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ERBUD GROUP
MANAGEMENT'S COMMENTARY TO Q1 2016 REPORT

Q1 2016:
REVENUE: PLN 367 976 thousand
EBITDA: PLN 15 182 thousand
EBIT: PLN 12 397 thousand
NET PROFIT: PLN 8 235 thousand
CASH: PLN 160 404 thousand
CASH AFTER INTEREST PAYABLE PLN 13 959 thousand

The following financial information for Q1 2016, including the comparables, is based on the Group's consolidated financial statements. The contracts shown below are stated at their net values.

I. ERBUD GROUP'S Q1 2016 KEY FINANCIAL DATA, SIGNIFICANT EVENTS AND MARKET FACTORS AFFECTING THE FINANCIAL RESULTS

MARKET CONDITIONS

- A 13.3% decrease in the construction and assembly production in Poland in 1Q 2016, compared to 3.5% growth in the corresponding period of 2015. In March 2016, construction and assembly production dropped by 15.8% y-o-y compared to the 10.5% decrease in February this year.
- Compared to March 2015, construction and assembly production decreased across the board, with civil and water engineering companies reporting a 21.9% decrease, specialised construction works companies posting a 15.7% decrease, and building construction companies registering a 10.8% drop in output.
- A 0.8% decline in construction and assembly production prices in March 2016 compared to March 2015. Between January and March 2016 construction and assembly production prices dropped by 0.7% (last year a 0.4% decrease).

ERBUD GROUP

- Between January and March 2016, the Group signed in total 45 contracts worth PLN 273 621 thousand, compared to 34 contracts worth PLN 386 535 thousand in the corresponding period of 2015.
- Sales at the Budlex Group in 1Q 2016 reached 110 flats and commercial premises (*based on notarial deeds*), compared to 91 in 1Q 2015.
- The Group's presales for 2016-2017 amounted to 234 flats and commercial premises worth PLN 63.99 million, compared to 138 at the end of March 2015 worth PLN 35.8 million.

- **Erbud Group's revenue in Q1 2016 increased by 9% y-o-y up to PLN 367 976 thousand from PLN 336 236 thousand in 1Q 2015.**
  - All segments recorded an increase in revenue.

- **In Q1 2016 the Group's EBIT amounted to PLN 12 397 thousand, compared to PLN 8 539 thousand in Q1 2015, a 45% increase y-o-y. EBIT margin amounted to 3.37% compared to PLN 2.54% in Q1 2015.**
  - A sharp increase of EBIT in the period in question was recorded by the engineering segment which showed a 2223% increase to PLN 1.4 million.
  - The residential, public utility and industrial building segment showed a 131% increase of EBIT to PLN 13.8 million.
    - The above EBIT result includes non-recurring profit of PLN 3.67 million from the sale of the premises at Pulawska Street in Warsaw (former seat of Erbud SA) and the real estate in Torun.
  - The power segment had a negative impact on the Group's EBIT – it recorded a decrease of PLN 3 million, which is a derivative of the seasonality in the industry.

- **In 1Q 2016, the Group's net profit reached PLN 8 235 thousand, up 49% y-o-y compared to PLN 5 538 thousand in the corresponding period of 2015. The net margin was 2.24% compared to 1.65% in the corresponding period of 2015.**
  - In the period in question, the Group made a loss from financial operations, which amounted to PLN 1 417 thousand (costs of interest on loans and bonds), down by 43% y-o-y as compared to a loss of PLN 2 470 thousand in the corresponding period of 2015.

- As at the end of March 2016, the Erbud Group had **PLN 160 404 thousand in cash**, **compared to PLN 158 905 thousand in March 2015**. The Group has available credit and insurance facilities totalling PLN 1.230 billion, including investment loans in the amount of approx. PLN 92 million.

- As at end of March 2016, the Group's contract portfolio was worth PLN 1 300 000 thousand, of which approx. PLN 1 000 000 thousand is scheduled for execution this year.
  - By comparison, as at the end of March 2015, the Group's contract portfolio was PLN 1 537 955 thousand, of which PLN 1 222 000 thousand was scheduled for execution in 2015.
  - Between April and May this year, the Group signed 7 contracts worth PLN 157 million in total.
    - A project portfolio worth approx. PLN 600 million is still under negotiations.

- The main segments represented in the contract portfolio are: office buildings (21.9%), residential buildings (29,6%), commercial buildings (12.5%), power projects (7.5%), hospitals (4.3%), public utility buildings (4.8%) as well as engineering (4.9%) and road construction projects (4.4%), property development segment (5%), and industrial and warehousing projects (5.2%).
  - Public utility projects now constitute approx. 6.5% of the contract portfolio, compared to 11% in the same period in 2015.
- At the end of March 2016, the total value of submitted bids amounted to PLN 6.2 billion, of which as at the publication date, contracts that the Group had tendered for but had not yet been commissioned amounted to PLN 4.9 billion.

II. EXTERNAL AND INTERNAL FACTORS OF SIGNIFICANCE TO ERBUD GROUP'S DEVELOPMENT

1. EXTERNAL FACTORS

1.1 Macroeconomic conditions

According to the estimates of the Market Economy Research Institute, in Q1 2016, the GDP growth rate was 3.2%, as compared to the corresponding quarter the year before. This means that the period of increases was followed by a slowdown. Taking into account seasonal factors, the GDP growth rate between January and March was 0.7% in relation to the previous quarter.

1.2 Construction market

Construction output in 1Q 2016 decreased by 13.3% compared to a 3.5% increase in the corresponding period of 2015. In March 2016, construction and assembly production dropped by 15.8% y-o-y compared to a 10.5% decrease in February this year. The decrease was recorded across the board in relation to March last year, with civil and water engineering companies reporting a 21.9% decrease, specialised construction works companies registering a 15.7% drop in output and building construction companies posting an 10.8% drop. In March 2016 construction and assembly output prices were 0.8% lower compared to March 2015. A 0.7% decline was recorded in construction and assembly output prices (a 0.4% drop last year).

2. INTERNAL FACTORS

Group's core activities in Q1 2016

The following data presents financial results by segment, after consolidation exclusions, and by geographical area.

PLN '000 **Q1 2016**	**Construction of residential, public and industrial buildings in Poland and abroad**		*Construction of residential, office and industrial buildings in Poland*		**Property development segment**		**Road-engineering segment***		**Power segment**		**Activity in Poland**		**Activity abroad**	
	Q1 2016	Q1 2015	*Q1 2016*	*Q1 2015*	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Revenue from sale	262 817	+7% y-o-y	207 963	+4% y-o-y	26126	+12% y-o-y	32355	+9% y-o-y	46 679	+27% y-o-y	313 122	+8% y-o-y	54 854	+17% y-o-y
Share in %	71%	73.2%	56.5%	59.4%	7.1%	6.9%	8.8%	8.9%	12.7%	11%	85.1%	86.1%	14.9 %	13.9%
EBIT	13802	5968	9963	5019	218	3 499	1417	61	-3041	-988	8558	7592	3839	949
EBIT margin	5.25%	2.42%	4.79%	2.51%	0.83%	15.06%	4.38%	0.2%	-	-	2.73%	2.62%	7%	2.03%

2.1 Construction of residential, public utility and industrial buildings (Poland and abroad)

Between January and March 2016 the Group signed 10 contracts for the construction of residential, public utility and industrial buildings with an aggregate value of PLN 188 237 thousand, as compared to 15 contracts worth PLN 183 316 thousand in Q1 2015. At the end of March 2016, the contract portfolio for the construction of residential, public utility and industrial buildings was worth PLN 1 006 000 thousand, of which PLN 776 000 thousand is scheduled for this year, compared to a portfolio of PLN 998 764 thousand in Q1 2015, of which PLN 741 000 thousand was scheduled for execution during the year.

In Q1 2016, revenue from sales (including the revenues of Erbud SA, Erbud International and GWI) amounted to PLN 262 817 thousand, a 7% increase y-o-y. The Group's EBIT in construction of residential, public utility and industrial buildings segment in Q1 2016 reached PLN 13 802 thousand, up 131%,

compared to PLN 5 968 thousand in the same period of 2015. EBIT margin was 5.25% compared to 2.42% in 2015. The segment accounts for 71% of the Group's consolidated sales.

Construction of residential, public utility and industrial buildings in Poland (ERBUD SA)
In Q1 2016, sales of residential, public utility and industrial buildings amounted to PLN 207 963 thousand, compared to PLN 199 607 thousand, a 4% increase y-o-y. EBIT was PLN 9 963 thousand, compared to PLN 5 019 thousand in 1Q 2015, a 99% increase y-o-y. The EBIT margin in Q1 2016 was 4.79%, compared to 2.51% in the corresponding period of 2015. The EBIT figure comprises the profit on the sale of the cooperative ownership title to the premises at Pulawska Street (former seat of Erbud SA) and the real estate Torun, in the total amount of PLN 3 665 thousand. Net of this profit, the segment's EBIT margin was 3.03%.

At the end of March 2016 the contract portfolio in the residential, public utility and industrial buildings segment in Poland amounted to PLN 826 888 thousand, of which PLN 607 000 thousand is scheduled for 2016, compared to PLN 887 544 thousand at the end of 2015, of which PLN 661 480 thousand was scheduled for 2015.

International operations
In Q1 2016, revenue from foreign sales increased by 17% to PLN 54 854 thousand from PLN 46 751 thousand in Q1 2015. The segment's EBIT was PLN 3 839 thousand, a 305% growth y-o-y, compared to PLN 949 thousand in the corresponding period of 2015. The EBIT margin this year was 7%, compared to 2.03% in the same period in 2015. One of the positive impacts on the Group's results in the period in question was partial settlement of the development project in Germany in the amount of PLN 1.896 million.

At the end of the first quarter, the Group's foreign contract portfolio was worth PLN 180 090 thousand, compared to PLN 111 220 thousand in the same period in 2015. Most of the current portfolio is to be executed this year.

2.2. Other segments of Erbud Group's activities

2.2.1. Property development

In Q1 2016, Budlex sold, based on notarial deeds, 110 flats and commercial premises, compared to 91 in the same period in 2015.

Budlex Group's revenue in Q1 2016 reached PLN 26 126 thousand, compared to PLN 23 240 thousand in the corresponding period in 2015, a 12% increase y-o-y. EBIT amounted to PLN 218 thousand, compared to PLN 3 499 thousand in 1Q 2015, a 94% decrease y-o-y, which is attributable to the high base in Q1 2015 resulting from the non-recurring valuation of the development project in Poznan in the amount of PLN 1.5 million.

In 2016 Budlex is executing new residential projects, including 3 projects in Torun and 1 in Bydgoszcz. This year the Company is planning 11 residential projects in Poland, including 2 in Warsaw. The sale of 3 of the planned projects will start this year.

In pre-sales for 2016-2017 the Group signed preliminary contracts for 234 flats and commercial premises worth PLN 63.99 million, up from the 138 flats worth PLN 35.8 signed at the end of March 2015.

2.2.2. Engineering construction and road building

In Q1 2016, the engineering construction and road building segment added 15 new contracts worth PLN 61 853 thousand compared to 8 contracts worth PLN 191 995 thousand in 2015.

The revenue of the engineering construction and road building segment amounted to PLN 32 355 thousand, a 9% increase y-o-y, compared to PLN 29 777 thousand in Q1 2015. In Q1 2016, the segment reported PLN 1 417 thousand in profit from operations, compared to PLN 61 thousand of profit from operations in Q1 2015, which means that the operating margin in Q1 2015 was 4.38% compared to 0,2% in 1Q 2015.

As at end of March 2016, the segment's contract portfolio was worth approx. PLN 119 337 thousand, most of which to be executed in 2016. For comparison, in 2015 the segment's contract portfolio was worth PLN 338 700 thousand.

2.2.3. Power building segment

In Q1 2016, the Group signed 20 contracts worth PLN 23 531 thousand in the power segment, compared to 11 contracts worth PLN 11 224 thousand in 2015.

The segment's revenue in Q1 2016 was PLN 46 679 thousand, a 27% increase y-o-y. The segment's EBIT was negative and amounted to PLN -3 041 thousand, largely as a result of the segment's seasonality.

As at end of March 2016, the Group's contract portfolio in the power segment totalled PLN 96 257 thousand, compared to PLN 164 732 thousand in the corresponding period of 2015, a 42% decline y-o-y. Most of the portfolio is to be executed in 2016.

2.3. Operating revenues and expenses

2.3.1. Balance of operating revenues and expenses

The balance of the Group's operating revenues and expenses amounted to PLN 4 393 thousand for 1Q 2016.

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

In Q1 2016, the costs of payroll and benefits to employees at the Erbud Group amounted to PLN 52 167 thousand, a 16% increase y-o-y. The headcount in the Group was approx. 2 010 people, compared to 1 943 in the corresponding period of 2015, 3.5% increase y-o-y.

3. OUTLOOK

3.1 Macroeconomic conditions

GDP forecasts for Poland are optimistic. According to NBP, the GDP growth rate in Poland from Q2 2016 to mid-2017 will remain high. The main driver of GDP growth in the projection period, in addition to consumption, will be still gross expenditures on fixed assets, with a negative net export contribution.

3.2. The construction market

According to the Main Statistical Office (GUS), in April 2016 the business climate indicator stood at minus 2.4 points (-6.9 in March). 16.2% of the companies surveyed believed that the construction business was on the way to recovery, while 18.6% stated the industry was on a downward trend (a month ago, 14.2% and 21.1%, respectively). The assessment of contract portfolios, construction and assembly output and the financial position was not as pessimistic as during the past few months. 25.0% (23.4% a year ago) respondents intend to carry out construction and assembly work abroad.

According to the research company PMR, although the first 3 months of 2016 were weaker, the Polish construction still has strong development potential, mainly due to the continuing recovery in the

industrial-and-warehousing and residential markets (not only among developers but also among private investors), big power projects and impressive length of contracted fast roads.

3.3 The directions and objectives of the Group's development

The Group started 2016 with a contract portfolio worth approx. PLN 1.3 billion. Plans are underway to carry out PLN 1.0 billion worth of projects this year. Between April and May the Group added 7 contracts to the portfolio worth PLN 157 million. Projects with the total value of approx. PLN 600 million are currently negotiated.

This year, the Management expects to see further growth, mainly in the residential, public utility and industrial building segment, in Poland and abroad, where the contract portfolio reached PLN 1 billion. This year the Company can see growth potential in shopping centre, office, residential and public utility projects. In foreign operations the Group has developed a contract portfolio of PLN 180 million, which should translate into profits in the segment. In addition, the company is planning further settlement of the development project in Germany this year.

This year the development segment will focus on, among others, preparation of approx. 11 residential projects, including 2 in Warsaw. The Group expects to sell approx. 220 flats this year; already approx. 234 flats are in pre-sales for 2016-2017.

This year the road engineering segment will develop the road portfolio. In Q1 the company signed 14 road contracts and a portfolio worth PLN 500 million is under tender.

Based on the prospects for the industry and the existing contract portfolio, after the second record-breaking year, the Management expects a one-digit increase of revenue and profit in 2016.

On 29 April 2016 the Shareholders' Meeting adopted a resolution to pay out dividend in the amount of PLN 1.2 per share, i.e. PLN 15 374 thousand, which is attributable to the company's good cash position and sale and settlement of the development project in Poznan. The dividend payment day has been set for 2 June 2016.

III. FINANCIAL RESULTS

1. ERBUD GROUP COMPANIES

The consolidated financial statements of the Erbud Group for Q1 2016 comprise the consolidation of: Erbud SA, Erbud International Sp. z o.o., GWI GmbH, PBDI S.A. , Grupy Budlex, Erbud Industry Sp. z o.o., Erbud Rzeszów Sp. z o.o.; Erbud Industry Centrum Sp. z o.o.; Erbud Industry Pomorze Sp. z o.o.; Erbud Industry Południe Sp. z o.o.

2. GROUP'S PROFIT AND LOSS ACCOUNT

in PLN '000	Quarter Q1 2016	Quarter Q1 2015	2016 to 2015 difference	% difference
Revenue from sale	367 976.00	336 236.00	31 740.00	9%
Cost of products sold	339 333.00	313 878.00	25 455.00	8%
Profit or loss from sales	**28 643.00**	**22 358.00**	**6 285.00**	**28%**

Selling costs	1 913.00	1 343.00	570.00	42%
General and administrative costs	19 726.00	14 167.00	5 559.00	39%
Balance of operating revenues and expenses	5 393.00	191.00	5 202.00	2 724%
Result on operating activities - EBIT	**12 397.00**	**8 539.00**	**3 858.00**	**45%**
Result on financial activities	-1 417.00	-2 470.00	1 053.00	43%
Gross profit/ loss	**10 980.00**	**6 069.00**	**4 911.00**	**81%**
Net profit/ loss	**8 235.00**	**5 538.00**	**2 697.00**	**49%**
EBIT margin (EBIT/ Revenue)	3.37%	2.54%	0.01	33%
amortisation and depreciation	2 785.00	1 855.00	930.00	50%
EBITDA margin (EBITDA/ Revenue)	4.13%	3.09%	0.01	33%

3. BALANCE SHEET OF ERBUD GROUP

in PLN '000	**31.03.2016**	**31.03.2015**	**Share in 2016 balance sheet total**	**Share in 2015 balance sheet total**
Fixed assets	185 225	156 821	18%	17%
Current assets	831 798	781 640	82%	83%
TOTAL ASSETS	**1 017 023**	**938 461**	**100%**	**100%**
Equity	324 551	296 951	32%	32%
Long-term liabilities and provisions	123 010	128 267	12%	14%
Short-term liabilities and provisions	569 462	513 243	56%	55%

In the reported period, the Group's total assets increased by 8%. This is the effect of higher profits generated by the Group. The structure of assets and liabilities remained unchanged. The Group did not record any extraordinary events which could have impact on the structure of assets and the sources of their financing.

4. ERBUD GROUP'S CASH FLOW

	31.03.2016	**31.03.2015**
in PLN '000		
Net cash flows from operating activities	-72 325	-40 584
Net cash flows from investment activities	-7 138	-5 260

Net cash flows from financial activities	-14 271	-4 514
Total net cash flows	**-93 734**	**-50 358**
Closing balance of cash	**160 404**	**158 905**

In Q1 2016, the company reported an increase of cash at the end of the period to PLN 160.4 million. Negative operating cash flows are attributable to increase of receivables with simultaneous decrease of liabilities. The increase of the negative cash flows on investing activity results from valuation of the real estate by a subsidiary, GWI.

5. SELECTED FINANCIAL INDICATORS

Item	2016	2015	Formula
Return on assets (ROA)	3.41%	2.38%	net profit/ total assets
Return on equity (ROE)	10.78%	7.08%	net profit/ shareholders' equity
Debt to total assets ratio	68.36%	66.30%	liabilities and provisions for liabilities/ total assets
Debt to equity ratio	216.03%	197.19%	liabilities and provisions for liabilities/ shareholders' equity
Current ratio	1.52	1.66	working capital/ short-term liabilities
Gross return on sales (year to date - three quarters of 2015 and the first quarter of 2016)	2.23%	2.98%	profit or loss from sales/ sales
Net return on sales (year to date - three quarters of 2015 and the first quarter of 2016)	1.83%	2.06%	net profit or loss/ total revenue