THE ERBUD GROUP

THE MANAGEMENT'S COMMENTARY TO THE REPORT FOR THE 1Q 2014

Warsaw, May 12, 2014

CONTENTS

I.THE ERBUD GROUP'S FINANCIAL DATA FOR THE PERIOD OF 1Q 2014, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS ..... - 3 -

II. EXTERNAL AND INTERNAL FACTORS OF SIGNIFICANCE TO THE GROWTH OF THE ERBUD GROUP ..... - 4 -

1. EXTERNAL FACTORS ..... - 4 -
1.1. The macro-economic environment ..... - 4 -
1.2. The construction market ..... - 5 -

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

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

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

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

3. THE ERBUD GROUP BALANCE SHEET ..... - 9 -

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

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

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

In the period of 1Q 2014:
REVENUES: PLN 283 602 000
EBITDA: PLN 7 598 000
EBIT: PLN 6 140 000
NET PROFIT: PLN 1 423 000
CASH: PLN 111 171 000
NET DEBT: PLN 15 674 000

The financial information for the 1Q of 2014 shown below, as well as the comparables, is based on the Capital Group's consolidated financial statements. The contracts shown below are stated at their net values.

I. THE ERBUD GROUP'S FINANCIAL DATA FOR THE PERIOD OF 1Q OF 2014, SIGNIFICANT EVENTS AND FACTORS WHICH HAVE AN IMPACT ON THE FINANCIAL RESULTS

MARKET CONDITIONS

- Increase in the building sector in Poland in 1Q 2014 by 10.6% y-o-y versus 15.1% decline in 1Q 2013. In March 2014 construction output grew by 17.4% y-o-y.
- All sectors were up while comparing March 2014 with the corresponding period of 2013 and February y-o-y. The cubature segment grew by 11.7% in March 2014.
- The fall in construction prices of 1.6% in March 2014.

ERBUD GROUP

- The portfolio of contracts signed within the Erbud Group between January and March 2014 totalled 24 contracts with an aggregate value of PLN 215 186 000 compared to 24 contracts with total value of PLN 212 500 000 in the corresponding period in 2013.
- In 1Q 2014 the Budlex Group's sales amounted to 51 flats and commercial premises (based on notarial deeds) as against 50 in the period of 1Q 2013. In the pre-sales for 2014-2015 Budlex has signed preliminary contracts for 118 flats and commercial premises, as against 111 in 1Q 2013.

- **The Erbud Group's consolidated revenues in 1Q 2014 increased by 37% year on year and amounted to PLN 283 602 000 versus PLN 206 433 000 in 1Q 2013.**
  - All segments of the Group were up on revenue: the cubature activities in Poland and abroad grew by 25% while development segment by 13%. Road-engineering segment revenues are up by 166%, while energy segment increased by 350% y-o-y.

- **The Group's EBIT in 1Q 2014 was PLN 6 140 000 versus PLN 2 313 000 in 1Q 2013, 165% up y-o-y. EBIT margin in 1Q 2014 amounted to 2.17% as against 1.12% in respond period of 2013.**
  - **The cubature activities segment** had positive effect on the Group results and it noted **operating profit amounted to PLN 7 105 000, 3% growth y-o-y.**
    - Cubature segment in Poland improved its EBIT by 40% y-o-y and amounted to PLN 6 697 000, i.e. margin of 3.8%.
  - In the 1Q 2014 development segment added PLN 1 774 000 EBIT profit to the Group consolidated results, i.e. 68% growth y-o-y.
  - The road-engineering segment had negative influence on the Group results and it noted loss amounted to PLN 312 000 and energy - related segment lowered the Group's EBIT by PLN 2 427 000- as a result of the seasonal factor.
  - The management cost was down by 3% y-o-y to PLN 13 746 000.

- **The Group's net profit in 1Q 2014 was PLN 1 423 000 vis a vis PLN 410 000 in 1Q 2013 that is 247% up y-o-y.**
  - The Group's financial costs amounted to PLN 3 515 000 in the 1Q 2014 that is 14% up y-o-y, as against PLN 3 091 000 in 1Q 2013.
  - The balance of financial costs and revenues was minus PLN 2 850 000.

- At the end of March 2014the Erbud Group had PLN 111 171 000 in cash that is 28% up y-o-y (PLN 86 573 000 in corresponding period of 2013) and available bank and insurance lines companies in the total amount of PLN 669 240 000.

- The net debt of the Group at the end of March 2014 was PLN 15 674 000 versus PLN 10 535 000 in 1Q 2013.

- At the end of March 2014 the Group had a portfolio of orders with value of ca. PLN 1 543 000 000, i.e. 16,4% growth y-o-y, of which ca. 65% are expected to be completed this year (PLN 1.006 billion). To compare, the order portfolio at the end of March 2013 amounted to PLN 1 326 000 000 (from that PLN 820 000 000 was to realize in 2013).
  - In April this year the Group signed 7 contracts of PLN 72.1 million.
- The main segments of the order book are public utility buildings (7.6%), residential buildings (9%), office (34%), hospitals (10%), shopping centres (17%) and energy-related facilities (8.7%), engineering (5.3%) and road segment (2.2%). Public projects comprise around 16.7% compared to 24% in the corresponding period of 2013.

- At the end of March 2014 the total value of the bids submitted amounted to PLN 7 billion.

- At the time of publication the value of bids have not yet been resolved amounted to PLN 5.4 billion.

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

1. EXTERNAL FACTORS

1.1. The macro-economic environment

According to the Ministry of Economy analysis the growth in GDP of Poland in 1Q 2014 will reach 3.1-3.2%. The private consumption should increase by 2.4%, investment by 4% and export by 6%.

1.2. The construction market

According to preliminary data compiled by the Central Statistical Office (GUS), building output grew by 10.6% in 1Q 2014. In March the growth was at 17.4%. All segments increased while comparing March 2014 with the corresponding period of 2013 and February 2014 y-o-y. The cubature segment grew by 11.7% in March 2014. The fall in construction prices of 1.6% in March 2014, pressure on margins continues.

2. INTERNAL FACTORS

The Group's core activities in 1Q 2014

The data below shows the results of the various areas after taking into account exclusions from consolidation and geographical segmentation, the lack of comparability of data due to a new segment division in building construction, energy and geographical: activity in the country and abroad.

PLN ,000 2014	**Cubature activities in Poland and abroad**		*Cubature activities in Poland*		**The development sector**		**Road building***		**Energy sector in Poland and abroad****		**Operations in Poland**		**Operations abroad**	
	1Q 2014	1Q 2013	1Q 2014	1Q 2013	1Q 2014	1Q 2013	1Q 2014	1Q 2013	1Q 2014	1Q 2013	1Q 2014	1Q 2013	1Q 2014	1Q 2013
Sales revenues	225 690	+25% y-o-y	*176 429*	*+28%* y-o-y	13 913	+13% y-o-y	19 822	+166% y-o-y	24 177	+350% y-o-y	234 338	+44% y-o-y	49 264	+13% y-o-y
Sales share	79.6%	88%	*62%*	*67%*	5%	7%	7%	3.6%	8.5%	2.6%	83%	79%	17%	21%
EBIT	7105	6 918	*6697*	*4 780*	1774	1057	-312	- 2 857	- 2 427	- 2681	6 704	176	1 032	2 138
EBIT margin (%)	3.15%	3.82%	*3.8%*	*3.5%*	12.8%	8.6%	-	-	-	-	2.9%	0.1%	2.1%	4.9%

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

2.1. Cubature activities (in Poland and abroad)

Between January and March 2014 the Group signed a total of 11 contracts with an aggregate value of PLN 160 318 000 compared to 12 contracts signed in 1Q 2013 value of PLN 198 000 000. At the end of 1Q of 2014 the order book for cubature activities was worth PLN 1 221 000 000 as against PLN 1 115 000 000 at the end of March in 2013. The orders worth PLN 780 000 000 are to be completed this year.

In the period of 1Q 2014 sales amounted to PLN 225 690 000, that is up by 25% y-o-y compared to the corresponding period in 2013 (PLN 181 272 000 in 1Q 2013). The Group's EBIT on its cubature activities was PLN 7 105 000 as against PLN 6 918 000 in 1Q 2013, 3% up y-o-y.

Cubature activities in Poland (Erbud SA)
In 1Q 2014 sales in Poland amounted to PLN 176 429 000, that is 28% increase y-o-y, versus PLN 137 758 000 in 1Q 2013. The EBIT was at PLN 6 697 000 vis a vis PLN 4 780 000 in corresponding period in 2013, that is 40% up y-o-y. EBIT margin was at 3.8% in 1Q 2014 compared to 3.5% in 1Q 2013.

Overseas cubature activities

In the period of 1Q 2014, sales revenues overseas increased 13% to PLN 49 264 000. At the end of March 2014 this segment's EBIT came through at PLN 1 032 000 as against PLN 2 138 000 in 1Q 2013. EBIT margin amounted to 2.1% compared to 4.9% in the corresponding period in 2013. At the end of the 1Q

2014 the Group's overseas order book was PLN 82 926 000 versus PLN 158 800 000 in 1Q 2013. Majority of the orders portfolio will be realized this year.

German company GWI GmbH revenues amounted to PLN 36 998 000 in 1Q 2014, that is 50% up y-o-y versus PLN 24 453 000. EBIT came through at PLN 700 000. Margin EBIT was 2%. Net profit amounted to PLN 482 000.

2.2. The Group's other areas of activity

2.2.1 Development activities

In 1Q 2014 Budlex completed the sale of 51 flats and commercial premises (based on notarial deeds) vis a vis 50 in 1Q 2013.

The Budlex Group's revenues at the end of March 2014 stood at PLN 13 913 000 versus PLN 12 295 000 in 1Q 2013, i.e. 13% growth y-o-y. Budlex recorded EBIT amounting to PLN 1 774 000 in 1Q 2014 versus PLN 1 057 000 in 1Q 2013, that is 68% up y-o-y. At the end of March EBIT margin stood at 12.8%.

Currently the Budlex is building new residential developments: 3 in Toruń and 1 in Bydgoszcz. In pre-sales for the years 2014-2015, the Group has signed preliminary agreement for 118 flats and commercial premises. The current sales level is in line with the Group estimates and shows potential for growth in the residential market in the region.

The management started Deptak project in Poznań in the development segment. The project is allowed for office-commercial investment in Poznań in Poznański Deptak area. The project will be completed by SPV Deptak Project P2 with lease area of 9.3 thousand sqm, including 6.5 thousand sqm of commercial premises and 2.7 thousand sqm of office area. The project will be completed by 1H 2015. The project financing is secured by credit lines. The project is c.a. 20% advanced.

The following housing projects are to be prepared including Warsaw area. The current land backlog allows for Project with 40 000 housing square.

2.2.2 Civil engineering and road building

incorporating the results of PBDI

In 1Q 2014 the civil engineering and road building segment added 3 new contracts to the Group's order book with a total value of PLN 26 978 000 versus PLN 8 300 000 in 1Q 2013.

In analysed period the revenue of the segment amounted to PLN 19 822 000 i.e. increase by 166% y-o-y. The segment's EBIT in 1Q 2014 was negative and amounted to minus PLN 312 000 compared to loss of PLN 2 857 000 in 1Q 2013. The subsidiary company PBDI should speed up carrying out of its projects after seasonal slowdown what will have positive influence on the results.

At the end of 1Q 2014 the segment had an order book worth ca. PLN 115 746 000, i.e. 142% of growth, versus PLN 47 800 000 in 1Q 2013. Out of it, PLN 100 000 000 is to be completed in 2014.

2.2.3 Construction for the energy sector

In 1Q 2014 the Group signed 10 contracts with the energy sector, with a total value of PLN 27 890 000 versus 8 contracts with a total value of PLN 5 500 000 in 1Q 2013. The revenues in this sector at the end of March 2014 amounted to PLN 24 177 000 versus PLN 5 372 000 in 1Q 2013. Operating loss amounted to PLN 2 427 000 versus PLN loss of 2 681 000 in 1Q 2013, result of seasonal slowdown.

At the end of 1Q 2014 the Group's order book was worth PLN 173 899 000 versus PLN 132 500 000 in 1Q 2013, i.e. 31.2% up y-o-y. Significant part of the portfolio is realization of the incineration plant in Konin worth PLN 103 808 000.

2.3 Operating revenues and costs

2.3.1. The balance of operating revenues and costs

The balance of the Group's operating revenues and other costs in 1Q 2014 amounted to PLN 894 000.

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

In 1Q 2014 the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 33 500 000, 5% down y-o-y. At the end of March 2014 the Group employed 1 580 people that is 2% down y-o-y.

3. PROSPECTS

3.1. The macro-economic environment

According to the Ministry of Economy, the growth in GDP in Poland in 2014 will amount to 3.5%. The IBnGR analysis expect this year GDP growth by 3.1% in 2014 and 3.8% in 2015. The value added in industry - they say - will increase by 5.6% in 2015. The construction sector value added will growth by 8.5%. The EU investment will boost construction sector in 2015.

3.2. The construction market

In March 2014, the CSO construction market index came through at minus 12 pts that is improvement compared to February 2014 as it stood at -18 pts. Despite the mood's improvement construction companies feel the remaining price war as well the arrears. According to GUS, the current backlog and financial standing were estimated with less pessimism versus month ago. There are optimistic forecast as for backlog and construction sector output and financial perspective is better vis a vis February estimates. Lower price drop is also expected.

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

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

The Erbud Group's management expects in 2014 growth in cubature segment and in energy segment. In 1Q 2014 the backlog in cubature segment was at PLN 1 220 000 000 out of PLN 780 000 000 for 2014. The management expects that improvement of the situation in the construction industry will stabilize margins on contracts.

At the end of 1Q 2014 the order book in the energy segment was worth PLN 173 900 000, i.e. 31.2% up. The management plans further development and increase in contracting in the next 2 years.

In 2014 the development segment will focus on a commercial project in Poznań. The deadline for use permit and opening is planned in 1H 2015.

At the end of 1Q 2014 engineering segment showed 160% growth in revenue and the order book grew by 142% to PLN 115 800 000.The management expects further improvement of engineering construction this year.

In 1Q 2014 Erbud SA issued series B bonds of PLN 52 million to mature in March 2018 year, out of it PLN 40 million was allocated to rollout the series A bonds, and the remaining was offered to a new investor. In July 2014 a total of PLN 10 million bonds is to be paid off.

The Erbud Group's order book at the beginning of 2014 was at PLN 1 600 000 000. In 1Q 2014 it completed projects for a total value of PLN 283 602 000. To be completed further this year is PLN 1 billion versus PLN 820 000 000 in the corresponding period of 2013. The Group plans to further increase the order book, some of new projects should be completed this year. The Group is negotiating contracts worth around PLN 500 000 000.

1Q 2014 brought market climate increase and a lot of new projects are in offer, still contract prices remain under pressure. In consequence the current margins in the Group correspond with the market situation.

On May 5, 2014, the management of Erbud SA acquired information on MPL to bring to XXVI section of Regional Court in Warsaw a lawsuit against Erbud. The value of the lawsuit is PLN 34 381 374.64.

Regarding the Modlin project, Modlin concrete surface was completed by DSH company, Metrostav subsidiary in Poland. Despite DSH contrary view on the repair of runway, Erbud, as substitute contractor acting in the public interest to restart airport operations as soon as possible, repaired, in cooperation with investor- the surface. On June 2013 the suspension of Modlin airport was withdrawn.

On the basis of the assessment of the project and special independent analyses and expertise will also the possibility of the general contractor's mistakes was excluded. The analyses confirm high toughness of concrete and its compliance with documents and bid conditions. Based on the above the management sustains its statement that the cause of demerge is not on general contractor. The company is currently preparing its lawsuit regarding the repair costs against the subjects that responsible for the cause.

III. FINANCIAL RESULTS

1. COMPANIES COMPRISING THE ERBUD GROUP

The preliminary consolidated financial statement of the Erbud Group for 1Q 2014, embracing the consolidation of Erbud SA, Erbud International Sp. z o.o., GWI GmbH, PBDI, Budlex Group and Erbud Energetyka Sp. z o.o, Delta Sp. z o.o, Engorem Sp. z o.o, Erbud Industry Sp. z o.o. (formerly Ersteel sp. z o.o.).

2. PROFIT AND LOSS ACCOUNT

	Q	Q		
	2014	2013	2014 to 2013	%
PLN, 000	**1Q 2014**	**1Q 2013**	**change**	**change**
Sales	283 602,00	206 433,00	77 169,00	37%
Cost of sales	263 626,00	188 514,00	75 112,00	40%
Profit/loss on sales	**19 976,00**	**17 919,00**	**2 057,00**	**11%**
Costs of sales	984,00	850,00	134,00	16%
Management cost	13 746,00	14 200,00	-454,00	-3%
Result on operation	894,00	-556,00	1 450,00	-261%
EBIT	**6 140,00**	**2 313,00**	**3 827,00**	**165%**
Financial profit	-2 850,00	-1 488,00	-1 362,00	-92%
Gross profit	**3 290,00**	**825,00**	**2 465,00**	**299%**
Net profit	**1 423,00**	**410,00**	**1 013,00**	**247%**
EBIT margin	2.17%	1.12%	0,01	93%
D&A	1 458,00	1 311,00	147,00	11%
EBITDA margin	2.68%	1.76%	0,01	53%

3. THE ERBUD GROUP BALANCE SHEET

Item PLN thousand	2014-03-31	2013-03-31	% of total 2014	% of total 2013
Fixed assets	115 997	117 411	14%	17%
Current assets	685 880	582 582	85%	83%
TOTAL ASSETS	**801 877**	**699 993**	**100%**	**100%**
Shareholders funds	269 615	250 230	34%	36%
Long-term liabilities and provisions	117 607	99 782	15%	14%
Short-term liabilities and provisions	415 655	349 981	52%	50%
TOTAL LIABILITIES	**802 877**	**699 993**	**100%**	**100%**

3.1. Fixed and current assets

In the period the structure of the fixed and current assets has not changed in comparison to 2013, as not extra activities. It reflects the typical structure for companies whose main activity is the provision of services - low level of fixed assets and high level of working capital. It also results from the fact that for

years the Group have followed a policy of keeping fixed costs to a minimum. Also the structure of liabilities doesn't vary significantly from the previous year.

4. The Erbud Group CASH FLOW

in ,000 PLN	2014-03-31	2013-03-31
Net operating cash flow	**-38 695,00**	**-111 944,00**
Net cash flow from investment activities	**-554,00**	**5 583,00**
Net cash flow from financial activities	**25 831,00**	**-8 836,00**
Total net cash flow	**-13 418,00**	**-115 197,00**
Cash at the end of the period	**111 171**	**86 573**

The Group finished 1Q 2014 with negative balance at the cashflow. In y-o-y comparison the financial standing improved significantly by 88%. The positive cash flow on operating activity improved by 73%.

5. SELECTED FINANCIAL RATIOS

No.	Item	1Q 2014	1Q 2013
1.	ROA	0,18%	0,06%
2.	ROE	0,53%	0,16%
3.	Overall gearing ratio	67%	64%
4.	Debt to equity ratio	198%	180%
5.	Current liquidity ratio	1,65	1,66
6.	Quick liquidity ratio	0,91	1,05
7.	Return on gross sales	1,16%	0,40%
8.	Return on net sales	0,50%	0,20%

The analyse of profitability ratios reflects the increase of profits in 2014. The debt rations insignificantly lowered while the liquidity rations remained stable.