:

| Series | Number of shares | Price in PLN | Value in PLN |
|---|---|---|---|
| A | 2 000 000 | 0.10 | 200 000.00 |
| B | 8 000 000 | 0.10 | 800 000.00 |
| C | 71 025 | 0.10 | 7 102.50 |
| D | 2 500 000 | 0.10 | 250 000.00 |
| E | 31 686 | 0.10 | 3 168.60 |
| F | 41 458 | 0.10 | 4 145.80 |
| G | 33 787 | 0.10 | 3 378.70 |
| H | 36 590 | 0.10 | 3 659.00 |
| **Total** | **12 714 546** | **0.10** | **1 271 454.60** |

In 2013 and by the report publication, there were following movements in the equity structure.

According to information held by ERBUD SA, by the date of publication of the report took place the following movements:

On **31 January 2013**, the Issuer's Management Board has been notified of the purchase of shares by a member of the Supervisory Board of Erbud SA. The person related bought 6,000 shares.

On **6 June 2013,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 2,000 shares.

On **17 June 2013,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 4,921 shares.

On **17 June 2013,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 3,000 shares.

On **19 August 2013,** ING Otwarty Fundusz Emerytalny („the Fund") sold a part of shares held. After the settlement of the transaction the Fund holds 1,266,900 (one million two hundred sixty-six thousand nine hundred) shares, representing 9.99% of the share capital and is entitled to 1,266,900 votes at the AGM of Shareholders, which constitutes 9.99% of total number of votes.

On **5 September 2013,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 2,750 shares.

On **13 September 2013,** the Issuer's Management Board has been notified of the sale of shares by a person having access to Erbud's confidential information and a person related to him. The person related sold 1,800 shares.

On **17 September 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 1,245 shares.

On **17 September 2013,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 3,000 shares.

On **17 September 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 1,791 shares.

On **19 November 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 4,000 shares.

On **9 December 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 6,604 shares.

On **23 December 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 1,951 shares.

On **27 December 2013,** the Issuer's Management Board has been notified of the sale of shares by a person related to the person having access to Erbud's confidential information. The person related sold 8,049 shares.

On **17 January 2014,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold1.000 shares.

On **21 January 2014,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 700 shares.

On **22 January 2014,** the Issuer's Management Board has been notified of the sale of shares by Erbud SA procuration holder. The person related sold 1.000 shares.

**On 15 April 2013**, the Issuer's Management Board adopted Resolution on increasing the share capital within the authorized capital through the issuance of Series H shares and depriving the existing shareholders of the pre-emptive right to acquire shares of Series H.
The share capital of the Company shall be increased from the amount of PLN 1,267,795.60 (one million, two hundred and sixty-seven thousand, seven hundred and ninety-five, point six zero) by no more than PLN 5,000.00 (five thousand), that is, to an amount not exceeding PLN 1,272,795.60 (one million, two hundred and seventy-two thousand, seven hundred and ninety-five, point six zero). The capital increase will be effected by issuing up to 50,000 (fifty thousand) ordinary bearer shares of Series H with a nominal value of PLN 0.10 (ten Groszy) each one.

On **30.10.2013**, the Issuer's Management Board received information, that the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register, registered the increase of the Issuer's share capital to PLN 1,271,454.60.
The increase was a result of the issue of H shares under the Employee Incentive Scheme.

| Series | Number of shares | Price per share in PLN | Value in PLN |
|---|---|---|---|
| A | 2 000 000 | 0.10 | 200 000.00 |
| B | 8 000 000 | 0.10 | 800 000.00 |
| C | 71 025 | 0.10 | 7 102.00 |
| D | 2 500 000 | 0.10 | 250 000.00 |
| E | 31 686 | 0.10 | 3 168.60 |
| F | 41 458 | 0.10 | 4 145.80 |
| G | 33 787 | 0.10 | 3 378.70 |
| H | 36 590 | 0.10 | 3 659.00 |
| **Total** | **1 2714 546** | **0.10** | **1 271 454.60** |

On 6 December 2013, shares of series H were introduced to trading on the WSE and finally registered with NDS.

Therefore, the shareholding (shareholders having more than 5%) as at 31 December 2013 and as of the date of submitting the report was as follows:

***Shareholders holding over 5 per cent of ERBUD SA shares as at 31.12.2013***

Aggregate number of Erbud shares: 12 714 546

| No. | Shareholder | Class of shares | Number of shares held | Equity percentage | Voting power | % of voting rights at GMS |
|---|---|---|---|---|---|---|
| 1 | Wolff & Müller Baubeteiligungen GmbH & Co. KG, of which Wolff & Müller Holding GmbH & Co. KG | ordinary | 4 152 865 | 32.66% | 4 152 865 | 32.66% |
| 2 | Juladal Investment Limited | ordinary | 2 848 347 | 22.40% | 2 848 347 | 22.40% |
| 3 | Aviva OFE Aviva BZ WBK | ordinary | 1 183 146 | 9.31% | 1 183 146 | 9.31% |
| 4 | ING OFE | ordinary | 1 266 900 | 9.96% | 1 266 900 | 9.96% |
| 5 | Dariusz Grzeszczak, of which a subsiadry monitoring by Dariusz Grzeszczak | ordinary | 773 900 | 6.09% | 773 900 | 6.09% |
| 6 | Free Float | ordinary | 2 489 388 | 19.58% | 2 489 388 | 19.58% |
| | | **Total** | **12 714 546** | **100.00%** | **12 714 546** | **100.00%** |

Shares of Erbud SA owned by the above mentioned persons are not preference ones.

The Company's Statute does not grant the below mentioned shareholders any personal rights in relation to Erbud SA, in particular, does not give the right to appoint members neither of the Management Board nor the Supervisory Board of Erbud SA.

***9.2. Number of Erbud's shares held or rights to them (options) by persons managing and supervising Erbud SA by the date of audit completion***

Up to the date of preparing this report, the managing staff (members of the Board and holders of a commercial power of attorney) held the following number of shares:

***Persons related holding shares of ERBUD SA as at 31.12.2013***
Aggregate number of Erbud shares: **12 714 546**

| No. | Person related | Relationship | Class of shares | Number of shares | Equity percentage | Voting power | % of voting rights at GMS |
|---|---|---|---|---|---|---|---|
| 1 | Dariusz Grzeszczak | Erbud's SA Management Board member | ordinary | 773 900 | 6.09 % | 773 900 | 6.09 % |
| 2 | Józef Adam Zubelewicz | Erbud's SA Management Board member | ordinary | 259 500 | 2.04% | 259 500 | 2.04% |
| 3 | Walenty Twardy | ERBUD SA procuration holder | ordinary | 6 852 | 0.05% | 6 852 | 0.05% |
| 4 | Piotr Augustyniak | ERBUD SA procuration holder | ordinary | 890 | 0.01% | 890 | 0.01% |
| 5 | Bogdan Dürr | President of Erbud International Sp. z o. o. / ERBUD SA procuration holder | ordinary | 6 712 | 0.05% | 6 712 | 0.05% |
| 6 | Beata Krzywicka | Spouse of ERBUD SA procuration holder | ordinary | 0 | 0.00% | 0 | 0.00% |
| 7 | Tomasz Krzywicki | ERBUD SA procuration holder | ordinary | 700 | 0.01% | 700 | 0.01% |
| 8 | Agnieszka Głowacka | ERBUD SA procuration holder | ordinary | 6 336 | 0.05% | 6 336 | 0.05% |
| 9 | Włodzimierz Czystowski | ERBUD SA procuration holder | ordinary | 4 921 | 0.04% | 4 921 | 0.04% |
| 10 | Mariola Zielińska | Chief Accountant of ERBUD SA | ordinary | 4 818 | 0.04% | 4 818 | 0.04% |
| 11 | Radosław Kałamaga | ERBUD SA procuration holder | ordinary | 5 494 | 0.04% | 5 494 | 0.04% |
| 12 | Waldemar Kozłowski | ERBUD SA procuration holder | ordinary | 0 | 0.00% | 0 | 0.00% |
| 13 | Maciej Wyrzykowski | ERBUD SA procuration holder | ordinary | 2 200 | 0.02% | 2 200 | 0.02% |
| 14 | Mirosław Młynarski | ERBUD SA procuration holder | ordinary | 11 426 | 0.09% | 11 426 | 0.09% |
| 15 | Albert Dürr | Supervisory Board member of Erbud SA | ordinary | 14 500 | 0.11% | 14 500 | 0.11% |
| | | **TOTAL** | | **1 098 249** | **8.64%** | **1 098 249** | **8.64%** |

By the date of audit completion, the Management Board members and holders of a commercial power of attorney did not have any Erbud's shares options.

Erbud SA implemented the Employee Incentive Program. The Program was introduced by the Resolution of Extraordinary General Meeting of Erbud SA on 8 December 2009 and concerned results generated over three years - 2008, 2009 and 2010.
Until the report date, three tranches of shares i.e. Series E, F and G, concerning respectively 2008, 2009 and 2010 were released under the Program.

By the Resolution No. 22/2012, the Annual General Meeting of Shareholders of Erbud S.A. agreed that the Company will conduct a Manager Option Scheme over the period of 2013-2015, within the scope of which entitled persons will be granted the possibility to subscribe for shares of the Company issued within the scope of the authorized capital. Shares will be offered to the persons entitled to subscribe in the years 2013 - 2015 in a number not more than 50 000 shares per year. The Manager Option Scheme refers to financial years 2012-2014. The employee may be covered by an option program, if he/she has been working for at least 24 months. As far as concerned persons working in subsidiaries, the company must be a member of the group for at least two years. Moreover, the subscription will be effected on the condition that the Capital Group will achieve in the financial year for which the shares will be offered a consolidated net profit of at least ten million Zlotys. In addition, the person who would be entitled may not be upon notice of termination of the employment contract.

The Program is implemented under the care of the Management Board and the Supervisory Board.

***9.3. Description of any decisions which implementation may result in future changes in way of controlling Erbud SA***

No arrangements, which implementation could bring changes in the way of controlling, have been made between the shareholders. There are no restrictions against the Issuer's shares to transfer the ownership rights.

***9.4. Supervisory Board of Erbud S.A.***

Pursuant to Article 11 item 2 of the ERBUD S.A. Statutes, the term of office of the Supervisory Board is common and lasts 3 years. Members of the Supervisory Board of the Issuer are appointed under a resolution passed by the General Meeting of the Issuer.

However, the first Supervisory Board of ERBUD was established due to conversion of the legal predecessor - Erbud Sp. z o.o. into ERBUD S.A. according to Resolution No. 1 of the Shareholders' Extraordinary Meeting of ERBUD Sp. z o.o. of 15 November 2006 on the conversion and acceptance of the Issuer's Articles of Association. The first Issuer's Supervisory Board was appointed as follows:

| Name and surname | Position/Function | Term beginning | Term ending |
|---|---|---|---|
| Gerhard Kässmann | President of the Supervisory Board | 15.11.2006 | 15.11.2009 |
| Wojciech Rzepka | Vice-President of the Supervisory Board | 15.11.2006 | 15.11.2009 |
| Albert Dürr | Member of the Supervisory Board | 15.11.2006 | 15.11.2009 |
| Gabriel Główka | Member of the Supervisory Board | 15.11.2006 | 15.11.2009 |
| Lech Wysokiński | Member of the Supervisory Board | 15.11.2006 | 15.11.2009 |
| Józef Olszyński | Member of the Supervisory Board | 05.12.2009 | 15.11.2009 |

**On 31 May 2012**, the General Meeting of Shareholders of ERBUD SA appointed by Resolutions No. 14-20 / 2012 the Supervisory Board as follows:

| Name and surname | Position/Function | Term beginning | Term ending |
|---|---|---|---|
| Udo Berner | President of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Józef Olszyński | Vice-President of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Albert Dürr | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Gabriel Główka | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Lech Wysokiński | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Zofia Dzik | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Michał Otto | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |

There are two committees of the Supervisory Board, being the Audit and the Remuneration Committees.

On 3 December 2013, as a result of the death of Professor Lech Wysokiński, his mandate has expired.

As of 31.12.2013 and the date of the report publication, the Supervisory Board ERBUD SA consisted of the following member:

| Full name | Post/Function | Term beginning | Term ending |
|---|---|---|---|
| Udo Berner | Chairman of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Józef Olszyński | Vice-Chairman of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Albert Dürr | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Gabriel Główka | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Zofia Dzik | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |
| Michał Otto | Member of the Supervisory Board | 31.05.2012 | 31.05.2015 |

**Remuneration of the Supervisory Board members of ERBUD SA 2013 paid by ERBUD SA and its subsidiaries**

| Name and surname | Position/Function | Total value of remuneration paid * |
|---|---|---|
| Berner Udo | President of the Supervisory Board | 76 125.00 |
| Albert Dürr | Member of the Supervisory Board | 50 565.00 |
| Gabriel Główka | Member of the Supervisory Board | 50 565.00 |
| Lech Wysokiński | Member of the Supervisory Board | 45 565.00 |
| Józef Olszyński | Vice-President of the Supervisory Board | 59 235.00 |
| Zofia Dzik | Member of the Supervisory Board | 50 565.00 |
| Michał Otto | Member of the Supervisory Board | 50 565.00 |
| **Total** | **Supervisory Board of the Issuer** | **383 185.00** |

**including any contingent or deferred remuneration and benefits in kind granted by the Issuer for any services rendered to the Issuer in 2013 (in PLN).*

***9.5. Management Board of Erbud S.A.***

In accordance with Resolution No. 1 of the Extraordinary General Meeting of the ERBUD Sp. z o.o. (the legal predecessor of ERBUD SA) dated 15 November 2006 on the conversion of ERBUD Sp. z o.o. into ERBUD S.A. and on acceptance of the ERBUD S.A. Statutes, the Management Board of ERBUD S.A. was appointed as follows:
- Dariusz Grzeszczak,
- Józef Adam Zubelewicz.

**On 31 May 2012,** the Supervisory Board appointed for a new three-year joint term the Management Board of ERBUD SA composed of:

| Name and surname | Position/Function | Term beginning | Term ending |
|---|---|---|---|
| Dariusz Grzeszczak | Member of the Management Board | 31.05.2012 | 31.05.2015 |
| Józef Adam Zubelewicz | Member of the Management Board | 31.05.2012 | 31.05.2015 |

By the publication of the report, the composition of the Management Board has not changed.

In 2013, there were no changes in the composition of the Management Board.

**Remuneration of the Management Board members of ERBUD SA paid by ERBUD SA and its subsidiaries in 2013**

| Name and surname | Position/Function | Total value of remuneration paid * |
|---|---|---|
| Dariusz Grzeszczak | Member of the Management Board | 1 122 227.15 |
| Józef Adam Zubelewicz | Member of the Management Board | 1 112 113.74 |
| **TOTAL:** | **Management Board of the Issuer** | **2 234 340.89** |

**including any contingent or deferred remuneration and benefits in kind granted by the Issuer for any services rendered to the Issuer in 2013 (in PLN).*

Members of the Management Board of Erbud SA were appointed by the Supervisory Board of Erbud SA on 12 November 2009 for a new three-year term agreement.
Each member of the Board shall be entitled to terminate the contract at twelve-months' notice.

In the event that the contract is terminated by the Company with the observance of a notice period, where the dismissal of a Board member is a reason justifying the contract termination and which termination is effected before the expiry of the office term of the Company's Board, the Company shall be obliged to pay a compensation amounting to the product of the equivalent of EUR 14,000.00 and the number of months remaining by the end of term.

Moreover, members of the Management Board of Erbud SA shall be obliged to observe non-competition clauses during the employment period and for a period of 1 year from the date of termination of employment contract. Moreover, the Company shall agree to pay a person covered by the prohibition of competition compensation in the amount equal to EUR 14,000.00 for each month

after the termination of the employment contract by the fixed non-competition period. The compensation will be paid in equal monthly instalments.

Upon request of the member, the Company may waive or reduce the competition ban and then depart from the payment of compensation.

The Issuer covers the costs of retirement severance of the Management Board members for a total of PLN 177,976.75.

**Remuneration of the Senior Management Staff of ERBUD SA 2013 paid by ERBUD SA and its subsidiaries**

| **Name and surname** | **Total value of remuneration paid *** |
|---|---|
| Agnieszka Głowacka | 312 196.00 |
| Piotr Jan Augustyniak | 430 655.65 |
| Walenty Twardy | 358 200.00 |
| Maciej Piotr Wyrzykowski | 210 697.75 |
| Grzegorz Krzywicki | 190 522.08 |
| Bogdan Durr | 467 421.00 |
| Tomasz Krzywicki | 446 366.00 |
| Włodzimierz Czystowski | 213 296.31 |
| Waldemar Kozłowski | 297 000.00 |
| Radoslaw Kałamaga | 427 150.00 |
| Mirosław Młynarski | 506 206.00 |
| **TOTAL** | **3 859 710.79** |

**including any contingent or deferred remuneration and benefits in kind granted by the Issuer for any services rendered to the Issuer in 2013 (in PLN).*

## 10. PROCEEDINGS IN PROGRESS BEFORE COURTS, COMPETENT ARBITRATION BODIES OR PUBLIC ADMINISTRATION ENTITIES AS AT THE DATE OF PREPARING THE FINANCIAL STATEMENTS

Currently, there are no proceedings in progress before the authorities of public administration (government and local), no litigations or arbitration proceedings which could essentially impact the financial position or profitability of the Group and which claim amount would have exceed 10% of the shareholders' equity of the Capital Group or Erbud SA.
However, the Company is a party to a dispute relating to the project that was executed in Modlin, but it is not a judicial proceeding. The standpoint of the Company is described in Section 12 below.

## 11. INFORMATION ON THE ENTITY AUTHORISED TO REVIEW AND AUDIT THE FINANCIAL STATEMENTS

Based on the recommendation of the Audit Committee, the Supervisory Board of ERBUD SA appointed by resolution No. 21/2013 dated 18 June 2013 the company Horodko TPA Horwath Audit Sp. with o.o. with its registered office in Poznań, 12-18 Murawa St., entered on the list of entities authorized to audit the financial statements issued by the National Chamber of Chartered Accountants under 3082, to audit the financial statements.

The auditor conducted the review of the interim Separate Financial Statements of Erbud SA and the Consolidated Financial Statements prepared as at 30 June 2013 and audited the annual Separate Financial Statement of Erbud SA for the FY 2013 and the Consolidated Report for the FY 2013.

The total fee for reviewing the statements as referred to above for the period from 1 January 2013 to 30 June 2013 amounted to PLN 153,000.00.
The total fee for auditing the annual statements as referred to above, for the year ended 31 December 2013 amounted to PLN 191,000.00.
The total remuneration due to the agreement was PLN 344,000.00.

In addition, the auditor will audit the financial statements of the subsidiaries for a fee of PLN 189,000.00.

Annotation on the entity authorized to audit financial statements in 2012

At the meeting on 31 May 2011, the Supervisory Board of the Company appointed the auditor.

After became acquainted with the recommendation and justification prepared by the Audit Committee, the Supervisory Board, has chosen Horodko TPA Horwath Audit Sp. z o.o., based in 61- 655 Poznań, 12-18 Murawa St., entered on the list of entities authorized to audit the financial statements issued by the National Chamber of Chartered Accountants under 3082, to audit the financial statements of the Company for 2012.

The auditor conducted the review of the interim Separate Financial Statements of Erbud SA and the Consolidated Financial Statements prepared as at 30 June 2012 and audited the annual Separate Financial Statement of Erbud SA. for the FY 2012 and the Consolidated Report for the FY 2012.
The total fee for reviewing the statements as referred to above for the period from 1 January 2012 to 30 June 2012 amounted to PLN 146,000.00.
The total fee for auditing the annual statements as referred to above, for the year ended 31 December 2012 amounted to PLN 182,000.00.
The total remuneration due to the agreement was PLN 328,000.00.

In addition, the auditor will audit the financial statements of the subsidiaries for a fee of PLN 161,000.00.

## 12. OTHER INFORMATION THAT WOULD HAVE A SIGNIFICANT IMPACT ON THE ISSUER'S OPERATIONS AND PROFITABILITY

### *12.1. The Issuer's standpoint regarding the situation connected with the execution of the project "Extension of the Modlin Airport"*

***Facts - Basic information about the contract and its completion***
The contract for the construction of the Warsaw-Modlin Airport was signed on September 14, 2010. The total value of works amounted to about PLN 87 million net. Under the contract, ERBUD SA was obliged, inter alia, to upgrade the runway. The Employer established Bud-Invent Sp. z o.o. as the Project Management Company.
The runway with a length of about 2500 meters consists of two thresholds made of concrete cement, each with a length of about 540 meters and a part made of bituminous concrete with a length of 1,421 meters. The net value of the concrete thresholds constructed is about PLN 10m.

DSH – Dospravni stavby a.s., a subsidiary of the construction group Metrostav, was a subcontractor responsible for the construction of the concrete pavement of runway thresholds. The company specializes in such kind of works. The Employer has been informed of the choice of the subcontractor and did not oppose (January 2011).

DSH commissioned the following entities a number of works:
- Instytut Inżynierii Lądowej Politechniki Wrocławskiej [Institute of Civil Engineering, Wrocław University of Technology]:
  The commission included the development of the mix design (concrete mixture components) for the construction of runway thresholds. Developed formulas were in accordance with Polish Standards;
- CEMEX and LAFARGE – two worldwide known suppliers of aggregate:
  The commission included the supply of aggregate for concrete used to complete the runway thresholds.

The suppliers provided declarations of conformity stating that their products for manufacturing the concrete have complied with the Polish standards indicated in the mix design.

On 10 June 2011, DSH submitted the mix design to the Employer. The Employer approved the mix design on 20 June 2011.

The runway was carried out by DSH over the period of June - November 2011, according to the mix design prepared by the Instytut Inżynierii Lądowej Politechniki Wrocławskiej. The company used aggregate supplied by CEMEX and Lafarge.
All design solutions, concrete mix formulas, certificates of compliance and land surveying were supervised by the staff of the General Contractor and the Employer, and the works were executed under direct supervision of Client's Engineer.
The concrete mix production samples were taken by the laboratory of TPA Instytut Badań Technicznych (Technical Research Institute). The samples were collected pursuant to Polish standards, i.e. from each batch of concrete produced. Tests have shown that the strength and frost resistance of concrete is at least equal to or higher than designed one.

By Decision No. 919/2012 of 6 June 2012 the Mazowiecki Wojewódzki Inspektor Nadzoru Budowlanego (Mazovian Provincial Building Control Office) authorized the use of the project. The validation of the operation permit was subject to compliance by the Employer (but not limited to) the following conditions:
- developing guidelines on using the civil structure, including the airport pavement maintenance manual
- regular technical inspections of the airport pavement,
- continuous monitoring of the civil structure.

By Decision No. 1980/2012 dated 28 December 2012 the Mazowiecki Wojewódzki Inspektor Nadzoru Budowlanego prohibited to use of the part of the runway (the decision announced verbally on 22 December 2012). The decision was based on Article 66, Section 1,

Item 2 and Section 2 of the Building Code of 7 July 1994, that is on "(…) the statement that a structure is used in a manner endangering life or health of people, safety of property or environment (…)".

According to an interview on 23 January 2013 for the TVN CNBC by Mr. Marcin Danił - Vice President of the Management of Mazowiecki Port Lotniczy Warszawa-Modlin Sp. z o.o., the Customer does not have any agreement with Ryanair on the basis of which the carrier could seek compensation for the airport stoppage. The Customer has a contract with WizzAir, but it does not contain any provisions which oblige the Customer to receive the damage. WizzAir cannot demand damage money from the airport (there is no legal basis). 3-4 days before the airport has been closed, WizzAir informed the Employer that it changes the operating airport due to lack of the ILS-System in Modlin.

In January and February 2013, the Employer and the General Contractor held a number of meetings, as a result of which the General Contractor presented on 20 February 2013 a Framework Schedule for runway works. The schedule has been approved by the Employer.

On 6 March 2013, the General Contractor took over the site from the Contractor and began to carry out the work. On 22 April 2013, the Contractor approved a new formula of concrete. On 17 June 2013 the Mazovian Building Control Officer issued Decision No. 846/2013 which repealed Decision No. 1980/2012 concerning the prohibition of use of part of the runway.

By the date, the Customer addressed to the General Contractor financial demand due to "indemnification" of for a the total amount of PLN 21,642 thousand. The Customer did not documented factual and legal claims. The General Contractor does not acknowledge the Customer's claim.

Moreover, on 12 August 2013, the Issuer received the decision issued by the District Court for Warsaw-Mokotów on providing a security on debts of Przedsiębiorstwo Wielobranżowe Ploh Sp. z o.o. amounting to PLN 74,204.84 for loss of profits related to a break in the activity of the airport. The court has established the security in the form of a compulsory mortgage on the vacant plot owned by the Issuer, located in Toruń. On 19 August 2013, it has been brought a protest against the decision on securing the claim. The District Court in Warsaw, due to recognition of a complaint changed the decision on providing the security and dismissed the application. On 26 August 2013, it has been filed an answer to the suit, in which - besides the application to dismiss the complaint in full as manifestly unfounded, it has been raised a plea of lack of jurisdiction. On 24 September 2013, on the ground of lack of jurisdiction, the case was referred for rehearing by the Economics Department of the District Court of the Capital City of Warsaw.

On 17 July 2013, the Issuer received from LS Airport Services SA demand for payment in the amount of PLN 1,844 thousand for loss of benefits associated with a break in the activity of Modlin Airport. Law office representing the Issuer filed the response to the request proving that it is unfounded.

***Standpoint of the Management Board on financial claims***
Pursuant to a contract dated 14 September 2010 that was executed for the Mazowiecki Port Lotniczy Warszawa - Modlin Sp. z o.o., ERBUD SA acted as the general contractor construction the Warsaw-Modlin airport runway. On 28 December 2012, due to the surface defects found Mazowiecki Wojewódzki Inspektor Nadzoru Budowlanego (Mazovian Provincial Building Control Office) issued a decision prohibiting the use of a part of the runway at Modlin Airport. Hovever, having regard to the public interest, the Company (as substitute contractor) replaced the runway concrete pavement), without waiting for the explanation of the causes of damage and without confirmation that it is obliged to make repair works under the warranty. These works were completed in June 2013 and the airport was re-admitted to passenger traffic on 3 July 2013.

ERBUD SA does not recognize its responsibility for the defective condition of the runway surface, and commissioned independent technical reports indicate that the reasons for damage were independent of the Company. Therefore, in our opinion as well as evaluation by legal advisors of Erbud SA, all expenses incurred for the resurfacing of the runway in a total amount of PLN 20.1 million, recorded as of the balance sheet date as assets of the Company, finally will not be addressed to ERBUD SA. As at the date of preparation of these Financial Statements, the Company failed a claim to the entities responsible for the defective condition of the runway surface and their insurers to pay the compensation equal to the above said expenditures incurred. At the same time, the Company is preparing a suit against those responsible for the defective condition of the runway surface to be compensated for expenses incurred.

***12.2. Claim against the Bank Millennium SA - description of the situation***

**On 22 December 2010**, Erbud SA brought to the Regional Court in Warsaw, XVI Commercial Division an action for payment against Bank Millennium S.A.
Value of the dispute: PLN 71,065,496. The respondent: Bank Millennium S.A. in Warsaw.

In 2008, the Bank Millennium S.A. advised the Issuer (Erbud S.A.) concluding a transaction on currency options to protect euro-denominated contracts executed by the Issuer against an exchange rate risk. The Bank's offer followed the Issuer's need to adequate secure its situation. According to the Company, the product was not optimally adapted to the needs of Erbud SA. In the fourth quarter

of 2008, as a result of the drastic depreciation of the Polish zloty against euro, the Bank Millennium S.A. reported to the Issuer a negative valuation of its exposure. At the same time, there arose a dispute as to content of the currency options transactions, primarily concerning exclusion of optional structures.

During many talks, the Issuer presented its position to the Bank, which requested to execute of the transaction with taking action for compulsory execution of claims. In order to reduce the amount of potential loss, the disputed transactions were restructured, and the Bank has been informed about future legal action to compensate damage resulting from the transactions of currency options.
The restructuring details were announced by the Issuer in the Current Report No. 43/2008 of 21.11.2008, and in the financial statements for the year 2008. The Issuer has never agreed with the position of the Bank Millennium S.A. and therefore called the Bank twice to pay the amount of PLN 71,065,496, which consists of amounts collected by the Bank from the Issuer's bank account, lost benefits, and legal and financial advisors' fees. Accordingly, the Issuer has decided to enter a lawsuit for payment in order to compensate the damage suffered.

As at the report publishing date the litigation is in progress; hearings of witnesses are continued.

### ***12.3. Submission of an application for bankruptcy of ERRBUD S.A. by Danuta Kurpiewska conducting business activity under the name WEG BET Danuta Kurpiewska***

On 10.01.2013, Danuta Kurpiewska conducting business under the name WEG BET Danuta Kurpiewska, which is a debtor to Erbud S.A., filed a letter titled "Application of the creditor for bankruptcy" to the District Court for the Capital City of Warsaw, Commercial Division for Bankruptcy and Relief.

In 2011, the Issuer commissioned Danuta Kurpiewska leading business under the name WEG BET Danuta Kurpiewska to lay a foundation for one of the projects. The contract value amounted to PLN 4.4 million, of which the disputed amount is PLN 0.6 thousand.

According to the information obtained on 23 April 2014 in the Bankruptcy Court, the creditor i.e. WEG BET filed on 4 April 2014 to the District Court for the Capital City of Warsaw, X Commercial Division for Bankruptcy and Relief a letter withdrawing the request for bankruptcy of ERBUD SA. The Company is waiting for the decision of the Court in this case.

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| **Management Board Member** | **Management Board Member** |
| **Dariusz Grzeszczak** | **Józef Zubelewicz** |

Warsaw, 28 April 2014