ERBUD S.A.

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Topic:
Adjustment of the recognition of costs incurred due to resurfacing the concrete runway at the Modlin Airport in 2013.
Legal basis:
Article 17 section 1 of the MAR – confidential information

Content of report:

The Management Board of Erbud SA with its registered office in Warsaw (the "Issuer") announces that on 24 August 2016, in consultation with the Audit Committee of the Issuer's Supervisory Board and after a meeting with representatives of the auditor performing the review and audit of financial statements, it decided to adjust the erroneous recognition of capitalized cost of resurfacing the concrete runway at the Modlin Airport, resulting in a decrease in the Company's equity by the amount of PLN 20.122 million. The adjustment follows the recommendation of the Company's new auditor, who questioned previously applied method of recognition of costs related to the replacement of the runway and associated with the circumstances indicated below and disclosed in detail in the periodic reports published by the Issuer. This change will have no impact on profit and loss account or on statement of comprehensive income for the current reporting period.

Based on the Agreement of 14 September 2010, Erbud SA was the Prime Contractor for the construction of Warsaw-Modlin Airport runway for Mazowiecki Warsaw Airport - Modlin Sp. o.o. On 28 December 2012, due to the reported defective surface, Mazowiecki Wojewódzki Inspektor Nadzoru Budowlanego [Mazovian Provincial Building Control Office] issued a decision prohibiting the use of a part of the runway at the Warsaw-Modlin Airport. However, having regard to the public interest, our company (as substitute contractor) resurfaced the concrete runway, without waiting for an explanation of causes for damages and without confirmation that we are obliged to make repair works under the warranty. These works were completed in June 2013 and on 3 July 2013 the airport was re-admitted to passenger traffic.

Expenses related to the replacement of concrete surface amounted to PLN 20.122m and were incurred in 2013.

The Issuer does not recognize its responsibility for the defective condition of the runway surface, and the independent technical assessments we commissioned indicate that the reasons for damage were independent from the Issuer. Therefore, in the opinion of the Management Board of the Issuer and the legal advisors of Erbud SA, all expenses incurred for the resurfacing of the runway in a total amount of PLN 20.122 million, recorded as of the balance sheet date under the assets of the Company, finally will not be charged to Erbud SA.

The Issuer claimed from the entities responsible for the defective condition of the runway surface and their insuring companies the payment of compensation equal to the above said expenditures incurred.

The Issuer submitted its response to the lawsuit, which challenged all the claims of MPL and filed a counterclaim in accordance with the argumentation as above.

On 18 March 2015, a suit against Cemex Polska sp. z o.o based in Warsaw and Lafarge Kruszywa i Beton sp. z o.o. based in Warsaw (the "Defendant") for the payment of damages due to improper performance of the contract has been filed by the Issuer in the District Court Warsaw Mokotów.

Accordingly, the resurfacing cost in the amount of PLN 20.122m has not been recognized in the 2013 financial result, but the Issuer capitalised it in the balance sheet. The method of recognizing the cost of replacing the surface was presented in all financial statements of the Issuer and assessed as correct one by the then auditor. This fact does not affect the standpoint of the Management Board and legal advisors on the real possibility of cost recovery.