ERBUD S.A.

REPORT OF THE SUPERVISORY BOARD OF ERBUD SA FOR THE YEAR 2016

I. Report on the activities of the Supervisory Board in the period from 01 January 2016 to 31 December 2016

In the period from 1 January 2016 to 28 April 2016, the Supervisory Board consisted of:

- Udo Berner – Chairman of the Supervisory Board
- Józef Olszyński – Deputy Chairman of the Supervisory Board
- Albert Dürr – Member of the Supervisory Board
- Zofia Dzik – Member of the Supervisory Board
- Gabriel Główka – Member of the Supervisory Board
- Michał Otto – Member of the Supervisory Board
- Janusz Lewandowski – Member of the Supervisory Board

On 30 March 2016, Mr Józef Olszyński resigned effective from 28 April 2016 from his membership in the Company's Supervisory Board and from occupied position of the Deputy Chairman.

On 28 April 2016, the General Meeting of Shareholders appointed a new member of the Supervisory Board in the person of Mr Janusz Reiter and entrusted Mr Gabriel Główka with serving as Deputy Chairman of the Supervisory Board.

In the period from 28 April 2016 to 31 December 2016 the Supervisory Board had the following composition:

- Udo Berner – Chairman of the Supervisory Board
- Gabriel Główka – Deputy Chairman of the Supervisory Board
- Albert Dürr – Member of the Supervisory Board
- Zofia Dzik – Member of the Supervisory Board
- Michał Otto – Member of the Supervisory Board
- Janusz Lewandowski – Member of the Supervisory Board
- Janusz Reiter – Member of the Supervisory Board.

Two committees report to the Supervisory Board of ERBUD S.A.:

Audit Committee with the following composition:

- Gabriel Główka – Chairman of the Audit Committee
- Albert Dürr – Member of the Audit Committee
- Michał Otto – Member of the Remuneration Committee who joined the Committee on 28 April 2016; appointed by the resolution 19/2016 of the Supervisory Board in place of Mr. Józef Olszyński, who resigned from his membership in the Supervisory Board of ERBUD S.A.

Remuneration Committee with the following composition:

- Udo Berner – Chairman of the Remuneration Committee
- Albert Dürr – Member of the Remuneration Committee
- Michał Otto – Member of the Remuneration Committee.

Members of the Supervisory Board, including members of the Audit Committee, meet the criteria of independence, except for two members of the Supervisory Board: Mr. Udo Berner and Mr. Albert Dürr who represent the shareholder Wolff & Müller GmbH & Co. KG.

Self-evaluation of the activities of the Supervisory Board

In 2016, the Supervisory Board conducted its self-evaluation. Members of the Supervisory Board completed the self-assessment questionnaire and the responses were analysed by the Chairman of the Supervisory Board.

All members of the Supervisory Board have the necessary knowledge and experience to exercise of their functions and are able to devote the necessary time to perform their duties. The lowest rating was given to the cooperation of the Supervisory Board with the internal audit unit and communication processes in the Company.

By resolution of 19 October 2016 the General Meeting of ERBUD S.A. adopted the new Rules of the Supervisory Board adjusting the hitherto regulations to the amended law and the Best Practice.

As a result of ordering the works, the Supervisory Board adopted the Rules of the Audit Committee in line with the new Rules of the Supervisory Board.

In the period from 1 January 2016 to 31 December 2016, there were five meetings of the Supervisory Board of ERBUD S.A (on 09.03.2016, 28.04.2016, 21.06.2016, 20.09.2016 and 14.11.2016) and two meetings of the Audit Committee (on 22.08.2016 and 16.12.2016). In 2016 the Remuneration Committee did not hold any meeting due to no such need (no changes in the remuneration of ERBUD S.A. Management Board members in the reporting period).

At each meeting, the Supervisory Board became acquainted with the current performance of the Company. The analysis also included the general development of the construction market and the Company's performance against the market.

At the Supervisory Board meeting held on 9 March 2016, in the presence of the Management Board and representatives of the auditor TPA Horwath Horodko Audit sp. z o.o., the Supervisory Board discussed the audited financial results for the year 2015, which have been published by the Company on 21 March 2016. On 22 August 2016, the Audit Committee of ERBUD SA reviewed the interim consolidated and separate financial statements for the first half of 2016, which has been published on 29 August 2016.

Forty-three resolutions were passed by the Supervisory Board in 2016 both at the meetings and by circulation of papers.

The main topics of resolutions of the Supervisory Board were:

1) Continuous monitoring of financial results and performance of the 2016 financial plan;
2) Renewal of credit and insurance lines (and new agreements);
3) Consent to new projects which exciding the powers of the Management Board - tenders for substantial projects were discussed at the meetings, as well as approved by written resolutions taken by circulation of papers;
4) Issue of shares under the Management Stock Options Scheme in the Erbud Group;
5) Selection of an auditor to audit the Consolidated and Separate Financial Statements for 2016 upon the offering procedure conducted by the Management Board (change from TPA Horwath Horodko to PwC);
6) Opinions on draft resolutions of the AGM; including granting discharge to the members of the Management Board of ERBUD SA;
7) Consent to the disposal of shares in Budlex S.A, a subsidiary of SA ERBUD, including an office building located in Toruń on Wapienna Street;

8) Approval of output plan, operating profit and the budget of Erbud's Management Board overhead expenses for 2017;
9) Adoption of the Rules of the Audit Committee ERBUD S.A .;
10) Examination and evaluation of the proposal regarding the allocation of profit and dividend payment;
11) Opinion on the resolution of the Extraordinary General Meeting on the payment of an extraordinary dividend;
12) Support of the Management Board in establishing the Shared Services Centre.

The development of ERBUD SA in the financial year 2016 proceeded harmoniously. There was further improvement in the overall performance of the Company.

The Supervisory Board was receiving from the Management Board of Erbud SA monthly reports presenting the current financial and economic position of the Company

Essential Company's issues and figures were analysed together with the Management Board of ERBUD both by phone, at the Supervisory Board's meetings, and in the form of video-conferencing.

The Management Board kept informed the members of the Supervisory Board in writing and verbally about special occurrences. The Management Board notified the members of the Supervisory Board in advance of all relevant events and important decisions that had to be taken.

One of the key areas of work of the Supervisory Board in 2015 was a permanent monitoring of the activities of the industrial business, focused in the ERBUD Industry Group. On 14 November 2016, the Supervisory Board approved the appointment of a member of the Management Board of ERBUD S.A. Mr. Paweł Smoleń as President of the Board of ERBUD Industry.

In 2016, after conducting an offering procedure, the Supervisory Board selected an auditor to audit the financial statements of the Erbud Company and the the Erbud Group for 2016, i.e. PwC Sp. z. o. o.

II. Assessment of the Company's situation, including internal control, risk management, compliance and internal audit

The Supervisory Board took note of the fact that there is an internal audit unit within the ERBUD Group and that compliance regulations are being developed.

The Supervisory Board welcomes Rules of Internal Audit and Control adopted on 5 September 2016 by Resolution No. 5/2016 of the Management Board of ERBUD S.A.

In the opinion of the Supervisory Board, all obligations related to financial reporting and operating activities are fulfilled by established units properly.

The Supervisory Board positively assesses the control mechanics the Company.

III. Assessment of Financial Statements of ERBUD SA for the year ended 31 December 2016 and the Management Board Report on ERBUD SA operations in 2016

Pursuant to Article 382(3) of the Commercial Company Code, the special duties of the Supervisory Board include assessment of the Management Board report on the company's activity and the financial statements for the previous financial year in terms of their compliance with the accounting

books, documents and facts, and of the Management Board's proposal on distribution of profit, and submitting to the General Meeting of Shareholders an annual written report on the above assessment (these documents are available on the Company's website at http://www.erbud.pl/raport_roczny_2016.php).

Acting pursuant to the Art. 18(3) of Articles of Association, the Supervisory Board of Erbud SA, selected PricewaterhouseCoopers sp. z o. o. (the "Aditor"), as an entity authorized to audit financial statements, to audit the Separate Financial Statements of ERBUD SA and the annual Consolidated Financial Statements of the ERBUD SA Group for the year ended 31 December 2016.

The preparation of Financial Statements and the Management Board's Report on the ERBUD SA activities in compliance with prevailing regulations is the responsibility of the Company's Management Board, whereas the Supervisory Board, together with the Management Board, is responsible for ensuring that the aforementioned financial statements and reports satisfy the requirements stipulated by Article 4a of the Accountancy Act of 29 September 1994 (unified text of 22.06.2016; Journal of Laws of 2016 No. item 1047, as amended) and the regulatory rulings issued on its basis.

The Financial Statement of ERBUDE SA for the year ended 31 December 2016 and the Management Board Report on ERBUD SA activity in 2016 were assessed in detail by the Audit Committee of the Supervisory Board at the meeting held on 13 March 2017 and discussed with the Management Board and the auditor at the Supervisory Board's meeting held on 14 March 2017.

In its opinion issued on 20 March 2017, the auditor assured that the Financials Statements:

- give a true and fair view of financial position of the ERBUD Group as at 31 December 2016, and of the results of its operations and its cash flows for the financial year from 1 January to 31 December 2016 pursuant to International Financial Reporting Standards as adopted by the European Union and in accordance with applied accounting principles (policy);
- comply in form and content with legal regulation applicable to the Company, including the requirements of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities, and the conditions for the recognition of equivalent to the information required by the law of the State which is not a Member State;
- have been drawn up on the basis of correctly kept consolidation accounting.

An unqualified opinion on the audit of the Separate Financial Statements of ERBUD SA was issued by the auditor on 20 March 2016.

The auditor also assured that the Report on activities of ERBUD SA in the financial year 2016 is complete within the meaning of Article 49(2) of the Accountancy Act and of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities, and the conditions for the recognition of equivalent to the information required by the law of the State which is not a Member State(Journal of Laws of 2009, No. 33, item 259, as amended) and the information contained therein is consistent with the audited Financial Statements.
The Management Board of Erbud SA also represented that Financial Statements of ERBUD SA for 2016 were prepared in accordance with applicable accounting principles and presents in a true, fair and clear manner the financial position of ERBUD SA.

After examining the following documents submitted by the Management Board:

1. Separate Financial Statements of ERBUD SA for the year ended 31 December 2016, including:

a) the Management Board Report on operations of ERBUD SA in the financial year ended 31 December 2016;
b) the Balance Sheet as of 31 December 2016, showing total assets and total liabilities of PLN **701,022,547.04** (say: seven hundred and one million, twenty-two thousand, five hundred and forty-seven, point zero four Zlotys);
c) the Profit and Loss Statement for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 a net profit of PLN **11,103,098.58** (say: eleven million, one hundred and three thousand, ninety-eight, point five eight Zlotys);
d) the Cash Flow Statement for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 an **increase** in cash of PLN **49,586,789.31** (say**:** forty-nine million, five hundred and eighty-six thousand, seven hundred and eighty-nine, point three one Zlotys);
e) the Statement of Changes in Equity for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 a **decrease** in equity of PLN **20,907,181.43** (say: twenty million, nine hundred and seven thousand, one hundred and eighty-one, point four three Zlotys);
f) information about the accounting policy applied and other explanatory notes;

The above-mentioned documents are available on the Company's website at http://www.erbud.pl/raport_roczny_2016.php

2 Consolidated Financial Statements of the ERBUD Group for the year ended 31 December 2016, including:

a) the Management Board Report on operations of the ERBUD Group in the financial year ended 31 December 2016;
b) the Consolidated Balance Sheet of the ERBUD Group as of 31 December 2016, showing total assets and total liabilities of PLN **947,295,887.97** (say**:** nine hundred and forty-seven million, two hundred and ninety-five thousand, eight hundred and eighty-seven, point nine seven Zlotys);
c) the Consolidated Profit and Loss Statement of the ERBUD Group for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 a net profit of PLN **1,076,305.71** (say**:** one million, seventy-six thousand, three hundred and five, point seven one Zlotys);
d) the Consolidated Cash Flows Statement of the ERBUD Group for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 an **increase** in cash of PLN **35,135,616.58** (say: thirty-five million, one hundred and thirty-five thousand, six hundred and sixteen, point five eight Zlotys);
e) the Statement of Changes in Consolidated Equity for the period from 1 January 2016 to 31 December 2016, showing as of 31 December 2016 a **decrease** in equity of PLN **27,093,335.06** (say: twenty-seven million, ninety-three thousand, three hundred and thirty-five, point zero six Zlotys);
f) information about the accounting policy applied and other explanatory notes;.

3. Auditor's opinion and report issued on 20 March 2017;

the Supervisory Board of Erbud SA positively assessed the above documents as to their compliance with the Company's accounts, documents and facts. Consequently, the Supervisory Board resolved to submit this assessment to the Annual General Meeting of Shareholders of ERBUD SA.

The above-mentioned documents are available on the Company's website at http://www.erbud.pl/raport_roczny_2016.php

The Supervisory Board recommends that the Annual General Meeting approve:

- the Separate Financial Statements of ERBUD SA for the financial year ended 31 December 2016;
- the Consolidated Financial Statements of the ERBUD Group for the financial year ended 31 December 2016;
- the Management Board Report on operations of ERBUD SA in 2016;
- the Management Board Report on operations of the ERBUD Group in 2016.

IV. Assessment of the Management Board's proposal on distribution of ERBUD's net profit for the year ended on 31 December 2016

The Supervisory Board positively evaluates the Management Board's proposal addressed to the Annual General Meeting of Erbud SA on distribution of ERBUD's net profit for the financial year ended 31 December 2016 amounting to PLN 11,103,098.58 (say: eleven million, one hundred and three thousand, ninety-eight, point five eight Zlotys) and recommends to the AGM to allocate this profit to the reserve capital of ERBUD S.A., and to authorize the Management Board to dispose of this capital in order to pay an interim dividend.

Having regard to the dividend policy adopted by ERBUD S.A. and taking into account that in 2016 the Company paid the dividend two times (an ordinary dividend for 2015 and an extraordinary one), the Supervisory Board welcomes the proposal of the Management Board regarding the allocation of the

V. Assessment of the Company's compliance with information obligations regarding the application of Corporate Governance principles as defined in the Rules of Warsaw Stock Exchange and regulations on current and periodic information provided by issuers of securities

The Supervisory Board assessed how the Company fulfils its reporting obligations regarding the application of Corporate Governance principles as defined in the Rules of Warsaw Stock Exchange and regulations on current and periodic information provided by issuers of securities.

The Supervisory Board welcomes the fulfilment by ERBUD S.A of the duties referred to above.

From 1 January 2016, ERBUD S.A follows the guidelines developed by the Warsaw Stock Exchange Board in the Corporate Governance Code under the name "Best Practice of WSE Listed Companies 2016".

As a result of changes in the Company's internal regulations (adoption of amended General Meeting Rules; adoption of amended Management Board Regulations; adoption of amended Supervisory Board Regulations), the Company was meeting the detailed Corporate Governance rules set out in sections II.Z.1 and II.Z.2 of Best Practices.

An internal division of responsibilities of individual members of the Management Board has been introduced.

No rules of remuneration for members of the governing bodies of the Company were passed in 2016.

The Supervisory Board became acquainted with of the regulations of MAD and MAR and the due diligence of the reporting system of information which is material within the ERBUD SA Group, commissioned by the Management Board of Erbud. The members of the Supervisory Board participated in the training on new regulations concerning information requirements specified in the WSE Rules and regulations on current and periodic information provided by issuers of securities. Members of the Supervisory Board made their statements in July 2016.

The Supervisory Board took note of identifying all types of events that in ERBUD S.A. are subject to recognition as confidential information disclosed according to reporting obligations.

VI. Assessment of the rationality of the Company's policy on charitable work, sponsorship or other activities, or information on the lack of such policy

The Supervisory Board conducted an assessment of the rationality of the Company's policy on charitable and sponsorship activities.

In 2016, the Company strongly supported the “Common Challenges” Erbud Foundation, which focuses on helping children from orphanages to become self-reliant.

The year 2016 was dedicated to setting up the Foundation Program, establishing a functioning framework, gaining mentors form the employees of the ERBUD Group, and training them as mentors.

On 21 October 2016, the first meeting of Mentors was held with the beneficiaries, so the program started. Each of the mentors committed to support for at least one year his/her children to become independent.

The Foundation gains supporting partners (psychologists, lawyers, therapists) and sponsors.

The Supervisory Board reviewed the Sponsorship and Social Policy of the ERBUD Group adopted by the Company and positively assessed the Group's activities in this field.

VII. Dividend

In 2016, ERBUD S.A distributed dividends to its shareholders two times.

The first one, adopted by Resolution No. of the AGM 5/2016 dated 28.04.2016, in the amount of PLN 15,374,230.80, of which PLN 11,397,112.34 came from the net profit of ERBUD S.A generated in 2015, while the remaining amount i.e. PLN 3.977.110,46 from the reserve capital of the Company. The dividend date was set for 17 May 2016, and the payment date for 2 June 2016. The dividend per one share was PLN 1.20.

Another dividend (an extraordinary one) was adopted by the Extraordinary General Meeting of Shareholders on 22 December 2016 by Resolution No. 3/2016 of the EGM of 22.12.2016 at the rate PLN 1.17 per share, i.e. total of PLN 14,989,875.03. The amount came from the Company's supplementary capital created from profits generated in previous years. The declaration was justified by the Management Board by a stable financial position of the Company and the whole Erbud Group and a satisfactory order portfolio of the Group, as well as a positive Company’s cash flow amounting PLN 47.5 million primarily achieved from the sale of Budlex SA shares and the settlement of the transaction in October 2016.

Both proposals of the Management Board regarding the dividend payment were positively evaluated by the Supervisory Board.

Warsaw, April 24, 2017

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Udo Berner
Chairman of the Supervisory Board