

ERBUD Group Activity Report 2017

(including ERBUD S.A. Activity Report for 2017)

March 27, 2018

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LETTER OF THE MANAGEMENT BOARD MEMBERS

We have pleasure to present you 2017 Integrated Report of the ERBUD'S Group. This is already the second report of our Group, in which we summarize the past year in both financial and social terms, thus recognizing both of these areas as equally important in a responsible approach to business.

In 2017 the ERBUD Group's revenues remained at high level, similar to that in 2016 and totalled PLN 1.8 billion. The accounting year the Group closed with a net profit of PLN 23.9 million against PLN 1.1 million in the previous year (meanwhile the 2016 result comprised the sales of Budlex SA Development Company. The loss on the transaction posted as the loss on discontinued activities in the 2016 Financial Statement, totalled PLN 34 194 thousand). Despite workforce shortages in the market, in 2017 we increased our headcount level – at the end of December the Group had 2323 workers, up by 391 workers compared to the previous year. We maintained high level of order portfolio: PLN 2 billion, of which PLN 1.8 billion falls into 2018, which enables us to look ahead into the immediate future with peace and optimism.

Another year in a row we maintained a strong position in the segment of building construction, which is the foundation of our activities. However, we are also happy that we have acquired attractive contracts in other sectors, including but not limited to the project of modernisation of Czestochowa district heating station (ERBUD SA and ERBUD Industry) or for the construction of Berlin-based combined heat and power plant of Reuter C Ersatz (GWI GmbH).

The ERBUD Group attaches a lot of weight to the implementation of sustainable development principles, which rely primarily on ethical, transparent and partner relations with our stakeholders, which comprise shareholders, customers, personnel, suppliers and subcontractors, as well as social communities in which we operate.

For many years now our organization has been based on three pillars, which include such values as responsibility, innovation and security. Respecting of the above values builds trust with our partners, which in turn results in long-term business relationships. We are pleased that ERBUD Group's regular customers include recognized brands and leading players in the Polish market.

Every year we try to confirm that we have fully deserved the image of a responsible and timely general contractor delivering high quality services

At the same time, as a socially responsible company, we are committed to local communities in which we live and work on a daily basis. In 2017 we followed up the sponsorship and social policies launched by the ERBUD Group in the previous year. We are proud of the outcome of the ERBUD COMMON CHALLENGE Foundation, named after Eryk Grzeszczak, which helps children's homes charges to go through the process of becoming independent. Other social activities involve supporting of personnel training in the areas related to the business activities of the Group's member companies or supporting sports initiatives. We also exercise constant environmental care including the optimal consumption of raw materials and materials and minimization of waste generation.

There is another year of challenges and hard work ahead of us. The dynamics of the construction industry is characterised by inherent ups and downs. The fact that ERBUD Group has maintained its forefront position among the Polish construction companies confirms that we are able to overcome difficulties and face the challenges present on the market. We are convinced that further successful relations with all stakeholders will enable us to strengthen continuously the ERBUD Group's market position so that it remains a synonym of a reliable brand in troubled times.

We would like to encourage you to read our report!

Dariusz Grzeszczak – Management Board Member

Józef Adam Zubelewicz – Management Board Member

Agnieszka Głowacka – Management Board Member

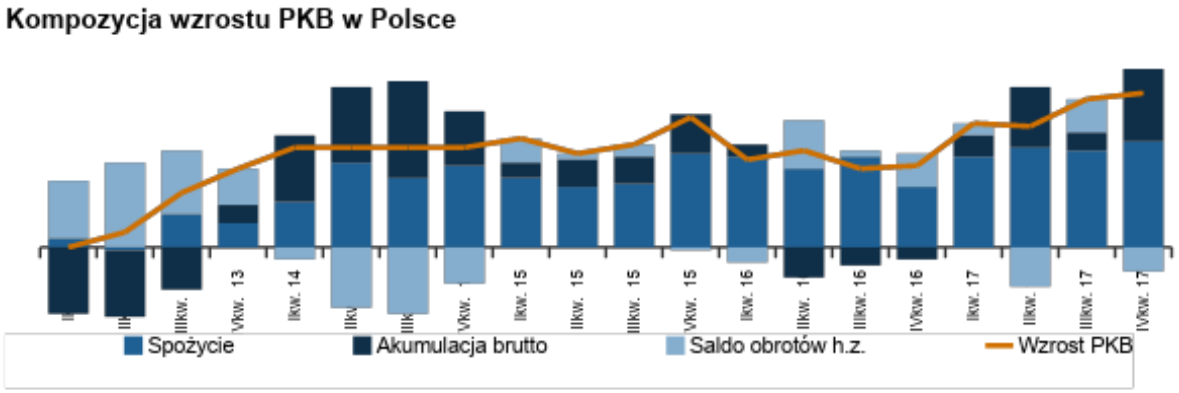
1. MACROECONOMIC BACKGROUND

1.1. Economic situation

1.1.1. Poland

The year 2017 brought the highest growth rate in Poland in last ten years, which was 4.6% compared to 2.9% Y-o-Y. Consumption was the main driver of growth, the effect of which was strengthened in the second half of the year by investment projects awaited for quarters, especially those financed from EU funds.

GDP growth in Poland

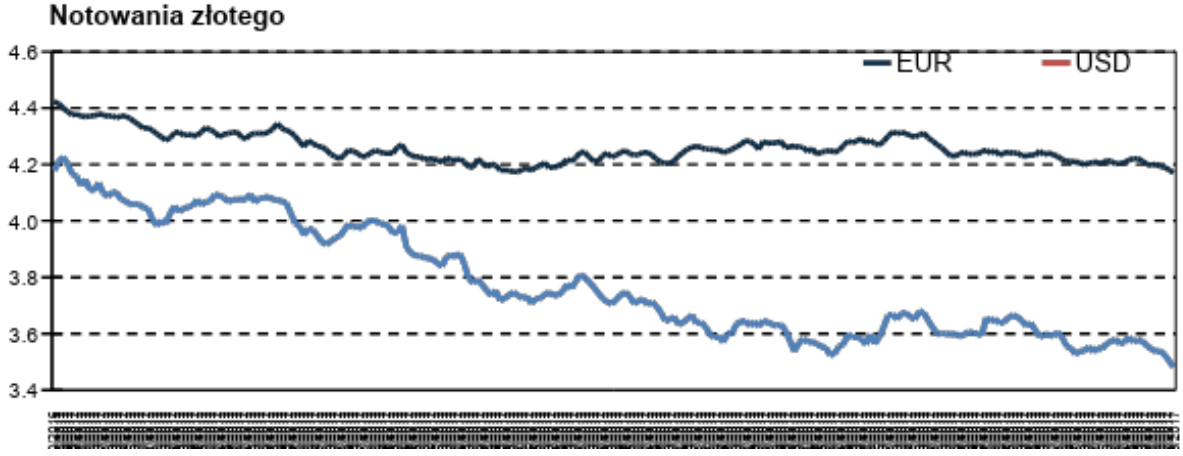


Key: Spożycie -Consumption; Akumulacja netto - Net accumulation; Saldo obrotów HZ - Balance of Foreign Trade; Wzrost PBK - GDP growth

Source: GUS, Biuletyn statystyczny 12/2017

The high economic growth combined with the relatively good public finance situation appreciated the Zloty during 2017. The appreciation of the Zloty was strength especially at the end of the year when the Ministry of Finance bought PLN for the Euro through BGK. This trend was additionally correlated with the weakening of the US dollar to most currencies, as a result of which throughout the whole year the Euro depreciated by 5.54% to the Zloty and by 16.7% to the US dollar. According to analysts, this will undoubtedly put pressure on the profitability of Polish exports.

PLN quotations



Source: NBP, Average exchange rate archives - Table A

In 2017, consumer inflation clearly accelerated and in December reached 2.1% year on year in December. Prices rose mainly due to the increases in fuel and food prices.

Under the rising inflation, the Monetary Policy Council maintained the main interest rates applicable from 5 March 2015, including the reference rate at 1.5%. At the same time, the communiqué from the MPC does not indicate the possibility of increases until the end of 2018 and even at the beginning of 2019.

1.1.2. European Union

The GDP growth in the EU countries, the same as in Poland, was the highest from a decade, reaching 2.5% according to preliminary estimates.

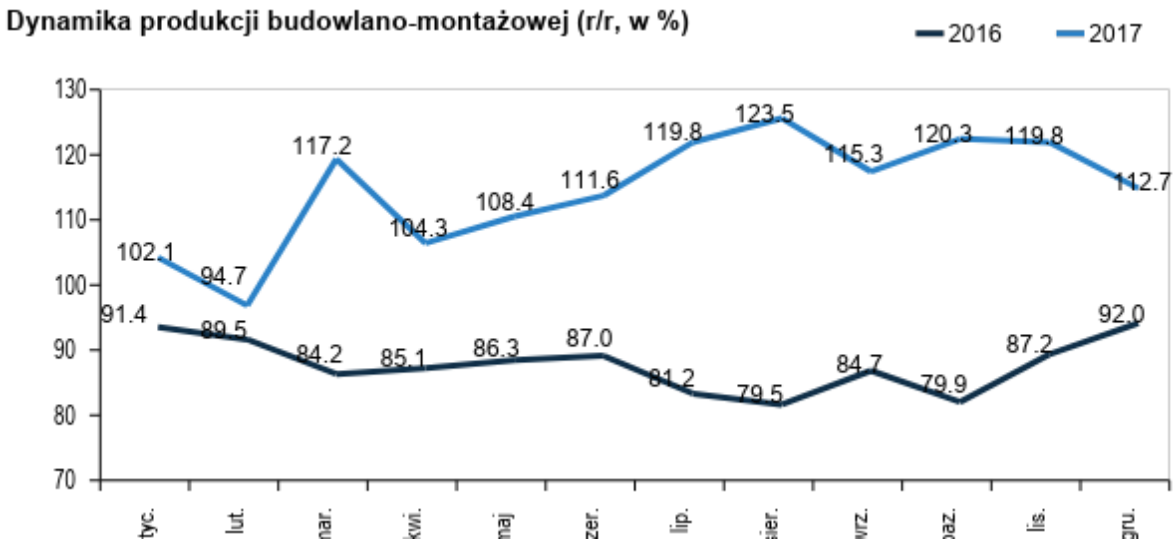
In the countries in which the ERBUD Group operates, the 2017 GDP growth was as follows:

- Germany – 2.2%,
- Belgium – 1.7%,
- France – 1.8%,
- Holland – 3.1%.

1.2. Condition of construction industry in Poland

In 2017, construction and erection activities recorded a double-digit growth and reached the dynamics at the level of 12.1%, which was a reversal of the downward trend recorded in 2016 (when the sales of construction output shrunk by 14.1%). The strongest increase was in the second half of the year and it concerned all construction businesses. The improvement of the economic situation in construction was driven by a greater use of EU funds from the financial perspective 2014-2020, which was particularly seen in civil and water engineering, where sales increased by as much as 16.7% compared to 2016.

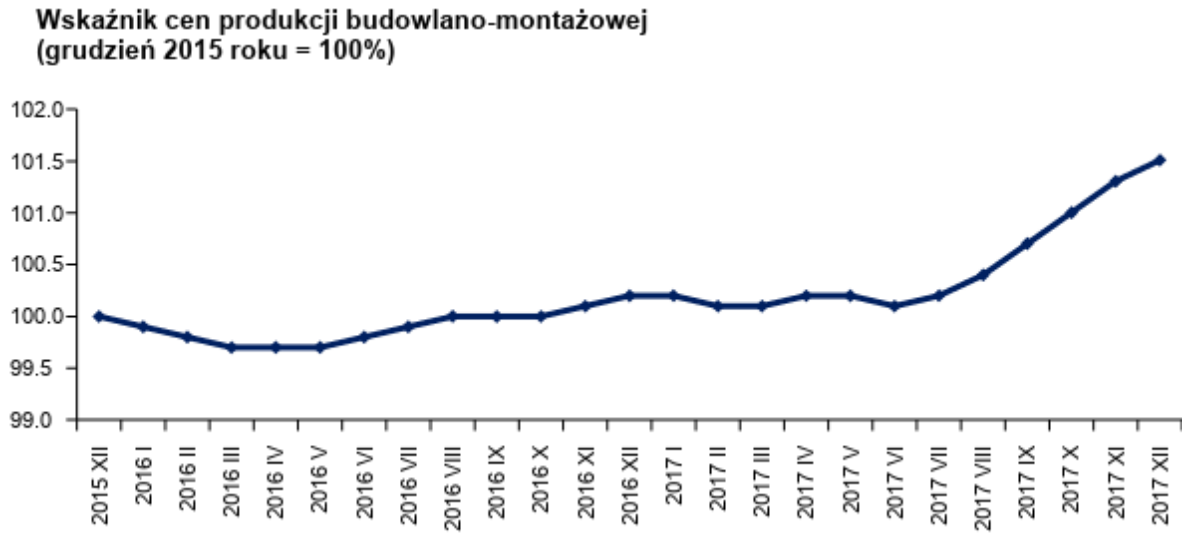
Dynamics of construction output (Y-o-Y in %)



Source: GUS, Biuletyn statystyczny 12/2017

The increase in production in the construction sector also included housing development. Over 2017, developers handed over record-breaking 89.8 thousand apartments, what represents 13.5% more than in the same period of the previous year. Investors who build for sale or rent obtained building permits for 128.5 thousand flats, i.e.by as much as 20.5% more than last year.

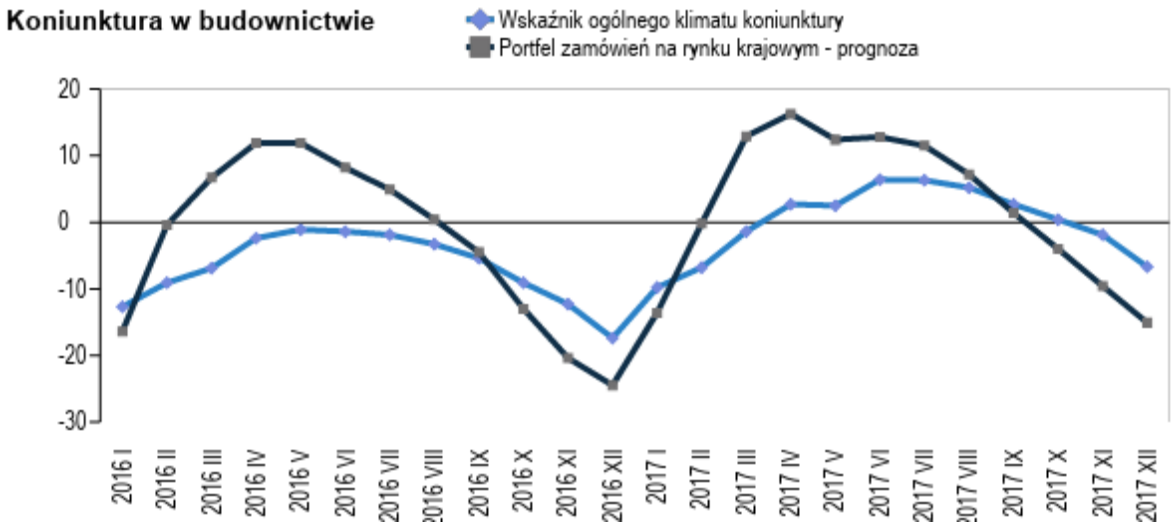
Construction and erection output index
(December 2015 = 100%)



Source: GUS, monthly „Indices of prices of industrial production sold and construction output"

Large revival in the entire economy and in the construction industry was also reflected in the increase in construction and erection production prices. Particularly strong dynamics took place in the second half of 2017, which caused a rise in prices in December 2017 by 1.4% Y-o-Y.

Business outlook in the construction industry



Key: Wskaźnik ogólnego klimatu koniunktury – Business outlook index; Portfel zamówień na rynku krajowym (prognoza) – Domestic order backlog (forecast)

Source: GUS, Biuletyn Statystyczny nr 12/2017

Moods in the construction industry are influenced by strong seasonality, and despite the fact that the indicator of the general climate for the construction market was only -6.7 it was the highest December index for eight years. Entrepreneurs invariably negatively assessed their financial situation, in particular the increased payment delays, while the assessment of capacity utilization was relatively good. There is also a signal of rising prices and an increasing probability of limiting the employment.

Among the studied entities, the number of those planning construction and erection works abroad is growing steadily (up from 24.0% a year ago to 30.5% at present), although the managers of these enterprises increasingly formulate unfavourable forecasts regarding the portfolio of orders for construction works on foreign markets.

During 2017, the financial results of construction companies have improved. After three quarters of 2017, 69.4% of construction companies studied by GUS showed a net profit (compared to 66.3% in the corresponding period of the previous year). At the same time, the sales profitability ratio stood at 3.1% compared to 2.5% in the same period of the last year.

In 2017, 151 construction companies went bankrupt, i.e. by 1% more than the year before. In addition, companies associated with construction business as contractors, manufacturers, wholesalers and service providers constitute 35-40% of the total number of insolvent entities. The expected increase in infrastructure investments in 2018 may cause even greater pressure on the liquidity of companies.

1.3. Changes in law

1.3.1. Regulations having a significant impact on the activity of construction companies

On 1 June 2017, the amendment to Art. 6471 of the Civil Code regarding joint and several liability for the remuneration of subcontractors and further subcontractors came into effect. After the changes, an obligation has been introduced to notify the investor of the detailed work by the contractor or subcontractor (before commencement of works); the requirement has been waived to submit subcontracts to the investor and obtain its approval; the investor's right to raise objections (comments) to subcontracts has been abolished; the possibility of performing works by subcontractors without the consent of the investor has been allowed; a 30-day deadline has been set for the investor's objection to the sub-contractor's person/entity; in the absence of objections, it has been imposed a presumption of Investor’s tacit/passive consent to the sub-contractor's person/entity.

The effects of introduced changes can be assessed only in a few months, because the Act provides for that the new provisions will apply to all contracts concluded from 1 June 2017, which in connection with the lack of vacatio legis in the introduction of provisions may mean the uncertainty about any disputes arising under these provisions. According to the Issuer, these amendments are beneficial for the construction industry.

Since 1 January 2017, construction services provided by subcontractors, listed in Appendix No. 14 to the VAT Act, were covered by the reverse charge mechanism, provided that they are performed for active taxpayers. Fraud committed using invoices that did not reflect actual transactions became the motive for the change. Unfortunately, this has a negative impact on the financial standing of subcontractors who have to wait for the return of overpaid VAT amounts and thus have a lot of pressure on liquidity.

In November 2017, the draft Act on transparency in public life and assumptions for amending the Act on the liability of collective entities were presented. The draft provisions will make it necessary to expand the compliance function in companies (including public ones) and to apply internal anti-corruption procedures. Acts of corruption and the lack of effective anti-corruption procedures will be sanctioned in particular with high financial penalties. Both laws are in the phase of preparation and social consultations, and the intended date of their entry into force is the second half of 2018.

1.3.2. Regulations having a significant impact on accounting and financial area

Work of Accounting and Financial Departments of ERBUD S.A. will be significantly affected by the following regulations:

- the EU's Non-Financial Reporting Directive, effective from 1 January 2017;
- Act on Statutory Auditors, Auditing Companies and Public Supervision, effective from 21 June 2017. The Act implements the Regulation (EU) No. 537/2014 of the European Parliament and of the Council and changes the rules of choosing an auditing company, significantly limits the possibility of providing other services by audit firms and specifies the duties of the Audit Committee.

In preparation for the reporting obligations of non-financial information the ERBUD Group has drawn up its first integrated report for 2016. So we have already cleared the paths for preparing such reports. We are aware that the law is constantly changing in this area as well and we must follow the changes so that our non-financial reporting comply with the applicable regulations and provide interesting information to external and internal stakeholders.

The above-mentioned changes in the scope of reporting have their financial consequences in the form of additional costs incurred for consultancy and they limit the possibility of choosing consulting companies which services ERBUD S.A. could use.

1.4. Factors that will affect the Group's operations in subsequent quarters

1.4.1. Economic growth rate

The latest GDP projection for Poland published by the NBP shows an increase of 4.2% in 2018, while according to the IMF it will be 3.3%. These forecasts were published in November and October 2017, respectively, and do not take into account the already known GDP growth in the fourth quarter of 2017 which was much better than projected one. The analysts have already revised their forecasts and are currently estimating the GDP growth in 2018 at over 4%, but lower than in 2017. The weakening effect of payments from the “Family 500 plus” program and slightly worse prospects for the economic situation in Germany - the leading recipient of Polish exports - will be the dominating factors behind the decline in growth. The main driving force for the growth of the Polish economy will be public investments supported by EU funds, i.e. local government and central expenditures, and projects of National Road Fund and National Capital Fund. In addition, high utilization of production capacity of enterprises may generate an increase in private investment.
The GDP growth is also supported by the environment of the Polish economy: strengthening of recovery in the euro zone (in particular Germany), although, as in Poland, this effect will be expiring in 2018.

1.4.2. Funds from the European Union

According to the report "State of implementation of European funds in Poland in 2014-2020" published by the Ministry of Development, as at 31 December 2017, 30,616 contracts were signed for over PLN 278.2 billion, of which the EU contribution amounted to over PLN 172.0 billion, which means that more than 56 percent of European money have already been distributed.

Funds from the EU are contracted, among others in the Operational Program Infrastructure and Environment 2014-2020, which is the largest program in Poland and the EU. It finances, among other things, investments in transport (motorways, roads and railways), energy and environmental protection. In the nearest future, the increase in investment from EU funds will take place in particular in local government units.

1.4.3. Prospects for the development of construction business

2018 will be a great challenge for the construction industry. The investments, both public and private, will be accelerated, which will result in a large number of orders. Some analysts compare this situation to the boom of 2012, when construction companies did not keep up with the execution of orders, prices grew rapidly, and many entities went bankrupt. Due to the strong growth in orders, pressure on the prices of materials, wages and supply of labour are already visible. In addition, the growing value of production will require a higher level of financing of working capital by contractors. Moreover, subcontractors already burdened with the VAT reverse charge effect will suffer much more from liquidity pressures. All these factors may lead to higher turnover but much lower margins among construction companies.

1.4.4. Legal changes

In the year 2018, a number of legal changes also took place.

From 1 January 2018, the new **CIT and PIT Act**s are in force. This is the biggest amendment to tax law in recent years. The biggest changes concern: division of revenue sources into capital and other ones; limiting expenses for intangible services provided by related parties; limiting the costs of debt financing; incentive programs; contribution of a company or organized part of a company to a commercial law company and many other changes. These amendments may increase real taxation in the ERBUD Group because of, for example, loans taken to purchase shares in capital companies.

On 1 April 2018, the split payment mechanism comes into effect. The main assumption of the split payment mechanism is to divide the payment for delivered goods or rendered services into a net amount that is paid by the buyer to the bank account of the supplier or service provider and the amount of VAT which goes directly to a separate VAT bank account.

The Act on the Transparency of Public Affairs - and the institution of whistleblowing related to it as well as many other obligations imposed on business entities related to anti-corruption activities.

The Act provides, among others things, for the imposition of an obligation on persons managing public sector entities and on at least medium-sized enterprises to prepare and apply internal anti-corruption procedures, which in particular:

- should prevent the creation of so called corruption funds in companies, which may be used to finance the transfer of financial benefits;
- should familiarize employees and collaborators with the rules of criminal responsibility for corruption;
- result in clauses being included in the contracts stipulating that no part of the remuneration will constitute an amount intended to cover the costs associated with granting of financial and personal benefits;
- result in the development of a company's code of ethics as a declaration rejecting corruption;
- result in the drawing-up of regulations governing the acceptance of gifts and other benefits by employees;
- require a procedure to be drawn up for informing the competent authorities about corruption proposals.

In case that a person acting in the name or on behalf of an entrepreneur is charged with corruption by a prosecutor, the Central Anticorruption Bureau will be entitled to control anti-corruption procedures of the entrepreneur. In the event of their absence or when they are apparent, the head of the Central Anticorruption Bureau may submit an application to the President of the Office for Competition and Consumer Protection to impose a fine on the entrepreneur in the amount of PLN 10,000 up to PLN 10,000,000. Additionally, an entrepreneur will be excluded from the possibility of competing for public contracts for a period of 5 years.

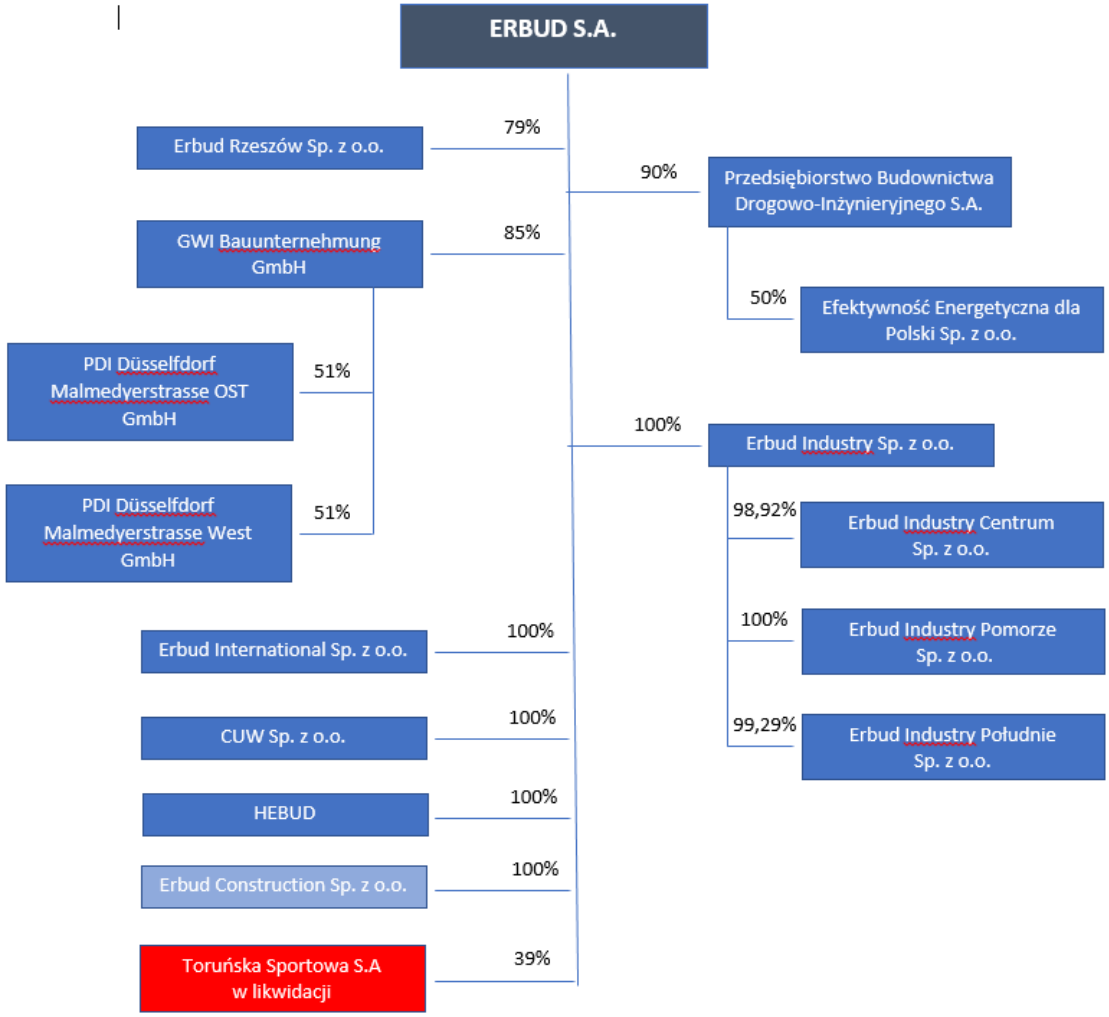
On 25th May 2018, the new EU's **General Data Protection Regulation (GDPR)** takes effect. The changes that companies in the Member States have to introduce by then are serious, and the air is full of many millions of penalties.

Already in 2017, the ERBUD Group conducted intensive preparatory work in connection with the EU’s General Data Protection Regulation (GDPR), which enters into force on 28 May 2018. The new rules are geared towards even better protecting the sensitive and personal data of employees. The implementation of the necessary procedures, instructions and internal requirements will cover all member companies of the Group. The introduction will cover almost all business units, including HR, IT, production, sales, administration, finances, corporate governance and marketing.

2. THE ACTIVITY OF THE ERBUD GROUP IN 2017

2.1. Composition of the Ebud Group

As at 31 December 2017 the structure of ERBUD Group was as follows:



Due to immateriality, ERBUD Construction Sp. z o. o. and associated company Toruń Sportowa S. A. in liquidation were excluded from the Consolidated Financial Statements.

Changes in the ERBUD Group in 2017

On **28 November 2107**, the HEBUD Company was registered with the Ministry of Justice of the Republic of Belarus and started its operations.

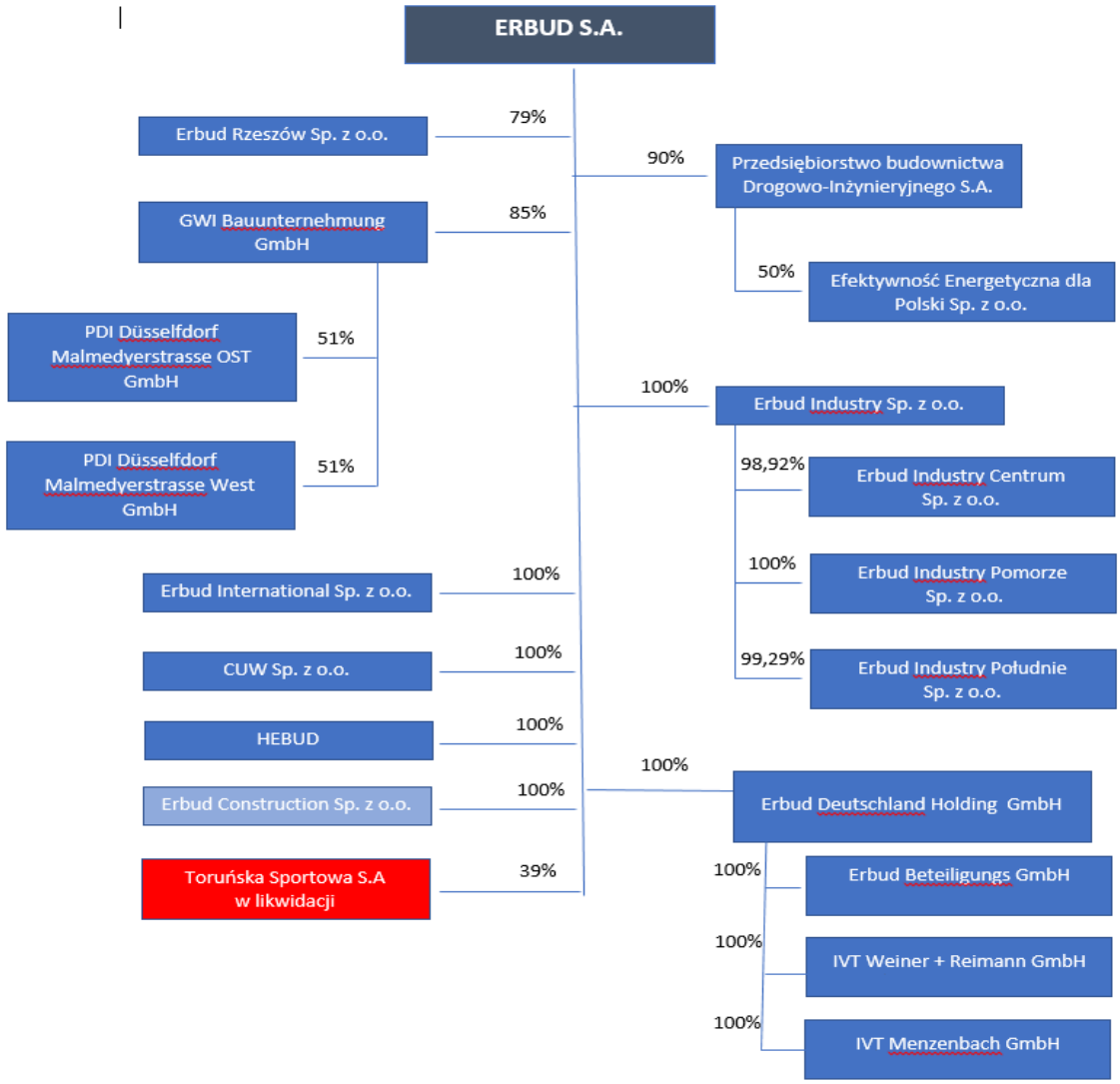
HEBUD Limited Liability Company (HEBUD) was established by the Resolution of the Management Board of ERBUD SA No. 24/2017 of **6 November 2017**.

HEBUD is a wholly-owned subsidiary of ERBUD S. A. The Company's description can be found in the further part of the report.

On **5 February 2018,** ERBUD Beteiligungs GmbH with its registered office in Düsseldorf was founded. The 100% owner of ERBUD Beteiligungs GmbH is Treuhand copia 1 GmbH, currently ERBUD Holding Deutschland GmbH with headquarters in Düsseldorf. On **14 February 2018** ERBUD S.A. acquired 100% shares in ERBUD Holding Deutschland GmbH with headquarters in Düsseldorf. The purchase price was EUR 12,500.

On **27 February 2017,** IVT Beteiligungs GmbH, an indirect subsidiary of the Issuer through its subsidiary Erbud Deutschland Holding GmbH, concluded as a buyer a conditional agreement on sale and transfer of shares with the shareholders of IVT Weiner+Reimann GmbH headquartered in Oberhausen ("IVT") as sellers. In this way, ERBUD S. A. indirectly held a 100% stake in IVT Weiner + Reimann GmbH and its subsidiary IVT Weiner + Reimann GmbH - IVT Menzenbach GmbH. The transaction value amounted to EUR 8.5 million.

In view of the above changes, the structure of the ERBUD Group as at the date of publication of this report is as follows:



Apart from the above-mentioned events, no changes in the structure of the ERBUD Group took place in 2017 and up to the date of publication of the report.

2.2. ERBUD S.A.

2.2.1. Company's profile

ERBUD S.A. has been active on the market since 1990. It operates mainly in the building construction and executes such projects as industrial buildings, shopping malls, office towers, residential buildings, hospitals, schools, hotels and cultural facilities. Since 2006, all domestic projects are carried out by the Company in general contracting. Abroad, as a subcontractor, it performs mainly complex engineering projects: compressed gas tanks, tunnels, power plants.

Mostly, the Company delivers works for large business entities and public administration. Cooperation with many of them has been going on for years.

ERBUD S.A. has five branch offices in the following cities: Kraków, Rzeszów, Warszawa, Wrocław and Toruń with field office in Szczecin.

As at the end of December 2017, the total headcount at the Company was 789 employees, of which 606 in Poland. By comparison, at the end of 2016, these figures were 561 and 483 people respectively.

In 2017, as a result of the audit carried out by the Quality Certification Centre at the Military Technical Academy in Warsaw, the Company obtained a positive assessment in the scope of acting as general contractor for building construction, execution of shall and core of building construction, reinforced concrete structures, engineering and road works as well as execution of construction and modernization of and repair services for power engineering facilities. Thus, the validity of the certificates held so far has been confirmed:

- Quality Management System in accordance with ISO 9001:208 and AQAP 2110:2009;
- Environmental Management under ISO 14001:2004;
- Occupational Health and Safety Management System under PN-N 18001:2004, BS OHSAS 18001:2007.

Since the second half of 2017, the Integrated Management System Division began work on updating and verifying the system documentation, which in 2018 will be reviewed pursuant to amended ISO standards in the scope of QMS and EMS (new standards PN-EN ISO 9001:2015; AQAP 2110:2016; PN-EN ISO 14001:2015).

Pursuant to the Act on Energy Efficiency of 20 May 2016, energy audits of three companies of the ERBUD Group covered by the requirements of the aforementioned Act, i.e. ERBUD S.A., Erbud International and ERBUD Industry Centrum concluded with reports have been conducted. Information on the actions taken has been submitted to the Energy Regulatory Office by 30 October 2001, at the statutory deadline.

2.2.2. Market situation

In 2017, the following trends occurred in the building construction, where Erbud S. A. operates:

- The value of the construction market in 2017 is estimated at PLN 190 billion, compared to PLN 175 billion in 2016. Forecasts for 2018 are at the level of PLN 208 billion[1]
- The main segments in the business structure of activity of large construction companies were: engineering (46%); housing (27%) and non-residential buildings (27%).[2]
- Housing. The year 2017 was the one where a new record of the annual number of new dwellings put into use has been set - 175,000 units. It is estimated that this record will be broken in 2018 - 180,000.

[1] Source: Budownictwo w Polsce 2018 – Materiały Forum PMR 2017

[2] Source: ibidem

- Despite such optimistic data presented above, 2017 also turned out to be a year in which the debt of construction companies rose significantly. Over 31 thousand enterprises have problems with the repayment of liabilities, and the total debt of construction companies amounts to PLN 4. 27 billion - by PLN 470 million more than in the previous year.[3]
- The sales profitability ratio in the construction industry is currently lower than for all business entities, after the first half of 2017 it amounted to 2. 5%, against 5.3% for other companies. The highest profitability of 3. 9% was achieved by construction companies employing from 10 to 49 people, while with the growth of the size of the company, the profitability ratio decreases to 2.0% for medium-sized companies and 1.9% for the largest ones (over 250 employees).[4]

2.2.3. Contracts signed in 2017

Significant contracts signed by ERBUD S.A. in 2017.

Contract date	Client	Works under the contract	Net contract value in PLN million
22.12.2017	REF Eastern Oppurtunities Sp. z o.o.	Phase II of the Project ZAJEZDNIA POZNAŃ (Building no. 3) - residential and commercial complex with an underground car park located in the quarter of streets Gajowa, Sienkiewicza, Kraszewskiego and Zwierzyniecka in Poznań	39.5
19.12.2017	Centrum Praskie Koneser Spółka z ograniczoną odpowiedzialnością	Conclusion of annexes to contracts for the construction of "Centrum Praskie Koneser" in Warsaw.	6.7
07.12.2017	Silesia Outlet Sp. z o.o.	Construction of a shopping and retail centre, incl. road system, parking lot and accompanying infrastructure in Gliwice, phase I.	57.6
04.12.2017	Poznań Kartuska Sp. z o.o. SK	Annex No. 1 to the construction contract “Stara Cegielnia" housing estate in Poznań, phase II.	Annex value: 16.3
10.11.2017	Promenady VII VD Sp. z o.o. Sk	Carrying out of a real estate development investment under the name PROMENADY WROCŁAWSKIE, phase VIII (two contracts).	44.0

[3] BIG InfoMonitor

[4] Ibidem

10.11.2017	Szpital specjalistyczny im. Ludwika Rydygiera w Krakowie Sp. Z o.o.	Design and build contract for: - construction of a new seat of the Malopolska Centre of Burns Treatment and Rehabilitation, Plastic and Reconstructive Surgery and Intensive Care Unit for Children; - modernisation of hospital facilities for the purpose of Centre of Maternity and Woman's Medicine.	29.7
03.11.2017	Fortum Power and Heat Polska Sp. z o.o	Modernization of the flue gas cleaning installation in the Częstochowa Heating Plant, including the construction of a turnkey flue gas denitrification, scrubbing and desulphurization systems.	40.2
20.10.2017	Bogdan Sadka SK	Extension, vertical enlargement and alteration of existing buildings, including landscaping of site located in Międzyzdroje - Construction of a new hotel facility.	25.2
06.10.2017	Seaside Park Sp. z o.o.	Conclusion of Annex No. 2 to the Construction Works Contract – erection of the SEASIDE PARK health and spa facility in Kołobrzeg.	23.3
21.08.2017	Porto Office A Sp. z o.o.	Construction of an A-class office and retail building with underground parking in Krakow.	32.3
27.07.2017	Dom Development S.A.	Construction of three phases of a residential development in district Białołęka in Warsaw.	148.3
13.07.2017	Echo Investment S.A.	Construction of a residential complex in Kraków on Spiska Street.	17.2
27.06.2017	VD Sp. z o.o. Mieszkania VII	Construction of multi-family residential buildings in Wrocław, phase 1A and 1B.	55.1
22.06.2017	Lake Hill Sp z o.o. SK	Construction of two buildings numbered A and B forming a leisure complex called "Lake Hill Resort & Spa".	49.0
02.06.2017	Nordic Astrum Sp. z o.o.	Construction of the Nordic Astrum residential and retail building in Bydgoszcz.	50.2
01.06.2017	CGL VII Sp. z o.o. SK	Construction of phase II of the "Grójecka 216" residential and retail complex with underground car park.	17.3
31.05.2017	CGL VIII Sp. z o.o. SK	Construction of the "Bliskie Bemowo" residential and retail complex with underground car park.	18.1

17.05.2017	GRUPO LAR REAL ESTATE VI Sp. z o.o. V SK	Construction of phase III of the “Nowe Bielany II” residential and retail complex with underground car park.	10.3
12.05.2017	Student Depot Funky Sp. z o.o.	Construction of FUNKY hall of residence in Wrocław	38.0
28.04.2017	CGL II Sp. z o.o. SK	Construction of phase IVI of the “Bliski Tarchomin” residential and retail complex with underground car park.	14.4
07.04.2017	Durham Sp. z o.o.	Construction of a building with underground garage, consisting two above-ground residential parts and one above-ground part designed for a student hotel.	43.0
07.04.2017	Durham II Sp. z o.o.	Construction of two multi-storey residential buildings with underground garage in Kraków.	37.9
31.03.2017	Seaside Park Sp. z o.o.	Conclusion of Annex No. 1 to the Contract for Construction Works - construction of a SPA and hotel facility in Kołobrzeg named SEASIDE PARK.	25.9
26.01.2017	Platinium Resort Sp. z o.o.	Construction of a four-star hotel complex in Świnoujście.	53.5
02.01.2017	VD Sp. z o.o. Mieszkania XIV SK	Carrying out of LOGON CITY housing development located in Wroclaw.	33.8

2.2.4. Key projects

Over 2017, the company carried out, among others, the following large projects:

- Offices: Nowa Formiernia Office and Conference Centre in Łódź.
- Shopping malls: GALERIA MŁOCINY Shopping Centre in Warszaw; shall and core of the LIBERO Shopping mall in Katowice at Streets Kościuszki and Kolejowa.
- Housing: Central Park Ursynów, phase II; "Grójecka 216" residential and retail complex with underground car park in Warsaw at Grójecka Street; Włodarzewska Apartaments in Warsaw; DOM SASKI - multi-family building with an underground garage in Warsaw on Szczęśliwicka Strret for Longbridge Boutiq Park Sp. z o.o.; NOWY GAJ Residential Complex; Residential Complexes PROMENADY V and PROMENADY VII; LOGIN CITY housing estate and ”Stara Cegielnia”, phase I in Poznań; PIANISSIMO - multifamily residential building with retail area, multi-bay underground garage and on-grade car park; APARTAMENTY NOVUM II residential and retail complex in Kraków.
- Hotels: four-star hotel complex PLATINIUM RESORT in Świnoujście; *Hampton by Hilton* in Gdańsk, *Four Points* by Sheraton in Warszawa, *Seaside Park* in Kołobrzeg , DOBOSZ BLUE in Świnoujście; *Baltic Park Molo II* in Świnoujście.
- Public buildings: Southern Hospital in Warsaw; large-area storage facility in Piła; future headquarters of the Campus Warsaw at the Koneser Praga Center (parking lots and building structure); DEPOT FUNKY Student House in Wrocław.

- Industrial plants and installations: „Pralinki Tuchola" chocolate factory; warehouse and production building with office, welfare and commercial facilities, incl. necessary on-site infrastructure in Toruń; high bay warehouse - extension of Dry Salt Storage Depot.

Construction Works on the Galeria Młociny and the South Hospital in Warsaw began in autumn 2016.

ERBUD S.A. also builds abroad, mainly in Belgium. In 2017, the total value of projects amounted to EUR 6 221 thousand.

Projects in Belgium in 2017

Client	Project	Contract value In EUR '000
Vanhout nv	Herent, apartment houses	1 307
Mourik nv	Antwerpia, Rafineria Optara, industrial facilities	1 388
Bau nv	Deurne, apartment building	566
Groep Van Roey	Puurs, cultural centre	564
Vanhout nv	Antwerpia, Rafineria Esso, industrial facilities, Rafinery	830
THV (Vanhout ACH)	Kortrijk, swimming pool	157

2.2.5. Opportunities and threats

The prospects for the development of the building construction in Poland in the coming years are good, but they vary depending on the segment, and thus:

- Shopping and retail centres: In 2017, new retail space of 422,000 sq m was put into use. (+ 3% y/y). Over 40% of the new area is allocated to shopping centres of above 40,000 sq m, mainly in big cities. Currently, over 0.5 million sq m of retail space is under construction, of which nearly 80% will be put into use in 2018. The largest shopping markets in Poland are located in the Warsaw agglomeration - 47 malls with GLA of over 1.5 million sq m. and Katowice conurbation (44 facilities, GLA of 1.1 million sq m). New facilities are built mainly in the largest agglomerations (71% of the area) and in small towns of less than 100,000 residents (21% of the area). The largest shopping centres under construction are: Galeria Młociny (73,000 sq m), Forum Gdańsk (62,000 sq m), Galeria Libero (45,000 sq m). There is also a trend to extend and modernize existing facilities, which constitutes about 12%. It will continue next year.[5] In connection with the above, Erbud expects that 2018 will enrich the portfolio of orders with medium-sized shopping centres or bring contracts for extension and modernization of the existing ones. It is estimated that 2018 will bring a 2.2% increase in construction and erection output in the shopping centre segment (the value of output is estimated at PLN 6.7 billion in 2018).
- The construction industry expects that a much higher increase will be on the office buildings market. According to the data quoted at the Construction in Poland Forum 2018, the y-o-y growth in the field of construction of office space will amount to 10.7%. This means that the value of this segment fluctuates around PLN 4.3 billion.
- Industrial and warehouse space. According to the data presented at the Construction in Poland Forum 2018, the increase in construction and erection production will oscillate at around 5%. According to forecasts, the value of production will amount to PLN 11. 6 billion.

[5] Source: Colliers International

- Hotels. The year 2017 was a record one in terms of construction and erection production in this segment of building - an increase of 23.7%. It is estimated that 2018 will bring another 12.2% growth, and the value of production in this segment will be about PLN 1.08 billion.
- Housing. After 2016, the year 2017 was another record-breaking year in terms of the number of new dwellings - 174.9 (7.1% increase y-o-y). It is estimated that in 2018 this record will be broken again and the number of flats completed will increase to 179.6 million. Also in the ERBUD S.A. portfolio the residential sector has a significant share - 24.6%.

2.2.6. Objectives for 2018

ERBUD S.A. plans to continue the development of competence in the field of building construction and to maintain its position as one of the market leaders. At the end of 2017, the Company had a portfolio of orders worth PLN 1 627 million, of which PLN 1 394 million due to be completed in 2018. By comparison, at the end of 2016, the portfolio amounted to PLN 1 611 million. The priority for the company will be the execution of contracts with a safe margin.

2.3. ERBUD International Sp. z o.o.

2.3.1. Company's profile

ERBUD International Sp. z o.o. has been present on the market since 2000. The company is based in Toruń. ERBUD International Sp. z o.o. constructs, renovates, and provides maintenance and modernisation services for public utility buildings, residential buildings, industrial and power engineering facilities. It specializes in shall and core and in complex repair and modernisation services rendered for the industry and power sector.

In addition to domestic projects, the Company also carries out works abroad, mainly in Belgium. ERBUD International Sp. z o.o. has a branch office in Düsseldorf, Germany.

The major strength of the Company in market competition is its ability to construct large facilities, offering superior quality and timely delivery of services to the employers.

While performing contracts in the European Union countries the Company uses own, specialized workforce. At the end of 2017 the headcount level at the Company was 330 people, of which 140 in Poland.

2.3.2. Governing bodies

Since 1 January 2007, Bogdan Durr holds the position of President of the Management Board of Erbud International Sp. z o.o.

2.3.3. Market situation

Initial estimates show that the GDP in Belgium in 2016 increased by 1.7%. The economic growth was mainly driven by consumption and foreign trade.

2.3.4. Projects completed in 2017

In 2017, ERBUD International carried out projects in Belgium with a total value of EUR 11 727 thousand, among them:

Client	Project	Contract value In EUR '000
Ergon N.V.	Setting up of formwork for precast reinforced concrete works, Lier	628
Groep VAN ROEY N.V.	Music Academy, Aalst	1 110

Vanhout N.V.	Crematory, Lommel	470
PAGIDAK BVBA	Residential buildings	933
Mourik	Café, Antwerpia	94
THV AZ Groeninge Parking	Public building, garage for the hospital, Roeselare	79
Baunv	Casino, Antwerpia	153
Vanhout N.V. ACH	Swimming pool, Zwevegem	173
Vanhout N.V.	Office house, Kapelle	220
Vanhout N.V.	Residential buildings, Sterrebeck	1.808
MBG	ATRO II Residential buildings, Antwerpia	663
Bam	Hotel, Knokke	320
DCA	Kempisch Dok residential building, Antwerpia	1 466
Bam	Old peoples' home, Oostende	799
MBG	School, Antwerpia	641
West Construct N.V.	Water treatment station, Eeklo	716
BAM Contractors N.V.	Transformer station, Brugge	424

2.3.5. Opportunities and threats

According to the EU's statistical office Eurostat, Belgian GDP will increase by 1.4% in 2018. For comparison: the forecasted economic growth in the Netherlands in 2018 is 2.2%, and in Germany 2.1%.

As regards Belgium this means a less growth than last year. This may result in the transfer of activity to the German market.

Although the economies of these countries are expected to grow faster next year, wage growth will be lower there than in Belgium. According to the Korn Ferry Hay Group, wages will rise by 2.5% in 2018 in the Netherlands and Germany and for example by only 1.7% in France.

2.3.6. Strategic priorities

The strategic goal of ERBUD International is to strengthen its position in the Belgian and Dutch markets. In particular, the Company intends to use the current market conditions in Belgium for investments in public buildings (mainly hospitals and schools).

At the end of 2017, the Company had a portfolio of orders worth PLN 4.6 million.

2.4. GWI BAUUNTERNEHMUNG GmbH

2.4.1. Company's profile

The ERBUD Group has been present on the German market since 1993. The Group operates on this market through GWI BAUUNTERNEHMUNG GmbH (GWI). This company, based in Düsseldorf, specializes in general construction.

In December 2017, the total headcount at GWI GmbH was 79 people.

2.4.2. Governing bodies

Since 1 January 2007, Axel Wahl holds the position of President of the Management Board.

2.4.3. Market situation

In 2017, the gross domestic product in the German economy grew by 2.2%, which means the highest rate of economic growth for six years. As explained by Destatis, the last year's good economic situation was mainly the result of internal stimuli, including an increase in private consumption spending by 2.0% and in gross investment by 3. 6%. Exports rose by 4.7% and imports by 5.2%. The number of employees in 2017 was on average 44.3 million, which is more than ever since the reunification of Germany. Compared to 2016, it was an increase by 638 thousand people and by 1.5%. "This growth was a result of an increase in employment in the sphere of social welfare. The increase in the percentage of the professionally active population as well as the inflow of labour from abroad offset the demographic effects caused by the aging of society", noted in his information Destatis."

2.4.4. Contracts signed in 2017

In 2017, the Company acquired contracts totalling EUR 56 million, including:

Client	Project	Contract value In EUR '000
IPG Grundstücks- und Verwaltungsgesellschaft	Rhein Tower	10 997
Ralf Schmitz GmbH & Co. KgaA	Greifweg Düsseldorf	1 784
Ralf Schmitz GmbH & Co. KgaA Rubenstrasse Düsseldorf	Rubenstrasse Düsseldorf	978
Conesta Projekt Duisburg APH & BW Duisburg	APH & BW Duisburg	4.700
Stadtwerke Hürth	Stadtwerke Hürth	175
Projekt Radeberger Strasse / Projekt Dreherstraße	Dreherstraße Düsseldorf	4 599
KQ Core S.C.S.	Fluchttreppenhaus KÖ47	540
Stadtwerke Hürth	Dampfturbine Hürth	3 890
KÖ Quartier	KQ Development S.C.S.	9 600
Conesta Consulting & Construction	APH Düsseldorf	5 917

Siemens Wind Power GmbH & Co. KG	Hamburg FES Forschungsanlage	2 648
Vattenfall Europe Wärme AG	Arge Ersatz Reuter C	8 800
Matthäi	Berlin Marzahn GuD	2 000

2.4.5. Projects completed in 2017

In 2016, the Company completed the following projects:

- A two-storey SPA Vabali building by the Eblsee Lake in Düsseldorf. The scope of works comprised: building shell finishing on a turn-key basis, incl. on-site infrastructure and development works.
- West Park residential complex with 141 apartments, kindergarten and 144 parking places. Sixty percent of construction costs were financed with Company's own funds, the rest with public funds from low rental housing. Works were executed in general contracting and included all design works and construction of the facility on a tur-key basis.
- A membership in the consortium responsible for the shell and core of W&W-Campus in Kornwestheim. By 2018, on the site of approximately 20 thousand m² two office buildings will be erected with the jobs for some 1 200 people. The Phase 1of the project is worth EUR 130 m.

2.4.6. Opportunities and threats

Experts predict for 2018 hundreds of thousands of new jobs in Germany, which will further improve the already excellent situation on the labour market. German companies are also great. This boom is enabled by a thriving economy; the German GDP is expected to grow by 2% in 2018. In economically strong regions such as Bavaria and Baden-Württemberg, in 2018, "full employment" may even prevail.

The German economy is in excellent condition. This is mainly due to the manufacturing industry, which benefits from an upturn in the Euro area and the rest of the world. This sector will continue to increase exports and investment activity", wrote Ifo economists.[6]

2.4.7. Strategic priorities

GWI plans to take advantage of the opportunities offered by the anticipated development of the German economy, including in the area of housing construction. At the end of 2017, orders worth PLN 186.75 million (EUR 45 million) were in the GWI order portfolio.

2.5. Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A.

2.5.1. Company's profile

Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. (PBDI) runs its activities in the following areas:

- road works;
- earthworks during the construction of shopping malls and other public buildings;
- construction and power engineering works during the erection of solar farms;,
- works related to the operation of wind farms.

At the end of 2017, the total headcount at PBDI was 288 people.

[6] Source: Grzegorz Siemiończyk – parkiet.pl

2.5.2. Governing bodies

In 2017, the Management Board consisted of:

by 30.09.2017:

- Jacek Leczkowski – President of the Board,
- Roman Rubach – Vice-President of the Board;

since 01. 10. 2017, the Management Board of the Company has a three-person composition:

- Jacek Leczkowski – President of the Board,
- Roman Rubach – Vice-President of the Board,
- Paweł Średniawa – Vice-President of the Board.

2.5.3. Market situation

Currently, the Company operates mainly on the road construction market, both local and nationwide. The renewable energy construction market, on which the Company has built up its extensive competences over the years, has slowed down - wind farm projects are not implemented, while we are observing the beginnings of photovoltaic investments. The situation on the road construction market was determined, among others, by the level of advancement of the use of EU funds, in particular from the Infrastructure and Environment Program.

Since the second half of 2016, competition calls and conclusion of contracts for road projects have been accelerated. The demand for services in this segment is high; however, the manner of allocation of orders between contractors and big competition causes constant pressure on the price of works. The observed increase in costs of employment and materials, reduced availability of materials and subcontractors suggest a cautious approach to the acquisition of next orders.

2.5.4. Contracts signed in 2017

Contracts signed between 1 January 2016 and the date of publication of the report
(with a unit value of over PLN 500 thousand)

Contract date	Client	Works under the contract	Net contract value in PLN '000
Urząd Miasta Toruń	Urząd Miasta Toruń	Patch renovation and repair of roads and pavements in Toruń, phase 1 – national roads	558
18.01.2017	Urząd Miasta Torunia	Patch renovation and repair of roads and pavements in Toruń, Pahase3 – national roads	1 681
06.02.2017	Powiat Toruński	Reconstruction of county roads 2003C section Siemoń-Łążyn, and 2015C section Siemoń-Wybcz	3 249
09.02.207	Powiat Włocławski	Expansion of county road 2905C section Szpetal Górny-Kulin (Dobrzyńska street)	4 718
02.03.2017	Ampol - Merol sp. z o.o.		5 799
08.03.2017	Gmina Obrowo	Reconstruction of local roads G101023C and G101024C in Głogowo	829
24.03.2017	Gmina Ryńsk	Reconstruction of local roads 070319C and 070320C section Czystochleb-Małe Radowiska	1 074

31.03.2017	Powiat Aleksandrowski	Reconstruction of county road 2603C section Ciechocinek-Siutkowo, Ciechocińska Street in Nieszawa	1 642
12.04.2017	Gmina Miasto Włocławek	Expansion of Grodzka Street, incl. accompanying infrastructure	3 891
01.06.2017	Województwo Zachodniopomorskie	Reconstruction of provincial road 102 section Łukęcin -Lędzin	28 079
07.06.2017	Powiat Chełmiński	Reconstruction of county road 1628C scetion Trzebcz Królewski-Zegartowice	2 080
20.06.2017	Województwo Zachodniopomorskie	Reconstruction of provincial road 203 from Darłowo to the border of the province, phase 1 – reconstruction of Tynieckiego Street in Darłowo	6 331
22.06.2017	Województwo Zachodniopomorskie	Reconstruction of provincial road 102 section Międzywodzie-Dziwnów	9 455
28.06.2017	Apator S.A.		1 800
12.07.2017	Galeria Libero - Projekt Echo - 120 sp. z o.o. sp k.	Road works and utility networks at Libero Shopping Centre in Katowice on streets Kościuszki and Kolejowa	38 900
21.07.2017	Gmina Lubicz	Reconstruction of local roads in Lubicz Dolny, Złotoria and Rogowo	1 653
21.07.2017	Chatteris Investments zp. z o.o.	Comprehensive power transmission works and required building works for the construction of photovoltaic power plant complex: Mierki I. Mierki II, Mierki II, Mierki IV, Mierki V, Mierki VI, Dobrcz I, Dobrcz II, Dobrcz II, Dobrcz VI	28 903
27.07.2017	Clean Wind Energy Ltd.	Preparation of basic design of the Aran Wind Farm	2 000
25.08.2017	PORR S.A.	Expansion and reconstruction of streets Przemysłowa, Kostrogaj and Wiadukt in Płock, incl. necessary infrastructure to provide access to investment areas on Łukasiewicza housing estate and Trzepowo housing estate	17 614
28.08.2017	Powiat Kołobrzeski	Reconstruction of county road 3309Z section Rościęcino-Rzesznikowo	4 371
01.09.2017	Powiat Golubsko-Dobrzyński	Renovation of country roads surface, phase 1	825
14.09.2017	Gmina Łysomice	Reconstruction of local road 100626C section Kamionki Duże-Kamionki Małe	1 215
25.09.2017	Gmina Lubicz	Reconstruction of local roads in Młyniec and Krobia	892
25.09.2017	Województwo Zachodniopomorskie	Reconstruction of provincial road 206 section Mokre-Nacław	2 220

03.11.2017	ADV Por Property Investment S.A. sk	Comprehensive road works on public roads on real estates located in Bydgoszcz in the area of streets Inflancka / Fordońska / Pilicka	5 200
06.11.2017	Gmina Obrowo	Surface works for lokal roads in Brzozówka, Głogowo, Dobrzejewice Szembekowo, Łążyn, Obrowo and Zębowo	2 231
15.11.2017	Gmina Lubicz	Reconstruction of local road Bankowa Street and extension of crossing of Bankowa Street and Piaskowa Street in Lubicz Górny	1 309
20.11.2017	Gmina Miasta Toruń	Reconstruction of Św. Antoniego Street	2 355
23.11.2017	Gmina Miasta Toruń	Construction of Hubego Street in Toruń, phase II	641
08.01.2018	Gmina Miasta Toruń	Maintenance of vertical signs and elements of road safety within the administrative boundaries of Toruń	649
29.01.2018	Eko Park XX sp. z o.o.	Construction of a photovoltaic farm Bielawki	1 039
29.01.2018	Solar Star sp. z o.o.	Construction of a photovoltaic farm Lubin I	1 225
29.01.2018	YGE Poland Solar 6 sp. z o.o.	Construction of a photovoltaic farm Mroczeń II	1 257
29.01.2018	YGE Poland Solar 6 sp. z o.o.	Construction of a photovoltaic farm Bukowica	1 242
29.01.2018	Quintax Solar I sp. z o.o.	Construction of a photovoltaic farm Zelgno	986
29.01.2018	YGE Poland Solar 6 sp. z o.o.	Construction of a photovoltaic farm Parzęczewo	1 273

2.5.5. Key projects in 2017

The most important projects implemented by PBDI in 2017 include:

- Earthworks. incl. the construction of the bottom slab using the watertight concrete system and road works associated with the construction of Galeria Handlowa Młociny.
- Reconstruction of the provincial road 203 on the section Dąbki-Darłowo.
- Development of change design documents, possible optimization, construction, financing and opening the Southern Collector Road at the section from Jaworzyńska St. to Rzeczypospolita Av. In Legnica.
- Construction of tanks for liquid fertilizers in Szczytniki.
- Construction of photovoltaic farms Mierki and Dobrcz.

2.5.6. Opportunities and threats

The potential of road construction market in Poland is enormous. The National Road Construction Programme for 2014-2023 (with a perspective until 2025) assumes that for the construction of express thoroughfares, motorways, ring roads and maintenance of technical standards of existing road network the total sum of PLN 130 billion will be allocated. Additionally, the total amount of PLN 4 billion will be spent by the government in 2016-2020 for the development of local and county-level road infrastructure.

Good prospects also appear before the segment of Renewable Energy Sources (RES). According to representatives of the government, Poland aspires to achieve the goal agreed with the European Union - 15% of energy from RES by 2020. Currently, work is underway on the amendment of the Renewable Energy Act, the purpose of which is, inter alia, to restore the possibility of uniform taxation of wind farms and to amend the regulations providing for three years to complete the commenced construction of wind farms.. Positive signals also concern the development of photovoltaics in Poland - the media provides information on prepared auctions for approximately 700 MW in this technology.

The high accumulation of construction works in the short time period entails risks related to the increase of material prices and their availability (limited production capacity, limitations related to logistics and transport). The high risk for construction companies is borne by the labour shortage observed for a long time and, consequently, considerably increasing remuneration costs.

2.5.7. Strategic priorities

PBDI intends to maintain its leading position in the construction of Renewable Energy Sources developed at the building of wind farms. The Company's competence, mainly power engineering, acquired during execution of wind farm projects are successfully used for the solar projects.

PBDI intends to keep ts activity in the road construction sector by participating in tender proceedings throughout the country. When selecting orders, the Company pays special attention to minimizing identified risks.

The Company entered 2018 with a portfolio of orders worth over PLN 130 million, compared to PLN 120 million a year earlier.

2.6. ERBUD Industry Sp. z o.o.

2.6.1. Company’s profile

ERBUD Industry Sp. z o.o. seated in Toruń was founded in December 2000. It is the parent entity of the ERBUD Industry Group. The Group is formed by the parent and the following companies:

- ERBUD Industry Centrum Sp. z o.o.,
- ERBUD Industry Pomorze Sp. z o.o.,
- ERBUD Industry Południe Sp. z o.o.

There are two divisions within the ERBUD Industry Sp. z o.o.:

- The Engineering Division, which focuses on offering such works as: modernization of industrial and power engineering facilities, construction of processing lines and preparation of large projects.
- The Maintenance Division, which focuses on the activity of subsidiaries offering services in the field of: constructing, upgrading and repairing industrial and power engineering facilities, troubleshooting industrial machinery and equipment, organizational and technical consulting and technical inspections.

In 2017, the company carried out activities aimed at acquiring and implementing engineering and construction projects, specialising in design, construction and maintenance services for the industry and power sector.

ERBUD Industry Sp. z o.o. applies integrated management system and held the following certificates concerning comprehensive execution of industrial facilities, including indoor and outdoor infrastructure, design and execution of process lines, especially for power sector and industry, and comprehensive execution of engineering and technical facilities:

- BS OHSAS 18001:2007,
- PL-EN ISO 9001:2009,
- PN-EN 14001:2005,
- PN-N 18001:2004.

On 1 July 2017, ERBUD Industry Sp. z o.o changed the organizational structure of the engineering division by merging branches into one functional structure. At the end of 2017, the company employed 72 people.

2.6.2. Governing bodies

Until 2 January 2017, the Management Board of ERBUD Industry Sp. z o.o. acted in the following composition:

- Mirosław Białogłowski – Board Member,
- Mariusz Grochowski – Board Member,
- Marcin Nowicki – Board Member.

On 23 December 2016, the Supervisory Board of ERBUD Industry Sp. z o.o. appointed Mr. Paweł Smoleń to the position of the President of the Management Board of the Company, effected from 2 January 2017. From 2 January 2017 to 16 October 2017, the Management Board of ERBUD Industry Sp. z o.o. had the following composition:

- Paweł Smoleń – President of the Board,
- Mirosław Białogłowski – Board Member,
- Mariusz Grochowski – Board Member,
- Marcin Nowicki – Board Member.

On September 13, 2017, the President of the Management Board of ERBUD Industry Sp. z o.o. Paweł Smoleń resigned from his position. The resignation came into force on 16 October 2017.

From 17 October 2017 until the end of 2017, the Management Board of ERBUD Industry Sp. z o. o. was composed of:

- Mirosław Białogłowski – Board Member,
- Mariusz Grochowski – Board Member,
- Marcin Nowicki – Board Member.

As at the date of this Report, the Company's Management Board had the following composition:

- Mirosław Białogłowski – Board Member,
- Mariusz Grochowski – Board Member,
- Marcin Nowicki – Board Member.

In the period from 1 January 2017 to 28 March 2017, the Supervisory Board of ERBUD Industry Sp. z o. o. was composed of the following members:

- Agnieszka Głowacka,
- Józef Adam Zubelewicz,
- Belinda Anna Śliwińska.

By Resolution No. 1 of the Extraordinary General Meeting of Shareholders of ERBUD Industry z o.o. of 28 December 2016, the company's articles of association has been changed, and the AGM and the Management Board are the only bodies of the company. The aforementioned amendment to the articles of association was entered on 28 March 2017 in the business register kept by the National Court Register. Since 28 March 2017, the Supervisory Board of ERBUD Industry Sp. z o. o. has ceased to be the company's body.

2.6.3. Market situation

In the area of power engineering construction, the level of commenced investments is still low. The process of modernization of power facilities in the heating industry has begun, involving their adaptation to new emission standards, which the company sees as a market opportunity.

2.6.4. Projects completed in 2017

One of major projects completed in 2017 involved the execution for RAFAKO SA of comprehensive construction works, including the boiler house and engine room, construction of the coal handling system and installation of a turbine in a

new Combined Heat and Power Station with the capacity of 25 MWe at the Kędzierzyn Koźle SA Nitrogen Works.

The year 2017 saw the follow-up of the following key projects:

- limestone crushing plant at the Turow Power Plant in the locality of Bogatynia (customer: PGE Gornictwo i Energetyka Konwencjonalna SA (PGE Mining and Conventional Power Engineering SA);
- flue gas denitrification plant at the Pomorzany Power Plant (customer: PGE Gornictwo i Energetyka Konwencjonalna SA (PGE Mining and Conventional Power Engineering SA);
- civil works for the multifuel-fired unit with the capacity of 220 MWe at the Zabrze Combined Heat and Power Plant (customer: Fortum Silesia SA).

2.6.5. Contracts signed in 2017

A significant contract signed in 2017 was the contract signed with Fortum Power and Heat Polska Sp. z o.o. for the execution on a turn-key basis a modernization of the fl ue gas treatment system at the Czestochowa District Heating Station. The works are scheduled for completion in September 2019. This project is a part of a newly opened cycle of industrial investments aimed at the improvement of air quality in Poland.

2.6.6. Opportunities and threats

The energy infrastructure in Poland requires a thorough modernisation in order to adjust it to environmental standards and increase the reliability of energy supply.

The total capital expenditures for power engineering planned for 2014-2028, as estimated by the Energy Regulatory Office, amount to as much as PLN 97 billion.

The contract won in 2017 for Fortum for the modernization of heating boilers is an opportunity for the company to obtain references and actively participate in the carrying out of other similar projects in the industry.

2.6.7. Strategic priorities

The main strategic objectives of ERBUD Industry Sp. z o. o. include:

- Achieving a significant position in the modernization of heating boilers due to the need to adjust these sources to the new emission standards.
- Acquiring competence in the field of building new sources for gaseous fuels.
- Maintaining its position in the area of construction of environmental protection systems.
- Safe business development - a responsible partner. Balanced growth of turnover, achievement of assumed results, maintenance of liquidity.

The objective of ERBUD Industry Sp. z o. o. is to increase the scale of its operations thanks to its ability to provide comprehensive services for projects in design and construction, not only for facilities in the industry and energy sector but also for facilities meeting the most demanding technical and environmental standards.

2.7. ERBUD Industry Pomorze Sp. z o.o.

2.7.1. Company's profile

The core business of ERBUD Industry Pomorze Sp. z o.o. headquartered in Gdańsk are maintenance services of power, electrical and industrial facilities, renovation and modernization of power and industrial plants, construction of pipelines and electrical systems, and prefabrication of steel structures.

The company has two branches: in Gdańsk and Torun. At the end of 2017, the total headcount at the Company was 122 people.

2.7.2. Governing bodies

In 2017 and as at the date of preparing the Report, the Management Board of the Company was composed as follows:

- Roman Nagórski – President of the Board,
- Janusz Gorczyński – Vice-President of the Board.

During 2017, the Supervisory Board of the Company consisted of four persons:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Włodzimierz Czystowski – Secretary.

From 1 January 2018, the composition of the Company's Supervisory Board as at the date of preparing the Report is as follows:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Joanna Piersa – Secretary.

As a result of the resignation of Mr. Włodzimierz Czystowski from the function of the Secretary of the Company's Supervisory Board (with effect as at 31 December 2017), on 21 December 2017, the Extraordinary General Meeting of the Company appointed Ms. Joanna Piersa as the Secretary of the Company's Supervisory Board as from 1 January 2018.

2.7.3. Projects completed in 2017

The company mainly focused on maintenance and repair works for EDF Polska S. A. Oddział Wybrzeże in Gdańsk. The biggest tasks include modernization of cooling water exchangers in Gdynia and Gdańsk, as well as a major overhaul of the TG-1 turbine in Gdynia. The Toruń branch carried out works for ERBUD Industry Sp. z o. o. in the field of disassembling and assembling exhaust gas fans on a project in Pomorzany. Moreover, the company manufactured exhaust gas ducts for LOTOS S. A. and continued to cooperate with Outoteck GmbH by producing highly specialised heat exchangers for the chemical industry.

2.7.4. Development directions

The Company intends to expand its operations, in particular on the LOTOS Group’s market, while focusing on the current scope of its operations. In December 2017, the Company's order backlog amounted to PLN 9.8 million (excluding the won auction for the overhaul of a boiler in Gdańsk worth PLN 9.5 million), compared to PLN 14 million a year earlier.

2.8. ERBUD Industry Centrum Sp. z o.o.

2.8.1. Company’s profile

ERBUD Industry Centrum Sp. z o.o. (previously Engorem Sp. z o.o.) headquartered in Łódź was established in 1994. It operates in the maintenance services and specializes in the repair of power, heat and electric systems, Instrumentation Control Automation, as well as industrial systems and municipal networks.

At the end of 2017, the total headcount at the Company was 422 people.

2.8.2. Governing bodies

In 2017 and as at the date of preparing the Report, the Management Board of the Company was composed of:

- Paweł Mścichowski – President of the Management Board & CEO,
- Michał Bursa – Vice-President of the Management Board & Technical Director.

During 2017, the Supervisory Board of the Company consisted of four persons:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Włodzimierz Czystowski – Secretary.

From 1 January 2018, the composition of the Company's Supervisory Board as at the date of preparing the Report is as follows:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Joanna Piersa – Secretary.

As a result of the resignation of Mr. Włodzimierz Czystowski from the function of the Secretary of the Company's Supervisory Board (with effect as at 31 December 2017), on 21 December 2017, the Extraordinary General Meeting of the Company appointed Ms. Joanna Piersa as the Secretary of the Company's Supervisory Board as from 1 January 2018.

2.8.3. Projects completed in 2017

The Company mainly carried out repairs of basic equipment in the Łódź Heat and Power Plant commissioned by Veolia Łódź S. A. During the summer downtime in the plant, the fittings of water and steam system as well as on auxiliary, electrical and Control and Measurement equipment were also repaired. As part of the works in the heating sector, the Company carried out repairs and modernizations of heat distribution networks and built new heat distribution connections and modernized heat exchange stations.

Outside the city of Łódź, the company completed significant repairs on the CIECH Janikowo and Inowrocław market for a total amount of PLN 12 million; an annual inspection and periodic repair after the second year of operation of the Municipal Waste Water Treatment Plant in Konin have been made; continued were equipment maintenance and technological infrastructure services and for plants of the Pfleiderer Group in Wieruszów and Grajewo; two renovation projects were completed in Germany in the Baruth and Gutersloh factories.

2.8.4. Development directions

In view of the decreasing scope of work for Veolia Energia Łódź S.A., ERBUD Industry Centrum Sp. z o.o. will focus on acquiring new contractors and expanding its business profile with new services. In December 2017, the Company's order backlog amounted to PLN 35 million vs. PLN 50 million last year.

2.9. ERBUD Industry Południe Sp. z o.o.

2.9.1. Company's profile

ERBUD Industry Południe Sp. z o.o. headquartered in Będzin, has been present on the market since July 1998. It provides repair and maintenance services for equipment in power, combined heat and power, and industrial plants.

The company's operations are carried out through two branches: Będzin Branch and Rybnik Branch.

At the end of 2017, the total headcount at ERBUD Industry Południe Sp. z o.o. was 112 people.

2.9.2. Governing bodies

In 2017 and as at the date of preparing the Report, the Management Board of the Company was composed of:

- Dariusz Badeja – President of the Board,
- Tomasz Swaryczewski – Vice-President of the Board.

During 2017, the Supervisory Board of the Company consisted of four persons:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Włodzimierz Czystowski – Secretary.

From 1 January 2018, the composition of the Company's Supervisory Board as at the date of preparing the Report is as follows:

- Mariusz Grochowski – President of the Board,
- Marcin Nowicki – Vice-President of the Board,
- Mirosław Białogłowski – Board Member,
- Joanna Piersa – Secretary.

As a result of the resignation of Mr. Włodzimierz Czystowski from the function of the Secretary of the Company's Supervisory Board (with effect as at 31 December 2017), on 21 December 2017, the Extraordinary General Meeting of the Company appointed Ms. Joanna Piersa as the Secretary of the Company's Supervisory Board as from 1 January 2018..

2.9.3. Projects completed in 2017

In 2017, ERBUD Industry Południe Sp. z o.o. carried out i.a. works connected with:

- the replacement of the Rotary Boiler Heater at EDF S.A., Rybnik Branch;
- the repair of a medium fluidized bed boiler at Siersza Power Plant for Tauron Wytwarzanie;
- the modernization of auxiliary equipment at EDF S.A. at the Rybnik Power Plant;
- the maintenance of boiler equipment for SEJ S.A. in Jastrzębie;
- the maintenance of boiler equipment for ZEC Katowice;
- the modernization of electrostatic precipitator for PEC Gliwice;
- boiler renovations for Będzin Power Plant.

2.9.4. Development directions

ERBUD Industry Południe Sp. z o.o. intends to continue its activity on the market where it currently operates, at the same time putting emphasis on the development of competences, mainly in the pressure field, and using anti-smog laws - to develop projects associated with heating networks on the Silesian market.

In addition, due to its installation competence, the Company is dedicated to cooperate on foreign projects in Germany, France and Sweden.

It is projected that the demand for energy in the National Power System as well as for system heat will increase in the coming years by 1-3% y-o-y. However, in case of a slowdown in GDP growth, energy consumption will remain at the existing level.

The market for repair and maintenance services is expected to grow steadily, which is due to the upgrading needs associated with the requirements of Directive 2001/80 and the commencement of heating networks modernization projects.

The energy services market is characterized by intense competition and the high bargaining power of service buyers. According to the company, one of the effective ways to cope with market conditions (without incurring high financial costs) is to develop a rational model of cooperation and strategic alliances. The focus should be on offering complex services within the high competency area of entities that provide profit and opportunities to cooperate with competitors (including through joining in consortia).

The increasing demand for maintenance services in the power industry and actions designed to eliminate internal weaknesses allow for moderate optimism in forecasting the company's gains for 2018-2019.

In December 2017, the company's order backlog amounted to PLN 16 million versus PLN 4 million a year earlier.

2.10. ERBUD CUW Sp. z o.o.

2.10.1. Company's profile

In 2017, ERBUD CUW Sp. z o. o. (Shared Services Center) operated as a back-office provider for the ERBUD Group member companies (accounting, HR and payroll, fleet management, procurement, IT services). The registered office of the company is in Warsaw.

As of 31 December 2017, the total headcount was 62 people.

2.10.2. Governing bodies

Since 10 October 2016, the Management Board of ERBUD CUW Sp. z o.o. acted in the following composition:

- Przemysław Kozłowski – Board Member,
- Włodzimierz Czystowski – Board Member.

On 10 November 2017, Mr Przemysław Kozłowski tendered to the Management Board of ERBUD S.A. his resignation from the position held, effective from 31 December 2017.

On 13 November ember 2017, Włodzimierz Czystowski tendered to the Management Board of ERBUD S.A. his resignation from the position held, effective from 31 December 2017.

On 20 December 2017, the Extraordinary General Meeting of ERBUD CUW Sp. z o.o. appointed Ms. Mariola Zielińska as the President of the Management Board. The resolution came into force on 1 January 2018.

Following this, as at the date of publication of this report, one person has a seat on the Management Board of ERBUD CUW Sp. z o.o.:

- Mariola Zielińska – President of the Board.

2.10.3. Plans for 2018 and next years

- On the basis of agreements on providing services in the field economic advisory, accounting, HR and payroll, administration, IT and office space rental, ERBUD CUW Sp. z o. o. rendered its services in 2017 and will continue these activities in the following years.
- The ERBUD Group will centralize the service processes and standardize them within the ERBUD CUW Sp. z o. o. These activities are to increase the efficiency of operations and reduce operating costs of individual companies of the Group.
- The Management of ERBUD CUW Sp. z o. o. will endeavour to shorten the accounting processes, inter alia, by introducing new IT tools.

2.11. ERBUD Rzeszów Sp. z o.o.

2.11.1. Company's profile

Erbud Rzeszów Sp. z o.o. provides services related to:

- erecting buildings and structures as General Contractor with specialization in the field of health care facilities and public spaces;
- carrying out projects under Plant and Design-Build contracts;
- designing facilities, especially those for health care;
- owner's engineer services, including the construction of facilities under Design and Supervision contracts;
- construction of facilities under Build and Finance contracts;
- engineering and pricing services.

ERBUD RZESZÓW Sp z o.o. is a collective member of the Polish Association of Construction Engineers and Technicians, Rzeszów Branch, which gathers leading construction companies from the Podkarpacie region.

For the second time in a row, the company was awarded in the Forbes Diamonds competition in the category of a company with sales revenues of up to PLN 50 million per year, receiving in 2016 the title of the laureate occupying the 2nd place in the province (66 in Poland) and in 2017, respectively 9 (407).

These distinctions are awarded to companies which in the last three years increased their value the fastest, publish their financial statements in the Monitor Polski C and have a risk factor lower than 4, assessed according to the Bisnode rating.

As of 31 December 2017, the total headcount was 30 people.

2.11.2. Governing bodies

In 2017, the Company's Management Board was composed of:

- Mirosław Młynarski – President of the Board,
- Walenty Twardy – Board Member,
- Wincenty Rut – Board Member

2.11.3. Market situation

There are more and more investors on the construction market not subject to the provisions of the Public Procurement Law, for whom the lowest price is not the only criterion for selecting a bidder and the condition for signing a contract.

Often, a recognized position on the construction market (ERBUD Group), supported by a positive opinion on the quality of services provided, decides on the opportunity of negotiations between the investor and the contractor and then results in signing a contract which is beneficial to both parties.

By acquiring as many such investors with proven economic credibility, the Company sees the possibility of implementing contracts that guarantee the achievement of adequate profitability, which will ensure its financial liquidity, development and proper functioning.

In the following years, the Company plans to conduct and develop its current operations in the field of:

- executing construction works, particularly for the health care segment, of unit value from several to several million Zlotys,
- carrying out projects under “Design-Build” contracts and “Design and Supervision” contracts;
- as well as based on the establishment of a field office in Wrocław, the Company also plans to extend the scope of its operations to southern and central Poland providing owner’s engineer services and preparation of investment land.

The experience and practice of highly qualified staff to date allows for optimism in the development of these services. Agreements concluded in this respect are characterised by the possibility of covering the costs of execution of works based on the calculation of profits. The Company, in cooperation with financial institutions (BGK, Pekao SA, mBank), also analyses the possibility of performing construction contracts with pre-financing (the principle of buyout of receivables by the Bank). Recently, the Management Board of the Company observed offer opportunities in this area. In view of the above, further stable development of the Company operating within the ERBUD Group structure seems obvious.

2.11.4. Contracts signed in 2017

Customer	Range of works	Net contract value in PLN	Completion period
Samodzielny Publiczny Zespół Zakładów Opieki Zdrowotnej Powiatowy Szpital Specjalistyczny w Stalowej Woli 37-450 Stalowa Wola, ul. Staszica 4	Construction of a helipad elevated above the building roof in the District Hospital Stalowa Wola.	4 637 200.080	18.05.2017-21.12.2017
IMID w Warszawie, ul. Kasprzaka 17 a, 01 -211 Warszawa	Construction works under the agreement of consortium formed by Erbud Rzeszów Sp. z o.o.; Dynamik Sp. z o.o. with its registered office in 30-732 Kraków, Mierzeja Wiślana 6; and Gobox Sp. z o. o. with its registered office in 39-200 Dębica, Rzeszowska 135, - the scope falling to Erbud-Rzeszów Sp. z o. o. as a Leader is 52%.	22 617 222.00	21.07.2015-30.06.2018
BOUYGUES IMMOBIUER POLSKA Sp. z o.o.; al. Amii Ludowej 14, Warszawa	Owner's engineer services.	692 988.59	12.03.2016-12.02.2018
Elektra Invest SP. z o.o. Sp. k. z siedzibą w Poznaniu 61-763 ul. Wroniecka 21/3	Preparation of design documents	350 000.00	19.09.2016-31.08.2018
Samodzielny Publiczny Zespół Zakładów Opieki Zdrowotnej Powiatowy Szpital Specjalistyczny w Stalowej Woli, 37-450 Stalowa Wola, ul. Staszica 4	Reconstruction and extension of the Rescue Unit in the District Hospital in Stalowa Wola.	7 062 500.00	04.05.2017-01.02.2018
IMID w Warszawie, ul. Kasprzaka 17 a, 01 -211 Warszawa	Construction works, anneks to the agreement of consortium formed by Erbud Rzeszów Sp. z o.o.; Dynamik Sp. z o.o. with its registered office in 30-732 Kraków, Mierzeja Wiślana 6; and Gobox Sp. z o. o. with its registered office in 39-200 Dębica, Rzeszowska 135, - the scope falling to Erbud-Rzeszów Sp. z o. o. as a Leader is 65%	10 406 504.06	18.05.2017-30.06.2018
Omex Sławomir Stepnowski, ul. Legnicka 52,54-201 Wrocław	Comprehensive construction works as part of the fit-out of the office unit No. 2B in the office and retail building with an apartment on the last floor, owned by the Customer, located in Wrocław on 40 Braniborska St.	216 640.20	05.07.2017-28.08.2017
Omex Sławomir Stepnowski, ul. Legnicka 52,54-201 Wrocław	Comprehensive construction works as part of the fit-out of the office unit No. 2B in the office and retail building with an apartment on the last floor, owned by the Customer, located in Wrocław on 40 Braniborska St.	148 281.35	23.08.2017-23.10.2017
Promenady Zita Sp. zo.o., ul. Dąbrowskiego 44, 50-457 Wrocław	Fit out and finishing works, aimed at adjusting the premises located on the ground floor of building C, to the kindergarten purposes.	288 638.68	13.10.2017-28.12.2017
Samodzielny Publiczny Zespół Opieki Zdrowotnej Leżajsku 37-300 Leżajsk, ul. Leśna 22	Extension of the Emergency Department in the building of the Public Health Care Centre in Łeżajsk by a diagnostic and operating rooms.	7 806 252.46	23.10.2017-21.08.2018
BOUYGUES IMMOBIUER POLSKA Sp. z o.o.; al. Armii Ludowej 14; 00- 638 Warszawa	Owner's engineer services.	550 000.00	31.10.2017-31.03.2019

2.11.5. Projects completed in 2017

Currently ongoing projects

Customer	Range of works	Net contract value in PLN	Completion period
Erbud S.A.	Engineering and pricing services	2 000 000.00	Annually from 2004 on the basis of a framework agreement - estimated value
IMID w Warszawie, ul. Kasprzaka 17a, 01-211 Warszawa	Construction works under the agreement of consortium formed by Erbud Rzeszów Sp. z o.o.; Dynamik Sp. z o.o. with its registered office in 30-732 Kraków, Mierzeja Wiślana 6; and Gobox Sp. z o. o. with its registered office in 39-200 Dębica, Rzeszowska 135, - the scope falling to Erbud-Rzeszów Sp. z o. o. as a Leader is 52%.	22 617 222.00	21.07.2015-30.06.2018
BOUYGUES IMMOBILIER POLSKA Sp z o o; a 1. Armii Ludowej 14, 00-638 Warszawa	Owner's engineer services.	692 988.59	12.03.2016-12.02.2018
Elektra investSP zo o Sp k z siedzibą w Poznaniu, 61-763 Ul. Wroniecka21/3	Preparation of design documents	350 000.00	19.09.2016-31.08.2018
Samodzielny Publiczny Zespół Zakładów Opieki Zdrowotnej Powiatowy Szpital Specjalistyczny w Stalowej Woli 37-450 Stalowa Wola, ul Staszica 4	Przebudowa i rozbudowa Szpitalnego oddziału Ratunkowego Powiatowego Szpitala Specjalistycznego w Stalowej Woli	7 062 500.00	04.05.2017-01.02.2018
IMID w Warszawie, ul. Kasprzaka 17a, 01-211 Warszawa	Construction works, annex to the agreement of consortium formed by Erbud Rzeszów Sp. z o.o.; Dynamik Sp. z o.o. with its registered office in 30-732 Kraków, Mierzeja Wiślana 6; and Gobox Sp. z o. o. with its registered office in 39-200 Dębica, Rzeszowska 135, - the scope falling to Erbud-Rzeszów Sp. z o. o. as a Leader is 65%	10 406 504.06	18.05.2017-30.06.2018
Sam od zielny Pub liczny Zespół Opieki Zdrowotnej Leżajsku 37-300 Leżajsk, ul. Leśna 22	Extension of the Hospital Emergency Department in the building of the Public Health Care Centre in Łeżajsk by a diagnostic and operating rooms.	7 806 252.46	23.10.2017-21.08.2018
BOUYGUES IMMOBILIER POLSKA Sp z o o; ul. 1 Armii Ludowej 14, 00-638 Warszawa	Owner's engineer services.	550 000.00	31.10.2017-31.03.2019
Samodzielny Pub liczny Zespół Opieki Zdrowotnej w Tomaszowie Lubelskim z siedzibą przy Al. Grunwaldzkich 1, 22-600 Tomaszów Lubelski	Turnkey construction of the Hospital Emergency Ward, including delivery of additional medical equipment on the basis of the existing emergency room and construction of landing pad for medical rescue helicopters at the Hospital Tomaszów Lubelski. Works carried out by the consortium of Erbud Rzeszów Sp. z o.o. and Przedsiębiorstwo Zaopatrzenie Lecznictwa CEZAL Lublin Sp. z o.o. based in 20-147 Lublin on 38 Aleja Spółdzielczości Pracy St. – the scope falling to Erbud Rzeszów Sp. z o.o. as a Leader is 58%.	16 088 666.13	05.01.2018-12.10.2018

2.12. HEBUD

2.12.1. Establishment of the Company

HEBUD Spółka z ograniczoną odpowiedzialnością (HEBUD) was established by Resolution of the ERBUD S.A. Management Board No. 24/2017 of 6 November 2017.

Full business name and abbreviation in Russian:

Общество с ограниченной ответственностью "ХЭБУД"

ООО "ХЭБУД"

Full business name and abbreviation in Belarusian:

Таварыства з абмежаванай адказнасцю "ХЭБУД"

ТАА "ХЭБУД"

By virtue of Resolution No. 1 dated 6 November 2017, ERBUD S.A. as the sole shareholder of HEBUD aproved the Company's Articles of Association and appointed the Company's Director.

Registered office of HEBUD Spółka z ograniczoną odpowiedzialnością (HEBUD): Minsk, 21 Uruczskaja Street, appartment 435.

On 28 November 28, 2017, HEBUD was registered with the Ministry of Justice of the Republic of Belarus and started its activity.

2.12.2. Company's profile

HEBUD Limited liability company (HEBUD) deals with:

- employing construction workers in Belarus and sending them to work on the territory of the Republic of Poland as a subcontractor in building construction, roadworks and maintenance services;
- employing construction supervision and technical staff in Belarus and delegating them to work in the Republic of Poland;
- prospecting, recruiting and employing in the Company Belarusian employees working in the Republic of Poland;
- cooperation with Belarusian companies in the field of subcontracting;
- cooperation with Belarusian jobcentres in the field of employee recruitment;
- training of technical and organizational staff for recruited employees;
- cooperation with universities, technical and vocational schools;
- establishing commercial contacts in the field of export of goods to the Republic of Belarus.

2.12.3. Governing bodies

By virtue of Resolution No. 1 dated 6 November 2017, ERBUD S.A. as the sole shareholder of HEBUD appointed the Company's Director - Mr Aliaksandr Hil, son of Dymitre, a citizen of the Republic of Belarus.

2.12.4. Market situation

The deficit on the labour market in Poland has been deepening for several years. Signals about the lack of hands to work come from many industries, including the dynamically developing construction sector. As many analyses show, human resources shortages can be only to a small extent filled from the local labour market.

Graduates of vocational schools with the required profiles will also be available only in the long run. Forecasts regarding the return of Poles working abroad are also not optimistic, therefore the only solution is import workers

from abroad, not only from the nearest - eastern one, but also from other parts of the world (former republics of the USSR).

2.12.5. Contracts signed in 2017

Agreements signed in the period from the establishment of the Company to 31 December 2017:

Framework Cooperation Agreement No. 01/2017 between HEBUD and ERBUD RZESZÓW Sp. z o.o. concluded on 28 December 2017.

2.12.6. Activities in 2017

On 28 December 2017, applications were submitted to the Department of Civil Affairs and Foreigners of the Voivodship Office in Rzeszów for a temporary residence permit for new candidates from the Republic of Belarus to perform work in the Republic of Poland. Measures were also taken to enable Belarusian citizens residing in Poland to take up employment in HEBUD. The employees were trained and acquainted with possible legal forms of employment in the Erbud Group.

2.12.7. Opportunities and threats

The potential of the construction market in Poland is huge; therefore, in the face of a shortage of construction workers, it is highly probable that HEBUD will be able to fill the existing lack of workforce to a large extent. However, it should be noted, that linguistic and cultural differences, as well as professional preparation of Belarusian workers, may cause many problems. A dangerous trend that unfortunately occurs on the market is "buying up" foreigners. Therefore, it is necessary to create them such working conditions and social assistance that will allow to avoid such situations. Also the amended Act of 20.04.2004 on the promotion of employment, regulating access to the Polish labour market for foreigners, tightens the conditions for granting permits to stay and work in the Republic of Poland, strictly imposes time limits for informing the authority issuing the work permit on its commencement or termination by a foreigner. The Border Guard and the National Lab or Inspectorate are entitled to control the legality of employment of foreigners. Sanctions for entities that employ foreigners illegally as well as for illegally employed workers were strengthened.

2.12.8. Strategic priorities

The main objective of HEBUD is to ensure continuous access for the ERBUD Group to construction workers with different occupations/specialisations. The activities are to consist in collecting information about potential demand for employees in advance and responding to such demand, by delegating them to work in the territory of the Republic of Poland. In order to be able to delegate certain number of people to work, a database must be created of employees who want to work in the Republic of Poland and have skills and qualifications necessary to undertake such work. Qualifications and skills will be verified by the HEBUD technical staff in close cooperation with the ERCBUD on site, i. e. before signing a contract of employment and sending the employee to the territory of the Republic of Poland, which will exclude the incurring of unnecessary costs and time-consuming procedures related to legalising the employee's stay in Poland. To increase the range of workforce personnel search in the Republic of Belarus, contacts have been established with jobcentres, which will participate in the recruitment process according to strictly defined expectations concerning the competencies of potential employees. In order to better secure access to construction workers, it is also planned to conclude framework agreements or sign letters of intent with several large construction companies that will be interested in export of services as subcontractors in the territory of the Republic of Poland.

2.13. Directions of business development of the ERBUD Group

According to plans, in the nearest years the Group will focus on:

- boosting revenues and maintaining the position of one of the leaders in the building construction in Poland;
- improving its position in the construction and service market for power sector;

- increasing the scale of operations in the building construction on stable Western Europe markets such as Germany and Benelux.

At the same time, the Group will keep analysing the emerging opportunities for expanding its activity, both by business and geographical segments.

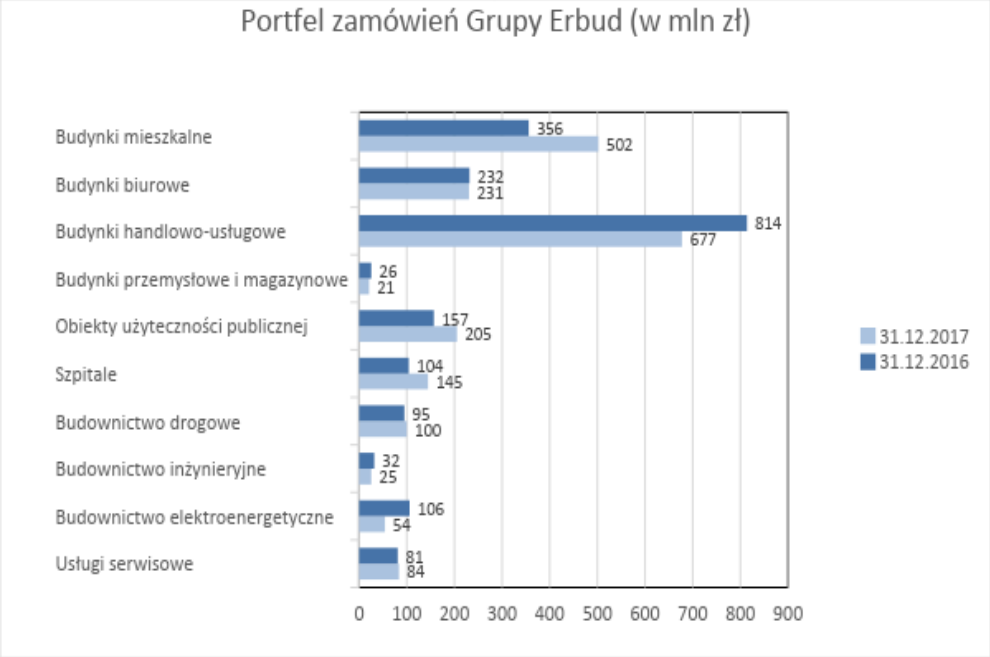
The achievement of the Group's objectives should be facilitated by the market situation, i.e.:

- Expected growth of investments in Poland in connection with the programmes with part financing from the EU funds under the new financial perspective for the 2014-2020 period. Within the framework of cohesion policy Poland will be granted the total sum of EUR 82.5 bn.
- Observed revival in the construction sector in the Western European markets (Germany, Belgium and the Netherlands); the scale of investments in these markets is much larger than in the Central European countries.

The implementation of assumed goals involves the utilization of ERBUD Group’s strengths and market advantage such as:

- Strong ERBUD brand – during market presence exceeding 25 years EBUD developed an image of a company that executes investment projects taking care for investors’ satisfaction, rules of ethics and respect for natural environment. The company meets its deadlines and performs works within the assumed budgets. It also enjoys an opinion of a reliable payer.
- Diversified nature of operations, both in business and geographical terms that allows, at least partially, to eliminate the negative impact on the results of turmoil occurring on individual markets.
- Knowledge of foreign markets. Almost from the onset of its operations the ERBUD Group operates in the German market and experience collected there uses for effective expansion to other Western European markets.
- Experienced and professional personnel. Constant care for safety and professional development of employees leads to the situation where the Group can boast of competent experienced and committed personnel. The existing personnel has been stable – many members of personnel has worked for ERBUD since the Company origins. The Group’s subsidiaries abroad also have at their disposal professional and stable local human resources, also at the managerial level.
- Stable financial position characterized primarily by effective co-operation with financial institutions.

Orders portfolio of the ERBUD Group (in PLN million)



2.13.1. Directions of business development of the ERBUD Group – acquiring the IVT Company

The IVT Company ("Company") was established as Weiner-Reimann und Co., Heizung - Sanitär und Lüftung GmbH, dealing mainly with HVAC systems in residential buildings. In 1994, RAG AG acquired a 70% interest in the Company, which was repurchased by the selling partners in the said transaction in 2004. In 2005, the Company acquired B. Menzenbacher GmbH (currently IVT Menzenbach GmbH) to obtain certificates and permits required to develop the activity in a short the time.

The company provides services in the field of:

- Industrial engineering;
- Electrical engineering, measurement and control technology;
- Construction services engineering (facilities management);
- Gas heating, water and municipal heating systems;
- Engineering of steel and pipeline structures;
- Industrial vulcanization;
- Qualified temporary workers on a commercial basis;

The IVT's activities are concentrated in the region of Ruhr. Beside the main office, the company has nine plants located at its clients' facilities.

IVT employs 233 people.

The company's activity market

The German market for maintenance services provided in the energy, chemical, petrochemical and refinery sectors is worth approx. EUR 13 billion. The German petrochemical and chemical industry is of international importance. Therefore, Germany is an attractive market for providers in the above mentioned scope of services.

The value of the market for maintenance services in the area of maintenance, scheduled repairs and relocation of installations and modernisation projects amounts to approximately EUR 11 billion. It is estimated that 55% of

revenues on the German market of industrial services is generated on the basis of these services, As the energy, chemical, petrochemical and refining sectors represent the largest group of maintenance services users, they also are the main driver for the entire German industry. The demand for maintenance services is expected to grow due to increased outsourcing also from the automotive industry. Although no new plants are being built at present, the demand for maintenance services related to scheduled repairs is still projected, mainly as a result of ageing industrial installations. at present, the demand for maintenance services related to scheduled repairs is still forecasted, mainly as a result of ageing industrial installations.

The transaction process

After a preliminary analysis of analytical materials, a Letter of Intent was submitted and then accepted by IVT on 22 May 2017. In September 2017, a due diligence process was initiated in the financial, legal, tax, operational and HR areas. During the due diligence audit, the Company's stable financial standing and the stable portfolio constructed on the basis of long-term agreements bringing fixed and diversified revenues of 70% of the total sales of IVT, were confirmed. Following the negotiations, a price of EUR 8,500,000 was agreed for all shares. The price is fixed, there will be no correction. The transfer of ownership of the shares was subject to payment of the entire price.

The negotiations resulted in a price/EBITDA ratio below 5. 0. **The EV/EBITDA ratio, taking into account cash and loan liabilities, amounted to approx. 3. 0 with the average value of this ratio for comparable transactions on the German market at approx. 7. 5.**

On 27 February 2018, IVT Beteiligungs GmbH (an indirect subsidiary of Erbud S. A. through its subsidiary Erbud Deutschland Holding GmbH) entered as the buyer into a conditional agreement for the sale and transfer of shares with the shareholders of IVT Weiner+Reimann GmbH as the sellers. The payment of the price and the transfer of ownership took place on 02. 03. 2018. **Despite the transfer of shares on 02.03.2018, pursuant to the share purchase agreement, the earnings will be consolidated as of 01. 01. 2018**.

In line with the provisions of the Agreement, the existing members of the Management Board of IVT and its subsidiary, i.e. Mr Carsten Weiner and Mr Heinrich Anton Reimann, intend to act for IVT and its subsidiary as members of the Management Board for at least three years and one year, respectively.

The sellers granted appropriate guarantees concerning, among others, the activity of IVT and its group members, its assets, agreements, operating activities and public and legal receivables. In the event that the guarantees prove to be untrue or incomplete, the Buyer shall be entitled to withdraw from the Agreement (effective only if the declaration of withdrawal is made within one year from the transfer of ownership of the shares) or to claim financial compensation corresponding to the amount which is or would be necessary to make the Agreement compliant with the guarantee, depending on the type of breach of the Guarantee. Claims expire five 5 or two years.

The sellers have also undertook, for a period of 3 years, not to engage in any competitive activity either directly or indirectly through their related companies or through other shareholdings or otherwise.

3. FINANCIAL RESULTS OF THE ERBUD GROUP IN 2017

3.1. The most important factors affecting the financial result

During 2017, the ERBUD Capital Group generated a net profit from continuing operations of PLN 23 932 thousand against PLN 35 270 thousand in 2016 (decrease by 32.15%). The lower net profit is a consequence of the lower profit from foreign operations, which in 2016 increased the profit due to the sale of completed development project.

The main factors affecting the Group's financial results from continuing operations in 2017 are:

- Postponement of execution of several building construction contracts in Poland and abroad (including Galeria Handlowa Młociny, Office and Hotel Complex in Łódź);
- Human resources problems and rising prices of materials and subcontracting services;
- Expenditure related to the German and Swedish market research and acquisition of the German company IVT Weiner+Reimann GmbH - PLN 3.5 million;

- Write-down for receivables claimed in court in the amount of PLN 5.5 million.

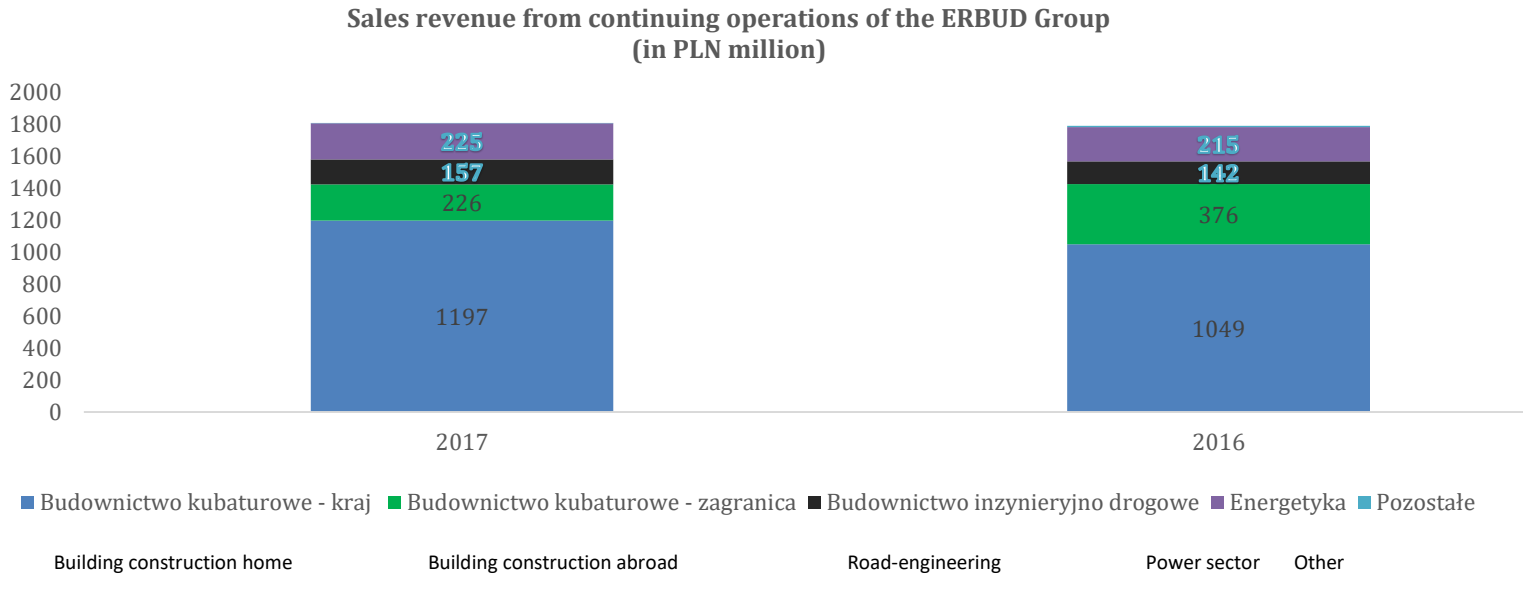
Profit and loss account of the ERBUD Group - analytical approach (in PLN thousand)

	2017	2016	Change (in %)
Revenues from sales of products, goods and services from continuing operations	1 805 459	1 789 776	0.88
Cost of operating activities *	1 765 318	1 745 850	1.12
Profit (loss) from other operating activities	-2 279	1 901	-219.88
Profit (loss) from operating activities	37 717	45 827	-17.70
Profit (loss) from financial activities	-7 324	-2 607	-180.94
Profit (loss) from continuing operations before tax	30 393	43 220	-29.68
Income tax	6 461	7 950	-18.73
Net profit (loss) from continuing operations	23 932	35 270	-32.15
Net profit (loss) from discontinued operations	0	-34 194	0
Net profit (loss) for the financial year, of which:	23 932	1 076	2 124.16
- attributable to shareholders of the Parent Company	*22 563*	*1 791*	*1 159.80*

** Cost of goods sold, sales cost, and overheads*

3.2. Sales revenue

2017, the Group generated sales revenues from continuing operations of PLN 1 805 459 thousand, i.e. by 0.88% more than in the previous year. Revenues increased in the building construction in Poland (14.14%) and in the road-engineering (10.58%), as well as in the services for industry (4.83%). A significant fall affected revenues from construction activities abroad - 39.75% (PLN 226 389 thousand vs. PLN 375 757 thousand in 2016).



The Group performs projects both at home and abroad (mainly in Germany and Belgium). In 2017, foreign operations accounted for 13% of the Group's revenue from sales (21% in the previous year).

3.3. Costs

The costs of external services, mainly costs of subcontracted works, constituted the main cost element of the ERBUD Group (64.10% of total generic costs). This value decreased in comparison to 2016, when costs of external services constituted 70.32%. In 2017 they amounted to PLN 1 166 million, i.e. were by 3.24 % lower than those incurred in the previous year.

A significant share in the cost structure of the Group had also:

- Expenditure on materials and energy – they amounted to PLN 375 million (20.63% of generic costs). These costs were by 50.70% higher than in 2016.
- Employee benefits amounted to PLN 237 million (an increase by 11.49%) compared to the previous year).

Generic costs in PLN million

Other generic costs

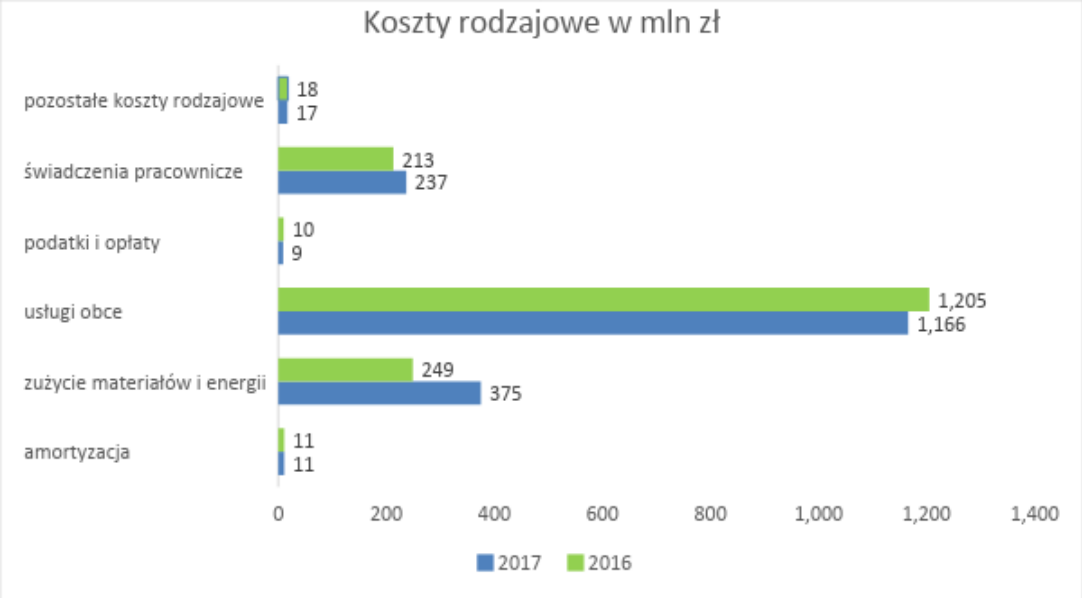
Employee benefits

Taxes and charges

Outsourced services

Consumption of materials and energy

Amortisation and depreciation



Operating costs of the ERBUD Group (in PLN thousand)

	2017	2016	Change (in %)
Amortization and depreciation	11 188	10 896	2.68
Consumption of materials and energy	375 089	248 904	50.70
Outsourced services	1 165 609	1 204 591	-3.24
Employee benefits	236 916	212 504	11.49
Taxes and charges	9 420	9 804	-3.92
Other generic costs	16 947	18 129	-6.52

Goods and materials sold	3 233	8 180	-60.47
Total generic costs	**1 818 402**	**1 713 008**	**6.15**
Change in inventories, products and cost adjustments	-53 084	32 842	X
Total operating expenses	**1 765 318**	**1 745 850**	**1.12**

3.4. Other income

Other operating income and expenses

In 2017, the Group's result on other operating activities amounted to PLN -2 279 thousand, as compared to PLN 1 901 thousand in the previous year. In 2016, the result on other operations was influenced by the following factors: the sale of an office building in Warsaw at 300A Puławska Street; the sale of undeveloped plots in Toruń; the release of a provision in connection with the positive settlement of a dispute with PKP related to additional works.

Profit (loss) on financial activities

The Group's financial activity performance was negative and amounted to PLN - 7 324 thousand vs. PLN -2 607 in 2016. The level of financial costs in 2017 was almost at the same as in 2016 and amounted to PLN 10 413 thousand vs. PLN 10 433 thousand. A significant difference occurred in financial income to the disadvantage of 2017: PLN 3 089 thousand vs. PLN 7 826 thousand.

3.5. Statement of financial position

As of 31 December 2017, the total assets of the ERBUD Capital Group amounted to PLN 942 685 thousand as compared to PLN 947 297 thousand at the end of 2016 (a decline by 0.49%). Fixed assets increased by 17.01% to PLN 121 098 thousand and current assets decreased by 2.63% to PLN 821 587 thousand.

The Group's main assets were:

- Short-term trade and other receivables - they amounted to PLN 431 709 thousand, i.e. 45.79% of total assets; their value increased by 1. 07% as compared to the end of 2016.
- Cash or cash equivalents of PLN 190 170 thousand, i.e. 20.17% of assets (decrease by 26.08% compared to the end of 2016).

As at 31 December 2017, equity amounted to PLN 285 856 thousand (30.32% of liabilities) vs. PLN 260 805 thousand at the end of 2016.

In addition, the following items had a significant share in the Group's balance sheet:

- Short-term trade liabilities and other liabilities (including advance payments received and retained retention money) in the amount of PLN 408 390 thousand (43.32% of liabilities). They were 0.10% lower than the year before.
- Liabilities arising from construction contracts in the amount of PLN 80 145 thousand (8.50% of the balance sheet total).

3.6. Cash flows

During 2017, the ERBUD Group recorded negative cash flows of PLN 67 103 thousand (PLN 35 136 thousand in the previous year) caused by:

- negative change in working capital in the amount of PLN 71,941,000;
- paid tax of PLN 16 469 thousand;
- negative cash flows from financing activities of PLN 27 784 thousand PLN (mainly as a result of loan repayment and dividend payment).

As at 31 December 2017, the Group had cash and cash equivalents amounted to PLN 190 70 thousand vs. PLN 257 273 thousand at 31 December 2016.

3.7. Changes in equity

On 31 December 2017, equity amounted to PLN 285 856 thousand compared to PLN 260 805 thousand at the end of 2016. Changes in the value of equity resulted from the creation of a reserve capital in 2017 of PLN 11 103 thousand and from the accumulation of retained earnings

3.8. Financial ratios

In 2017, profitability ratios dropped at dropped at individual profit levels, except for gross profit on sales. This is a result of a high base in the previous year caused by one-off events and a decline in profitability of foreign operations.

ERBUD Group's key financial ratios for continued operation

	2017	2016
EBIT (%)	2,09	2,56
EBITDA (%)	2,71	3,17
ROS (%)	7,29	7,24
Gross profitability (%)	1,68	2,41
Net profitability (%)	1,33	1,97

EBIT = Operating profit / Sales net revenue
EBITDA = Operating profit + Amortization / Sales net revenue
ROS = Profit on sales / Sales net revenue
Gross profitability = Earnings before tax/ Sales net revenue
Net profitability = Net earnings / Sales net revenue

The level of liquidity ratios shows that at the end of 2017, the Group had no problems with timely payment of liabilities.

ERBUD Group’s key liquidity and debt ratios

	2017	2016
Current ratio	1,42	1,39
Quick ratio	1,40	1,39
Overall debt ratio (%)	69,67	72,5
Equity-debt ratio	2,30	2,63

Current ratio = Current assets / Current liabilities
Quick ratio = Current assets - Inventories / Current liabilities
Overall debt ratio = Liabilities and provisions for liabilities / Total assets
Equity-debt ratio = Liabilities and provisions for liabilities / Total assets

3.9. Interest liabilities

At the end of December 2017, the total indebtedness of the ERBUD Group due to loans, borrowings and bonds amounted to PLN 117 403 thousand, including PLN 54 363 thousand of short-term debt.

A number of multi-purpose credit lines in several banks is available to the ERBUD Group companies.

In 2017, the following credit facility agreements were signed:

- **On 17 January 2017 -** Amendment No. 17 to the Credit Facility Agreement of 6 June 2010 concluded with ING Bank Śląski S.A. seated in Katowice. Under this Amendment, a multipurpose credit line totalling PLN 142 million is available to ERBU S.A. and its subsidiaries PBDI SA and Erbud Industry Centrum Sp. z o.o. Within the line, ERBUD S.A. is allowed to utilize up to PLN 34 million by way of drawing of loans. The sublimit for PBDI SA amounts to PLN 28 million, including drawing of loans up to PLN 5 million. The sublimit for Erbud Industry Centrum Sp. z o.o. amounts to PLN 10 million, including drawing of loans up to PLN 4 million**.**
- **On 17 January 2017 -** Amendment No. 17 to the Credit Facility Agreement of 7 July 2005 concluded with BGŻ BNP Paribas SA seated in Warsaw. Under this Amendment, a multipurpose credit line totalling PLN 92 million is available to ERBUD S.A. and its subsidiary PBDI SA. Within the line, ERBUD S.A. is allowed to utilize up to PLN 3 million by way of drawing of loans and up to 30 million as letters of credit. The sublimit for PBDI SA amounts to PLN 8 million, and applies only to bank guarantees.
- **On 31 January 2017 –** Annex No. 12 to the Credit Agreement of 2 June 2009 and Annex No. 9 to the Framework Agreement with mBank S.A. in Warsaw dated 02 February 2010. Under these Annexes a multipurpose credit line totalling PLN 90 million is available to the Issuer that is allowed to utilize within the line up to PLN 10 million by way of drawing of loans.
- **On 29 June 2017 -** Annex No. 15 to the Multi-Purpose Loan Facility Agreement No. 42 1020 1042 0000 8102 0212 8346/2009 dated 30 June 2009 concluded with PKO BP S.A. Under this Annex, the Issuer may use a multipurpose line up to the total amount of PLN 50 million and is allowed to incur within this line a debt up to PLN 20 million. The Credit Facility is secured by the assignment of receivables from construction contracts; sureties of two subsidiaries i.e of Erbud International Sp. z o.o. and PBDI S.A.; the statement on submission to enforcement pursuant to Art. 777(1) item 5; the deposit of 10% of the guarantee amount in case of issuing a guarantee for a period of more than 24 months and 15% of the guarantee amount if the guarantee period exceeds 36 months.
- **On 29 January 2018** - Annex No. 14 to the Credit Agreement of 2 June 2009 and Annex No. 10 to the Framework Agreement of 02 February 2010 concluded with mBank S.A. seated in Warsaw. Under these Annexes a multipurpose credit line totalling PLN 90 million is available to the Issuer that is allowed to utilize within the line up to PLN 10 million by way of drawing of loans. The above mentioned multipurpose Credit Facility is secured by the assignment of claims under construction contracts, a power of attorney to a bank account maintained at mBank S.A., a statement on submission to enforcement pursuant to Art. 777 section 1(5), and performance bond in case of a request to issue a guarantee for a period of more than 24 months. Other conditions of the Agreement are at arm's length.

The repayment of loans and borrowings granted by banks to the Group is secured by:

- conventional and capped mortgages on assets of the Group;
- assignment of rights under construction contracts;
- deductions from claims from bank accounts clauses;
- blank promissory notes;
- assignment of cash deposits representing a contractual percentage of secured debt.

Credit agreements signed by the member companies of the ERBUD Group as of 31.12.2017 and the date of publication of the Report

Bank	Type of liability	Amount in '000	Currency unit	Interest rate	Expiry date	Payment	Borrower
BGŻ BNP Paribas S.A.	Overdraft	8 000	PLN	WIBOR 1M + 1.5%	2019-01-31	In one amount	ERBUD S.A.; PBDI S.A. (5 000)
mBank S.A.	Overdraft	10 000	PLN	WIBOR 1M + 1.6%	2019-01-31	In one amount	ERBUD S.A.
PKO Bank Polski S.A.	Overdraft	20 000	PLN	Call rate of PKO BP+ 1.7%	2020-06-30	In one amount	ERBUD S.A.
Alior Bank S.A.	Overdraft	10 000	PLN	WIBOR 3M +1.6%	2018-09-04	In one amount	ERBUD S.A.
ING Bank Śląski S.A.	Overdraft	34 000	PLN	WIBOR 1M +1.6%	2019-01-31	In one amount	ERBUD S.A.; PBDI S.A.; ERBUD Industry Centrum
BZ WBK S.A.	Overdraft	5 000	PLN	WIBOR 1M +1.5%	2018-10-31	In one amount	ERBUD S.A.
BGŻ BNP Paribas S.A.	Overdraft	2 000	PLN	WIBOR 1M + 1.2%	2018-02-28	In one amount	ERBUD Industry Sp. z o.o.
BGŻ BNP Paribas S.A.	Investment loan	2 444	PLN	WIBOR 1M + 1.9%	2019-09-17	Instalment	ERBUD Industry Sp. z o.o.
BGŻ BNP Paribas S.A.	Project loan	20 000	PLN	WIBOR 1M + 1.4%	2018-02-28	In one amount	ERBUD Industry Sp. z o.o.
BGŻ BNP Paribas S.A.	Investment loan	2 282	PLN	WIBOR 1M + 1.9%	2020-04-30	Instalment	ERBUD Industry Sp. z o.o.
Credit Agricole Bank Polska S.A.	Investment loan	4 222	PLN	WIBOR 3M +1.7%	2020-02-28	Instalment	ERBUD Industry Centrum Sp. z o.o.
Credit Agricole Bank Polska S.A.	Revolving loan	4 000	PLN	WIBOR O/N +1.25%	2018-09-28	In one amount	ERBUD Industry Centrum Sp. z o.o.
Credit Agricole Bank Polska S.A.	Revolving loan	2 000	PLN	WIBOR O/N +1.25%	2018-09-28	In one amount	ERBUD Industry Centrum Sp. z o.o.

Credit Agricole Bank Polska S.A.	Revolving loan	2 500	PLN	WIBOR O/N +1.25%	2018-09-28	In one amount	ERBUD Industry Południe Sp. z o.o.
Credit Agricole Bank Polska S.A.	Revolving loan	4 500	PLN	WIBOR O/N +1.25%	2018-09-28	In one amount	ERBUD Industry Pomorze Sp. z o.o.
BGŻ BNP Paribas S.A.	Overdraft	2 000	PLN	WIBOR 1M + 1.8%	2018-02-28	In one amount	ERBUD Industry Pomorze Sp. z o.o.
mBank S.A.	Overdraft	200	PLN	WIBOR O/N + 1.9%	2018-09-08	In one amount	ERBUD Rzeszów Sp. z o.o.
CommerzBank AG	Overdraft	2 000	EUR	4.39%	2018-05-31	In one amount	GWI GmbH
KBC	Overdraft	2 000	EUR	EONIA +4%	For an unlimited period	In one amount	GWI GmbH
PKO BP S.A. German Branch	Overdraft	2 000	EUR	EURIBOR 1M +2.1%	2018-09-30	In one amount	GWI GmbH
	TOTAL:	**133 148**	**PLN**				
	TOTAL:	**6 000**	**EUR**				

Loans granted by the Issuer to subsidiaries in 2076 and as of the date of publication of the Report

Loan granted on	Guarantor	Debtor	Value (in PLN '000)	Subject	Expiry date	Conditions
2017-01-16	ERBUD S.A.	GWI GmbH (subsidiary)	10 000	Housing developed purpose loan - tranche II	2018-12-31	4.8% per year

Subsidiaries and third parties did not grant any loans to the Issuer.

3.10 Contingent receivables and liabilities

Contingent liabilities under guarantees and sureties are both sureties issued by member companies from the ERBUD Group and by banks to ERBUD Group business partners to secure their claims arising from construction contracts against the Group. At the same time, the banks are entitled to the ERBUD repayments.

Sureties provided by ERBUD S.A. as of 31.12.2017:

Guarantor	Debtor	Value (in PLN '000)	Subject	For	Expiry date	Type and conditions
ERBUD S.A.	GWI GmbH (subsidiary)	12 513	Overdraft EUR 2 000 000 000 + guarantee line EUR 1,000,000	KBC	2018-09-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	GWI GmbH (subsidiary)	8 342	Overdraft	Commerz-Bank	2018-07-01	Guarantee provided by BRE by order of Erbud S.A; ERBUD re-charges the company fees charged by the Guarantor.
ERBUD S.A.	GWI GmbH (subsidiary)	10 010	Overdraft	PKO BP S.A.	2021-09-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	GWI GmbH (subsidiary)	10 010	Overdraft	PKO BP S.A. (Branch Germany)	2028-09-28	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	2 990	Investment loan	BGŻ BNP Paribas S.A.	2022-09-17	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	2 690	Investment loan	BGŻ BNP Paribas S.A.	2023-04-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	5 000	Credit line	mBank S.A.	2018-01-31	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	25 000	Multi-purpose credit line	BGŻ BNP Paribas S.A.	2027-09-17	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Centrum Sp. z o.o. (subsidiary od ERBUD Industry Sp. z o.o.)	5 161	Investment loan (PLN 6,200,000 - refinancing a loan for the purchase of shares in Engorem Sp. z o.o.; PLN 2,952,000 - purchase of branches from PxM, and PLN 848,000 – co-financing of these branches)	Credit Agricole	2023-08-28	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
TOTAL:		**81 716**				

As at the date of publication of Financial Statements, the surety amount in favour of Erbud Industry Sp. z o. o. has been changed.

As of 31.12.2017:

Guarantor	Debtor	Value (in PLN '000)	Subject	For	Expiry date	Type and conditions
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	2 990	Investment loan	BGŻ BNP Paribas S.A.	2022-09-17	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	2 690	Investment loan	BGŻ BNP Paribas S.A.	2023-04-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
Total:		**5 680**				

As at the date of publication of Financial Statements, i.e. 27 March 2018

Guarantor	Debtor	Value (in PLN '000)	Subject	For	Expiry date	Type and conditions
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	1 720	Investment loan	BGŻ BNP Paribas S.A.	2022-09-17	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD S.A.	ERBUD Industry Sp. z o.o. (subsidiary)	1 750	Investment loan	BGŻ BNP Paribas S.A.	2023-04-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
Total:		**3 470**				

Therefore, as at the date of publication of Financial Statements, the value of sureties granted by the Issuer was PLN 79 506 thousand.

Sureties granted to ERBUD S. A. as at 31 December 2017 and as at the date of publication of the Report

Guarantor	Debtor	Value (in PLN '000)	Subject	For	Ex piry date	Type and conditions
PBDI S.A. (subsidiary od ERBUD S.A.)	ERBUD S.A.	50 000	Multi-purpose line of credit and guarantee	PKO BP S.A.	2020-06-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.
ERBUD International Sp. z o.o. (subsidiary od ERBUD S.A.)	ERBUD S.A.	50 000	Multi-purpose line of credit and guarantee)	PKO BP S.A.	2020-06-30	Civil law surety. The Guarantor charges a fee for the surety of 1% of the surety value.

Bank guarantee limits available to the Group as at 31 December 2017 and the date of publication of the Report

Guarantor	Type of liability	Amount in '000	CU	Guarantee for
Alior Bank S.A.	Bid bond; performance bond; defects liability bond; repayment of advances; counter- guarantee	80 000	PLN	ERBUD S.A.
Alior Bank S.A.	Bid bond; performance bond; defects liability bond; repayment of advances; counter- guarantee	3 450	EUR	ERBUD S.A.
BGŻ BNP Paribas S.A.	Bid bond; performance bond; defects liability bond; repayment of advances; counter- guarantee	89 000	PLN	ERBUD S.A.; PBDI S.A. (8 000)
mBank S.A.	Bid bond; performance bond; defects liability bond	80 000	PLN	ERBUD S.A.
PKO Bank Polski S.A.	Bid bond; performance bond; defects liability bond	30 000	PLN	ERBUD S.A.
BZ WBK S.A.	Bid bond; performance bond; defects liability bond	45 000	PLN	ERBUD S.A.
HSBC Bank Polska S.A.	Bid bond; performance bond; defects liability bond	70 000	PLN	ERBUD S.A.
Credit Agricole Bank Polska S.A.	Bid bond; performance bond; defects liability bond	30 000	PLN	ERBUD S.A. (30 000), ERBUD Industry Centrum Sp. z o.o. (5 000), ERBUD Industry Sp. z o.o. (10 000), ERBUD Industry Południe (1 500) and ERBUD Industry Pomorze Sp. z o.o (2 500)

ING Bank Śląski S.A.	Bid bond; performance bond; defects liability bond	108 000	PLN	ERBUD S.A. (88 000), PBDI S.A. (10 000) i ERBUD Industry Centrum Sp. z o.o. (6 000)
mBank S.A.	Bid bond; performance bond; defects liability bond	927	PLN	PBDI S.A.
mBank S.A.	Bid bond; performance bond; defects liability bond	1 500	PLN	Erbud Rzeszów Sp. z o.o.
KBC	Bid bond; performance bond; defects liability bond	600	EUR	GWI GmbH
PKO Bank Polski S.A.	Bid bond; performance bond; defects liability bond	2 000	EUR	GWI GmbH
Total:		**534 427**	**PLN**	
Total:		**6 050**	**EUR**	

Bank guarantee limits available to the Group as at 31 December 2016

Guarantor	Type of liability	Amount in '000	CU	Guarantee for
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond; repayment of advances	175 000	PLN	ERBUD S.A.
PZU S.A.	Bid bond; performance bond; defects liability bond; repayment of advances	44 000	PLN	ERBUD S.A.
Allianz Polska S.A.	Bid bond; performance bond; defects liability bond; repayment of advances	30 000	PLN	ERBUD S.A.
Warta S.A	Bid bond; performance bond; defects liability bond; repayment of advances	20 000	PLN	ERBUD S.A.
KUKE S.A.	Bid bond; performance bond; defects liability bond; repayment of advances	30 000	PLN	ERBUD S.A.
Euler Hermes AG.	Bid bond; performance bond; defects liability bond	7 500	EUR	GWI GmbH, ERBUD S.A. and ERBUD International Sp. z o.o
ZURICH	Bid bond; performance bond; defects liability bond	3 500	EUR	GWI GmbH
R+V	Bid bond; performance bond; defects liability bond	4 000	EUR	GWI GmbH
AXA	Bid bond; performance bond; defects liability bond	1 000	EUR	GWI GmbH
Bayerischer Versicherungverband	Bid bond; performance bond; defects liability bond	1 500	EUR	GWI GmbH
Swiss RE	Bid bond; performance bond; defects liability bond	1 500	EUR	GWI GmbH
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond	15 000	PLN	PBDI S.A.
Warta S.A.	Bid bond; performance bond; defects liability bond	14 000	PLN	PBDI S.A.

PZU S.A.	Bid bond; performance bond; defects liability bond	10 000	PLN	PBDI S.A.
AXA	Bid bond; performance bond; defects liability bond	15 000	PLN	PBDI S.A.
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond	3 000	PLN	ERBUD Industry Pomorze Sp. z o.o
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond	4 000	PLN	ERBUD Industry Centrum Sp. z o.o
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond	10 000	PLN	ERBUD Industry Sp. z o.o.
AXA	Bid bond; performance bond; defects liability bond	2 500	PLN	ERBUD Industry Sp. z o.o.
STU Ergo Hestia S.A.	Bid bond; performance bond; defects liability bond	3 000	PLN	ERBUD Rzeszów Sp. z o.o.

Liabilities arising from guarantees provided to third parties (in PLN '000)

Company	Liabilities payment guarantee	Performance bond	Defects liability bond	Total contingent liabilities
ERBUD S.A.				
31.12.2017	25 664	224 694	146 858	397 216
31.12.2016	22 720	232 598	159 062	414 380
PBDI S.A.				
31 12 2017	2 255	12 105	17 686	32 045
31 12 2016	3 220	8 396	15 792	27 408
GWI GmbH				
31.12.2017	12 024	19 374	41 294	72 692
31.12.2016	2 650	16 112	37 024	55 786
ERBUD International Sp. z o.o.				
31.12.2017	0	0	417	417
31.12.2016	0	0	3 007	3 007
ERBUD Industry Sp. z o.o.				
31.12.2017	2 080	7 883	2 730	12 693
31.12.2016	1 260	4 761	1 487	7 508
ERBUD Industry Centrum Sp. z o.o.				
31.12.2017	242	1 809	1 538	3 589
31.12.2016	240	2 275	1 155	3 670
ERBUD Industry Południe Sp. z o.o.				
31.12.2017	857	938	840	2 635
31.12.2016	0	878	480	1 358

ERBUD Industry Pomorze Sp. z o.o.				
31.12.2017	150	2 162	945	3 257
31.12.2016	1 599	1 061	824	3 484
ERBUD Rzeszów Sp. z o.o.				
31.12.2017	0	4 935	577	5 512
31.12.2016	0	3 242	445	3 688

Conditional liabilities due to court actions brought against ERBUD S. A.

	31.12.2017 (in PLN million)	31.12.2016 (in PLN million)
Conditional liabilities due to court actions brought against ERBUD S. A	46,68	41.94

On the basis of opinions issued by lawyers and knowledge of matters, the Management Board of ERBUD S. A. determines, the probability that the Company will win cases related to contingent liabilities is significant. Among the contingent liabilities, the highest amount concerns the dispute with MPL Modlin Sp. z o. o. - PLN 34.4 million.

As at 31 December 2017, the Group reported the following contingent receivables resulting from guarantees where ERBUD Group companies are beneficiaries.

Contingent receivables from the guarantees held

Type of receivables	31.12.2017	31.12.2016	Company
Bid bond; performance bond; defects liability bond; payment guarantee	65 709	78 412	ERBUD S.A.
Bid bond; performance bond; defects liability bond	13 696	11 670	PBDI S.A.
Bid bond; performance bond; defects liability bond	0	0	ERBUD International Sp. z o.o.
Bid bond; performance bond; defects liability bond	0	0	GWI GmbH
Bid bond; performance bond; defects liability bond	0	0	ERBUD Industry Centrum Sp. z o.o.
Bid bond; performance bond; defects liability bond	11 957	7 519	ERBUD Industry Sp. z o.o.
Bid bond; performance bond; defects liability bond	0	0	ERBUD Industry Pomorze Sp. z o.o.
Bid bond; performance bond; defects liability bond	66	0	ERBUD Industry Południe Sp. z o.o
Bid bond; performance bond; defects liability bond	542	792	ERBUD Rzeszów Sp. z o.o
Total:	**91 970**	**98 393**	

3.11. Management Board's position on financial forecasts for 2017

The Issuer's Management Board did not publish financial forecasts for 2017.

3.12. Management Board's recommendation regarding the distribution of profit generated in 2017

Due to the very good financial standing of the ERBUD Group, the lack of net financial debt and the cash held, the Management Board of the ERBUD S. A. will recommend to the Supervisory Board and the AGM of Shareholders of ERBUD S. A. to distribute a dividend of PLN 1.10 per share, which gives a total payment of PLN 14,093,044.90.

The amount of PLN 12,539,246.93 will be allocated from the net profit generated in 2017, while PLN 1,553,797.97.

4. FINANCIAL PERFORMANCE OF ERBUD S.A.

4.1. Factors affecting the financial performance in 2017

During 2017, ERBUD S.A. generated a net profit of PLN 12 539 thousand compared to PLN 11,103,000 PLN in 2016 (increase by 12.93%).

The main factors influencing the Company's financial results in 2017:

- Postponement of execution of several building construction contracts in Poland and abroad (including Galeria Handlowa Młociny, Office and Hotel Complex in Łódź);
- Human resources problems and rising prices of materials and subcontracting services;
- Expenditure related to the German and Swedish market research and acquisition of the German company IVT Weiner+Reimann GmbH - PLN 3.5 million;
- Write-down for receivables claimed in court in the amount of PLN 5.5 million.

Profit and loss account of ERBUD S.A. - analytical approach (in PLN thousand)

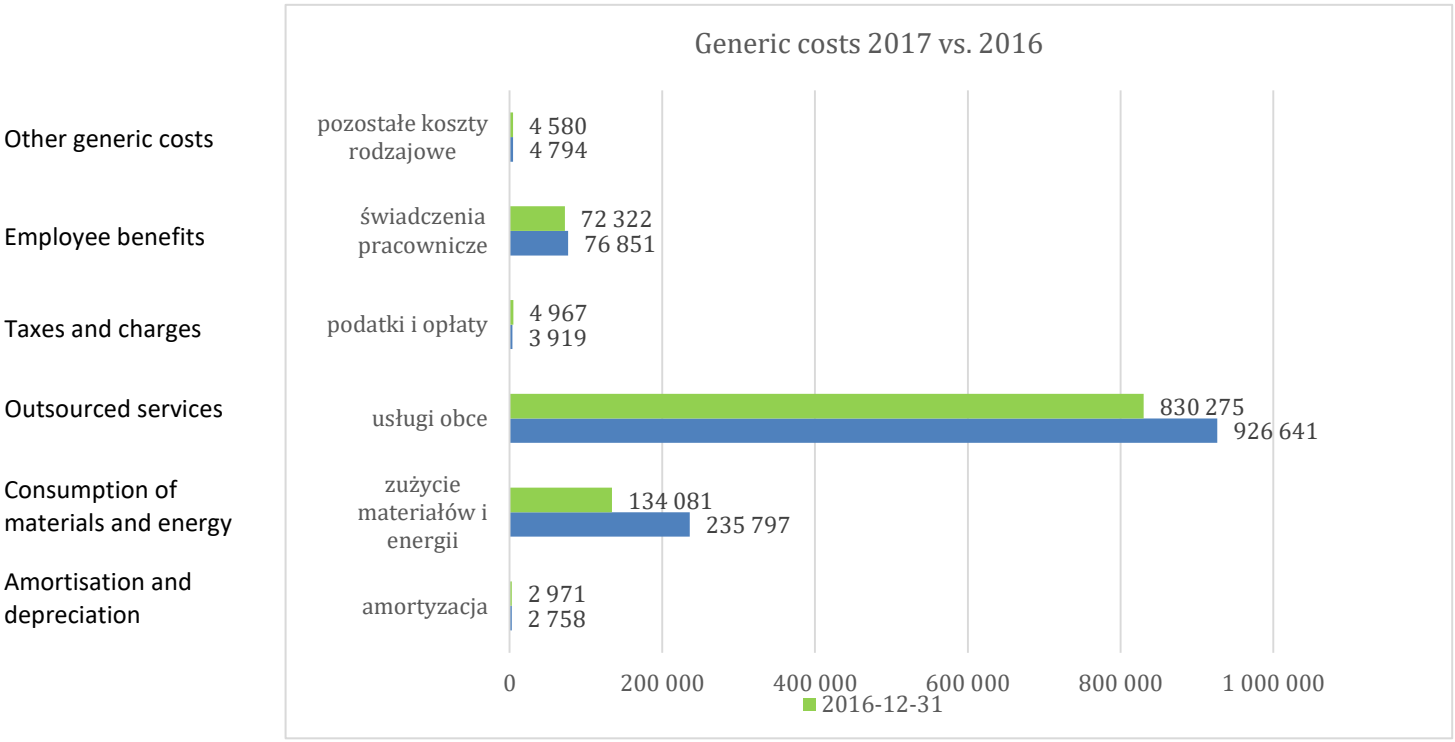
	2017	2016	Change (in %)
Revenues from sales of products, goods and services from continuing operations	1 215 475	1 074 994	13.,07
Cost of operating activities *	1 190 750	1 049 405	13.47
Profit (loss) from other operating activities	- 7 429	2 118	-450.92
Profit (loss) from operating activities	17 297	27 656	-37.46
Profit (loss) from financial activities	-1 534	-16 791	90.86
Profit (loss) before tax	15 763	10 865	45.08
Income tax	3 224	-238	1 454.62
Net profit (loss)	**12 539**	**11 103**	**12.93**

** Cost of goods sold, sales cost, and overheads*

The costs of external services, mainly costs of subcontracted works, constituted the main cost element of the ERBUD Group (74.06% of total generic costs). In 2017 they amounted to PLN 926 641 thousand, i.e. were by 11.61 % higher than in the previous year.

A significant share in the cost structure of the Group had also:

- Expenditures on materials and energy - they amounted to PLN 235 797 thousand (18. 85% of generic costs) and increased by 75. 86% in relation to 2016.
- Employee benefits amounted to PLN 76 851 thousand and accounted for 6.14% of total generic costs (they were 6.26% higher than in the previous year).



Operating costs of ERBUD S.A. (in PLN thousand)

	2017	2016
Outsourced services	1 165 609	1 204 591
Consumption of materials and energy	375 089	248 904
Employee benefits	236 916	212 504
Amortization and depreciation	11 188	10 896
Taxes and charges	9 420	9 804
Other generic costs	16 947	18 129
Goods and materials sold	3 233	8 180
Total generic costs	**1 818 402**	**1 713 008**

4.2. Statement of financial position

As of 31 December 2017, the total assets of ERBUD S.A. amounted to PLN 689 733 and were by 1.61% lower as compared to the end of 2016.

Company's main assets were:

- Short-term trade receivables from other entities and related parties that amounted to PLN 308 301 thousand, i.e. 44.70% of total assets. Their value decreased in comparison to the end of 2016 by 3.11%;
- Cash and cash equivalents of PLN 92 274 thousand (decline by 38.82% compared to the end of 2016);
- Fixed assets valued at PLN 127 058 thousand, i e. 18.42% of the assets.

- Current assets valued at PLN 562 675 thousand, i.e. 81.58% of the assets.

As at 31 December 2017, the Company's equity amounted to PLN 228 809 thousand as compared to PLN 213 866 thousand as at 31 December 2016.

Also the following items had a significant share in the Company's balance sheet:

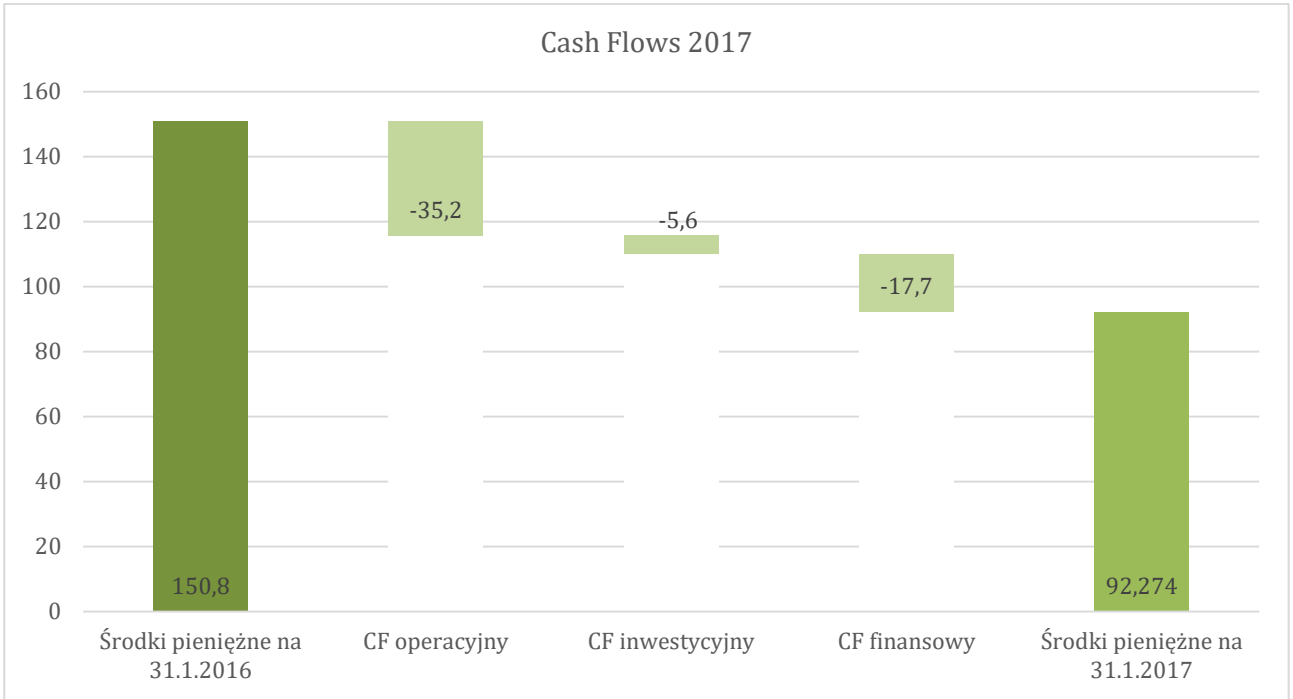
- Short-term liabilities in the amount of PLN 330 542 thousand (47.92% of liabilities). They were by 1.77% lower than the year before.
- Liabilities due to issued bonds with a value of PLN 52 000 thousand, i.e. 7.54% of the balance sheet.

4.3. Cash flows statement

During 2017, ERBUD S. A. recorded cash flows at the level of PLN -58 537 thousand (PLN 49 586 thousand in the previous year), including:

- Negative cash flows from operating activities of PLN 35 172 thousand, which was affected by the change in accruals and deferred income (PLN -85 502 thousand);
- Negative cash flows from investing activities of PLN 5 607 thousand (loans granted in the amount of PLN 17 804 thousand);
- Negative cash flows from financing activities of PLN -17 758 thousand (mainly due to repayment of loans and payment of dividends).

As at 31 December 2017, the Company had cash and cash equivalents of PLN 92 274 thousand, compared to PLN 150 812 thousand as at 31 December 2016.



Cash as of 31.01.2016 | Operating cash flows | Investing cash flows | Financing cash flows | Cash as of 31.01.2017

4.4. Statement of changes in equity

As at 31 December 2017, equity amounted to PLN 228 809 thousand (an increase by 6.99% compared to the end of 2016).

4.5. ERBUD S.A. key financial ratios

	2017	2016
ROE (%)	5.48%	5.19%
ROA (%)	1.82%	1.58%
EBIT (%)	1.42%	2.57%
EBITDA (%)	1.65%	2.85%
ROS (%)	6.02%	6.90%
Gross profitability (%)	1.30%	1.01%
Net profitability (%)	1.03%	1.03%

ROE = Net earnings / Equity
ROA = Net earnings / Assets
EBIT = Operating profit / Sales net revenue
EBITDA = Operating profit + Amortization / Sales net revenue
ROS = Profit on sales / Sales net revenue
Gross profitability = Earnings before tax/ Sales net revenue
Net profitability t= Net earnings / Sales net revenue

The level of liquidity ratios shows that the Company had no problems with timely payment of liabilities.

ERBUD S.A. key liquidity and debt ratios

	2017	2016
Current ratio	1.70	1.73
Quick ratio	1.70	1.73
Overall debt ratio (%)	67%	69%
Equity-debt ratio	201%	228%

Current ratio = Current assets / Current liabilities
Quick ratio = Current assets - Inventories / Current liabilities
Overall debt ratio = Liabilities and provisions for liabilities / Total assets
Equity-debt ratio = Liabilities and provisions for liabilities / Total assets

5. RISK MANAGEMENT

5.1. Financial risk

The Management Board verifies and sets the principles of management of each of the following risks.

5.1.1. Foreign exchange risk

As a part of the core business, the member companies of the Group conclude construction contracts, which are denominated in foreign currencies (mainly in the Euro). Policy of currency risk management adopted by the Management Board consists in matching the contract currency to the currency of expenditure related to this contract.

For contracts denominated in Euro for which no suitable adjustment of the currency of expenditure is possible, the Company hedges the material currency risk resulting from highly probable transactions threatened with changes in cash flows that may affect the financial result of the entity. The hedging is carried out by forward contracts with key parameters as close as possible to the parameters of the hedged item.

In the case of concluding hedging transactions, the Company applies hedge accounting principles.

5.1.1.1. Securing construction contracts denominated in foreign currencies – implementation of hedge accounting

- Kind of hedged risk: cash flows risk associated with highly probable flows in foreign currencies in the future arising from construction contracts. This risk is related to the appreciation of polish currency (PLN) – expected flows in foreign currency from the contract will be worth less in PLN.
- Type of hedging instrument: forward foreign exchange contracts to sell foreign currency in the amounts and dates corresponding to the expected flows arising from construction contract. In the course of its operations, the ERBUD Group is exposed to various types of financial risk: currency risk, price risk, interest rate risk, credit risk and liquidity risk. To assess the effectiveness of hedge, the interest rate component (swap points) and the exchange rate component (spot rate) are not separated, but there are analysed changes in the fair value of the whole forward transaction.
- Prospective hedge effectiveness testing: tests are performed at inception of the hedging instrument and on every balance sheet day. The hedge is considered effective if the expected changes in fair value or cash flows of the hedged item are offset by changes in fair value or cash flows of the hedging instrument.

As for hedging risks associated with construction contracts denominated in foreign currencies are only used hedging instruments with tailored key parameters (the same currency, amounts and dates of expected cash flows), the Management Board considers that so constructed hedge will be effective. However, for a fuller justification of applying hedge accounting, the Group also tests the effectiveness prospectively using a quantitative method with the following parameters:

- Effectiveness testing method: by comparing the cumulative change in the fair value of the hedging instrument to that of the hedged item (“dollar offset method”) using so called hypothetical derivative.
- Hypothetical derivative: for assessing the effectiveness of the financial instrument we selected from a construction contract a hypothetical derivative being a forward contract to buy specific quantities of foreign currencies at some future dates, corresponding to the amounts and the dates under the construction contract. So separated hypothetical derivative instrument is subject to the same risks as construction contract, i.e. its value decreases together with the strengthening of polish currency (expected cash flows from the contract in the currency will be worth less in PLN).
- The fair value of the hedging instrument and the hypothetical derivative instrument as at the measurement date is understood as the sum of discounted net cash flows of future receivables / payables under agreed instrument terms. Net cash flows at a given future date are calculated as the difference between the amount of PLN resulting from a forward contract and the amount of foreign currency resulting from the forward contract multiplied by the forward exchange rate for a given future date valid on the measurement date. Discounting of such net cash flows is done using zero-coupon rates implied by the interest swap curve in PLN, valid as at the measurement date.
- For the purpose of a prospective test there are used historical market rates of exchange rates and interest rates at twelve-monthly dates prior to the planned date of the transaction or the balance sheet date (in the case of measuring the effectiveness during the transaction).
- 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. The so calculated ratio of changes at each date should be in the range of 80-125 per cent.

Retrospective hedge effectiveness testing: effectiveness testing is performed at each balance sheet date throughout the life of the hedge. The hedge is considered effective if during the given period the actual changes in fair value or cash flows of the hedged item are offset by changes in fair value or cash flows of the hedging instrument. Like with the prospective testing, the "dollar offset method" is applied when using the hypothetical derivative instrument, measuring the ratio of the cumulative change in the fair value of the hedging instrument to the cumulative changes in the hypothetical derivative instrument. For the purpose of testing the efficiency, the actual result must be within the range of 80-125 per cent for each accounting period.

Analysis of the effectiveness of hedging against rate risk associated with the contract concluded with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser complex , incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street – as of 31 December 2017.

Introduction: In accordance with the risk management policy of the ERBUD Group, at each balance sheet date a prospective (ex-ante) test and retrospective (ex-post) test on the effectiveness of hedging is performed.

Kind of hedged risk: Cash flows risk associated with highly probable future flows in EUR arising from the contract concluded with z Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street. This risk is related to the appreciation of polish currency (PLN) – expected flows in foreign currency from the contract will be worth less in PLN.

Type of hedging instrument: Forward foreign exchange contracts to sell foreign currency in the amounts and dates corresponding to the expected flows arising from construction contract. To assess the effectiveness of hedge, the interest rate component (swap points) and the exchange rate component (spot rate) are not separated, but there are analysed changes in the fair value of the whole forward transaction.

Prospective hedge effectiveness testing: 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 at twelve-monthly dates prior to the balance sheet date For each of the above said 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.

Date	Fair value of forward transactions	Fair value of cash flows from a hypothetical derivative in PLN	Cumulative change in fair value of forward transactions	Cumulative change in fair value of a hypothetical derivative	The ratio of cumulative changes in fair value hedge and the hedged item
Data	**Wartośc godziwa transakcji forward**	**Wartość godziwa przepływów z hipotetycznego instrumentu pochodnego w PLN**	**Skumulowana zmiana wartości godziwej transakcji forward**	**Skumulowana zmiana wartości godziwej hipotetycznego instrumentu pochodnego**	**Relacja skumulowanych zmian wartości godziwej zabezpieczenia i pozycji zabezpieczanej**
31-gru-15	0	0			
29-sty-16	-2 217 109	2 217 109	-2 217 109	2 217 109	100%
29-lut-16	-1 019 316	1 019 316	-1 019 316	1 019 316	100%
31-mar-16	187 195	-187 195	187 195	-187 195	100%
29-kwi-16	-1 612 414	1 612 414	-1 612 414	1 612 414	100%
31-maj-16	-1 247 076	1 247 076	-1 247 076	1 247 076	100%
30-cze-16	-1 688 856	1 688 856	-1 688 856	1 688 856	100%
29-lip-16	-935 180	935 180	-935 180	935 180	100%
31-sie-16	-641 435	641 435	-641 435	641 435	100%
30-wrz-16	-41 306	41 306	-41 306	41 306	100%
31-paź-16	-186 474	186 474	-186 474	186 474	100%
30-lis-16	-1 578 386	1 578 386	-1 578 386	1 578 386	100%
30-gru-16	-1 307 613	1 307 613	-1 307 613	1 307 613	100%
31-sty-17	-108 413	108 413	-108 413	108 413	100%
28-lut-17	169 264	-169 264	169 264	-169 264	100%
31-mar-17	1 513 487	-1 513 487	1 513 487	-1 513 487	100%
28-kwi-17	1 568 675	-1 568 675	1 568 675	-1 568 675	100%
31-maj-17	2 102 492	-2 102 492	2 102 492	-2 102 492	100%
30-cze-17	1 442 837	-1 442 837	1 442 837	-1 442 837	100%
31-lip-17	1 126 493	-1 126 493	1 126 493	-1 126 493	100%
31-sie-17	1 047 747	-1 047 747	1 047 747	-1 047 747	100%
29-wrz-17	583 100	-583 100	583 100	-583 100	100%
31-paź-17	1 115 297	-1 115 297	1 115 297	-1 115 297	100%
30-lis-17	1 386 700	-1 386 700	1 386 700	-1 386 700	100%
29-gru-17	1 427 071	-1 427 071	1 427 071	-1 427 071	100%

The so calculated ratio of changes in fair values on each date amounted to 100%, so it was in the range of 80-125%, which allows considering the hedging as highly effective.

Retrospective hedge effectiveness testing: the dollar offset method is applied using the hypothetical derivative instrument, measuring the ratio of the cumulative change in the fair value of the hedging instrument to the cumulative changes in the hypothetical derivative instrument.

Date	Fair value of forward transactions	Fair value of cash flows from a hypothetical derivative in PLN	Cumulative change in fair value of forward transactions	Cumulative change in fair value of a hypothetical derivative	The ratio of cumulative changes in fair value hedge and the hedged item
Data	**Wartośc godziwa transakcji forward**	**Wartość godziwa przepływów z hipotetycznego instrumentu pochodnego w PLN**	**Skumulowana zmiana wartości godziwej transakcji forward**	**Skumulowana zmiana wartości godziwej hipotetycznego instrumentu pochodnego**	**Relacja skumulowanych zmian wartości godziwej zabezpieczenia i pozycji zabezpieczanej**
21-gru-16	0	0			
30-gru-16	-414 741	-414 741	-414 741	-414 741	100%
31-mar-17	2 685 270	-2 685 270	2 685 270	-2 685 270	100%
30-cze-17	2 488 780	-2 488 780	2 488 780	-2 488 780	100%
29-wrz-17	1 481 915	-1 481 915	1 481 915	-1 481 915	100%
29-gru-17	2 061 583	-2 061 583	2 061 583	-2 061 583	100%

The ratio of so calculated changes in fair values on each date amounted to 100%, so it was in the range of 80-125%, so the hedging should be ex-post considered as effective.

Conclusion: With regard to the positive result of both the prospective and the retrospective effectiveness test, the hedging is considered to be highly effective. This allows applying hedge accounting in subsequent reporting periods.

Securing a contract with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street - Establishment of a hedging instrument.

1) *Purpose and risk management strategy:* in accordance with the risk management policy, the Company hedges currency risk in highly probable future transaction described in point 4.
2) *Type of hedging relationship:* hedging the cash flows risk associated with future flows in foreign currency.
3) *Type of hedged risk:* EUR/PLN exchange rate in future dates resulting from the construction contract denominated in EUR. The payment schedule under the construction contract is presented in point 4.
4) *Planned future transaction – the hedged item:* under construction contracts signed on 21.12.2016 with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street, Erbud SA expects the following payments in EUR:

Date	Expected payments in EUR
2017-03-10	135 739.04
2017-04-10	359 338.83
2017-05-10	482 440.33
2017-06-12	655 355.38
2017-07-10	538 277.69
2017-08-10	574 553.89
2017-09-11	649 039.61
2017-10-10	682 670.46
2017-11-10	955 087.42
2017-12-11	1 295 376.87
2018-01-10	1 490 285.35
2018-02-12	1 972 951.58
2018-03-12	1 981 839.59
2018-04-10	1 218 834.71

The transaction is highly probable, because flows follow the contract signed with the investor.
For the purpose of establishing a hedged instrument it was assumed that the flows resulting from two construction contracts due to the fact that both contracts concern the portion of the same complex of buildings, and the contracts are concluded with the same investor, the contracts will be merged into one synthetic contract.

5) *Hedging instrument:* forward contracts concluded with mBank and ING Bank Slaski SA on 21.12.2016 with one forward rate for all flows (parforward).
Total cash flows under these forward contracts are as follows:

Date	Payments in EUR	Payments in PLN
2017-03-10	135 739.04	607 919.63
2017-04-10	359 338.83	1 611 575.55
2017-05-10	482 440.33	2 163 301.48
2017-06-12	655 355.38	2 939 622.08

2017-07-10	538 277.69	2 414 322.68
2017-08-10	574 553.89	2 575 899.35
2017-09-11	649 039.61	2 909 114.61
2017-10-10	682 670.46	3 060 428.72
2017-11-10	955 087.42	4 285 669.19
2017-12-11	1 295 376.87	5 820 128.28
2018-01-10	1 490 285.35	6 695 852.08
2018-02-12	1 972 951.58	8 864 471.45
2018-03-12	1 981 839.59	8 904 405.28
2018-04-10	1 218 834.71	5 476 224.35

As the key parameters of the hedged item and the hedging instrument, i.e. dates, amount and currency of cash flows are identical, the forward contract hedges the fair value of cash flows resulting from the construction contract described in point 4, measured as a hypothetical derivative – forward contracts for the purchase of EURO at fixed dates. For the purpose of testing hedge effectiveness, swap points and spot rate are not separated, but analysed are changes in the fair value of the forward contract.

6) *Effectiveness tests:* pursuant to point 3 of the Risk Management Policy, the Company releases a hypothetical derivative that is a forward contract for the purchase of EUR in dates under the construction contract listed in point 4. Both in the prospective and retrospective testing, the Company compares the cumulative changes in fair value of the hedging instrument and the hypothetical derivative.
The prospective test is performed on the date of the hedge establishment and on each balance sheet date during the course of the transaction (calendar quarters). For this test actual historical data are used, assuming that the hypothetical date of hedging contract took place 12 months before the actual date of the hedging establishment, and the measurement of the effectiveness takes place over the next 12 months from the hypothetical date of the contract.

The retrospective test is performed on each balance sheet date after the establishment of hedging (calendar quarters).

Analysis of effectiveness of hedging against currency risk related to the construction contract, referred to in the Annex of 19. 12. 2017 to the contract concluded with Centrum Praskie Koneser sp. z o. o. sp. k. for the construction of buildings B and C and additional works in the building D of the Centrum Praskie Koneser complex, including the accompanying infrastructure, located in Warsaw on Ząbkowska Street- as at 31. 12. 2017.

Introduction: In accordance with the risk management policy of the ERBUD Group, at each balance sheet date a prospective (ex-ante) test and retrospective (ex-post) test on the effectiveness of hedging is performed.

Kind of hedged risk: Cash flows risk associated with highly probable future flows in EUR arising from the annex of 19.12.1017 to the contract concluded with z Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street. This risk is related to the appreciation of polish currency (PLN) – expected flows in foreign currency from the contract will be worth less in PLN.

Type of hedging instrument: Forward foreign exchange contracts to sell foreign currency in the amounts and dates corresponding to the expected flows arising from construction contract. To assess the effectiveness of hedge, the interest rate component (swap points) and the exchange rate component (spot rate) are not separated, but there are analysed changes in the fair value of the whole forward transaction.

Prospective hedge effectiveness testing: 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 at twelve-monthly dates prior to the balance sheet date For each of the above said 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.

Date	Fair value of forward transactions	Fair value of cash flows from a hypothetical derivative in PLN	Cumulative change in fair value of forward transactions	Cumulative change in fair value of a hypothetical derivative	The ratio of cumulative changes in fair value hedge and the hedged item
Data	**Wartośc godziwa transakcji forward**	**Wartość godziwa przepływów z hipotetycznego instrumentu pochodnego w PLN**	**Skumulowana zmiana wartości godziwej transakcji forward**	**Skumulowana zmiana wartości godziwej hipotetycznego instrumentu pochodnego**	**Relacja skumulowanych zmian wartości godziwej zabezpieczenia i pozycji zabezpieczanej**
19-gru-16	0	0	0	0	
30-gru-16	-54 614	54 614	-54 614	54 614	100%
31-sty-17	610 108	-610 108	610 108	-610 108	100%
28-lut-17	760 585	-760 585	760 585	-760 585	100%
31-mar-17	1 500 148	-1 500 148	1 500 148	-1 500 148	100%
28-kwi-17	1 558 627	-1 558 627	1 558 627	-1 558 627	100%
31-maj-17	1 911 310	-1 911 310	1 911 310	-1 911 310	100%
30-cze-17	1 611 343	-1 611 343	1 611 343	-1 611 343	100%
31-lip-17	1 465 154	-1 465 154	1 465 154	-1 465 154	100%
31-sie-17	1 467 895	-1 467 895	1 467 895	-1 467 895	100%
29-wrz-17	1 192 543	-1 192 543	1 192 543	-1 192 543	100%
31-paź-17	1 652 625	-1 652 625	1 652 625	-1 652 625	100%
30-lis-17	2 005 704	-2 005 704	2 005 704	-2 005 704	100%
29-gru-17	2 294 578	-2 294 578	2 294 578	-2 294 578	100%

The so calculated ratio of changes in fair values on each date amounted to 100%, so it was in the range of 80-125%, which allow to consider the hedging as highly effective,

Retrospective hedge effectiveness testing: the dollar offset method is applied using the hypothetical derivative instrument, measuring the ratio of the cumulative change in the fair value of the hedging instrument to the cumulative changes in the hypothetical derivative instrument.

Date	Fair value of forward transactions	Fair value of cash flows from a hypothetical derivative in PLN	Cumulative change in fair value of forward transactions	Cumulative change in fair value of a hypothetical derivative	The ratio of cumulative changes in fair value hedge and the hedged item
Data	**Wartośc godziwa transakcji forward**	**Wartość godziwa przepływów z hipotetycznego instrumentu pochodnego w PLN**	**Skumulowana zmiana wartości godziwej transakcji forward**	**Skumulowana zmiana wartości godziwej hipotetycznego instrumentu pochodnego**	**Relacja skumulowanych zmian wartości godziwej zabezpieczenia i pozycji zabezpieczanej**
19-gru-17	0	0			
29-gru-17	113 385	-113 385	113 385	-113 385	100%

The ratio of so calculated changes in fair values on each date amounted to 100%, so it was in the range of 80-125%, so the hedging should be ex-post considered as effective.

Conclusion: With regard to the positive result of both the prospective and the retrospective effectiveness test, the hedging is considered to be highly effective. This allows applying hedge accounting in subsequent reporting periods..

Securing a contract referred to in the Annex of 19. 12. 2017 to the contract with z Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street - Establishment of a hedging instrument.

1) *Purpose and risk management strategy:* in accordance with the risk management policy, the Company hedges currency risk in highly probable future transaction described in point 4.
2) *Type of hedging relationship:* hedging the cash flows risk associated with future flows in foreign currency.
3) *Type of hedged risk:* EUR/PLN exchange rate in future dates resulting from the construction contract denominated in EUR. The payment schedule under the construction contract is presented in point 4.

4) *Planned future transaction – the hedged item:* under annex of 19.12.2017 to construction contracts with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and extra work in building D of the Centrum Praskie Koneser, incl. the accompanying infrastructure, located in Warsaw on Ząbkowska Street, Erbud SA expects the following payments in EUR:

Date	Expected payments in EUR
Data	**Oczekiwany wpływ gotówki w EUR**
09-lut-18	455 300,61
09-mar-18	357 809,24
09-kwi-18	511 298,58
09-maj-18	896 897,34
08-cze-18	1 251 280,18
09-lip-18	1 346 975,98
09-sie-18	1 163 006,93
07-wrz-18	632 049,64
09-paź-18	182 905,66

The transaction is highly probable, because flows follow the contract signed with the investor.
For the purpose of establishing a hedged instrument it was assumed that the flows resulting from two construction contracts due to the fact that both contracts concern the portion of the same complex of buildings, and the contracts are concluded with the same investor, the contracts will be merged into one synthetic contract.

5) *Hedging instrument:* forward contracts concluded with mBank and ING Bank Slaski SA on 19.12.2017 with one forward rate for all flows (parforward). Cash flows under these forward contracts are as follows:

Total cash flows under these forward contracts are as follows:

Date	Payments in EUR	Payments in PLN
Data	Wypływ kwot w EUR	Wpływ kwot w PLN
09-lut-18	455 300,61	1 929 791,64
09-mar-18	357 809,24	1 516 574,46
09-kwi-18	511 298,58	2 167 139,03
09-maj-18	896 897,34	3 801 499,38
08-cze-18	1 251 280,18	5 303 551,04
09-lip-18	1 346 975,98	5 709 157,69
09-sie-18	1 163 006,93	4 929 404,87
07-wrz-18	632 049,64	2 678 942,40
09-paź-18	182 905,66	775 245,64

As the key parameters of the hedged item and the hedging instrument, i.e. dates, amount and currency of cash flows are identical, the forward contract hedges the fair value of cash flows resulting from the construction contract described in point 4, measured as a hypothetical derivative – forward contracts for the purchase of EURO at fixed dates. For the purpose of testing hedge effectiveness, swap points and spot rate are not separated, but analysed are changes in the fair value of the forward contract.

6) Effectiveness tests: pursuant to point 3 of the Risk Management Policy, the Company releases a hypothetical derivative that is a forward contract for the purchase of EUR in dates under the construction contract listed in

point 4. Both in the prospective and retrospective testing, the Company compares the cumulative changes in fair value of the hedging instrument and the hypothetical derivative.

The prospective test is performed on the date of the hedge establishment and on each balance sheet date during the course of the transaction (calendar quarters). For this test actual historical data are used, assuming that the hypothetical date of hedging contract took place 12 months before the actual date of the hedging establishment, and the measurement of the effectiveness takes place over the next 12 months from the hypothetical date of the contract.

The retrospective test is performed on each balance sheet date after the establishment of hedging (calendar quarters).

5.1.2. Interest rates risk

The risk of interest rates occurs mainly when Group member companies take advantage of bank loans and borrowings, issued bonds and financial lease. These financial instruments are based on variable interest rates and expose the Group to the risk of changes in cash flows. This risk is partly offset by the Group's cash-back investments made on a floating interest rate basis.

The Group also uses fixed rate instruments in which market interest rate movements do not affect interest costs or interest income. Trade receivables and payables and other receivables and liabilities are not interest bearing and have maturity of up to one year.

The exposure to interest rate risk and interest rate forecasts are monitored by the Group that allows the material interest rate risk to be hedged using interest rate swap.

In the case of hedging transactions, the Company applies hedge accounting principles.

5.1.3. Loan risk

Trade receivables and retention money under construction contracts are financial assets of the Group which are exposed to increased credit risk. The Erbud Group applies the policy of evaluation and verification of credit risk connected with all contracts. Before signing the contract, each business partner is assessed against the ability to meet its financial obligations. In the event of a negative assessment of the contractor's payment capacity, the agreement conclusion depends on the establishment of appropriate financial or property guarantees. In addition, the conditions of agreements with building investors provide for the right to suspend the execution of works, in case of any delay in payment for services rendered. If possible, agreements include provisions which conditioning payments to the subcontractors from the inflow of funds from the building investor.

5.1.4. Liquidity risk

In order to mitigate the risk of losing liquidity, the Group’s companies maintain an adequate amount of cash and transferable securities as well as enter into credit facility agreements, which serve as an additional liquidity security. To finance investment purchases, the Group uses its own funds or long-term financial lease agreements, ensuring adequate durability of the financing structure for this type of assets.

The Group's companies collaborate both in monetary and capital transactions with financial institutions of high reliability, without causing a significant concentration of credit risk. The Group applies a policy limiting credit exposure to individual financial institutions and issuers of debt securities, which are acquired under the periodic depositing of surplus cash. The liquidity management is supported by the current of reporting liquidity forecasts by the Group member companies.

5.1.5. Price risk

The ERBUD Group is exposed to price risk associated with going up of prices of most commonly purchased building materials such as steel and concrete. Prices in contracts concluded with building investors are generally fixed throughout the contract period. Therefore, the increase in material prices adversely affects the financial results of the Group.

Following such price increase, prices of services provided to the Group by the subcontractors may also rise.

In order to reduce the price risk, the ERBUD Group constantly monitors prices of the most frequently purchased materials, and parameters of contracts to be signed concerning, inter alia, the duration of the contract and its value are adjusted to the market situation.

5.2. Operational risk

The activities of the ERBUD Group are accompanied by a number of operational risks such as:

- Risk of underestimation of contract performance costs. In the situation when preparing a tender the value of works necessary to complete a contract are underestimated, the Group may incur a loss or a reach a lower profit from the execution of this contract.
- Risk of non-recognition by the contracting party of additional works. A proper performance of the project sometimes requires executing extra works not covered by the contract and thus incurs higher costs than calculated. Additional work may also cause that the deadline is exceeded. Claiming additional remuneration by the Group may be deemed unfounded by the customer.
- Risk of suspension of executed contracts by the investor.
- Protests of residents or environmentalists in the case of road projects, what cause delay in works.
- Risk of poor quality of delivered materials.
- Risks related to liability for defects and warranty in terms of quality of works performed.
- Risk of liability for improper performance of works by subcontractors.
- Risk of loss of managerial and engineering staff. Decisions to change the employer by some of these employees and the inability to replace them with suitable personnel may have a negative impact on the completion of certain contracts.

5.3. Risk arising from the macroeconomic situation

The development opportunities of the ERBUD Group and its financial position depend primarily on the condition of the Polish economy. The share of building investments in creating economic growth is of particular importance for the potential development of the construction business. Most of analysts predict that, among others, thanks to the inflow of funds from the new EU perspective, which will be earmarked for investment, the GDP will grow. Good prospects for the development of the construction industry can also contribute to increasing competition of both Polish and foreign companies. Rising competition creates the risk of a drop in the construction output margin.

5.4. Legal risk

Possible changes to some regulations may adversely affect the ERBUD Group's operations. This applies, in particular, to:

- new environmental requirements that may necessitate obtaining another permits and delay the completion of the project;
- amendments of regulations on concessions and public procurement (e.g. introduction of additional requirements on innovation and social security);
- tightening of requirements in the field of warranty and contracts with subcontractors in a tendering process.

5.5. Insurance

The ERBUD Group uses insurance products covering company's business risk, Directors & Officers Liability and construction and erection risks (covering contract work and property under construction).

Insurance agreements

Insurance company	Valid from	Valid to	Subject	Vvalue
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	2018-02-01	2019-01-31	Business insurance	PLN 100 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	2018-02-01	2019-01-31	Designers' liability insurance	PLN 10 million for one and all events
Sopockie Towarzystwo Ubezpieczeniowe ERGO Hestia S.A.	2018-02-01	2019-01-31	Construction and erection all risks insurance	Open
Towarzystwo Ubezpieczeniowe Allianz	2018-02-01	2019-01-31	Construction and erection all risks insurance	Open
Chubb Euroean Group Limited Sp. z o.o. Oddział w Polsce	2017-06-01	2018-05-31	D&O insurance	PLN 40 million

5.6. Ligations

Both in cases where the Issuer is the plaintiff (cases related to receivables) and in cases where the Issuer is the defendant (cases related to payables) the view of the Issuer and its legal advisors prove that the proceedings will be solved in favour of the Issuer.

5.6.1. Proceedings to which ERBUD SA is a party as at the date of preparation of the Report, concerning payables or receivables of the Issuer or its subsidiary with a value representing at least 10% of the Issuer's equity, (including the case subject, the amount in dispute, the date of the proceeding initiation and the Issuer's point of view)

5.6.1.1. Plaintiff: Mazowiecki Port Lotniczy Warszawa-Modlin sp. z o.o. („MPL")

Defendant: ERBUD S.A., Warsaw

Date of submitting a lawsuit by ERBUD S.A.: 23 May 2014

The amount in dispute: PLN 34,381,374.64

State of the case: On 12 May 2014, a lawsuit was served to the Company, in which the Employer requested the payment of PLN 34,381,374.64 as compensation plus statutory interest and litigation costs. Damage claimed by MPL includes losses incurred by the plaintiff and gains lost as a result of allegedly improper performance by ERBUD of the agreement No. PLM/K/96/2010 dated 14 September 2010 for construction of the Warsaw-Modlin Aitport and the shutdown of air traffic on the part of the runway.

On 11 October 2014, ERBUD replied to the lawsuit, requesting the dismissal of MPL's action in its entirety and to grant a reimbursement of proceedings costs. Furthermore, regardless of repudiating the plaintiff's claim. ERBUD filed a counterclaim against the MPL making the adjudication of the amount of PLN 19,892,366.30 plus statutory interest. The counterclaim includes repair costs of runway pavement on the Warsaw-Modlin Airport incurred by ERBUD.

On 2 March 2015, Erbud received a pleading in which MPL upheld its request and appealed to dismiss the counterclaim of ERBUD. In response, on 15 May 2015 the lawyers of Weil filed a letter (prepared together with experts from various fields), in which they maintained the standpoint of ERBUD, presented another arguments and responded the evidentiary and procedural issues.

On 3 July 2015, the lawyers of Weil applied to take evidence in respect of information about the results of the audit conducted by the Supreme Audit Office regarding construction of an airport in Modlin, published in the June 2015.

The first hearings were held on 28 October 2015 and 10 February 2016. During the hearing, the first witnesses called by MTL were exanimated. Next examination dates has been fixed.

In November and December 2015, parties exchanged next pleadings. Hearings of witnesses are held.

In view of complicated factual situation of the case and extensive evidence filed during the proceedings, including the likelihood of taking a number of evidence from the expert assessments, the first-instance sentence will probably be issued not earlier than after approx. three years after submitting the lawsuit by MPL.

We also stick to the assessment presented in the earlier memoranda, according to which the risk of awarding claims for the MPL is less than the chance of dismissal of the action. However, even if the Court had found the claim of MPL to be well founded, the amount of damages awarded would have been significantly lower than the amount requested in the lawsuit by MPL, since ERBUD S.A. is able to challenge almost every element of the damage reported by MPL.

5.6.1.2. Plaintiff: ERBUD S.A., Warsaw Branch

Defendant: DSH – Dopravni Stavby. a.s., Brno. Czech Republic

Date of filing a lawsuit: 14 February 2013

The amount in dispute: PLN 26,923,644.16

State of the case: As a result of the filed lawsuit for the payment, the District Court in Warsaw, XX Commercial Department, gave the file number to this suit. By decision of 30 April 2013, the court called ERBUD to make a prepayment to cover the costs of translation of documents. In view of costs suffered by ERBUD due to substitute execution of repair works, it was prepared a pleading extending the claim by PLN 19,451,174, 22,925 604.52. On 27 May 2014 ERBUD extended the claim by PLN 22,925,604.52 to cover the substitute contractor's costs. By letter dated 27May 2014 and delivered on 1 July 2014, the defendant made a counterclaim for PLN 5,651,633. The hearing took place on 6 November 2015. Both parties asked for the abolition of the hearing in order to continue voluntary arrangements. The compromise talks ended with no result. The proceeding has been resumed and hearings of witnesses are held.

5.6.1.3. Plaintiff: ERBUD S.A., Warsaw Branch

Defendant: Bank Millennium S.A., Warsaw
Date of filing a lawsuit: 22 December 2010
The amount in dispute: PLN 71,065,496

State of the case: In 2008, the Bank Millennium S.A. advised the Issuer (Erbud S.A.) concluding a transaction on currency options to protect euro-denominated contracts executed by the Issuer against an exchange rate risk. The Bank's offer resulted from the Issuer's need to adequate secure its situation. According to the Company the product was not optimally suited to the needs ERBUD SA. In the fourth quarter of 2008, as a result of the drastic depreciation of the Polish zloty against euro, the Bank Millennium S.A. reported to the Issuer a negative valuation of its exposure.

At the same time, there arose a dispute as to content of the currency options transactions, primarily concerning exclusion of optional structures. During many talks, the Issuer presented its position to the Bank, which required execution of the transaction, including action for compulsory execution of claims. In order to reduce the amount of potential loss, the disputed transactions were restructured, and the Bank has been informed about future legal action to compensate damage resulting from the transactions of currency options. The restructuring details were announced by the Issuer in the Current Report No. 43/2008 of 21.11.2008, and in the financial statements for the year 2008. The Issuer has never agreed with the position of the Bank Millennium S.A. and therefore called the Bank twice to pay the amount of PLN 71,065,496, which consists of amounts collected by the Bank from the Issuer's bank account, lost benefits, and legal and financial advisors' fees. Accordingly, the Issuer has decided to enter a lawsuit for payment in order to compensate the damage suffered.

On 16 September 2016, the Issuer received from its legal advisers a notice of the judgement issued by the Regional Court in Warsaw. Under this verdict, the Court dismissed the claim of the Issuer in its entirety.

The sentence is not legally binding. Accordingly, an appeal was lodged against this judgment on 4 November 2016. The verdict was challenged in its entirety. The allegations focus in particular on incorrect findings and conclusions by the Court of First Resort on faulty determination by the Court of the content of disputed transactions and misinterpretation of documents, including those confirming the transaction. Furthermore, the appeal cited the numerous verdicts of the District Court and Court of Appeal in Warsaw issued in similar cases, in which the courts delivered judgments beneficial for the customers of Millennium Bank being in a situation very close to the Issuer.

The above verdict has no impact on the Issuer's financial situation as the total loss connected with option transactions was settled in the year it incurred i.e. in 2008.

5.6.2. Two or more proceedings concerning payables and receivables whose total value represents respectively at least 10% of the Issuer's equity (including the total value of proceedings separately in the group of liabilities and receivables with the issuer's view) and the largest proceedings related to payables and receivables (indicating their subject, the amount in dispute, and the date of initiation and the parties to the proceedings)

The total value of other proceedings referred to above, in which Erbud SA is the plaintiff, amounts to PLN 34,914,593.15

5.6.2.1. Plaintiff: ERBUD S.A., Wrocław Branch

Defendant: Kępska S.A., Warsaw

Date of submitting a lawsuit by ERBUD S.A.: 22 April 2014

The amount in dispute: PLN 9,877,132

State of the case: ERBUD SA claims the payment for executed works from Kępska SA. By lawsuit of 22 April 2014, the plaintiff applied for awarding the amount of PLN 8,187,631.31 from Kępska SA.

In the suit Erbud SA also requested to secure further sum of PLN 1,414,500 by freezing debts on bank accounts, to which the defendant is entitled, and creating a forced mortgage on the real property located in Opole at 8 Kępska St. By decision of 12 August 2014, the District Court secured the claim amounting PLN 1,414,500 as requested by the plaintiff. The decision dated 4 September 2014, including an enforcement order was delivered to the plaintiff on 19 September 2014. The plaintiff submitted to the District Court in Opole, VI Department of Land Registry, an application for registration of the forced mortgage of PLN 1,414,500 on the basis of the aforementioned Court order. By decision of 15 December 2014, the District Court in Opole dismissed the plaintiff's request for registering the forced mortgage. In support of its ruling, the Court pointed out that the examination of the land register KW No. OP10/00085900/3 disclosed that the real estate entered into this register is in perpetual use of EMIR 75 sp. z o.o. seated in Warsaw, and not of Kępska SA. On 27 January 2015, the plaintiff applied for making enforceable against EMIR 75 sp. z o.o. the freezing order on claims for the establishment of forced mortgage.

By decision of 30 January 2015, the District Court in Opole issued declaration of enforceability against EMIR 75 sp. z o.o. On 5 February 2015, ERBUD SA filed an application for registration of the mortgage into the land register. On 29 May 2015, the mortgage was entered in the land register. On 29 June 2015 (date of receipt by the Court was 1 July 2015), Kępska SA appealed to the Court of Appeal in Wrocław the sentence of the District Court in Opole for granting an enforcement declaration against EMIR 75 Sp. z o.o. By decision of 10 July 2015, the Appeal Court in Wroclaw changed the decision appealed and dismissed the application (it is a basis to delete the mortgage amounting PLN 1,414,500). There is no further right of appeal against the sentence.

In response to the claim of 10 September 2014, Kępska SA applied for dismissal in its entirety and raised an objection to the off-set of mutual claims of the plaintiff and defendant due to improper performance of obligations by ERBUD SA under the contract for general contracting.

On 30 November 2015 ERBUD SA, expanded the action by PLN 1,689,500, what is the amount due to ERBUD SA as contractual penalty for withdrawing from the contract for reasons attributable to the Kępska SA.

From September 2015 to February 2016, there were hearings of witnesses of Parties. In July 2016, an expert opinion was delivered, which is favourable for ERBUD S.A. and confirms that the building was completed on time and has no material defects. By letter dated 18 July 2016, ERBUD S.A. appealed to the prepared expert's opinion.

By letter of 16 August 2016, Kępska also submitted allegations to the opinion and commissioned another expert to issue a new opinion. By letters of 7 and 25 November and 13 December 2016, the defendant applied for taking evidence in respect of new documents, including private opinions and technical expert opinions, and correspondence between the parties. In response to these requests, ERBUD S.A. pointed out that they were submitted to late and therefore were unacceptable. Moreover, some of them are irrelevant to the case.

At the hearing on 11 January 2017, the Court issued an evidence decision in which evidences from the documents presented by Kępska at the end of 2016 and an evidence from the additionally expert opinion were accepted. ERBUD S.A. lodged objections to the minutes and required the reissue of the evidence decision both with regard to the admission of the documents attached to the aforementioned pleadings as well as the evidence argument for the expert on the proof of "delay" of ERBUD S.A. in performance of the contract for construction works.

5.6.2.2. Plaintiff: ERBUD S.A., Warsaw Branch

Defendant: Akademia Muzyczna in Łódź

Date of filing a lawsuit: 20 December 2013

The amount in dispute: PLN 2,050,515

State of the case: On 20 December 2013, ERBUD SA filed a claim for payment of PLN 1,895,430 as remuneration for construction works carried out by the plaintiff to the defendant under contract No. 694/U/AML/2012 of 20 December 2012, in accordance with the VAT invoice No. 519/13/W of 30 July 2013, issued by the plaintiff to the defendant. and payment of PLN 74,934.40 due to statutory interest on the amount of remuneration accrued from day on which the amount became due and payable (i.e. from 29 August 2013) till the date of filing a lawsuit (i.e. 20 December 2013), and PLN 80,150.37 as compensation for improper performance of Agreement No. 209/U/AMŁ/11 of 15 September 2011 by the Academy. ERBUD thereupon suffered injury in the form of increased site maintenance costs for a period longer than predicted in the above-mentioned agreement, i.e. from 01.06.2013 to 07.15.2013.

The defendant Academy of Music responded to the suit dated 23 January 2014 requesting the dismissal of the action in its entirety and raised the procedural objection to deduction of penalties.

The plaintiff filed pleadings dated 31.03.2014 and 22.05.2014, and the defendant pleadings of 04.04.2014 and 30.06.2014. Two hearings were held so far: on 29.08.2014 (one ERBUD's witness has been examined) and on 07.11.2014, where there case has been postponed due to the planned bringing by the defendant a counterclaim for payment of the remainder of contractual penalties. A hearing was held on 04.06.2015 and adjourned.

By decision dated 05.11.2015, the Court combined this case with the case No. I C 1944/14. Hearings of other witnesses are held. Currently, at the request of the Academy of Music, mediation proceedings are held in order to reach a settlement.

Total value of other proceedings in which ERBUD S.A. is the defendant: PLN 16,799.207.43

5.6.2.3. Plaintiff: Akademia Muzyczna in Łódź

Defendant: ERBUD S.A., Warsaw Branch

The amount in dispute: PLN 4,135,790.96

Date of filing a lawsuit: 16 December 2014 (delivered to ERBUD SA on 27.03.2015)

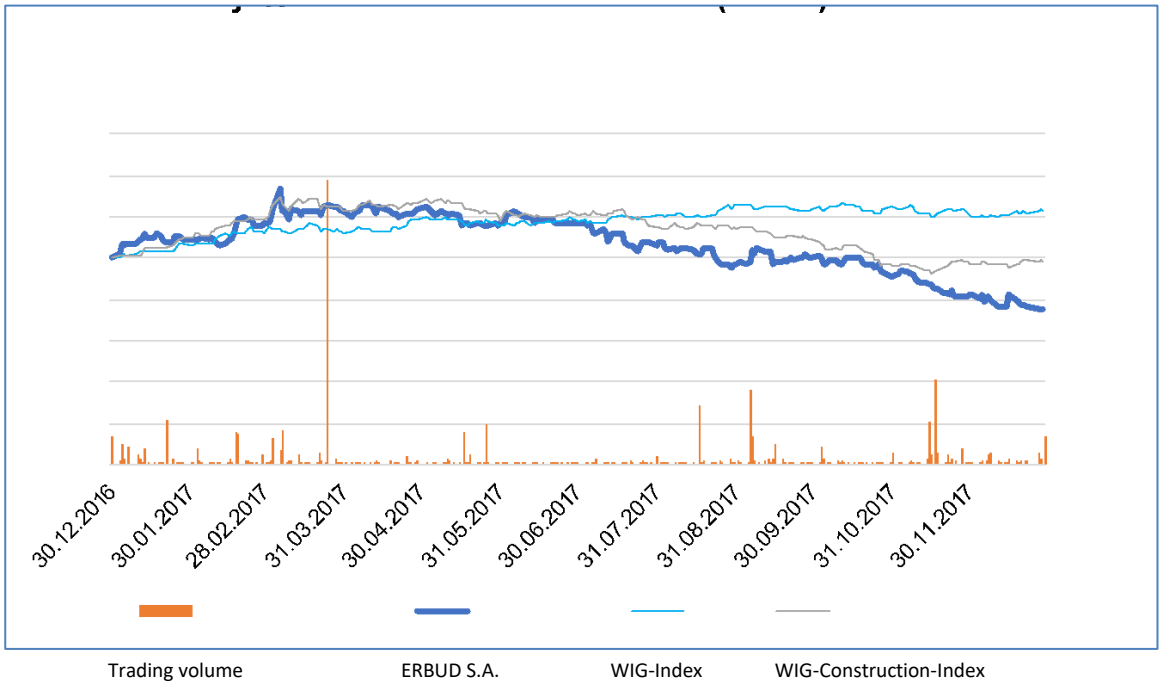
State of the case: The Academy of Music applied for payment of contractual penalties due to Erbud's delay in meeting the deadline for completion of works. In response to a lawsuit the defendant appealed to dismiss the above claim in its entirety due to the lack of clause on accountability for exceeding the deadline. The plaintiff applied for hearing this case together with the case filed by ERBUD SA against the Academy of Music, which is pending before the District Court in Łódź under ref. Act I C 2090/13. On 25.06.2015, the proceeding was suspended for three months.

By decision dated 05.11.2015, the Court combined this case with the case No. C 2090/13 and then set the date of the hearing for 11.03.2016. The hearing has been adjourned to 08.08.2016 and held on this date. Hearings of other witnesses are held.

Currently, at the request of the Academy of Music, the case is being mediated in order reach a settlement. The parties did not agree in the mediation, the proceedings will be continued.

6. ERBUD S.A. ON THE CAPITAL MARKET

Prices of shares of Erbud S.A. and trading volume



6.1. Prices of ERBUD S.A. shares on the Warsaw Stock Exchange (WSE)

The year 2017 ended with increases on the Warsaw Stock Exchange. The factors that filled investors with optimism included, among others, the fastest economic growth in almost six years, the balance of current turnover with foreign countries, low deficit, rising wages and employment, as well as a stronger Polish Zloty. As a result, on 29 December 2017, the main WIG index was 23% higher than in the previous year.

During 2017, the price of ERBUD S. A. shares (according to the session closing data) ranged from PLN 20.21 (recorded on 27 December 2010) to PLN 35.80 (recorded on 6 March 2009). On the last trading day of 2017, i.e. 29 December last year, the price of ERBUD S. A. shares amounted to PLN 20.25, i.e. it was 24.4% lower than on the last trading day of 2016. . For comparison, in 2016 the value of the WIG Construction subindex fell by 1.3%.

As at 29 December 2017, the market value of ERBUD S. A. was therefore PLN 259.4 million, while the book value was PLN 285.7 million. The price/book value index was 0.9 and the price/profit index for the continued operations was 10.9. For comparison, ratios for the companies listed in the WIG Construction subindex were as follows: the price/book value index - 0.9 and the price/profit index - 13.8.

6.2. Dividend

In order to provide shareholders with the opportunity to carry out a long-term investment program based on clear and stable criteria for the distribution of earnings generated, on 26 January 2016, the Management Board passed a resolution on the adoption of the ERBUD S.A dividend policy. According to this resolution, After that the proposal has been evaluated by the Supervisory Board, the Management Board of ERBUD SA will be recommending to the General Meeting that a dividend amounting to 30-50 percent of net profit achieved in the previous financial year is paid, having regard to the current and future financial situation of the Company and the ERBUD Group. In the recommendation, the Management Board shall, in particular, take into account the following relevant factors: investment needs arising from the implementation of the ERBUD Group's strategy; the Company's liquidity needs; current and deferred liabilities. In case the above factors have been exceptionally well rated and the Supervisory Board has given a positive opinion, the Management Board may recommend the distribution of a higher dividend.

On 22 December 2016, the Extraordinary General Meeting of ERBUD S.A. resolved by resolution No. 3 to allocate PLN 14,989,875.03 from the Company's existing supplementary capital created from the profits generated in previous years to the extraordinary dividend which amounted to PLN 1.17 per share. The list of shareholders entitled to the extraordinary dividend was fixed on 9 January 2017 and the payment was made on 23 January 2017.

	2013	2014	2015	2016
ERBUD S.A. net earnings (in PLN '000)	8 416	12 245	11 397	11 103
Dividend from profit of the year (in PLN '000)	8 900	6 381	15 374	14 980**
Dividend per share (in PLN)	0.70	0.50	1.20	1.17
Record date	21.07.2014	15.07.2015	17.05.2016	09.01.2017
Dividend * (in %)	2.8	1.5	4.2	3.9

** Dividend rate calculated as the quotient of dividend per share and share price two days prior to the record date*

*** Extraordinary dividend from supplementary capital created from retained earnings*

6.3. Investor relations

ERBUD S.A strives to provide the highest standards of communication with capital market participants. The particular importance is attached to the fairness of information, transparency and to equal treatment of all stakeholders and observes all legal provisions on disclosure duties to which are obliged companies whose securities are listed on a regulated market..

The Company attaches great importance to the quality of communication with stakeholders via its website: www. erbud. pl/relacje_inwestorskie. It contains up-to-date information concerning, among others, the quotations of the ERBUD shares on the Warsaw Stock Exchange, General Meetings of Shareholders and Corporate Governance.

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On the website are also published current, periodic and annual reports, quarterly and annual financial highlights (including XLS sheets) and teleconference records, during which the Management Board presents quarterly results. It is also a rule that once a quarter, on the day of publication of the quarterly report, teleconferences are organised.

In addition, the media are provided with significant information about operating and corporate activities on an ongoing basis.

6.4. Recommendations

In 2017, ERBUD S. A. received nine sell-side recommendations from analysts of brokerage houses and investment banks:

- Buy – 3,
- Accumulate – 3,
- Hold – 3.

These recommendations do not constitute a prognosis or opinion of the Management Board of ERBUD S.A.

7. CORPORATE GOVERNANCE

7.1. Principles and scope of Corporate Governance

ERBUD S.A applies Corporate Governance principles included in Best Practice for WSE Listed Companies 2016, which were adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on 13 October 2015.

The content of *Best Practice for WSE Listed Companies 2016* is available on the ERBUD's website at: http://www.erbud.pl/dobre_praktyki.php.

In 2017, the Company did not apply the following principles specified in *Best Practice for WSE Listed Companies 2016*:

Principles	ERBUD S.A. comment
I. Disclosure Policy, Investor Communications	
I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:	
I.Z.1.8. Selected financial data of the company for the last 5 years of business in a format enabling the recipient to process such data.	Data is available in other formats.
I.Z.1.15. Information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.	The company does not apply diversity policy.
I.Z.1.16. Information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting.	The company does not plan to broadcast the general meeting.

I.Z.1.20. An audio or video recording of a general meeting.	The Company does not record the general meeting in audio or video company.
I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.	The Company's shares are not qualified for these indexes
IV. General Meeting, Shareholder Relations	
IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-life broadcast of the general meeting; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; 3) exercise of the right to vote during a general meeting either in person or through a proxy.	Due to the shareholder structure and lack of such expectations of shareholders, the Company does not plan to broadcast the general meeting.
IV.Z.3. Presence of representatives of the media should be allowed at general meetings.	There is no such requirement.
VI. Remuneration	
VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.	The Company does not have a remuneration policy for its members. Remuneration in this respect is based on market criteria.
VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.	The Company does not have a remuneration policy for members of the Company's governing bodies.
VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.	In the incentive program this period was of 6 months duration. A longer period would conflict with the program's intentions.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following: 1) general information about the company's remuneration system; 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group; 3) information about non-financial remuneration components due to each management board member and key manager; 4) significant amendments of the remuneration policy in the last financial year or information about their absence; 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.	The Company reports the remuneration of members of the Management Board and the Supervisory Board in the Activity Report

7.2. Control and risk management systems in the process of preparing financial statements

Separate financial statements are prepared by qualified finance and accounting departments of companies forming ERBUD Group and are audited by independent authorised auditors.

Consolidated financial statements of the ERBUD Group are prepared by trained and experienced staff of ERBUD SA under the supervision of the Company's chief accountant. Both separate and consolidated statements are subject to internal control made by the Chief Financial Officer, the Company's Management Board and the Audit Committee of the Supervisory Board before they are audited by statutory auditors elected by the Supervisory Board.

The risk management with regard to valuation of assets and liabilities, including the valuation of projects in progress, and with respect to the provisions created, is based on ongoing monitoring of their value and adjustments in the interim and annual financial statements according to changes in the fair value of these assets.

The state of completion of projects is determined on the basis of the system "Evaluation of the effectiveness of projects performed as General Contractor" which is implemented directly on each project (construction site) and verified by the management of Branch Offices, Internal Audit and the Controlling Office.

7.3. Shares and shareholders of ERBUD S.A.

As at 31 December 2017 and as at the date of publication of the Financial Statements, the registered share capital amounted to PLN 1,281,185.90 and was divided into 12,811,859 shares with a nominal value of PLN 0.10 per share.

There were no changes in the share capital of the Company over 2017.

Series	Number	Nominal price (in PLN)	Value (in PLN)
A	2 000 000	0,10	200 000
B	8 000 000	0,10	800 000
G	71 025	0,10	7 102
D	2 500 000	0,10	250 000

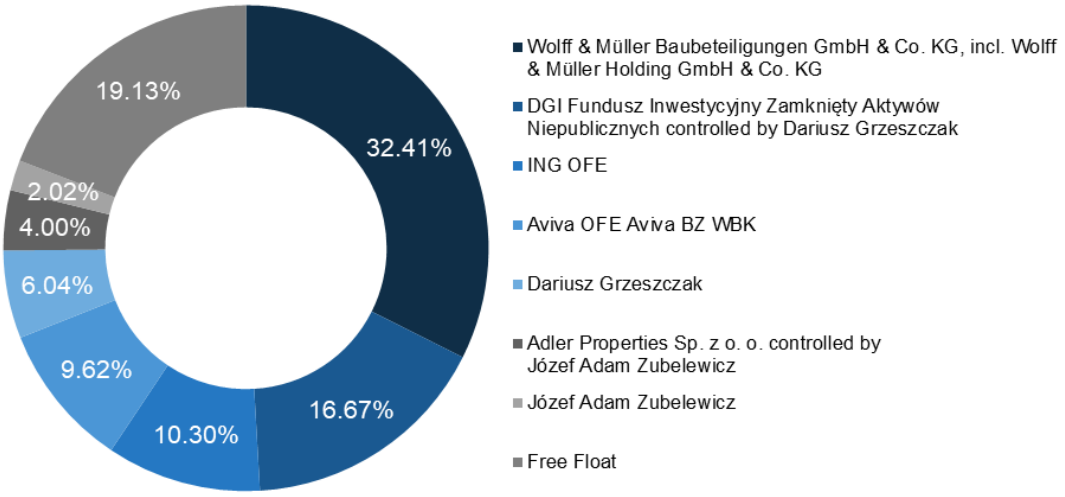
E	31 686	0,10	3 169
F	41 458	0,10	4 146
G	33 787	0,10	3 379
H	36 590	0,10	3 659
I	47 379	0,10	4 738
J	49 934	0,10	4 993
Total:	**12 811 859**	**0,10**	**1 281 186**

ERBUD S.A shares are ordinary bearer ones. There are no special control rights attached to the Company's shares. Articles of Association of ERBUD S.A. also does not impose any restrictions on the transfer of ownership of shares issued by the Company, on exercising voting rights, and does not include provisions under which the equity rights attached to securities are separated from the owning of securities.

As of 31 December 2017, the list of shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting of ERBUD S.A. was as follows:

Shareholder	As at 27.03.2018		As at 31.12.2017		As at 14.11. 2017	
	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM
Wolff & Müller Baubeteiligungen GmbH & Co. KG, incl. Wolff & Müller Holding GmbH & Co. KG	4 152 865	32.41%	4 152 865	32.41%	4 152 865	32.41%
DGI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych controlled by Dariusz Grzeszczak	2 136 260	16.67%	2 136 260	16.67%	2 136 260	16.67%
ING OFE	1 200 000	9.37%	1 200 000	9.37%	1 266 900	9.89%
Aviva OFE Aviva BZ WBK	1 183 146	9.23%	1 183 146	9.23%	1 183 146	9.23%
Dariusz Grzeszczak	773 900	6.04%	773 900	6.04%	773 900	6.04%
Adler Properties Sp. z o.o. controlled by Józef Adam Zubelewicz	412 087	3.22%	412 087	3,22%	412 087	3.22%
PKO OFE	715 279	5.58%	715 279	5,58%	715 279	5.58%
Józef Adam Zubelewicz	259 500	2.03%	259 500	2.03%	259 500	2.03%
Free Float	1 978 822	15.45%	1 978 822	15,45%	1 978 822	15.45%
Total:	**12 811 859**	**100.00%**	**12 811 859**	**100.00%**	**12 811 859**	**100.00%**

Erbud S.A. sharholding structure as at 21 March 2017



On 24 March 2017, ERBUD S. A. received a notification from Adler Properties Sp. z o. o. and Józef Adam Zubelewicz, pursuant to Art. 19(1) of MAR - information on transactions carried out by persons discharging managerial responsibilities.

Prior to the change in the shareholding, Adler directly held 512,087 shares of the Issuer, representing 4.00% of the share capital and entitling to 512,087 votes, which represented 4.00% of the total number of votes. Before the change in the shareholding, the Shareholder held directly and through Adler 771,587 shares of the Issuer, representing 6.02% of the share capital, entitling to 771,587 votes, and representing 6.02% of the total number of votes.

After the change in the shareholding, Adler directly holds 412,087 shares of the Issuer, representing 3.22% of the share capital and entitling to 412,087 votes, which represents 4.22% of the total number of votes. After the change in the shareholding, the Shareholder holds directly and through Adler 761,587 shares of the Issuer, representing 5.24% of the share capital, entitling to 671 587 votes, which represents 5.24% of the total number of votes.

As at the date of publication of the Report, the Company did not have information on contracts which could result in future changes in the percentage structure of shares held by the existing shareholders.

	Relationship	As at 27.03.2018		As at 31.12.2017	
		Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM	Number of shares and votes at AGM	Share in equity and in the total number of votes at AGM
DGI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych controlled by Dariusz Grzeszczak	Management Board Member	2 136 260	16.67%	2 136 260	16.67%
Adler Properties Sp. z o.o. controlled by Józef Adam Zubelewicz	Management Board Member	512 087	4.00%	412 087	3.22%
Dariusz Grzeszczak	Management Board Member	773 900	6.04%	773 900	6.04%
Józef Adam Zubelewicz	Management Board Member	259 500	2.03%	259 500	2.03%
Albert Dürr	Supervisory Board Member	28 000	0.22%	28 000	0.22%
Agnieszka Głowacka	Management Board Member	4 077	0.03%	4 077	0.03%

Ownership of ERBUD S.A. shares by the managing and supervising Staff

On 12 October 2017, ERBUD S.A. received a notification from Ms. Agnieszka Głowacka, pursuant to art. 19(3) MAR - information on transactions performed by persons discharging managerial responsibilities.

Prior to the change in the shareholding, Agnieszka Głowacka directly held 5 588 shares of the Issuer, constituting 0.044% of the share capital, entitling to 5 588 votes, which constituted 0.044% of the total number of votes.

After the change in the shareholding, Agnieszka Głowacka directly holds 4 077 shares of the Issuer, constituting 0.032% of the share capital, entitling to 4 077 votes, which constitutes 0.032% of the total number of votes.

7.4. Management Stock Options Schemes

7.4.1. Management Stock Options Scheme 2013-2015

By Resolution No. 22/2012, the Ordinary General Meeting of Shareholders approved the Company's 2013-2015 Management Stock Options Scheme under which eligible persons were entitled to acquire the Company's shares within the authorized capital. Shares were offered to eligible persons in 2013-2015 in the amount not more than 50,000 shares for each year.

The Scheme referred to financial years 2012-2014. In order to be covered by the Option Scheme, a person must have been employed for at least 24 months, and in the case of persons employed in subsidiaries, the company must have been a member of the ERBUD Group for at least two years. In addition, the person who would be entitled could not be in the period of termination of employment. Moreover, there was an economic condition that the Group earned a consolidated net profit of at least PLN 10 million in the financial year for which the shares were offered.

The implementation of the Scheme was in the custody of the Management Board and the Supervisory Board.

Scheme	Share series	Year of issue	Number of shares offered	Number of shares acquired	Percent of shares acquired	Issue value of shares acquired
Scheme 1 / tranche 1	E	2010	31 686	31 686	100.00	348 546
Scheme 1 / tranche 2	F	2011	43 086	41 458	96.22	456 038
Scheme 1 / tranche 3	G	2012	43 541	33 787	77.60	371 657
Scheme 2 / tranche 1	H	2013	40 195	36 590	91.03	402 490
Scheme 2 / tranche 2	I	2014	47 759	47 379	99.20	521 169
Scheme 2 / tranche 3	J	2014	49 934	49 934	100.00	549 274
Total:			**256 201**	**240 834**	**94.00**	**2 649 174**

7.4.2. Management Stock Options Scheme 2016-2018

The General Meeting did not agree to continue the Management Stock Options Scheme for 2016-2018. Following this the program was finished in 2016.

7.5. Entity authorized to audit financial statements

On 9 May 2016, the Supervisory Board of the Company adopted Resolution 20/2016 on the selection of an entity authorized to conduct the audit of financial statements. Based on the recommendations of the Audit Committee, the Board chose PricewaterhouseCoopers Sp. z o.o. as the certified auditor to review the interim separate financial statements of ERBUD S.A. and the consolidated financial statements of the ERBUD Group and to audit the annual separate financial statements of ERBUD S.A. and the annual consolidated financial statements of the ERBUD Group.

PricewaterhouseCoopers Sp. z o.o. is registered in the list of entities authorized to audit financial statements maintained by the National Chamber of Statutory Auditors, under registration no. 144. In 2012, ERBUD S.A. used the services of the selected entity to carry out consultations on the establishment of an internal audit department.

The agreement with the entity authorized to audit financial statements was concluded for three years, i.e. for 2016, 2017 and 2018.

In connection with the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017, on 29 August 2017, the Audit Committee of ESBUD SA passed a resolution on adopting the Policy of selecting an entity authorised to

conduct an interim review of the separate and consolidated financial statements and to audit and issue opinions / to prepare a report on the annual audit of separate and consolidated financial statements.

Remuneration of the entity authorized to audit financial statements (in PLN '000)	2017	2016
Audit of annual financial statements and consolidated financial statements	320	270
Review of the financial statements and consolidated financial statements	170	160
Tax advisory services	0	0
Other services (annual audit of subsidiaries' financial statements)	140	140
Other services (implementation of myReporting tool, licensing, and user training)	312	0
Other services (research of foreign markets in terms of future acquisitions, due diligence of selected entities and consultancy during the transaction)	EUR 352	EUR 84
Total:	**PLN 942**	**PLN 570**
	EUR 352	**EUR 84**

7.6. Articles of Association and the General Meeting

7.6.1. Amending the Articles of Association

Amendments to the Company's Articles of Association fall within the competence of the General Meeting. Adoption of a resolution to change the Articles of Association requires ¾ of votes.

On 19 October 2017, the Extraordinary General Meeting of ERBUD S.A. adopted Resolution No. 3/2017 on amending the Articles of Association.

The following changes were made:

- subarticles numbered 5, 6, 8 of Art. 5 has been deleted;
- in connection with the deletion of Subarticles numbered 5, 6, 8 and 9, Subarticle 7 of Article 5 was renumbered 5
- change of wording of Article 11 Subarticle 3 item 4)

from:

"*Granting consent for the acquisition, disposal or encumbrance on real property, perpetual usufruct or interests in real estate*"

to:

"Granting consent for acquisition and disposal of or encumbrance on real property, perpetual usufruct or interests in real estate or in the right to perpetual usufruct";

- change of wording of Article 11 Subarticle 3 item 16)

from:

"Granting consent to employ of an employee with an annualized salary exceeding the equivalent of € 100,000.00 (say: one hundred thousand Euro)"

to:

"Granting consent to employ of an employee with an annualized salary exceeding the equivalent of € 150,000.00 (in words: one hundred and fifty thousand Euro)";

- change of wording of Article 11 b

from:

1. *"As long as the Company's shares will be admitted to trading on a regulated market, the Supervisory Board shall appoint an auditing committee, which consists of at least 3 (three) of its members, including at least one member who should meet the requirements of independence within the meaning of art. 86 paragraph. 5 of the Act of 7 May 2009. On auditors and their self-government, entities authorized to audit financial statements and public oversight, and have qualifications in accounting or financial auditing.*
2. *The Supervisory Board, which consists of no more than 5 (five) members can perform the tasks of the audit committee.*
3. *The tasks of the audit committee shall include in particular:*
   1) monitoring the financial reporting process;
   2) review of related party transactions;
   3) monitoring the effectiveness of internal control systems, internal audit and risk management;
   4) monitoring the performance of financial audit;
   5) monitoring the independence of the auditor and the entity entitled to audit financial statements, including in the event of providing to the Company services other than financial auditing;
   6) recommending to the Board the entity authorized to audit financial statements to perform financial auditing activities within the company.
4. *The Supervisory Board may also appoint other committees, in particular the nomination and remuneration committee. Detailed tasks and principles for the appointment and operation of various committees, including the audit committee, will be established by the Supervisory Board."*

to:

1. *"As long as the Company's shares will be admitted to trading on a regulated market, the Supervisory Board shall appoint an auditing committee, which consists of at least 3 (three) of its members, who shall meet the criteria of independence set out in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision.*
2. *The tasks of the audit committee shall include in particular:*
   1) monitoring the financial reporting;
   2) monitoring the effectiveness of internal control and risk management systems and of internal audit;
   3) monitoring the performance of financial reviews, in particular of auditing by the audit firm;
   4) controlling and monitoring the independence of the statutory auditor and the audit firm, in particular where the audit firm provides to the Company services other than auditing;
   5) providing to the Company's Supervisory Board information on results of the audit and explaining how this audit contributed to the accuracy of financial reporting in the Company and on the role of the Audit Committee in the audit process;
   6) assessing the independence of the statutory auditor and giving consent for rendering by him for the Company of authorized services other than auditing;
   7) developing a policy for selecting an audit firm to conduct the audit;
   8) developing a policy for the performance of non-audit authorized services by the audit firm conducting the audit, by entities related to that audit firm and by a member firm of its network;
   9) determining the procedure for selecting an audit firm by the Company;

10) *submitting to the Supervisory Board a recommendation on appointment the audit firm in accordance with the policy developed by the Audit Committee;*
11) *submitting recommendations to ensure the accuracy of the financial reporting process in the Company.*

3. *The Supervisory Board may also appoint other committees, in particular the nomination and remuneration committee. Detailed tasks and principles for the appointment and operation of various committees, including the audit committee, will be established by the Supervisory Board.";*

- change of wording of Art.15 Subarticle 2

from:

"A resolution of the General Meeting shall not be required to acquire or disposal of real property, perpetual usufruct or interests in real estate."

to:

"A resolution of the General Meeting shall not be required to acquire or disposal of real property, perpetual usufruct or interests in real estate or in the right to perpetual usufruct."

On 18 November 2017, the above amendments were entered in the Register of Business Companies maintained by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register.

7.6.2. General Meeting

The General Meeting is acting under the Articles of Association of the Company, the General Meeting Regulations and the Code of Commercial Companies.

General Meetings may be ordinary (annual) or extraordinary ones. Annual General Meetings are convened by the Company's Management Board no later than 6 months after the end of each financial year. The Supervisory Board may convene an Ordinary General Meeting if the Company's Management Board fails to convene it within the aforementioned period. An Extraordinary General Meeting is convened by the Management Board on its own initiative or at the written request of the Supervisory Board or at the request of a shareholder or shareholders representing at least one twentieth of the share capital.

Only persons who are shareholders of the Company sixteen days before the date of the General Meeting (Record Date) are entitled to participate in the General Meeting. Shareholders may participate in the General Meeting and exercise their voting rights in person or by proxies. The power of attorney should be made in writing or in electronic form. Granting a power of attorney in electronic form does not require a secure electronic signature.

The General Meeting is convened by an announcement published on the Company's website and in a manner specified for the providing of current information in accordance with the Regulations on public offering and conditions governing the introduction of financial instruments to organized trading and on public companies.

The above mentioned announcement is made at least 26 days before the date of the General Meeting. Current Rules of the General Meeting of ERBUD SA are posted on the Company's website www.erbud.pl. In addition, the Company's website contains information on the dividend policy and shareholding structure, as well as the archive of the general meetings of shareholders

The Company draws up a list of persons entitled to participate in the General Meeting on the basis of information prepared and made available to the Company by the entity keeping the securities deposit (KDPW S.A.). The aforementioned list is based on certificates confirming the right to participate in the General Meeting issued by the operator maintaining the securities account.

The Rules of the General Meeting regulates the course of the session, the election of the Chairman and the Returning Committee, the participation in the General Meeting of members of the Management Board and the Supervisory Board of the Company and the process of adopting resolutions.

Each shareholder is entitled to propose amendments and supplements to the draft resolutions included in the Agenda of the Meeting. Voting is done by means of a computerized system of casting and counting votes ensuring that number of votes cast corresponds to the number of shares held. A resolution on refraining from considering a matter placed on the agenda may only be taken if there are substantiated motives. Adopting such a resolution requires 75% of the votes of the General Meeting.

Minutes in the form of a notarial deed, are prepared from the course of the General Meeting, and then published on the Company's website.

According to the Articles of Association of the Company, the powers of the General Meeting include:

- Reviewing and approving the Management Board's report on the activities of the Company and the financial statements for the previous financial year;
- Passing a resolution on distribution of profits or covering losses;
- Granting a vote of acceptance to members of the Management Board;
- Adoption of the Rules of the Supervisory Board and stipulation of principles of remuneration of the Supervisory Board members;
- Increasing or decreasing the share capital;
- Revision of the Articles of Association of the Company;
- The Company's merger with another commercial company;
- Dissolution and liquidation of the Company;
- Issuance of convertible bonds, bonds with pre-emptive right or subscription warrants;
- Disposal or leasing the whole Company or its organized parts and establishment of limited material rights on it;
- Considering the issues raised by the Supervisory Board, the Management Board or by shareholders of the Company;
- Deciding on other matters that in accordance with provisions of the Code of Commercial Companies or the wording of the Articles of Association are within the competence of the General Meeting.

Matters raised by the Management Board to the General Meeting are submitted to the Supervisory Board for an opinion. Resolutions of the General Meeting are adopted by a simple majority of votes unless the provisions of the Commercial Companies Code or the Articles of Association provide otherwise.

7.7. Supervisory Board

7.7.1. Composition

As of 31 December 2017, the Supervisory Board of ERBUD SA consisted of:

- Udo Berner – Chairman,
- Albert Dürr – Member,
- Zofia Dzik – Member,
- Gabriel Główka – Member,
- Janusz Lewandowski – Member,
- Michał Otto – Member,
- Janusz Reiter – Member.

Two committees report to the Supervisory Board of ERBUD SA:

1) Remuneration Committee with the following composition:

Udo Berner – Chairman;

Albert Dürr – Member;

Michał Otto – Member.

2) Audit Committee with the following composition:

- Gabriel Główka – Chairman;
- Albert Dürr – Member;
- Michał Otto – Member.

7.7.2. Powers

Powers of the Supervisory Board:

1) To approve the strategic long-term plans of the Company.
2) To approve annual progress and payment schedules.
3) To approve the investment plans of the Company.
4) To give consent to: acquisition, disposal and encumbering of real estate, perpetual usufruct, or share in real estate or perpetual usufruct.
5) To give to consent to conversion of production, setting up and dissolution of manufacturing plants and branch offices, acquisition of new enterprises.
6) To give consent to the Company to extend guarantees, sureties and issuance of bills of exchange, acceptance of sureties, opening of a letter of credit each time when the value exceeds the equivalent of EUR 2,000, 000.00 (in words: two million).
7) To give consent to equity investments exceeding the equivalent of EUR 100,000.00 (in words: one hundred thousand) except for capital investments, Treasury bills and Treasury bonds issued in Poland or in the countries where the Company runs its business activities.
8) To approve the acquisition, disposal, encumbering of shares or interest in other entities.
9) To determine the voting procedure for the Company representatives sitting on the governing bodies of subsidiaries and affiliated entities with reference to the following matters: appointment and dismissal of the members of the governing bodies of subsidiaries and affiliated entities, dissolution or liquidation of such subsidiaries and entities, changes of the company profile, split or merger of subsidiaries or affiliated entities.
10) To grant consent to take all measures not related to the Company profile and extraordinary measures with the value exceeding the equivalent of EUR 100 000.00 (in words: one hundred thousand).
11) To give consent to enter into agreements with the shareholders holding at least 5% of the total number of votes at the Company's General Meeting and with the related entities in the understanding of International Accounting Standards pursuant to the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards; the above obligation does not cover typical transactions and concluded following arm's length principle during operations run by the Company with the member companies belonging to the company capital group.
12) To grant consent to the investments exceeding the equivalent of the value of EUR 100,000.00 (in words: one hundred thousand), unless such investments are included in the investment plan, approved by the Supervisory Board.
13) To give consent to enter into hire, rent and licensing agreements with the effective term exceeding 48 months concluded outside regular course of business and not foreseen in the budget.

14) To give consent to submit proposals and to enter into civil works contracts with the net value exceeding the equivalent of the amount of EUR 15,000,000.00 (in words: fifteen million), in case of joint proposals, the reliable measure is the net sum of the proposal rather than Company share in the proposal.
15) To give consent to dispose of the right or to take an obligation with the value exceeding the equivalent of EUR 2 000 000.00 (in words: two million).
16) To grant permission to hire an employee with an annual remuneration exceeding the equivalent of 150,000.00 (in words: one hundred fifty thousand) Euro.
17) To grant consent to the appointment of the members of Company's Management Board to the management or supervisory boards of non-member companies from of the Company's capital group and in cases specified in Art. 380(1) of the Commercial Companies' Code.
18) Other matters reserved for the powers of the Supervisory Board by law, provisions of this Articles of Association forwarded upon the request of the Management Board or delegated by virtue of a resolution of the General Meeting.

Powers of the Audit Committee:

1) To monitor the financial reporting process.
2) To monitor the effectiveness of internal control systems and risk management systems as well as internal audit, including financial reporting.
3) To monitor the performance of auditing activities including in particular the conduct of an audit by the auditing firm.
4) To control and monitor the independence of the statutory auditor and the auditing firm, in particular when other auditing services are provided to the Company by the auditor.
5) To inform the Company's Supervisory Board about audit findings and to explain how the audit contributed to the reliability of financial reporting at the Company, and what was the role of the Audit Committee in the audit process.
6) To assess the independence of the auditor and to give consent to the provision of permitted non-audit services to the Company.
7) To develop a policy of auditing firm appointment to carry out the audit of Financial Statement.
8) To develop a policy by the auditing firm to carry out the audit, by entities related to this auditing firm and by a member of the auditing company's network of permitted non-audit services.
9) To determine the procedure for the auditing firm appointment by the Company.
10) To make recommendations to the Supervisory Board regarding the appointment of statutory auditors or auditing firms in adherence to the policies developed by the Audit Committee.
11) To make recommendations aimed at securing the reliability of the financial reporting process at the Company.

Powers of the Remuneration Committee:

1) To plan remuneration policy for the Management Board members.
2) To adjust the remuneration of Management Board members to long-term interests of the Company and the Company's financial performance.

7.8. Management Board

7.8.1. Composition

From 1 January to 31 May 2017 the Management Board was composed of:

- Dariusz Grzeszczak – Member,
- Józef Adam Zubelewicz – Member,
- Paweł Smoleń – Member.

On 23 May 2017, by Resolution No. 17/2017, which entered into force on 1 June 2017, the Supervisory Board of ERBUD S. A. appointed Ms. Agnieszka Głowacka to the Management Board. Therefore from 1 June 2017 to 16 October 2017, the Management Board of ERBUD S. A. had the following composition:

- Dariusz Grzeszczak – Member,
- Józef Adam Zubelewicz – Member,
- Paweł Smoleń – Member,
- Agnieszka Głowacka – Member.

On 13 September 2017, the Board Member Mr Paweł Smoleń resigned from his function, effective as of 16 October 2017. Therefore, from 17 October 2017, the Management Board of ERBUD S.A. acts as a three-person body:

- Dariusz Grzeszczak – Member,
- Józef Zubelewicz – Member,
- Agnieszka Głowacka – Member.

7.8.2. Powers

Member	Responsibilities
Dariusz Grzeszczak	Related to ERBUD S.A.: • Development of draft strategies of the ERBUD Group • Cooperation with the Supervisory Board of ERBUD S.A. • Investor relations (active participation in publication of the financial results of the ERBUD Group, contact with the media, relations with Stock Exchange Investors); • Supervising the Marketing Division, PR/IR • Supervising the Corporate Governance Advisor Section • Supervising the Management Board and Corporate Governance Office • Developing and supervising the HR Division Related to subsidiaries: • Supervision over the business activities outside Poland • Supervision over ERBUD Industry Sp. z o.o. and its subsidiaries • Industrial discipline development of the ERBUD Industry Group (activities, including: chemistry, petrochemistry, paper industry and power sector.

Józef Adam Zubelewicz	Related to ERBUD S.A.: • Supervising the Production Division – Building Construction (relations with industry investors, support in acquiring construction contracts) • Supervising the Internal Control and Audit Section • Supervising the OH&S Division • Supervising the functioning of the Management Systems Division • Supervising the functioning of the Legal Office Related to subsidiaries: • Supervision over PBDI S.A. • Supervision over ERBUD Rzeszów Sp. z o.o.
Agnieszka Głowacka	Related to ERBUD S.A.: • Supervising the Finance Division, including the Controlling Division • Cooperation with financial institutions, banks, insurance companies and brokers • Coordination of information policy in line with MAR and MAD • Supervision over financial and non-financial reporting • Acquiring sources of funding Related to subsidiaries: • Supervising the implementation of financial policy of the ERBUD Group • Supervising the functioning of the Shared Services Center.

7.9. Remuneration of authorities

7.9.1. Management Board

In 2017, the total amount of remuneration paid by ERBUD S.A. to the members of the Management Board amounted to PLN 3 785 thousand.

Remuneration* of the Management Board members (in PLN '000)	2017	2016
Dariusz Grzeszczak	1 154	2 190
Józef Adam Zubelewicz	1 154	2 190
Paweł Smoleń	987	893
Agnieszka Głowacka	490	0
Total:	**3 785**	**5 273**

** Total value of remuneration paid (including conditional or deferred benefits) and benefits granted by the Issuer in kind for any services rendered to the Issuer in 2017.*

Members of the Issuer's Management Board are excluded from the Management Stock Options Scheme. They also do not receive remuneration for having seat on the management boards and supervisory boards of the subsidiaries.

In case of the Management Board Members – Mr. Dariusz Grzeszczak and Mr. Józef Adam Zubelewicz – upon termination of the agreement employment contract by the Company, with observance of a notice period where the reason justifying the termination of the agreement is the dismissal of the Management Board Member from his function and which termination will be effected before the end of the term of the Company's Management Board, the Company will be obliged to pay compensation in the amount equal to the product of the sum of EUR 14,000 and the number of months remaining until the end of the term of office.

In addition, the above-mentioned Members of the Management Board of ERBUD S. A. are subject to a non-competition clause during the term of their employment contracts as well as for a period of one year from the date of termination of the employment contracts. The Company undertakes to pay to the non-competition officer each month after termination of the contract, for the period corresponding to the non-competition clause, an amount of compensation equal to EUR 14,000. The compensation will be paid in equal monthly instalments.

At the request of the interested person, the Company may waive or shorten the non-compliance period and then waive the payment of compensation.

The Issuer pays the costs of the pension insurance of the members of the Management Board in the total amount of PLN 187,507.45.

As regard the member of the Management Board Mr. Paweł Smoleń, upon termination of the contract, the Management Board Member undertakes to refrain from competitive activity for 12 months from the date of termination of thereof.

The Company, on its own initiative or at the request of a member of the Management Board, may dismiss him from the competition ban after the date of termination of the contract or shorten the period of such prohibition. In the case of exemption from the competition ban, the Company is released from the obligation to pay compensation for damages, referred to below. In the event of shortening the competition ban, the remuneration is paid in proportion to the period of the non-competition clause.

During the period when a member of the Management Board will refrain from competitive activity after termination of the contract, the Company undertakes to pay the Employee each month after termination of the contract, for a period corresponding to the period of non-competition, the amount of compensation which is the equivalent of 10,000 Euro, converted into Polish Zlotys at the average exchange rate of the National Bank of Poland from the day preceding the payment. The remuneration will be payable in twelve equal monthly instalments, on dates specified for the payment of the basic remuneration.

If an Employee breaches his obligation to refrain from conducting competitive activities during the competition ban or to maintain confidentiality of the Company's secrets, the Employee will pay to the Company a contractual penalty equal to EUR 30,000, converted into PLN at the average exchange rate of the National Bank of Poland on the day preceding the payment.

Payment by the Employee of a contractual penalty does not relieve of his obligation to comply with the competition ban.

7.9.2. Supervisory Board

Remuneration of the Supervisory Board members (in PLN “000)	2016	2017
Udo Berner	90	90
Albert Dürr	60	60
Zofia Dzik	60	60

Gabriel Główka	68	72
Janusz Lewandowski	60	60
Józef Olszyński	24	0
Michał Otto	60	60
Janusz Reiter	40	60
Total	**462**	**462**

8. STATEMENTS OF THE MANAGEMENT BOARD

True and fair view of the report

According to the best knowledge of the Management Board of ERBUD S.A., the financial figures for 2017 and the comparable reporting period included in the Management Board's Report on the activities of the ERBUD S.A. Group, including the Report on the Activities of ERBUD S.A., have been prepared in line with the applicable accounting principles and give a true, fair and clear view of the assets and the financial position of ERBUD S.A. and ERBUD Group. It gives a true picture of the development, achievements and situation (including the description of basic threats and risks) of the parent company and the ERBUD Group.

Impartiality and independence of the entity authorized to audit financial statements

The entity authorized to audit financial statements, conducting the audit of the 2017 Separate Financial Statements of ERBUD S.A. and the 2017 Consolidated Financial Statements of the ERBUD Group, was selected pursuant to law provisions. This entity and the auditors conducting the audit of the abovementioned statements fulfilled the necessary conditions to issue an impartial and independent opinion on the audited annual financial statements in accordance with relevant regulations and professional standards.

Signatures of the Management Board Members:

Dariusz Grzeszczak

Management Board Member

Józef Adam Zubelewicz

Management Board Member

Agnieszka Głowacka

Management Board Member

Warszaw, March 27, 2018