INDEPENDENT AUDITOR'S REPORT

to the General Meeting of Shareholders and Supervisory Board of Erbud S. A.

Report on the audit of the Annual Separated Financial Statements

Our opinion

In our opinion, the accompanying Annual Financial Statements of Erbud S.A. (the “Company”):

- present a true and fair view of the Company’s financial position as at 31 December 2017 and of its financial performance and its cash flows for the year ended on that day in accordance with applicable provisions of the Accounting Act dated 29 September 1994 ("Accounting Act" – Polish Journal of Laws of 2018, item 395, as amended) and the adopted accounting principles (policy);
- comply in form and content with legal requirements applicable to the Company and the Articles of Association;
- were prepared on the basis of properly kept accounting records in line with the provisions of Chapter 2 of the Accounting Act.

This opinion is consistent with our supplementary report to the Audit Committee, which was issued as of the date of this report.

Scope of the audit

We have audited the Annual Financial Statements of Erbud S.A., which comprise:

- the balance sheet as at 31 December 2017;

and

- the profit and loss statement;
- the statement of cash flows
- the statement of changes in equity; and
- the introduction to the financial statements and explanatory notes.

Basis for opinion

Basis for our onion

Our audit was conducted in accordance with National Standards on Auditing in the wording of International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, International Standards on Auditing issued by the IAASB (together called "Audit Standards") and pursuant to provisions of the Act of 11 May 2017 on Statutory Auditors Audit Companies and Public Supervision ("Act on Statutory Auditors" – Polish Journal of Laws of 2017, item 1089), as well as the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("EU Regulation" - Journal of Laws of EU L158).
Our responsibilities under those standards are further described in the Auditors' Responsibilities for auditing the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Company in line the Code of Ethics for Professional Accountants of the International Federation of Accountants ("IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and with other ethical requirements that apply to our audit of financial statements in

Poland. We have fulfilled our other ethical obligations in accordance with these requirements and the IFAC Code. During the audit, the key certified auditor and the audit company remained independent of the Company in accordance with the independence requirements set out in the Act on Certified Auditors and in the EU Regulation.

Our approach to the audit

Summary

Materiality:

- The overall materiality set when planning the audit was determined at the stage of planning the audit at PLN 8.9 million, which represents 0.75% of the Company's revenues.

Audit scope:

- We have audited the annual Financial Statements of the Company for the period ended 31 December 2017

Key issues examined:

- Valuation of construction contracts;
- Write-downs on receivables.

We have planned our audit by determining materiality and assessing the risk of material misstatement of the Financial Statements. In particular, we have considered where the Company's Management Board made subjective judgments; for example, with respect to significant accounting estimates that required assumptions and consideration of future events that are inherently uncertain. We also referred to the risk of the Management Board circumventing internal control, including - among other cases - whether there was evidence of partiality of the Management Board, which would constitute a risk of significant misstatement caused by fraud.

Materiality

The scope of our audit was impacted by the assumed level of materiality. The audit was planned to obtain reasonable assurance over whether the Financial Statements as a whole are free from material misstatement. Misstatements can arise from fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.
Based on our professional judgment, we have established quantitative thresholds for materiality, including overall materiality, for the Financial Statements as a whole, which we present below.
The concept of materiality is used by the auditor both in the planning and conducting the audit as well as in assessing the impact of misstatements identified during the audit and unadjusted misstatements, if any, on the financial statements and when formulating the auditor's opinion.

Therefore, all opinions, statements and statements included in the auditor's audit report are expressed having regard to the quantitative and qualitative magnitude of misstatement determined in accordance with the audit standards and professional judgment of the certified auditor.

Overall materiality

PLN 8.9 million

Basis for determination

0.75% of the Company's income

Justification

We have taken the value of revenues as a basis for determining materiality due to the historical fluctuation in

gross profit and due to the fact that this ratio is monitored and analysed both by Company's owners and users of the Financial Statements. Revenues from sales are also a key index for the construction business. We have assumed materiality at the level of 0.75%, because, based on our professional judgment, it falls within the acceptable thresholds of quantitative materiality.

We have agreed with the Company's Audit Committee that we would inform about the distortions of more than PLN 446,000 identified during the audit of the Financial Statements, and also about any distortions below this amount, if in our opinion it would be justified due to qualitative factors.

Key audit matters

The key audit matters are matters that, in our professional judgment, were the most significant during our audit of the Financial Statements of the current period. They cover the most significant risks of material misstatement assessed, including the assessed risks of material misstatement due to fraud.

We have addressed these matters in the context of our audit of the Financial Statements as a whole and in forming our opinion thereon, and have summarised our reaction to these types of risks, and - where we consider it appropriate – we have presented observations related to these risks. We do not express a separate opinion on these matters.

Key audit matter - Valuation of construction contracts

In 2017, the Company recognized income from construction contracts in the amount of PLN 1 215.0 million, which was disclosed under "Net revenues from sales of products". As at 31 December 2017, the results of valuation of construction contracts were presented in the Financial Statements in assets in the amount of PLN 120.8 million and in liabilities in the amount of PLN 30.0 million, respectively in "Assets under unfinished construction contracts" and in "Accruals due to construction contracts".

The Company applies the method of percentage progress of works when accounting for long-term contracts. Revenues and costs on performance of construction contracts in the period from the date of conclusion of the contract to the balance sheet date, taking into account revenues and costs which affected the financial result in previous years, are determined proportionally to the stage of completion, based on the measurement of works performed.

If it is not possible to estimate in a reliable manner the financial result of a construction service as at the balance sheet date, then the revenues are recognized up to the costs incurred in the period, but not higher than the costs, which are likely to be recovered in the future with revenues from the contract.

Having regard to the specific nature of the Company's operations, determination of the amount of revenues due in a given financial year requires making estimates and is based on projected (budgeted) costs and total revenues for each contract. These estimates refer to both unforeseen costs arising in the course of work, but also the likely amounts of additional remuneration, e.g. due to the extended scope of construction works.

The Management Board of the Company regularly analyses all cases of contracts where there is a risk of additional significant costs, initially not included in the budget, and the probability of their recovery. If such situations occur, the budget is updated.

Disclosures regarding the accounting policy adopted by the Company and settlement of construction contracts have been presented in item 8.10.1 of the Introduction to the Financial Statements and in in item 11.1. of the Explanatory Notes to the Financial Statements.

Taking into account the inherent risk of uncertainty related to material estimates made by the Management Board and the amount of revenues from construction contracts in the Company, we have decided that this is a key matter for our audit.

How our audit has referred to this matter?

Our audit procedures included, in particular:

- obtaining an understanding of the internal control system as regards valuation of construction contracts and identification of the result for the period from these contracts;
- testing selected control procedures relevant for the determination of the correct valuation of construction contracts, in particular concerning: (a) the drawing up and regular review of project budgets and, where appropriate, updating thereof; (b) the verification and appropriate allocation of emerging project costs; these tests included confirmation of the allocation of a cost invoice to the relevant construction project;
- inspecting the largest, selected construction sites in order to compare the actual progress of works performed with the information contained in the assessment made by the Management Board;
- conducting retail tests on a chosen sample of contracts, selected using quantitative and qualitative criteria, including:
  - the reconciliation of contract revenues to contracts;
  - the recalculation of revenues according to the stage of completion of the project adopted by the Company, reconciliation of incurred costs and recalculation of the planned margin;
  - obtaining an understanding, through discussions with the management and analysis of documents, the reasons for deviations of the actual margin in relation to the budgeted one and, where we considered it necessary, verification of these deviations from the source documentation;
  - the comparison of invoiced revenue and payment for the issued invoice in order to confirm that the service has been provided;
  - the verification of reclassifications between costs allocated to individual projects in order to address the risk of incorrect allocation of contract costs;
  - the test of correctness of recognition of cost invoices received after the balance sheet date in the cost of projects;
- evaluating the source evidence regarding litigation for ongoing and completed projects and possible penalties and claims;
- assessing the completeness and correctness of disclosure of construction contracts in the financial statements.

Based on procedures carried out, we have concluded that the assumptions used to measure the value of construction contracts as at 31 December 2017 are reasonable and confirmed by the source documents provided, and the disclosures in the Financial Statements are in compliance with the standards.

Key audit matter - Write-downs on receivables

As at 31 December 2017, trade receivables decreased by impairment losses were presented in the Financial Statements of Erbud S.A. under "Short-term receivables from related parties" and under “Short-term trade receivables from other entities" in the total amount of PLN 308.3 million, which constitutes 45% of all assets of the Company. In points 9.4 and 9.5 of the Explanatory Notes to the Financial Statements, the Company disclosed the abovementioned receivables, including information about the write-down.

Decisions concerning trade receivables write-downs are made individually for each receivable based on the probability of its recovery, based on market data or information provided by the law firms.

As at 31 December 2017, overdue trade receivables amounted to PLN 103.0 million and it was 32% of the gross value of all trade receivables. The write-down on receivables amounted to PLN 11.9 million.

The Management Board of the Company performs a periodical analysis of the recoverability of receivables so that their value reflects the recoverable amount.

Taking into account the inherent risk of uncertainty related to material estimates made by the Management Board and the materiality of the amounts due deliveries and services disclosed in the balance sheet, we considered the valuation of the above receivables to be a key matter of the audit.

How our audit has referred to this matter?

Our audit procedures included, in particular:

- obtaining an understanding and assessment of the process of identification by the Management Board of the Company of indications for impairment of trade receivables, as well as a critical assessment of indications identified by the Management Board;
- in the case of indications for impairment of receivables for a selected sample for overdue balances above 365 days, considering the validity of the adopted assumptions based on our knowledge of the Company and on external evidence obtained, i.e.; independent confirmation of balances with contracting partners;
- conducting an independent analysis of aged trade receivables in terms of identification of potential overdue receivables and comparison with external evidence, e. g. legal opinions;
- reviewing the minutes of the meetings of the Company's bodies and letters from law firms concerning the identification of disputable cases and potential impairment loss of receivables; assessing documents received from law firms about the possibility of recovering overdue receivables that have not been covered by a write-down;
- testing the correction invoices issued after the balance sheet date (for a selected sample), in order to identify cases that could be considered disputable as at the balance sheet date;
- assessing the completeness and correctness of disclosures of impairment losses on receivables.

Based on procedures carried out, we have concluded that the assumptions used in the calculation of impairment losses on receivables are reasonable and confirmed by the source documents provided, and the disclosures in the Financial Statements are in compliance with the standards.

Responsibilities of the Management Board and the Supervisory Board for the Financial Statements

The Management Board of the Company is responsible for preparing, on the basis of properly kept accounting books and records, the Annual Separate Financial Statements that gives a true and fair view of the financial situation and the financial performance of the Company in accordance with the provisions of the Accounting Act, adopted accounting principles (policy) as well as applicable laws and regulations and the Articles of Association. The Management Board is also responsible for such internal control as it determinates is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether caused by fraud or error.

In preparing the Financial Statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Management Board and members of the Supervisory Board are obliged to ensure that the Financial Statements meet the requirements set forth in the Accounting Act. The Supervisory Board members are responsible for overseeing the financial reporting process.

Auditor's responsibilities for auditing the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

The scope of the audit does not include assuring the future profitability of the Company or the effectiveness or efficiency of conducting its businesses by the Management Board of the Company at present or in the future.

As part of an audit in accordance with the Audit Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Assess the appropriateness of the accounting principles (policy) applied and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Company.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Management Board of the Company and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and report to the Committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such disclosure.

Other information, including an activity report

Other information

The other information consists of the Combined Report on the operations of the Company and the ERBUD S.A. Group (the "Group") for the financial year ended 31 December 2017 (the "Combined Activity Report") together with the Statement on Corporate Governance, which is a separate part of the Combined Activity Report.

The Management and Supervisory Board's responsibilities

The Management Board of the Company is responsible for preparing the Combined Activity Report in

accordance with the law in force.
The Management Board and members of the Supervisory Board are obliged to ensure that the Combined Activity Report together with the separated parts meet the requirements provided for in the Accounting Act.

Auditor's responsibilities

Our opinion on the audited Financial Statements does not cover the Combined Activity Report.

In connection with our audit of the Financial Statements of the Company and Financial Statements of the Group, it is our responsibility to read the Combined Activity Report and, in doing so, consider whether they are materially inconsistent with the Separate Financial Statements and Consolidated Financial Statements, our knowledge obtained in the course of the audit or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Combined Activity Report, we are required to report that fact in our report. Our responsibility in accordance with the requirements of the Act on Auditors is also to issue an opinion on whether the Combined Activity Report has been prepared in line with the regulations and whether it is consistent with the information contained in the Annual Separate Financial Statements and Consolidated Financial Statements.
In addition, we are required to express an opinion as to whether the Company and the Group have included the required information in the Corporate Governance Statement.

Opinion on the Activity Report

In our opinion, based on the work undertaken in the course of the audit, the Combined Report on the Company's and Group's operations:

- has been prepared in accordance with the requirements of Art. 49 of the Accounting Act, Art. 91 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions for recognizing information required by the law of a non-member state as equivalent ("Regulation on Current Information" – Polish Journal of Laws of 2014, item 133, as amended);
- is consistent with the information contained in the Separate Financial Statements and Consolidated Financial Statements.

Furthermore, we declare that in the light of the knowledge and understanding of the Company and the Group and their environment obtained during our audit, we have not identified any material misstatements in the Combined Activity Report.

Opinion on the Corporate Governance Statement

In our opinion, the Corporate Governance Statement includes the information specified in Art. 91(5) point 4 letters a, b, g, j, k and in Art. 1 of the Regulation on Current Information. In addition, we express the opinion that the information indicated in Art. 91(5) point 4 letters c-f, h and i of this Regulation contained in the Corporate Governance Statement are consistent with the applicable regulations and information contained in the Separate Financial Statements and the Consolidated Financial Statements.

Report on other legal and regulatory requirements

Statement on providing of non-audit services

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are compliant with laws and regulations in force in Poland and that the non-audit services prohibited under Art. 5(1) of the EU Regulation and Art. 136 of the Act on Certified Auditors were not provided.
Non-audit services that we have provided to the Company during the period audited are listed in point item 7.5 in the Combined Activity Report.

Appointment of an audit firm

We have been appointed for the first time to audit the Annual Financial Statements of the Company with a resolution of the Supervisory Board of 9 May 2016 for a period of three years. The Financial Statements of the Company are examined continuously from the financial year ended 31 December 2016, that is for the next two years.

The lead certified auditor responsible for conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company included in the list of audit firms under number 144, the result of which is this report of the independent statutory auditor, is Piotr Wyszogrodzki.

Piotr Wyszogrodzki
Lead Certified Auditor
Register No. 90091

Warsaw, 27 March 2018