

ERBUD GROUP

Condensed Consolidated Financial Statements for three quarters of 2017

prepared pursuant to
International Financial Reporting Standards

Warsaw 14.11.2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the nine months ended 30-09-2017	For the nine months ended 30-09-2016	For the three months ended 30-09-2017	For the three months ended 30-09-2016
	CONTINUING OPERATIONS				
Note 4.1.	Revenue from sales of products and services and of goods and materials	1 282 198	1 213 559	505 878	425 391
	Cost of sold products and services and of goods and materials	1 190 181	1 127 635	474 328	395 557
	Profit from sales before tax	**92 017**	**85 924**	**31 550**	**29 834**
Note 4.2.	Cost of sales	3 941	4 011	1 224	1 144
Note 4.2.	General and administrative costs	66 062	58 213	20 739	19 100
	Other operating income	10 981	25 254	4 099	(267)
	Other operating expenses	7 958	4 675	3 495	501
Note 4.1.	**Profit (loss) on jointly controlled entities**	**25 037**	**44 279**	**10 191**	**8 822**
	Financial income	3 160	3 970	1 143	(1 499)
	Financial expenses	8 786	7 781	1 312	2 114
	Profit from continuing operations before tax	**19 411**	**40 468**	**10 022**	**5 209**
Note 4.3.	Income tax	4 508	8 845	2 113	1 126
	Net profit (loss) from continuing operations	**14 903**	**31 623**	**7 909**	**4 083**
	DISCONTINUED OPERATIONS				
	Net profit (loss) from discontinued operations	-	(32 534)	-	3 199
	Net profit (loss) for the financial period	**14 903**	**(911)**	**7 909**	**7 282**
	Net profit (loss) for the financial period attributable to:				
	Shareholders of the Parent Company	14 957	(3 870)	7 821	7 079
	Minority shareholders	(53)	2 959	88	203
	Weighted average number of ordinary shares (in pcs.)	12 811 859	12 811 859	12 811 859	12 811 859
	Net earnings per share from continuing operations (in PLN)	1.16	2.47	0.62	0.32
	Net earnings per share from discontinued operations (in PLN)	-	- 2.54	-	0.25
	Basic net earnings per share (in PLN)	**1.16**	**- 0.07**	**0.62**	**0.57**
	Diluted weighted average number of shares (in pcs.)	12 811 859	12 811 859	12 811 859	12 811 859
	Diluted net earnings per share from continuing operations (in PLN)	1.16	2.47	0.62	0.32
	Diluted net earnings per share from discontinued operations (in PLN)	-	- 2,54	-	0,25
	Diluted net earnings f per share (in PLN)	**1.16**	**- 0.07**	**0.62**	**0.57**
	ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS, INCL. ALTERNATIVE PERFORMANCE MEASURES				
	Amortization and depreciation	7 649	7 552	2 344	2 065
Note 4.1.	**EBITDA**	32 686	51 831	12 535	10 887

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the nine months ended 30-09-2017	For the nine months ended 30-09-2016	For the three months ended 30-09-2017	For the three months ended 30-09-2016
Consolidated net profit (loss)	**14 903**	**(911)**	**7 909**	**7 282**
Foreign exchange differences on translation of foreign entities	(425)	124	328	(551)
Valuation of hedging instruments	1 950	(764)	(1 653)	1 557
Other comprehensive income (including tax effect) subject to reclassification to the result	**1 525**	**(640)**	**(1 325)**	**1 006**
Total revenue for the period	**16 428**	**(1 551)**	**6 584**	**8 288**
attributable to:				
Shareholders of the Parent Company	16 604	(4 363)	13 279	8 351
Minority interests	(176)	2 812	202	(63)
Total income attributable to Shareholders of the Parent Company from:				
Continuing operations	16 604	24 889	13 279	5 463
Discontinued operations	-	(29 252)	-	2 888
	16 604	**(4 363)**	**13 279**	**8 351**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

				Accumulated other comprehensive income					
	Share capital	Reserves from the sale of shares above their nominal value	Reserve capital	Exchange differences on translation of foreign entities	Valuation of hedging instruments	Retained earnings	Total	Minority interests	Equity
Balance as at 1 January 2016	**1 281**	**229 619**	**-**	**761**	**1 006**	**46 086**	**278 753**	**16 912**	**295 665**
Net profit/loss for the period	-	-	-	-	-	(3 870)	**(3 870)**	2 959	**(911)**
Total income for the financial period	-	-	-	271	(764)	-	**(493)**	(147)	**(640)**
Total comprehensive income	**-**	**-**	**-**	**271**	**(764)**	**(3 870)**	**(4 363)**	**2 812**	**(1 551)**
Dividend	-	(3 977)	-	-	-	(11 398)	**(15 375)**	-	**(15 375)**
Transfer of net profit/loss from the previous year to retained earnings	-	-	-	-	-	-	**-**	-	**-**
Acquisition of issued shares by minority shareholders of the subsidiary PBDI	-	(2 126)	-	-	-	-	**(2 126)**	2 126	**-**
Balance as at 30 September 2016	**1 281**	**223 516**	**-**	**1 032**	**242**	**30 779**	**256 850**	**21 850**	**278 700**
Balance as at 1 January 2017	**1 281**	**213 197**	**-**	**1 343**	**(640)**	**36 479**	**251 660**	**9 145**	**260 805**
Net profit/loss for the period	-	-	-	-	-	14 956	**14 956**	(53)	**14 903**
Total income for the financial period	-	-	-	120	1 950	(422)	**1 648**	(123)	**1 525**
Total comprehensive income	**-**	**-**	**-**	**120**	**1 950**	**14 534**	**16 604**	**(176)**	**16 428**
Dividend	-	-	-	-	-	-	**-**	(105)	**(105)**
Transfer of net profit/loss from the previous year to retained earnings	-	-	11 103	-	-	(11 103)	**-**	-	**-**
Balance as at 30 September 2017	**1 281**	**213 197**	**11 103**	**1 463**	**1 310**	**39 910**	**268 264**	**8 864**	**277 128**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30.09.2017	31.12.2016
	ASSETS	**997 279**	**947 297**
	Goodwill	22 968	22 968
	Property, plant and equipment	48 746	48 031
Note 5.1.	Financial assets	4 706	2 903
Note 4.3.	Deferred tax assets	31 126	17 029
	Receivables under construction contracts -retention	12 955	12 565
	Fixed assets	**120 501**	**103 496**
	Inventory	6 719	2 757
	Receivables under construction contracts -retention	30 929	32 264
Note 2.1.	Receivables under construction contracts -valuation	186 241	127 600
Note 7.2.	Trade and other receivables	476 568	394 854
Note 5.1.	Financial assets	32 063	22 788
	Cash and cash equivalents	139 098	257 273
	Other	5 160	6 265
	Current assets	**876 778**	**843 801**
	LIABILITIES	**997 279**	**947 297**
Note 3.1.	Share capital	1 281	1 281
	Reserves from the sale of shares above their nominal value	213 197	213 197
	Reserve capital	11 103	-
	Accumulated other comprehensive income	2 773	703
	Retained earnings	39 910	36 479
	Equity of shareholders of the Parent Company	268 264	251 660
	Minority interests	8 864	9 145
	Equity	**277 128**	**260 805**
Notes 3.3.-3.5	Interest debt	63 324	65 658
	Provisions	5 688	4 582
Note 4.3.	Deferred tax liabilities	3 165	2 625
	Liabilities under construction contracts - retention	8 516	7 588
	Other liabilities	-	750
	Long-term liabilities	**80 693**	**81 203**
Notes 3.3.-3.5	Interest debt	124 173	48 942
	Provisions	33 980	37 392
	Liabilities under construction contracts - retention	92 105	89 130
Note 2.1.	Liabilities under construction contracts - valuation	120 108	110 144
Note 7.3.	Trade and other payables	261 974	319 681
	Advances received for deliveries	7 118	-
	Short-term liabilities	**639 458**	**605 289**

ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Assets to secure debt obligations	3 804	3 909

CONSOLIDATED STATEMENT OF CASH FLOWS

	01.2017-09.2017	01.2016-09.2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) before tax	19 411	40 468
Depreciation and amortization	7 649	8 382
Profit (loss) from exchange rate differences	(1 285)	(155)
Interest and share in profit (dividends)	3 595	5 180
Other non-cash adjustments	(384)	(1 712)
Income tax paid	(14 158)	(11 062)
Change in working capital	(167 060)	(88 399)
Net cash used in operating activities	**(152 232)**	**(47 298)**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from the sale of shares in a jointly controlled entity	-	-
Proceeds from loans granted	2 013	169
Other inflows	1 289	9 551
Expenditure on acquisition of property, plant and equipment	(3 261)	(3 584)
Expenditure on the acquisition of investment properties	-	(42 962)
Expenditure on loans granted	(10 864)	(44)
Expenditure on acquisition of shares in companies	-	-
Other outflows	(1 667)	(1 763)
Net cash used in investment activities	**(12 490)**	**(38 633)**
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Proceeds from debt incurred - loans and loans	77 912	74 163
Other inflows	1 496	-
Expenditures on repayment of debt - capital	(13 913)	(57 917)
Expenditures on repayment of debt - interest	(3 853)	(7 461)
Dividend payment	(15 095)	(15 374)
Other outflows	-	(695)
Net cash used in financing activities	**46 547**	**(7 284)**
NET CASH FLOWS	**(118 175)**	**(93 215)**
Opening cash and cash equivalents	**257 273**	**222 137**
Foreign exchange differences on cash and cash equivalents	-	-
	-	-
Closing cash and cash equivalents, incl.:	**139 098**	**128 922**
- restricted cash	18 842	18 461

	30.09.2017		31.12.2016	
	PLN	EUR	PLN	EUR
Fixed assets	120 501	27 964	103 496	23 394
Current assets	876 778	203 471	843 801	190 733
Equity capital	277 128	64 312	260 805	58 952
Liabilities and provisions for liabilities	720 151	167 123	686 492	155 175

	01.2017-09.2017		01.2016-09.2016	
	PLN	EUR	PLN	EUR
Revenues from sales of products and services and of goods and materials	1 282 198	301 226	1 213 559	277 779
Cost of sold products and services and of goods and materials	1 190 181	279 608	1 127 635	258 111
Gross profit from sales	92 017	21 617	85 924	19 668
Operating profit	25 037	5 882	44 279	10 135
Gross profit from continuing operations	19 411	4 560	40 468	9 263
Net profit from continuing operations	14 903	3 501	31 623	7 238

	01.2017-09.2017		01.2016-09.2016	
	PLN	EUR	PLN	EUR
Net cash flow from operating activities	(152 232)	(35 764)	(47 298)	(10 826)
Net cash flow from investing activities	(12 490)	(2 934)	(38 633)	(8 843)
Net cash flow from financing activities	46 547	10 935	(7 284)	(1 667)
Net cash flow	(118 175)	(27 762)	(93 215)	(21 337)
Opening cash and cash equivalents	257 273	58 154	222 137	52 126
Closing cash and cash equivalents	139 098	32 280	128 922	29 898

1. GENERAL INFORMATION ---- *8*
1.1. INTRODUCTION ---- 8
1.2. BASIS OF PREPARATION ---- 9
1.3. IMPACT OF NEW STANDARDS ---- 10

2. CONSTRUCTION CONTRACTS ---- 12
2.1. RECONCILIATION OF AMOUNTS DUE TO UNFINISHED CONSTRUCTION CONTRACTS ---- 13

3. CAPITAL MANAGEMENT AND DEBT ---- 14
3.1. CAPITAL MANAGEMENT ---- 14
3.2. DIVIDENDS PAID AND DECLARED ---- 15
3.3. DEBT DUE TO LOANS AND BORROWINS ---- 15
3.4. DEBT DUE TO BONDS ISSUED ---- 16
3.5. FINANCIAL LEASE DEBT ---- 17
4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME ---- 18
4.1. SEGMENT REPORTING ---- 18
4.2. PRIME COSTS ---- 22
4.3. TAXATION ---- 23

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT ---- *25*
5.1. ASSETS AND FINANCIAL LIABILITIES ---- 25
5.1.1. FINANCIAL ASSETS – LOANS GRANTED ---- 26
5.2. DERIVATIVE FINANCIAL INSTRUMENTS ---- 26
5.3.1. CREDIT RISK ---- 27
5.3.2. MARKET RISK - INTEREST RATE RISK ---- 27
5.3.3. CREDIT RISK ---- 27
5.3.4. LIQUIDITY RISK ---- 28
6. DISCONTINUED OPERATIONS ---- 29
7. OTHER NOTES ---- 30
7.1. FIXED ASSETS IMPAIRMENT ---- 30
7.2 TRADE AND OTHER RECEIVABLES ---- 31
7.3. TRADE AND OTHER PAYABLES ---- 32
7.4. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS ---- 33
7.5. THE GROUP STRUCTURE, INVESTMENTS IN JOINT VENTURES AND TRANSACTIONS WITH RELATED PARTIES ---- 33
7.6. EVENTS AFTER THE REPORTING PERIOD ---- 35

In the Financial Statements you will see icons that represent as follow:

 Accounting policies

 Estimates

1. GENERAL INFORMATION

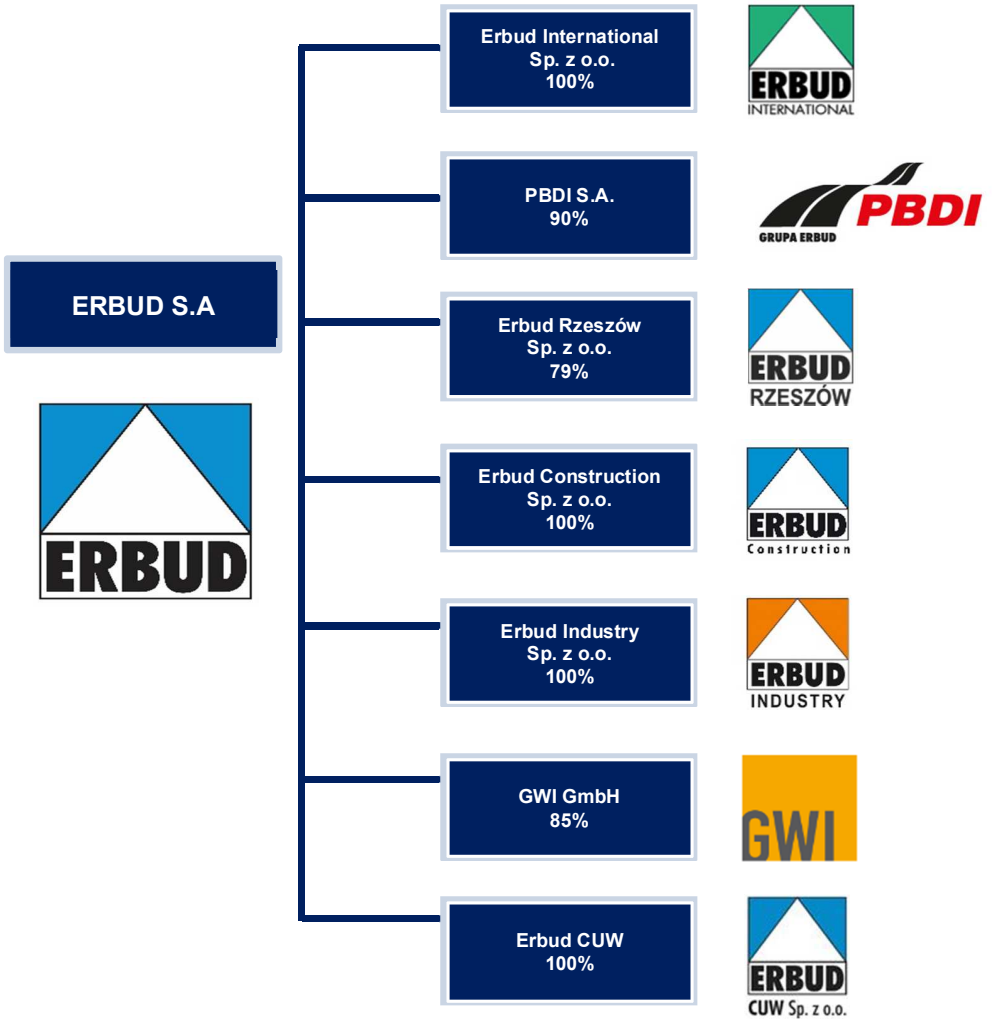
1.1. INTRODUCTION

Erbud S.A. with its registered office in Warsaw, 1 Franciszka Klimczaka Street, is the parent company (the "Parent Company") of the Erbud S.A. (the "Group").

The Parent Company was registered in the National Court Register on 29 November 2006 under the KRS number 0000268667 (District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register). Since 2007 the Parent Company has been listed on the on the Warsaw Stock Exchange and is a part of the index of construction companies WIG Budownictwo.

The core businesses of the Group are widely understood construction and installation works performed as general contractor at home and abroad. Moreover, Erbud S.A. is the management, financial and advisory centre of the Group. The Group operates on the Polish market and in other EU countries.

The duration of the Parent and entities of the Group is not definite.



The detailed structure of the Group is presented in Note 7.5.

1.2. BASIS OF PREPARATION

Statement of compliance with IFRS

The financial statements have been prepared in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34), which was endorsed by the European Union. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

The consolidated financial statements are presented in Polish Zlotys ("PLN") and all amounts are given in PLN thousand.

These condensed consolidated financial statements have been prepared as at and for the nine months ended 30 September 2017 and comparative figures as at 31 December 2016 and for the nine months ended 30 September 2016.

The financial statements have been prepared under historical cost, except for derivative financial instruments measured at fair value.

These financial statements were approved by the Management Board on 13 November 2017.

Going-concern assumption

The consolidated financial statements have been prepared on the assumption that the member companies of the Group will continue their business activity in the foreseeable future. As at the date of approval of these financial statements, there are no circumstances indicating the going-concern is at risk.

Fair value measurement

When measuring the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if the market participants take them into account when measuring assets or liabilities at the measurement date. The Group classifies fair value measurement policies using a fair value hierarchy - in accordance with IFRS 13 - reflecting the importance of the source data used to valuate.

Foreign currency translation items

Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Parent Company and the currency of presentation of the consolidated financial statements is the Polish Zloty (PLN)

Transactions in foreign currencies are recognized in the books at face value converted to PLN at the average NBP exchange rate. At the time of their realisation, exchange differences are recognized as financial income or expense.

As at the balance sheet date, assets and liabilities denominated in currencies other than Polish zloty are converted into Polish Zlotys using the average exchange rate established for the currency by the National Bank of Poland at the end of the reporting period.

Foreign exchange differences are recognized in the financial income (expense) or, in the cases specified by accounting principles (policies), capitalized as assets. Non-monetary assets and liabilities recognized at historical cost expressed in foreign currency are stated at the historical exchange rate of the transaction date. Non-monetary assets and liabilities recognized at fair value that are expressed in foreign currency are translated at the exchange rate from the date of measurement to fair value.

As of the balance sheet date, assets and liabilities of foreign entities are translated into the Group's presentation currency as follows:

- assets and liabilities are translated at the closing rate applicable at the balance sheet date,
- revenues and expenses are converted at the average exchange rate (unless the conversion at the average exchange rate would deviate significantly from the value as at the exchange rate applicable at the date of the transaction).

Foreign exchange differences arising from translation of foreign entities are recognized in equity as accumulated other comprehensive income - exchange differences on translation of foreign entities. At the time of disposal of a foreign entity, accumulated deferred foreign exchange differences recognized in equity related to the foreign entity are recognized in the profit and loss account.

1.3. IMPACT OF NEW STANDARDS

Applied new and revised standards and interpretations

The following new and amended standards and interpretations that entered into force on 1 January 2016 were applied in the consolidated financial statements for the first time:

Annual Improvements to IFRSs 2010–2012

The International Accounting Standards Board published in December 2013 "Annual Improvements to IFRSs 2010–2012" amending seven standards. The amendments include changes in presentation, recognition and measurement, and include changes to terminology and wording. The Group will primarily focus on the change in IFRS 8, i.e. the requirement to disclose judgments regarding the similarity of economic criteria for aggregation of segments.

Amendments to IAS 1

In December 2014, as part of works related to the so-called disclosure initiative, the International Accounting Standards Board issued an amendment to IAS 1. The purpose of the revised amendment is to clarify the materiality concept and to explain that when an entity considers the information as insignificant, it should not disclose it even if such disclosure is, in principle, required by another IFRS. The amended to IAS 1 clarifies that items presented in the statement of financial position, the statement of loss and profit and other comprehensive income may be aggregated or disaggregated depending on their materiality. The amendment also provides additional guidelines concerning the presentation of subtotals in these statements.

These amendments did not have a material impact on the Group's financial statements except for amendments to IAS 1, the application of which resulted in changes in the method of aggregation and presentation of selected items and scope of disclosures related to these items in the financial statements for 2017 as compared to the financial statements for 2016. In accordance with the transitional provisions of IAS 1, the Group is not obliged to publish disclosures as regards changes described above.

Published standards and interpretations that are not yet in force and have not been applied by the Group

The Group did not decide to use in these consolidated financial statements any issued standards, interpretations or amendments to existing standards regarding the Group's activities before the effective date. The Group analysed the impact of all standards mentioned in the in last sentence, with particular emphasis on the following new standards.

IFRS 9 "Financial Instruments"	
The standard introduces a single classification approach providing only two categories for all financial assets: measurement at fair value and at amortized cost. Classification is performed on initial recognition and is subject to the financial asset management model adopted by the entity and the characteristics of contractual cash flows from those instruments. IFRS 9 introduces a new expected credit losses impairment model.	Date of entry into force: January 1, 2018. The Group will apply IFRS 9 from January1, 2018. In the Group's opinion, the main impact of applying the new standard will be mainly due to the estimation of write-offs based on the model of expected losses. At the moment, the Management Board estimates the change in impairment loss recognized to date. The Management Board intends to complete the analysis of the impact of this standard on the Group by the end of the year.

IFRS 15 " Revenue from Contracts with Customers" and Explanatory Notes to IFRS 15	
The principles set out in IFRS 15 will apply to all revenue-generating contracts. The core principle of the new standard is the recognition of revenue at the time of transferring goods or services to the customer, at transaction price. All goods or services sold in bundles that can be made distinct within a bundle should be accounted for separately. In case, the revenue amount is of variable consideration, the variable amounts are classified as revenue according to the new standard, only to the extent that it is highly probable that a reversal in the amount of revenue recognised will not occur in the future as a result of revaluation. Clarifications to IFRS 15 provide additional information and explanations regarding the major assumptions adopted in IFRS. In addition to the additional explanations, there have also been introduced exemptions and simplifications for entities applying the new standard for the first time.	Date of entry into force: January 1, 2018. The Group will apply IFRS 15 and Explanation to IFRS 15 from January 1, 2018. Basing on preliminary analyses, the Group expects that the impact of the new standard may be significant mainly in the area of variable remuneration, extended warranties, identification of multi-component contracts obligations and merger of negotiated contracts. The Management Board intends to complete the analysis of the impact of this standard on the Group by the end of the year.

IFRS 16 "Leases"	
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in obtaining by a lessee the right to use an asset, and the obligation to pay. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model for a lessee.	Date of entry into force: January 1, 2019. As at the date of preparation of these consolidated financial statements, this amend has not yet been approved by the European Union. The Group will apply IFRS 16 after the approval by the EU. Basing on preliminary analyses, the Group expects that the majority of space rental agreements (mainly offices) concluded for periods of over 12 months, treated under IAS 17 as operating leases, will be recognized as required by IFRS 16 as assets and as liabilities in the statement of financial position. The Management Board is in the course of analysing the impact of the standard on the Group.

Other standards and interpretations that have been issued but are yet not binding, do not apply to the Group's activities.

2. CONSTRUCTION CONTRACTS

Contracts for the delivery of construction projects, mainly for blocks of flats (including whole housing estates), hotels, SPA facilities, shopping centres, wind farms, power plants, production halls and motorways are signed by the Group at fixed prices.

Revenues and expenditures due to construction contracts are recognized by the Group in accordance with the works progress method. Determining the stage of completion, the Group applies the method of progress rate, i.e. it values revenues and costs from and of construction contracts in the period from the date of concluding a contract to the balance sheet date in proportion to the stage of completion based on the measurement of works performed. From the amounts thus received, the Group deducts the revenues and expenses that have affected the financial result in the previous years, generating incomes and costs for the current period arising from construction contracts.

If it is not possible to estimate the financial result of a construction contract in a reliable manner (i.e. the rate of performance of a non-completed delivery cannot be reliably established at the balance sheet date), then the revenues are recognized only and exclusively up to the level of costs incurred, which are likely to be recovered, whereas the contract costs are carried as expenditures of the period in which in which they were incurred.

The resulting credit of the valuation (i.e. the determination of revenues and costs by the method of progress) is accounted for as "Receivables (or Liabilities) under construction contracts - measurement".

Invoicing of works under construction contracts is made in accordance with the schedule specified in the contract. The invoiced income is recognized in "Trade and other receivables" (Note 7.4). Counterparties under construction contracts signed with the Group retain a part of the payments as performance bond. These amounts are included in "Construction Contracts - Retention" and are repayable most often after the project has been completed or after the expiry of the warranty period.

The Group uses subcontractors to carry out works under construction contracts. The invoiced costs for their hiring are recognized as "Trade and other liabilities" (Note 7.3). The Group retains as the performance bond a part of its payments due to the subcontractors, which are recognized under "Liabilities under construction contracts - Retention".

Due to the carrying out of construction contracts and the difference in recognising income and expenses for accounting and tax purposes, the deferred income tax assets and liabilities are accounted for in the statement of financial position - see Note 4.3.

2. CONSTRUCTION CONTRACTS

The use of the stage of completion method for recognizing income from and expenses for construction contracts requires estimation of the progress of works, i.e. the measurement of works performed at the balance sheet date in relation to the entire work envisaged in the contract.

Physical measurement, which is a basis to determine the stage of contract completion, is made by site workers. The measurement is performed separately for particular range of works, i.e. elements or stages of the contract, according to assigned meters (mainly sqm, kg and pcs).

There are adequate control processes in the Group to ensure that the calculation of recognized revenue and expenses is based on current and reliable estimates of the measurement, subject to verification and acceptance by the person designated for this purpose. The measurement of works performed made by the site staff is verified by the director of the branch office to which the site is subordinated, and subsequently by the internal audit unit of the Group

The Group keeps records of completed projects – building contracts within the internal system used for project management. Information about a contract, including the progress of works, is entered into the system by the contract/site manager, and then approved by the branch director, to whom the site is subordinated.

The budgets of individual contracts are formally updated during the year, based on current information throughout the year and they are approved by the Management Board. If any events that have material impact on the contract outcome have occurred between official budget revisions, the value of total revenues or costs of the contract is updated on an ongoing basis, i.e. the changes in the scope of the contract are reflected in the internal system of the Group as soon as they has been negotiated by the Group with a customer.

2.1. RECONCILIATION OF AMOUNTS DUE TO UNFINISHED CONSTRUCTION CONTRACTS

	30.09.2017	31.12.2016
YTD income from construction contracts	990 087	976 106
YTD amounts invoiced to customers	914 677	951 419
Balance of settlements under construction contracts - revenue	**75 410**	**24 687**
of which:		
(1) Receivables for completed but not yet invoiced construction works	128 424	78 485
(2) Liabilities due to invoiced unfinished construction works	53 014	53 798
YTD costs due to construction contracts	883 676	909 606
	305	373
YTD costs invoiced by customers	874 399	902 375
Balance of settlements under construction contracts - costs	**(9 277)**	**(7 231)**
of which:		
(3) Receivables for invoiced unfinished construction works	57 817	49 115
(4) Liabilities due to completed but not yet invoiced construction works	67 094	56 346
	-	-
Balance of settlements under construction contracts	**66 133**	**17 456**
of which:		
Receivables under construction contracts – valuation [(1)+(3)]	186 241	127 600
Liabilities under construction contracts – valuation [(2)+(4)]	120 108	110 144

3. CAPITAL MANAGEMENT AND DEBT

3.1. CAPITAL MANAGEMENT

The share capital comprises ordinary shares and is carried at nominal value (according to the Articles of Association of the Parent Company and an entry into the National Court Register).

Share premium is the amount equal to the surplus of price for acquisition of shares in Parent Company above their nominal value. It is recognized in "Reserve capital from the sale of shares above their nominal value.

Other reserve capitals are created mainly from the previous years' earnings, including amounts obligatory transferred to reserve capital in accordance with the requirements of the Code of Commercial Companies.

Equity attributable to the non-controlling interests represents a part of equities of fully consolidated subsidiaries which is owned by shareholders other than the entities that are Group members.

Net financial performance of subsidiaries partially owned by the stakeholders other than members of the Group represents profit (loss) of the non-controlling interests.

The supplementary capital is created in accordance with the provisions of the Commercial Companies Code and the decisions of the shareholders. Pursuant to the Commercial Companies Code, to cover losses, it should be established a supplementary capital, which will be supported by at least 8% of the profit for the financial year, as long as the capital will reach at least one-third of the nominal capital. Capital created in such manner shall not be distributed. The decision about using the supplementary and reserve capital is taken by the Annual General Meeting; however, a part of the capital may be used only to cover the losses shown in the financial statements and shall not be allocated for other purposes.

The main objective of the Group's capital management is to maintain a good credit rating and secure capital ratios, which would support the operational activities of the Group and maximize its goodwill.

The capital structure is managed by the Group and adjusted as a result of changes in economic conditions. In order to maintain or correct the capital structure, the Group may respectively pay dividends to shareholders or issue new shares.

Share capital

The share capital as of 30 September 2017 consisted of 12,811,859 shares with a total value of PLN 1 281 thousand, and the shareholding structure was as follows:

Shareholder	Number of shares	Equity percentage
Wolff & Muller Holding GmbH & Co.KG	4 152 865	32.41%
DGI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych controlled by Dariusz Grzeszczak	2 136 260	16.67%
NATIONALE - NEDERLANDEN Powszechne Towarzystwo Emerytalne S.A (formerly ING PTE)	1 200 000	9.37%
AVIVA Otwarty Fundusz Emerytalny BZ WBK	1 183 146	9.23%
Dariusz Grzeszczak	773 900	6.04%
PKO OFE	715 279	5.58%
Adler Properties Sp. z o.o controlled by Józef Zubelewicz	412 087	3.22%
Józef Zubelewicz	259 500	2.03%
Free Float	1 978 822	15.45%
Total	**12 811 859**	**100.00%**

3. CAPITAL MANAGEMENT AND DEBT

The Company's Articles of Association do not grant to the above mentioned shareholders any personal rights in relation to Erbud S.A., in particular, do not give the right to appoint members neither of the Management Board nor the Supervisory Board of Erbud.

The number of shares constituting the authorized capital is equal to the number of shares issued. Nominal value per share is PLN 0.10. No shares have been reserved for issuance under the sale option. All issued shares are ordinary and non-preference ones. There are neither restrictions on the rights to the shares nor restrictions on the transferability of shares.

3.2. DIVIDENDS PAID AND DECLARED

In accordance with Resolution No. 3 of the Extraordinary General Meeting of ERBUD S.A. dated 22 December 2016 the extraordinary dividend has been paid to the Shareholders on 23 January 2017.

For the dividend for shareholders was allocated an amount of PLN 14,989,875.03, coming from the existing Company's supplementary capital, created from profits generated in previous years.

The payment of the Extraordinary Dividend pursued by the reduction (partial release) of the Company's supplementary capital in part resulting from the Company's profits achieved in previous years by the amount of PLN 14,989,875.03.

Profit allocated for the payment by way of the dividend amounted to PLN 1.17 per each share entitling to participate in the dividend. To the dividend were entitled 12,811,859 shares.

According to Resolution No. 3 of the Extraordinary General Meeting of Shareholders of Erbud S.A. dated 22 December 2016, the list of shareholders entitled to the extraordinary dividend has been set at 9 January 2017.

As at the date of preparation of the statements, the dividend was paid.

3.3. DEBT DUE TO LOANS AND BORROWINS

Debt on loans and borrowings is recognized initially at fair value, less transaction costs. At each balance sheet date, these items are measured at amortized cost using the effective interest rate.

	30.09.2017	31.12.2016
Long-term		
Bank loans	5 176	8 002
Short-term		
Overdrafts	73 016	31 300
Bank loans	41 637	12 616
Borrowings	-	-
	114 653	43 916
Total debt due to loans and borrowings	**119 829**	**51 918**

3. CAPITAL MANAGEMENT AND DEBT

3.4. DEBT DUE TO BONDS ISSUED

Liabilities arising from bonds issued are initially recognized at fair value less transaction costs. At each balance sheet date, the liability is measured at amortized cost using the effective interest rate.

As at the balance sheet date, the Group had the following indebtedness due to issued bonds, wholly constituting short-term liabilities:

Issue date	Type of bonds issued	Currency (functional / foreign)	Interest	Maturity date	Purpose of obtaining funding	Nominal value of the issue	Debt balance as at 30 September	
							2017	2016
26-03-2014	B-series bearer, dematerialized, unsecured	functional	WIBOR 6M+ 3% margin	26-03-2018	financing increased working capital demand	10	3 950	52 000
27-09-2017	C-series bearer, dematerialized, unsecured	functional	WIBOR 6M+ 3% margin	27-09-2021	financing increased working capital demand	1	52 000	-
			Total current and non-current liabilities			11	**55 950**	**52 000**
			Liability for accrued interest disclosed under "Trade and other liabilities""			-	-	846

3. CAPITAL MANAGEMENT AND DEBT

3.5. FINANCIAL LEASE DEBT

Leases are classified as finance leases if all the risks and rewards of ownership of the leased asset are transferred substantially to the lessee. Finance lease contracts are initially recognized at the lower of the value: the fair value of the leased asset or the current value of the minimum lease payments.

Fixed assets used under financial lease agreements are amortized according to the principles used by the Group for its assets. If there is no reliable assurance that the Group will receive a property right after the lease is finished, the assets are amortized over the period which is shorter: the lease term or the useful life period.

		30.09.2017	31.12.2016
Period		**Nominal value of minimum fees**	**Nominal value of minimum fees**
Less than 1 year	Current	5 888	5 405
1 - 5 years	Non-current	6 277	5 799
		12 165	**11 204**
Discount		447	522
Current value of minimum fees		**11 718**	**10 682**

Information on debts related to loans and borrowings is included in Note 3.3.

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.1. SEGMENT REPORTING

On the basis of the management reporting presented to the chief operating decision maker (i.e. the Management Board of the Parent), the Group identified five key reporting segments:

- building construction at home;
- building construction abroad;
- road-engineering;
- industrial construction;
- other segments.

In 2017 the following changes were made to the segment reporting:

- Dividing the reporting segment "Building construction" into two separate segments: "Building construction at home " and "Building construction abroad ". These changes are due to the growing importance of building construction abroad from the point of view of the Group's activity.
- The real estate development, which in 2016 still met the operating segment criteria, was classified as a discontinued operation. Figures on this activity are still reported under segment reporting, but are excluded from the total of continuing business operations.

The division of activity into segments has been made by the classification of the individual Group companies according to their business profile arising from the articles of association and their importance for the segment. Such a division corresponds to the distribution of the principal risks and returns of expenditures incurred.

Financial figures the for management reporting purposes that are the basis of data on the reporting segments are prepared on the same accounting policies as used when drawing up of the consolidated financial statements of the Group. Transactions between segments are made on market terms

The Management Board analyses the segment performance using key efficiency indicators such as EBIT, EBIT margin, and EBITDA. It should be noted that these are not indicators defined in IFRSs and are not standardized measurements, so the methods of calculating them may vary between different entities on the market. The Group defines EBIT as gross profit plus financial expenses and less financial income. The EBIT margin is defined as the ratio of EBIT to sales revenue expressed as a percentage. EBITDA is defined as EBIT plus amortisation and depreciation over the period.

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Reporting segment	Segment activity range	Operating segments aggregated in the reporting segment	Conditions for aggregation of operating segments into reporting segments
Building construction at home	Construction of residential, office and public buildings in Poland	The operating segment consists of individual companies: the Parent Company Erbud S.A., Erbud International Sp. z o.o., Erbud Rzeszów Sp. z o.o. In addition, to the segment is allocated a part of operations of the Parent Company Erbud S.A. related to the acquisition of contracts executed by its subsidiaries on the basis of specifically identifiable actual revenue generated and costs incurred for the segment.	Operating segments were aggregated on the basis of similarity of: - long-term average gross margins; - products and services offered by the companies; - production processes; - distribution methods; - customers.
Building construction abroad	Construction of residential, office and public buildings abroad (mainly in Germany and Belgium)	The subsidiary GWI GmbH is the operating segment. In addition, to the segment is allocated a part of operations of the Parent Company Erbud S.A. related to the acquisition of contracts executed by its subsidiaries on the basis of specifically identifiable actual revenue generated and costs incurred for the segment, and part of operations of Erbud International Sp. z o.o. according to the same rules as stated with respect to the Parent Company Erbud S.A.	Not aggregated
Road-engineering	Construction of roads and wind farms	The subsidiary PBDI S.A.is the operating segment.	Not aggregated
Industrial construction	Industrial projects in the broadly understood industrial sector	The operating segment consists of the whole Erbud Industry Group formed by: Erbud Industry 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. In addition, to the segment is allocated a part of operations of the Parent Company Erbud S.A. according to the same rules as given for the segment "Building construction abroad".	Not aggregated
Other segments	Broadly understood support services	Erbud CUW Sp. z o.o. is the operating segment.	Not aggregated

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Key information about segments for reporting periods 01.2017 - 09.2017 and 01.2016 - 09.2016

The Group operates in Poland and abroad (in Germany and Belgium). Revenues from external customers and assets in any country outside Poland are not significant, so they have been aggregated together and shown as "Abroad".

	01.2017-09.2017			01.2016-09.2016		
	At home (Poland)	Abroad	Total	At home (Poland)	Abroad	Total
Sales to external customers, including::	1 135 938	146 260	**1 282 198**	1 041 136	172 423	**1 213 559**
Revenue from construction contracts	1 070 174	144 466	**1 214 640**	963 550	170 607	**1 134 157**
Revenue from other contracts – industry	43 421	1 057	**44 478**	67 066	1 816	**68 882**
Other revenue	22 343	737	**23 080**	10 520	-	**10 520**
Non-current assets other than financial instruments and deferred tax assets	73 729	2 691	**76 420**	71 444	2 458	**73 902**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Figures on income and profit as well as assets and liabilities of each reporting segment are presented in the table below.

						01.2017-09.2017
	Building construction at home	Building construction abroad	Road-engineering	Industrial construction	Other segments	Total continuing operations
Total income						
Intersegment sales	-	-	(57 019)	(43 991)	(8 290)	**(109 300)**
Sale to external clients	897 637	145 202	130 039	210 239	8 381	**1 391 498**
Total sales	**897 637**	**145 202**	**73 020**	**166 248**	**91**	**1 282 198**
Segment results and reconciliation to gross profit of the Group before discontinued operations						
Prime costs	841 887	136 131	62 544	149 619	-	**1 190 181**
Result on other operating activity	(36 500)	(7 736)	(7 423)	(15 507)	186	**(66 980)**
Segment result – EBIT	**19 250**	**1 335**	**3 053**	**1 122**	**277**	**25 037**
EBIT margin	2.00%	1.00%	2.00%	1.00%	3.00%	**2.00%**
Result on financial activity	(4 650)	(442)	297	(840)	9	**(5 626)**
Result before tax excluding discontinued operations	**14 600**	**893**	**3 350**	**282**	**286**	**19 411**
Income tax	3 499	8	743	104	154	**4 508**
Net result excluding discontinued operations	**11 101**	**885**	**2 607**	**178**	**132**	**14 903**
Depreciation and amortization	1 690	575	2 104	2 800	480	**7 649**
Segment result – EBITDA	**20 940**	**1 910**	**5 157**	**3 922**	**757**	**32 686**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

						01.2016-09.2016	
	Building construction at home	Building construction abroad	Road-engineering	Industrial construction	Other segments	Total continuing operations	Housing development - operations discontinued in 2016
Total income							
Intersegment sales	-	-	-	(62 040)	-	**(62 040)**	-
Sale to external clients	753 210	199 382	98 186	224 821	-	**1 275 599**	58 773
Total sales	**753 210**	**199 382**	**98 186**	**162 781**	**-**	**1 213 559**	**58 773**
Segment results and reconciliation to gross profit of the Group before discontinued operations							
Prime costs	702 609	187 349	87 434	150 243	-	**1 127 635**	89 554
Result on other operating activity	(29 557)	7 416	(5 137)	(14 367)	-	**(41 645)**	(182)
Segment result – EBIT	**21 044**	**19 449**	**5 615**	**(1 829)**	**-**	**44 279**	**(30 963)**
EBIT margin	3.00%	10.00%	6.00%	-1.00%	0.00%	**3.00%**	-53.00%
Result on financial activity	(2 514)	(728)	267	(836)	-	**(3 811)**	(531)
Result before tax excluding discontinued operations	**18 530**	**18 721**	**5 882**	**(2 665)**	**-**	**40 468**	**(31 494)**
Income tax	712	6 506	1 395	232	-	**8 845**	1 040
Net result excluding discontinued operations	**17 818**	**12 215**	**4 487**	**(2 897)**	**-**	**31 623**	**(32 534)**
Depreciation and amortization	2 121	551	2 127	2 753	-	**7 552**	-
Segment result – EBITDA	**23 165**	**20 000**	**7 742**	**924**	**-**	**51 831**	**(30 963)**

4.2. PRIME COSTS

	For the nine months ended 30-09-2017	For the nine months ended 30-09-2016	For the three months ended 30-09-2017	For the three months ended 30-09-2016
External services	810 722	817 356	310 152	282 473
Materials and power	243 912	180 465	105 807	57 224
Costs of employee benefits	174 383	160 087	59 251	54 140
Amortization and depreciation	7 649	7 552	2 344	2 065
Taxes and fees	6 573	7 398	2 384	2 662
Other costs	12 799	13 855	3 970	4 171
Value of goods and materials sold	2 817	1 675	1 230	518
Total costs by natural classification	**1 258 855**	**1 188 388**	**485 138**	**403 253**
Change in products, work-in-progress and accruals related to construction contracts	1 329	1 471	11 153	12 548
Sales cost (negative value)	(3 941)	(4 011)	(1 224)	(1 144)
Overheads (negative value)	(66 062)	(58 213)	(20 739)	(19 100)
Total manufacturing cost of goods sold	**1 190 181**	**1 127 635**	**474 328**	**395 557**

4.3. TAXATION

The financial performance is compulsory taxable. Income tax consists of two components: current tax and deferred tax.

Due to temporary differences between the book value of assets and liabilities and their taxable value and future deductible tax loss, the Group companies using the balance sheet method create deferred tax liabilities in respect of positive temporary differences and determinate deferred tax assets in respect of foreign exchange losses and deductible tax losses using the precautionary principle

Liabilities and deferred tax assets are not recognized in the case of temporary differences arising on initial recognition of an asset or liability in a non-merger transaction and at the time of conducting transactions that have no impact on the accounting or tax result.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off tax receivables and current tax liabilities and if the deferred tax relates to the tax imposed by the same tax authority on the same taxpayer. This means that deferred tax assets and liabilities are subject to compensation within individual companies of the Group.

The Group recognizes a deferred tax asset based on the assumption that in the future taxable profits will be available against which the deferred tax asset can be utilised.

The balance sheet value of the deferred tax asset is verified at each balancing date and is reduced accordingly by as much as it probability dropped to reach taxable income sufficient for partial or total utilisation of the deferred tax asset.

The reconciliation of effective income tax rates is presented in the table below:

	01.2017-09.2017	01.2016-09.2016
Gross profit before tax from continuing operations	**19 411**	**40 468**
Tax at the statutory tax rate applicable in Poland - 19%	**3 688**	**7 689**
Additional tax arising from the rate exceeding 19% in Germany	3	1 770
Adjustments to current income tax from previous years	(3)	-
Surplus of non-deductible expenses over income not recognised as taxable income	820	(614)
Tax recognized in the consolidated profit and loss statement, including:	**4 508**	**8 845**
Current income	17 925	10 586
Deferred income	(13 417)	(1 741)
Effective tax rate	**23.22%**	**21.86%**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

The table below presents changes in deferred tax assets and liabilities in the financial year:

			Impact on			Impact on		
		01.01.2016	Net earnings	Other comprehensive income	31.12. 2016	Net earnings	Other comprehensive income	30.09.2017
	Deferred tax assets							
Note 2.3.	Valuation of receivables from construction contracts	23 630	(284)	-	23 346	3 922	-	27 268
Note 7.10.	Provisions	6 364	(900)	-	5 464	593	-	6 057
	Tax loss	1 340	(411)	-	929	-	-	929
	Margin on intra-Group sales	938	(938)	-	-	-	-	-
	Accrued remuneration and charges	702	(274)	-	428	62	-	490
Note 7.8.	Impairment losses on receivables	1 484	(19)	-	1 465	178	-	1 643
	Other financial liabilities	1 582	(226)	-	1 356	57	-	1 413
	Accrued expenses	1 724	(1 153)	-	571	2 512	-	3 083
	Other	1 236	5 098	-	6 334	14 536	414	21 284
	Total	**39 000**	**893**	**-**	**39 893**	**21 860**	**414**	**62 167**
	Deferred tax liabilities							
	Valuation of liabilities due to construction contracts	24 615	(2 919)	-	21 696	8 809	-	30 505
	Revaluation of assets	7 253	(5 169)	-	2 084	(87)	-	1 997
	Capitalised finance costs	312	(312)	-	-	-	-	-
	Balance sheet valuation and liabilities discount	594	(484)	-	110	21	-	131
	Accrued interest on debt	-	151	-	151	(3)	-	148
	Accrued revenue	-	-	-	-	(2)	-	(2)
	Other	1 858	(410)	-	1 448	(295)	274	1 427
	Total	**34 632**	**(9 143)**	**-**	**25 489**	**8 443**	**274**	**34 206**
	Set-off between assets and liabilities	4 368			14 404			27 961
	After sett-off	**73 632**			**19 654**			**34 291**
	Assets	39 000			17 029			31 126
	Liabilities	34 632			2 625			3 165
	Net impact of changes in the period		**10 033**	**-**		**13 417**	**140**	

In the year ended 30 September 2017 and 31 December 2016, there were no negative temporary differences from which deferred tax assets were recognized.

Information on receivables and payables due to income tax is presented in Notes 7.2 and 7.3.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.1. ASSETS AND FINANCIAL LIABILITIES

The Group has the following categories of financial instruments:

- Loans and receivables;
- Financial liabilities measured at amortized cost;
- Derivative instruments designated as hedging instruments in hedge accounting

Loans and receivables mainly include:

Note 5.1.1.	Financial assets - loans granted:
	Receivables under construction contracts – retention money
Note 7.2.	Trade and other receivables
Note 2.1.	Receivables from construction contracts - valuation
	Cash and cash equivalents

Financial liabilities measured at amortized cost mainly include:

	Liabilities under construction contracts – retention money
Note 2.1.	Liabilities under construction contracts – valuation
Note 7.3.	Trade and other liabilities
Notes 3.3. –3.5.	Debt

Derivative instruments designated as hedging instruments in hedge accounting relate to derivative financial instruments in respect of which the Group applies hedge accounting (Note 5.2).

The accounting policies for the above items are set out in the Explanatory Notes according to the above reference.

5.1.1. FINANCIAL ASSETS – LOANS GRANTED

Loans are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost after deducting impairment loss.

The impairment loss on loans granted is equal to the difference between the carrying amount of these receivables and the present value of the estimated future cash flows discounted at the original effective interest rate (i.e. the initial interest rate)..

With respect of loans granted, no impairment loss has been recognized. As at the balance sheet date loans are not overdue. Loans are exposed to credit risk and interest rate risk as described accordingly.

5.2. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments held by the Group are hedging instruments within the cash flow hedge accounting applied by the Group.

The Group hedges cash flows arising from loans granted by the Group and proceeds from construction contracts concluded with customers. Changes in the fair value of derivative financial instruments in the portion constituting effective hedge are recognised directly in revaluation reserve. The ineffective portion is recognized in the profit or loss statement as financial income or financial expense. During the period when the item hedged by a derivative financial instrument affects the financial result, also the amount relating to that instrument previously recognized in other comprehensive income statement is transferred to profit or loss statement.

Concluded agreements on derivative instruments are used to reduce the Group's exposure to currency risk. Further information on currency risk management is provided in Note 5.3.1.

In addition, derivative instruments that are an asset expose the Group to credit risk. As at the balance sheet date and the comparative period, there were no significant derivative instruments accounted for as assets.

Derivative financial instruments held by the Group, i.e. forward contracts, are measured at fair value and classified as Level 2 in the fair value hierarchy, i.e. they are measured on the basis of observable inputs other than quoted prices. **Prospective hedge effectiveness testing** is performed for the measurement: the "**dollar-offset method**" was applied using a hypothetical derivative. For the purpose of a prospective test there are used **historical market rates** of exchange rates and interest rates on twelve monthly dates prior to the balance sheet day. For each of the above 12 historical dates, the cumulative change in fair value of the hypothetical derivative instrument is calculated and compared with the cumulative change in fair value of the hedging instrument. **Retrospective hedge effectiveness testing:** the "dollar offset method" is applied when using the hypothetical derivative instrument. In this test the ratio of the cumulative change in the fair value of the hedging instrument to the cumulative changes in the hypothetical derivative instrument is measured.

Changes in the fair value of financial derivatives designated to hedge cash flows in part that constitutes effective hedging is recognised directly in revaluation reserve. Changes in the fair value of derivative financial instruments designated to hedge cash flows that not constitute effective hedging are accounted for as other financial income or expenses of the reporting period.

At the time the hedging is established, the Company formally identifies and documents the hedging relationship as well as the risk management objective and strategy for establishing hedging. This documentation includes: (i) identification of the hedging instrument; (ii) identification of the hedged item or transaction, (iii) determination of the nature of the hedged risk; and (iv) determination of the hedging instrument's effectiveness in offsetting the risk of changes in the fair value of the hedged item or cash flows associated with the hedged risk.

As at the balance sheet date, cash flow hedging was highly effective. It is also expected that the hedge will be highly effective in offsetting changes in fair value or cash flows arising from hedged risks. The effectiveness of the hedge is assessed on a regular basis to check if it is highly effective in all the reporting periods for which it has been established.

5.3. FINANCIAL RISK MANAGEMENT POLICY

In the course of conducting its business, the Erbud Group is exposed to various types of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management Board of the Parent Company is responsible for establishing the management rules for the above-mentioned risks and their verification.

5.3.1.CREDIT RISK

As a part of their core business, the member companies of the Group conclude construction contracts, which are denominated in Euro. Policy of currency risk management adopted by the Management Board consists in matching the contract currency to the expenditure currency related to this contract. Contracts carried out in Poland are concluded by the Group in the Polish currency (Polish Zlotys) and contracts executed by the companies and entities operating abroad are signed in Euros.

As regards receivables and liabilities arising from construction contracts for which payments will be made in EUR and with respect to loans denominated in EUR, the Group applies Euro forward agreements hedging under hedge accounting.

5.3.2.MARKET RISK - INTEREST RATE RISK

The risk of Interest rate is mainly due to the Group's use of debts, i.e. bank loans and borrowings (Note 3.3.), issued bonds (Note 3.4.) and financial leases (Note 3.5.).

In addition, the Group invests surplus cash partly in variable interest investments (deposits) and grants loans at variable interest rates

Assets and liabilities at variable interest rates expose the Group to the risk of changes in cash flows, while at fixed rate - to the risk of a change in its fair value; however, due to the fact that the Group does not measure these items to fair value, the impact is not reflected in the financial statements.

The Group monitors the exposure to interest rate risk and forecasts interest rates.

5.3.3.CREDIT RISK

Cash and cash equivalents

The Group minimizes the credit risk associated with cash and cash equivalents by diversifying the banks with which the deposit transactions are made. The Group cooperates only with high credibility financial institutions.

Trade receivables and receivables under construction contracts

In order to protect against credit risk arising from receivables related to the performance of construction contracts (i.e. trade receivables, receivables due to construction contracts – retention money and measurement of construction contracts), the Group applies the credit risk assessment and verification policy related to all contracts, both at the before-offer and in-progress stages. Before signing a contract, each customer is appraised for the possibility of meeting its financial obligations. In the event of a negative assessment of the contracting partner's payment capacity, the establishment of appropriate financial collaterals or asset based securities decides whether the agreement is entered into. Moreover, the conditions of agreements with customers provide for the right to suspend the performance of works, in case of any delay in payment for services rendered. Where possible, contractual clauses that make payments to subcontractors dependent on the investor's payment are inserted into contracts.

There is no concentration of credit risk In the Group related to trade receivables and receivables under construction contracts - retention money and measurement of construction contracts.

Changes in impairment allowance and age structure of overdue receivables are presented in Note 7.2.

5.3.4.LIQUIDITY RISK

In order to mitigate liquidity risk, the Group keeps adequate cash and transferable securities and also concludes credit facility agreements that are additional liquidity security. For financing investment purchases, the Group uses its own funds or long-term finance leases, ensuring adequate funding structure for this type of asset.

The Group applies a policy that limits credit exposure to individual financial institutions and issuers of debt securities that are acquired as part of investing periodic cash surpluses.

Liquidity management is supported by the Group's liquidity forecast reporting system.

6. DISCONTINUED OPERATIONS

In 2016, the subsidiaries of Budlex were sold. As a result, the discontinued operations occurred within the meaning of IFRS 5 with respect to the housing development activities carried out by the Group so far.

The table below details the net result of discontinued operations..

	For the nine months ended 30-09-2017	For the nine months ended 30-09-2016	For the three months ended 30-09-2017	For the three months ended 30-09-2016
DISCONTINUED OPERATIONS				
Revenues from sales	-	58 773	-	18 708
Prime costs	-	89 554	-	15 483
Costs of sale	-	1 719	-	501
General and administrative expense	-	507	-	438
Other operation income	-	2 171	-	1 836
Other operating cost	-	127	-	4
Result on jointly controlled entities	-	-	-	-
Financial income	-	750	-	271
Financial costs	-	1 281	-	280
Result before tax	**-**	**(31 494)**	**-**	**4 109**
Income tax	-	1 040	-	910
Net result from discontinued operations	**-**	**(32 534)**	**-**	**3 199**

The following figures in the consolidated cash flow statement relate to discontinued operations:

	For the nine months ended 30-09-2017	For the nine months ended 30-09-2016
Net cash flow from operating activities	-	368
Net cash flow from investing activities	-	1 613
Net cash flow from financing activities	-	(21 955)
Total net cash flow from discontinued operations	**-**	**(19 974)**

7. OTHER NOTES

7.1. FIXED ASSETS IMPAIRMENT

The Group performs impairment tests for fixed assets if there are indications of impairment and additionally at least once a year for goodwill. The recoverable value is determined at the lowest possible level, i.e. for an individual asset or at the level of a cash-generating unit to which the asset belongs.

Assets impairment

As at each balance sheet date, it is assessed whether there is objective indication that the asset or group of property, plant and equipment may be impaired. If any such indication exists, the Group determinates the estimated recoverable amount of the asset (recoverable amount) and the impairment loss equal to the difference between the recoverable amount and the carrying amount is recognised. The recoverable amount is defined as the higher of fair value less costs to sell and its value-in-use. As at each balance sheet date, the Group also assesses whether there is any indication that the impairment loss recognized in previous periods should be reduced or reversed.

Impairment of goodwill

Goodwill is tested for impairment at least once a year. Any impairment is recognized immediately as a goodwill reduction and is accounted for in the profit and loss statement, and not reversed in subsequent reporting periods.

For the purpose of performing a test for possible impairment, goodwill is allocated to cash-generating units. In case of disposing of an operation within the cash-generating unit to which goodwill has been allocated, the goodwill associated with the operation disposed of is included in the carrying amount when determining the gain or loss on disposal.

The goodwill impairment test, which was performed as at 31 December 2016, did not identify, that there is a need for recognising an impairment loss.

7. OTHER NOTES

7.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables of the Group include mainly trade receivables from unrelated parties (first of all due to invoices issued for the carrying out of construction contracts by the Group) and receivables from the state budget, including receivables due to corporate income tax and VAT.

Trade receivables, whose maturity is usually between 30 and 180 days, are recorded at nominal value, i.e. according to the amounts originally invoiced. As at the balance sheet date, these items are measured at amortized cost, including any impairment loss.

The amount of allowances on receivables is equal to the difference between the carrying amount of receivables and the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the interest rate at initial recognition).

Allowances on receivables are created individually for each receivable amount based on the probability of recovery. The amount of the write-down is recognised in other operating expenses.

	30.09.2017			31.12.2016		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Trade receivables from unrelated parties	462 114	9 275	452 839	378 256	8 199	370 057
Receivables due to corporate income tax	1 718	-	1 718	4 771	-	4 771
Other receivables from the state budget	5 652	-	5 652	9 975	-	9 975
Other receivables	17 575	1 216	16 359	11 267	1 216	10 051
Total	**487 059**	**10 491**	**476 568**	**404 269**	**9 415**	**394 854**

Changes in impairment losses are shown in the table below:

	30.09.2017	31.12.2016
Impairment allowances at the beginning of the period	**9 415**	**13 500**
Created	2 690	1 795
Reversed	1 614	1 070
Utilized	-	197
Other	-	(4 613)
Exchange differences on translation	-	-
Impairment allowances at the end of the period	**10 491**	**9 415**

7.3. TRADE AND OTHER PAYABLES

Trade payables and other liabilities mainly include trade payables from unrelated parties, advances received, payroll liabilities and tax liabilities.

Trade liabilities are initially recognized at fair value (corresponding to the face value) and are measured at amortized cost as at the balance sheet date.

Received advances mainly concern payments from customers for the carried oud construction contracts and they are recognized at the face value of the payment.

Payroll liabilities are recognized in the value of the work performed in accordance with the agreements concluded.

Tax liabilities (including VAT, corporate income tax and personal income tax) are recognized in the amount due to be paid by the Group in accordance with applicable regulations.

	30.09.2017	31.12.2016
Trade liabilities	**214 754**	**245 829**
of which form related parties	218	766
Advances received	-	16 457
Financial liabilities:	**-**	**24 788**
interest	-	-
leasing of fixed assets	-	-
forward pricing	-	-
other	-	9 798
dividend	-	14 990
Liabilities to state budget:	**36 571**	**24 271**
VAT	16 761	9 873
corporate income tax	8 278	4 610
personal income tax	2 502	2 121
social security contributions (ZUS)	7 872	6 138
real property tax	53	-
tax on civil law transactions	-	-
rehabilitation fund contributions (PFRON)	147	115
holiday fund (tax paid in Belgium)	750	1 402
other	208	12
Other liabilities	**10 649**	**8 336**
remuneration	8 141	6 699
accrued expenses	935	-
other	1 573	1 637
Total	**261 974**	**319 681**

7.4. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of changes in working capital for the period from 1 January to 30 September 2017 and for the period from 1 January to 30 June 2016.

	Change in cash flows 01.2017-09.2017	Change in cash flows 01.2016-09.2016
Change in provisions	**(1 999)**	(8 560)
Change in inventories	**(3 962)**	6 636
Change in receivables	**(67 100)**	(101 304)
Change in short-term liabilities, except for loans and borrowings	**(47 804)**	(6 199)
Change in prepayments	**(46 195)**	21 028
Change in working capital	**(167 060)**	**(88 399)**

7.5. THE GROUP STRUCTURE, INVESTMENTS IN JOINT VENTURES AND TRANSACTIONS WITH RELATED PARTIES

Subsidiaries and consolidation principles: Consolidated financial statements contain the data of the Parent Company and its subsidiaries.

Subsidiaries are consolidated using the full method from the date on which control is assumed until the date that control ceases. Control is established when the Parent Company, in respect of its involvement with the investee, is exposed to variable returns or has the right to variable returns and is able to use its power over the investee to affect the amount of those returns. Financial statements of subsidiaries are prepared for the same reporting period as the Parent Company using uniform accounting policies. In the case of losing control of a subsidiary, the gain or loss on the transaction associated with the loss of control is recognized in the income statement.

Acquisitions and mergers are accounted for using the acquisition method. In this method, identifiable assets and liabilities are measured at their fair values at the acquisition date. Consideration paid for business combination is measured at the fair value of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and equity instruments issued by the Group In exchange for the control of the acquiree. Costs associated with the acquisition are recognized in the profit or loss account at the time they are incurred. The excess of the acquisition price and the amount of non-controlling interest measured at fair value over the fair value of the net assets acquired, subject to the exceptions listed in IFRS 3, is goodwill.

Joint ventures are recognized by the Group using the equity method.

7. OTHER NOTES

Group structure

As at 30 September 2017, the Group is comprised of the Parent Company Erbud S.A. and fully consolidated subsidiaries.

Detailed information on the structure of the Group is provided in the tables below.

No.	Business name	Seat	Profile	Parent's company share in equity (equal to the voting power) 30.09.2017	31.12.2016
	Shares held directly				
1	Erbud International Sp. z o.o.	Toruń	Construction	**100.00%**	100.00%
2	Przedsiębiorstwo Budownictwa Drogowo - Inżynieryjnego S.A.	Toruń	Road engineering	**90.00%**	90.00%
3	Erbud Rzeszów Sp. z o.o.	Rzeszów	Construction	**79.00%**	79.00%
4	Erbud Construction Sp. z o.o.	Toruń	Construction	**100.00%**	100.00%
5	Erbud Industry Sp. z o.o.	Toruń	Engineering	**100.00%**	100.00%
6	GWI GmbH	Dusseldorf, Germany	Construction	**85.00%**	85.00%
7	Erbud Centrum Usług Wspólnych Sp. Z o.o.	Warszawa	Support services	**100.00%**	0.00%

No.	Business name	Seat	Profile	Intermediate parent's entity share in equity (equal to the voting power) 30.09.2017	31.12.2016
	Udziały posiadane pośrednio				
1	Erbud Industry Centrum Sp. z o.o.	Łódź	Services for energy	**98.92%**	98.92%
2	Erbud Industry Pomorze Sp. z o.o.	Gdańsk	Services for energy	**100.00%**	100.00%
3	Erbud Industry Południe Sp. z o.o.	Będzin	Services for energy	**99.29%**	99.29%
4	PDI Dusseldorf Malmedyerstrasse Ost GmbH	Dusseldorf, Germany	Construction	**43.35%**	43.35%
5	PDI Dusseldorf Malmedyerstrasse West GmbH	Dusseldorf, Germany	Construction	**43.35%**	43.35%
7	Efektywność Energetyczna dla Polski Sp.z o.o.	Szczecin	Consulting services	**50.00%**	0.00%

7. OTHER NOTES

7.6. EVENTS AFTER THE REPORTING PERIOD

After the balance sheet date, by the date of preparing the financial statements there were no events which have not been, and should be recognized in the accounting books.

Signature of person preparing the Financial Statement

Mariola Zielińska
/ Chief Accountant /

Signatures of the Management Board Members

Józef Zubelewicz
/ Management Board Member /

Dariusz Grzeszczak
/ Management Board Member /

Agnieszka Głowacka
/ Management Board Member /

Warsaw, November 14, 2017