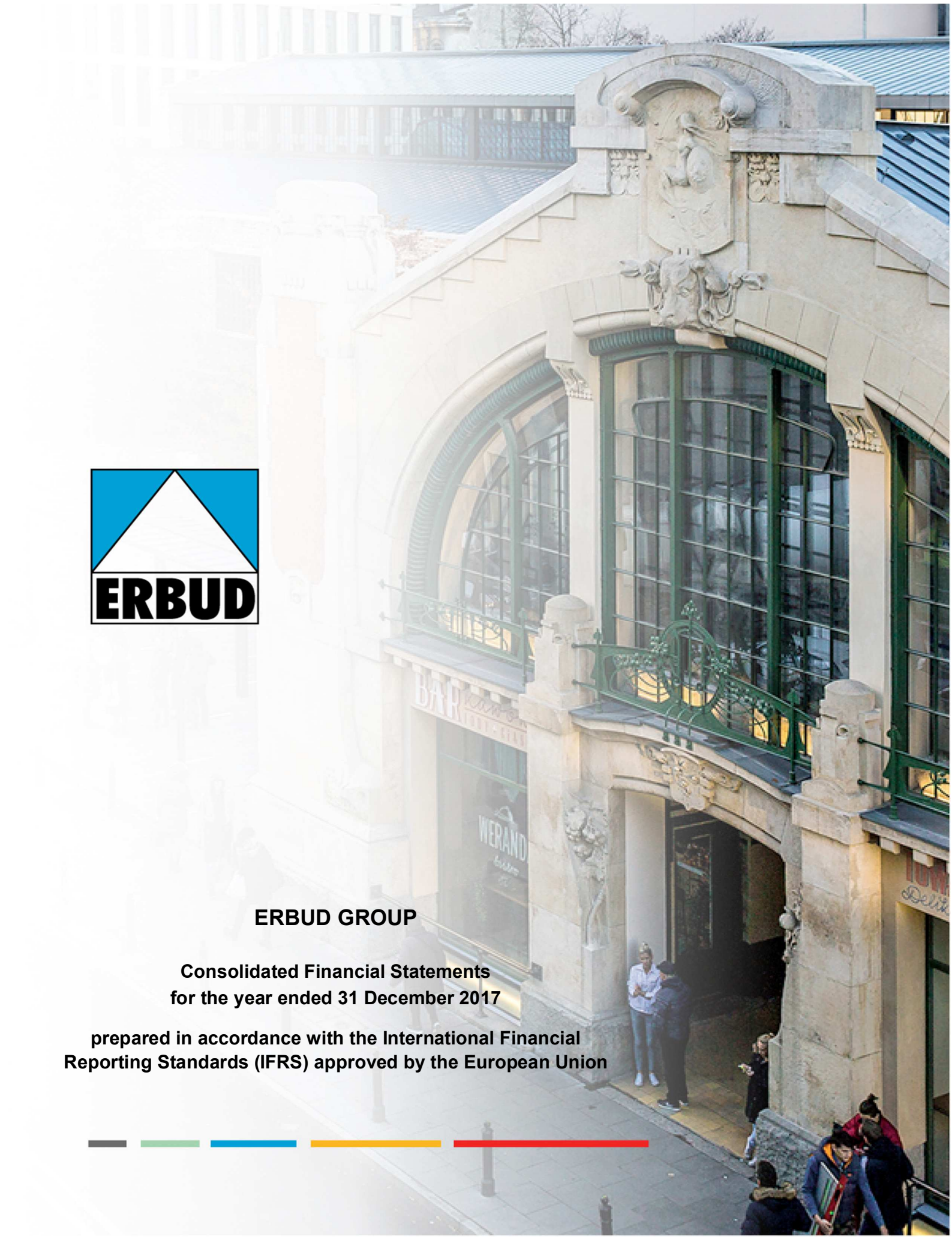

ERBUD GROUP

Consolidated Financial Statements
for the year ended 31 December 2017

prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
	CONTINUING OPERATIONS		
Note 4.1.-4.2.	Revenue from sales of products and services and of goods and materials	1 805 459	1 789 776
	Cost of sold products and services and of goods and materials	1 673 825	1 660 284
	Profit from sales before tax	**131 634**	**129 492**
Note 4.3.	Cost of sales	5 488	5 236
Note 4.2.	General and administrative costs	86 005	80 330
Note 4.5.	Other operating income	13 635	11 467
Note 4.5.	Other operating expenses	15 914	9 566
	Share in net profit (loss) of subsidiaries valued by equity method	(145)	-
Note 4.1.	**Profit (loss) on jointly controlled entities**	**37 717**	**45 827**
Note 4.6.	Financial income	3 089	7 826
Note 4.6.	Financial expenses	10 413	10 433
	Profit from continuing operations before tax	**30 393**	**43 220**
Note 4.7.	Income tax	6 461	7 950
	Net profit (loss) from continuing operations	**23 932**	**35 270**
	DISCONTINUED OPERATIONS		
	Net profit (loss) from discontinued operations	-	(34 194)
	Net profit (loss) for the financial period	**23 932**	**1 076**
	Net profit (loss) for the financial period attributable to:		
	Shareholders of the Parent Company	22 563	1 791
	Minority shareholders	1 369	(715)
	Weighted average number of ordinary shares (in pcs.)	12 811 859	12 811 859
	Net earnings per share from continuing operations (in PLN)	1.87	2.75
	Net earnings per share from discontinued operations (in PLN)	-	- 2.67
	Basic net earnings per share (in PLN)	**1.87**	**0.08**
	Diluted weighted average number of shares (in pcs.)	12 811 859	12 811 859
	Diluted net earnings per share from continuing operations (in PLN)	1.87	2.75
	Diluted net earnings per share from discontinued operations (in PLN)	-	- 2.67
	Diluted net earnings per share (in PLN)	**1.87**	**0.08**
	ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS, INCL. ALTERNATIVE PERFORMANCE MEASURES		
	Amortization and depreciation	11 188	10 896
Note 4.1.	**EBITDA**	48 905	56 723

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
Consolidated net profit (loss)	**23 932**	**1 076**
Foreign exchange differences on translation of foreign entities	(1 178)	574
Valuation of hedging instruments	2 402	(1 646)
Other comprehensive income (including tax effect) subject to reclassification to the result	**1 224**	**(1 072)**
Total revenue for the period	**25 156**	**4**
attributable to:		
Shareholders of the Parent Company	24 197	727
Minority interests	959	(723)
Total income attributable to Shareholders of the Parent Company from:		
Continuing operations	24 197	34 921
Discontinued operations	-	(34 194)
	24 197	**727**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

for the 12 months ended 31.12.2017

Accumulated other comprehensive income

	Share capital	Reserves from the sale of shares above their nominal value	Reserve capital	Exchange differences on translation of foreign entities	Valuation of hedging instruments	Retained earnings	Total	Minority interests	Equity
Balance at 1 January 2016	**1 281**	**229 619**	**-**	**761**	**1 006**	**46 086**	**278 753**	**16 912**	**295 665**
Net profit/loss for the period	-	-	-	-	-	1 791	**1 791**	(715)	**1 076**
Total income for the financial period	-	-	-	582	(1 646)	-	**(1 064)**	(8)	**(1 072)**
Total comprehensive income	**-**	**-**	**-**	**582**	**(1 646)**	**1 791**	**727**	**(723)**	**4**
Dividend	-	(18 966)	-	-	-	(11 398)	**(30 364)**	-	**(30 364)**
Net profit/loss from the previous year forwarded to retained earnings	-	-	-	-	-	-	**-**	-	**-**
Acquisition of issued shares by minority shareholders of the subsidiary PBDI	-	(2 126)	-	-	-	-	**(2 126)**	2 126	**-**
Buyout of shares in Budlex	-	4 670	-	-	-	-	**4 670**	(9 170)	**(4 500)**
Balance at 30 June 2016	**1 281**	**213 197**	**-**	**1 343**	**(640)**	**36 479**	**251 660**	**9 145**	**260 805**
Balance at 1 January 2017	**1 281**	**213 197**	**-**	**1 343**	**(640)**	**36 479**	**251 660**	**9 145**	**260 805**
Net profit/loss for the period	-	-	-	-	-	22 563	**22 563**	1 369	**23 932**
Total income for the financial period	-	-	-	(483)	2 402	(285)	**1 634**	(410)	**1 224**
Total comprehensive income	**-**	**-**	**-**	**(483)**	**2 402**	**22 278**	**24 197**	**959**	**25 156**
Dividend	-	-	-	-	-	-	**-**	(105)	**(105)**
Net profit/loss from the previous year forwarded to reserve capital	-	-	11 103	-	-	(11 103)	**-**	-	**-**
Balance at 31 December 2017	**1 281**	**213 197**	**11 103**	**860**	**1 762**	**47 654**	**275 857**	**9 999**	**285 856**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2017	2016
	ASSETS	**942 685**	**947 297**
Note 7.2.	Goodwill	22 968	22 968
Note 7.1.	Property, plant and equipment	49 283	48 031
Note 5.1.	Financial assets	8 900	2 903
Note 4.7.	Deferred tax assets	23 014	17 029
Note 2.2.	Receivables under construction contracts -retention	16 911	12 565
	Share of net profit (loss) of subsidiaries valued by equity method	22	-
	Fixed assets	**121 098**	**103 496**
Note 7.4.	Inventory	11 577	2 757
Note 2.2.	Receivables under construction contracts -retention	42 670	32 264
Note 2.3.	Receivables under construction contracts -valuation	171 638	127 600
Note 7.5.	Trade and other receivables	389 039	394 854
Note 5.1.	Financial assets	11 131	22 788
Note 3.9.	Cash and cash equivalents	190 170	257 273
Note 7.6.	Short-term prepayments	5 362	6 265
	Current assets	**821 587**	**843 801**
	LIABILITIES	**942 685**	**947 297**
Note 3.1.	Share capital	1 281	1 281
	Reserves from the sale of shares above their nominal value	213 197	213 197
	Reserve capital	11 103	-
	Accumulated other comprehensive income	2 622	703
	Retained earnings	47 654	36 479
	Equity of shareholders of the Parent Company	275 857	251 660
	Minority interests	9 999	9 145
	Equity	**285 856**	**260 805**
Note 3.3.-3.6	Interest debt	63 040	65 658
Note 7.7.	Provisions	5 274	4 582
Note 4.7.	Deferred tax liabilities	2 331	2 625
Note 2.2.	Liabilities under construction contracts - retention	8 353	7 588
	Other liabilities	-	750
	Long-term liabilities	**78 998**	**81 203**
Note 3.3.-3.6	Interest debt	54 363	48 942
Note 7.7.	Provisions	34 933	37 392
Note 2.2.	Liabilities under construction contracts - retention	96 143	89 130
Note 2.3.	Liabilities under construction contracts - valuation	80 145	110 144
Note 7.9.	Trade and other payables	306 498	303 224
Note 2.3.	Advances received for deliveries	5 749	16 457
	Short-term liabilities	**577 831**	**605 289**

ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note 3.7.	Assets to secure debt obligations	3 795	3 909
Note 3.8.	Contingent assets	100 947	113 877
Note 3.8.	Contingent liabilities	506 476	510 804

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
	CASH FLOWS FROM OPERATING ACTIVITIES		
	Profit (loss) before tax	30 393	43 220
Note 4.3.	Depreciation and amortization	11 188	10 896
	Profit (loss) from exchange rate differences	(922)	149
Note 4.6.	Interest and share in profit (dividends)	3 907	4 958
	Other non-cash adjustments	(72)	5 615
	Income tax paid	(16 469)	(11 594)
Note 7.13.	Change in working capital	(71 941)	21 315
	Net cash used in operating activities	**(43 916)**	**74 559**
	CASH FLOWS FROM INVESTMENT ACTIVITIES		
Note 6.	Proceeds from the sale of shares in a subsidiary	-	45 000
Note 5.1.2.	Proceeds from loans granted	9 460	1 824
	Other inflows	2 648	8 307
Note 7.2.	Expenditure on acquisition of property, plant and equipment	(4 195)	(4 007)
Note 7.1.	Expenditure on the acquisition of investment properties	-	(15 151)
Note 5.1.2.	Expenditure on loans granted	(1 649)	(10 071)
Note 7.14.	Expenditure on acquisition of shares in companies	-	-
	Other outflows	(1 667)	(1 419)
	Net cash used in investment activities	**4 597**	**24 483**
	CASH FLOWS FROM FINANCIAL ACTIVITIES		
Note 3.3.	Proceeds from debt incurred - loans and borrowings	34 105	40 666
	Other inflows	3 496	41
Note 3.3.	Expenditures on repayment of debt - capital	(42 751)	(75 316)
Note 3.3.	Expenditures on repayment of debt - interest	(4 786)	(6 893)
Note 3.2.	Dividend payment	(15 389)	(21 568)
	Other outflows	(2 459)	(836)
	Net cash used in financing activities	**(27 784)**	**(63 906)**
	NET CASH FLOWS	**(67 103)**	**35 136**
	Opening cash and cash equivalents	**257 273**	**222 137**
	Foreign exchange differences on cash and cash equivalents	-	-
	Closing cash and cash equivalents, incl.:	**190 170**	**257 273**
	- restricted cash	15 416	19 007

KEY FIGURES CONVERTED TO THE EURO

	2017		2016	
	PLN	EUR	PLN	EUR
Fixed assets	121 098	29 034	103 496	23 394
Current assets	821 587	196 981	843 801	190 733
Equity capital	285 856	68 536	260 805	58 952
Liabilities and provisions for liabilities	656 829	157 479	686 492	155 175

	For the 12 months ended 31-12-2017		For the 12 months ended 31-12-2016	
	PLN	EUR	PLN	EUR
Revenues from sales of products and services and of goods and materials	1 805 459	425 344	1 789 776	409 026
Cost of sold products and services and of goods and materials	1 673 825	394 333	1 660 284	379 433
Gross profit from sales	131 634	31 011	129 492	29 593
Operating profit	37 717	8 886	45 827	10 473
Gross profit from continuing operations	30 393	7 160	43 220	9 877
Net profit from continuing operations	23 932	5 638	35 270	8 060

	For the 12 months ended 31-12-2017		For the 12 months ended 31-12-2016	
	PLN	EUR	PLN	EUR
Net cash flow from operating activities	(43 916)	(10 346)	74 559	17 039
Net cash flow from investing activities	4 597	1 083	24 483	5 595
Net cash flow from financing activities	(27 784)	(6 546)	(63 906)	(14 605)
Net cash flow	(67 103)	(15 809)	35 136	8 030
Opening cash and cash equivalents	257 273	58 154	222 137	52 126
Closing cash and cash equivalents	190 170	45 594	257 273	58 154

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

 Accounting policies

 Estimates

1. GENERAL INFORMATION

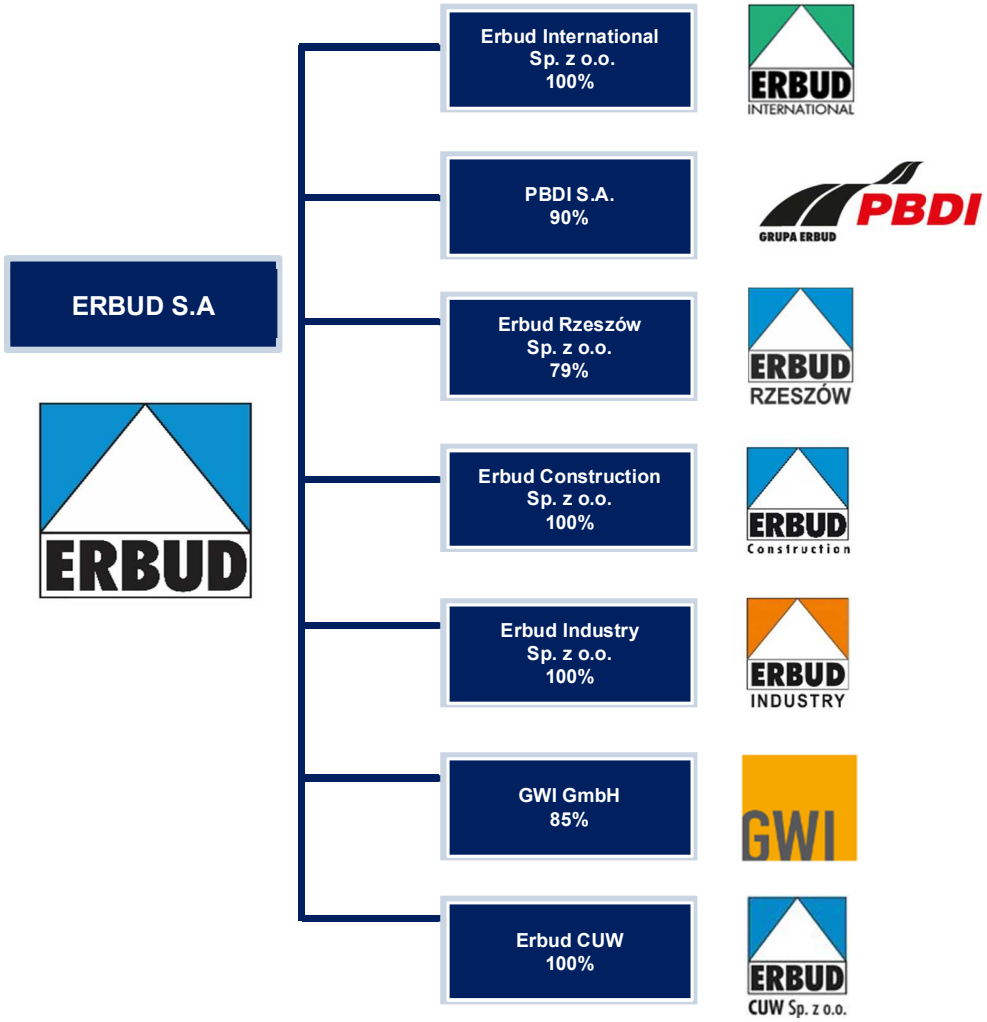
1.1. INTRODUCTION

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

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

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

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



The detailed structure of the Group is presented in Note 7.11.

1.2. BASIS OF PREPARATION

Statement of compliance with IFRS

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

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

These annual consolidated financial statements have been prepared as at 31 December 2017 and for the twelve months ended 31 December 2017, and comparative figures as at 31 December 2016 and for the twelve months ended 31 December 2016.

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

These financial statements were approved by the Management Board on 27 March 2018.

Going-concern assumption

The consolidated financial statements have been prepared on the assumption that the member companies of the Group will continue their business activity in the foreseeable future. As at the date of approval of these financial statements, no indications prevailed of a risk to the continuation of Group member companies' operations following a going concern principle.

Fair value measurement

The measure of fair value of an asset or liability the Group takes into consideration the properties of a certain asset or liability, if the market players take into consideration these characteristics when measuring the assets or liabilities at the measurement date. The Group classifies fair value measurement principles using the fair value hierarchy, reflecting the weight of source data used for measurement, pursuant to IFRS No. 13.

Foreign currency translation items

The financial statement items are measured in the currency of the core business environment in which the entity operates ("functional currency"). The functional currency of the Parent Company and the currency used for presentation of the consolidated financial statements is the Polish Zloty ("PLN").

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

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

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

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

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

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

1.3. IMPACT OF NEW STANDARDS

Standards and interpretations that have been published and have not entered into effect for the periods beginning on 1 January 2017 and their impact on the Group's statements.

Until the date of preparation of these consolidated financial statements, the following new or amended standards and interpretations, effective for annual periods following 2017, have been published.

New IFRS 9 "Financial Instruments"

The new standard will replace the current IAS 39. The changes introduced by the standard in the accounting of financial instruments comprise primarily:

- other categories of financial assets on which the asset valuation method depends; the allocation of assets to the category depends on the business model relating to a certain asset and the nature of cash flows by it;
- new hedge accounting principles that reflect risk management to a greater extent;
- a new model of impairment of financial assets based on anticipated losses and necessitating faster recognition of costs in profit or loss.

The Group analysed the impact of the new standard on its financial statements.

Until now, the Group mostly held assets classified as "loans and receivables", in particular “trade receivables” and "financial assets valued at fair value through profit and loss". According to the new standard, all of them will be qualified as measured at amortized cost or at fair value through profit or loss.

The Group's financial statements will be significantly affected by the method of estimating losses due to credit risk, eliminating cases that require individual evaluation. The Group developed a model for estimating expected losses from the portfolio of receivables. If it had been used to prepare the financial statements for 2017, the amount of receivables would have been lower than presented one by PLN 9.5 million.

Based on the probability of insolvency during the contractual period of less than 3 months, that have been determined on the basis of external ratings of banks in which cash is maintained and publicly available information of rating agencies regarding the probability of insolvency, the Company estimated cash write-offs. The company refrained from creating a write-down due to immateriality.

As the accounting principle, the Group adopted the hedge accounting principles under IAS 39 instead of the principles described in IFRS 9, which will not affect the financial situation presented in the consolidated financial statements of the Group.

The Management Board of the Parent Company decided that the application of IFRS 9 will take place retrospectively without adjusting the comparative data due to the fact that it would not be possible without using the knowledge obtained post factum. The effects of the implementation of the standard will be recognized as a change in the opening balance of retained earnings as at 1 January 2018.

The standard is effective for annual periods beginning on 1 January 2018 or later.

New IFRS 15 " Revenue from Contracts with Customers"

The new standard is effective for annual periods beginning on or after 1 January 2018 and will replace the existing IAS 11 and IAS 18 by providing one consistent revenue recognition model.

The Group decided to apply the retrospective method with the combined effect of the first implementation of this standard, i.e. the implementation of IFRS 15 will be retrospective without adjusting the comparative data. The effects of the implementation of the standard will be recognized as a change in the opening balance of retained earnings as at 1 January 2018. In addition, the Group will apply a simplification for contracts changed before the earliest

comparative period by taking these changes into account as if they had been included in the contract from the very beginning.

The core principle of the new standard is the recognition of revenues at a point as control over goods or services is passed to the client, at the transaction price.

The standard introduces uniform requirements for all entities in the scope of recognizing revenues from contracts with customers based on the five-step model:

1 Identifying a contract;
2 Identifying performance obligations;
3. Identifying the transaction price;
4. Allocating transaction prices to performance obligations;
5. Satisfaction of performance obligations.

The new standard requires recognition of revenues in such a way as to reflect the transfer of promised goods or services to the client in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Any goods or services sold in packages that can be distinct as part of a package should be recognized separately, in addition, any discounts and rebates on the transaction price should, as a rule, be allocated to individual elements of the package. If the income is changeable, variable amounts - according to the new standard - are included in revenues, if there is a high probability that in the future there will be no reversal of the revenue recognition as a result of revaluation. Moreover, in accordance with IFRS 15, the costs incurred to win and secure a contract with a client should be capitalised and accounted for over time while consuming the benefits from this contract.

Within the scope of analysis of the impact of IFRS 15 on the Group's consolidated financial statements, the following important areas were considered that that might require an adaptation in order to implement this standard.

1. **Identifying a contract with a customer:** After the analysis, it was found that the Group recognizes revenues only from those contracts for which both parties have approved and which have commercial substance. In each contract resulting in the recognition of revenues, the parties' rights and payment terms can be identified. For the contracts analysed, there was a high probability of collecting consideration at the time they were concluded. In addition, there were no revenues form contracts that contained the right to withdraw unilaterally or under which the entity did not deliver the subject of the contract or contracts and for which it is known that the client will not pay for the work. Therefore, the implementation of IFRS 15 will not affect the financial situation presented in the consolidated financial statements.

2. **Identifying performance obligations**: The Erbud Group S.A. is a group of companies specializing in providing construction services as general contractor or subcontractor and maintenance services to external investors and general contractors, while subcontracting services are rendered only abroad. On the basis of contracts concluded, the Group undertakes to deliver the product defined in the contract. Besides construction works, the following elements may be included in the scope of such services:
   - designing the subject of the contract;
   - selection of subcontractors and arrangement of subcontracting contracts;
   - coordination of activities of own subcontractors and other subcontractors employed by the investor during the construction time;
   - checking the complete, timely and due in terms of the performance quality of all works that are required to complete the contract;
   - adjusting the subject of the contract to the needs of future tenants;
   - maintenance of selected ranges of works in the period immediately following the construction time.

   After the analysis of contracts carried out by the Group in 2017, including contracts not finished as of 31 December 2017, it can be concluded that each of them contains an element of construction works accompanied by other services listed above, which together, in different configurations, form the asset expected by the investor to be produced by the Group as the General Contractor.

Moreover, the coordination of all activities under the contract to complete the process in accordance with the investor's expectations is from the point of view of the General Contractor an important factor during the execution of each contract.

Each of services provided under a signed contract affects another service that is part of the order. During the investment task, the activities must follow each other according to the schedule. Subsequent work may be performed provided that the work preceding in the schedule is completed.

The above factors, in connection with the provisions of IFRS 15:29, imply the identifying of performance obligations with the subject of the signed contract. What is more, the necessity of such treatment of contracts signed by the Group is also mentioned in IFRS 15:28 where the fact that an entity regularly sells a good or service separately is recalled as a premise for separate treatment of them. For the Erbud Group, such events do not take place.

As the existing rules for recognizing contract revenue meet the criteria provided for in the IFRS for the identification of obligations, this will not affect the financial position in the presented consolidated financial statements.

Annexes to contracts extending the scope - so far, the Group has recognized this type of events as a change in budget revenues and costs. After the implementation of the provisions of IFRS 15, no significant differences are expected due to the fact that amends to contracts executed by the Group are usually changes in the existing performance obligation and are not separate in the meaning of IFRS 15.

3. **Identifying the transaction price**: As the contract price, the Group recognizes the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties.
The price is determined based on the contract.
If the price depends on future events or if there is an intention to grant a discount at the end of the contract, the Group estimates the price for the performance of obligation and includes part or all of the variable consideration in the transaction price only to the extent that it is highly probable that a reversal will not occur.
Following the guidelines of IFRS 15, the Group did not identify the financing component in the contracts with respect to retained retention, in which the retained money is the security for good performance of the contract.
The preliminary assessment shows that the financial result for 2017 would not change significantly compared to the result presented.

4. **Allocating transaction prices**: The price is allocated by attaching a stand-alone selling price identified in step 2 to a performance obligation. The stand-alone selling price is the price at which the entity would sell the customer goods/service in a single transaction. At the point of the contract commencement, a part of the transaction price should be allocated to each performance obligation identified in the contract based on the relative stand-alone selling price. As a result, there may be a discrepancy between the amounts invoiced to customers and the revenue recognized in the accounting books.
If the contract provides for a price component, it is estimated in accordance with the principles described in point 3.
Due to the Group's identification of the performance obligation with the contract signed with the investor, the changes resulting from IFRS 15 will not affect the method of allocating the price. It is relatively easy to allocate on the basis of a contract.

5. **Recognition of revenue when or as performance obligations are satisfied:** At the time of recognition of the contract, it should be determined whether the transfer of control over the good/service being an performance obligation occurs over time or at a point in time. Under the current regulations, construction contracts are recognized in the period according to the progress of services. After analysing the contracts to which the Erbud Group is a party, it was stated that according to the new rules, revenues from them should be recognized over time. Contracts to which the Group is a party transfer control over the asset create over time because the customer controls the asset as it is created due to the fact that this occurs on its site. In addition, the customer is

obliged to do inspections of milestones and pay for them, and the asset created, in connection with the placement on a specific plot to which the customer has a legal title, it cannot be occupied otherwise.

In addition to the above-described analysis of the five-step model, the Group considered the following issues arising from the implementation of IFRS 15:

- Warranties for works performed by the Group – due to the fact that the warranties provided by the Group include only the standard legal assurance that the product complies with the specification, the Group will not recognize the granted warranties as a separate obligation. It is expected that this will not be a difference in the accounting approach after the implementation of IFRS 15 in relation to the previously applicable rules.
- Costs of obtaining a contract – until 31 December 2017, the Group classified costs of obtaining contracts, regardless of their nature, to the costs of the current period. After the new regulations resulting from IFRS 15 have entered into force, the Group does not expect significant costs that could be activated in connection with the acquisition of a contract because most of them are costs of preparing an offer.
- Provision for contract losses – according to the Group's assessment, the manner of recognizing provisions for anticipated losses on contracts will not change. The company will apply IAS 37 relating to contracts bearing liabilities and recognize a provision for loss in the amount which is lower: costs of breaching the contract and costs of completion of the contract. According to the analyses carried out, the value of the losses recognized will not differ significantly compared to the losses estimated in accordance with the previous IAS 11.

Based on the analysis of IFRS 15, the Group does not expect significant changes in the accounting of transactions that would have a significant impact on the consolidated financial statements.

New IFRS 16 „Leases"

The new standard regulating lease agreements (including rental and tenancy agreements) includes a new definition of leasing. The changes are effective for annual periods starting on or after 1 January 2019.

The Group intends to implement the above regulations from 1 January 2019.

Significant changes apply to the lessee: for each lease agreement the standard requires that a "right-of-use asset" and a finance lease liability are recognised in the balance sheet.

The right to use the assets is then depreciated, whereas the liability reflects the obligation to pay for that right.

Simplifications are foreseen for short-term agreements (up to 12 months) and low-value assets.

The accounting approach to leases from the lessor's side is similar to the principles set out in the previous IAS 17.

At the end of 2017, the Group is a lessee in a number of operating lease, rental and tenancy agreements concluded for a period longer than one year, such as agreements on:

- office leases;
- leases of land, for example for construction facilities;
- rental of apartments;
- rental of construction machinery and equipment;
- cars rentals;
- rental of containers, e.g. for the needs of a construction office;
- rental of office equipment.

The Group estimates that the new standard will have a significant impact on its financial statements; however, it has not yet completed the process of determining the value of assets and liabilities in the consolidated statement of financial position as a result of recognizing the "right-of-use asset" and finance lease liabilities.

The Group has not yet decided which of the available transitional provisions will be applied. Use of exemptions for short-term contracts and low-value contracts are planned.

2. CONSTRUCTION CONTRACTS

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

Revenues and expenditures due to construction contracts are recognized by the Group in accordance with the works progress method. To determinate the stage of completion, the Group applies the percentage of work progress method, i.e. values revenues from and costs for executed construction contracts in the period from the contract date the balance sheet date in proportion to the stage of completion based on the measurement of works performed. From thus determined amounts, the Group deducts the revenues and expenses that affected the financial result in previous years, generating incomes and costs under construction contracts.in the current period.

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

On the other side, the valuation results (i.e. the determination of revenues and costs by the method of progress rate) are accounted for as "Receivables (or Liabilities) under construction contracts - valuation".

Invoicing of works under construction contracts is made in accordance with the schedule specified in the contract. The invoiced income is recognized in "Trade and other receivables" (Note 7.5). Under construction contracts signed with the Group, the counterparties retain part of the payments as retention money. These amounts are included in "Receivables from construction contracts - Retention" (Note 2.1) and are repayable most often after the project completion or after the expiry of the warranty period.

The Group engages subcontractors to carry out construction works. The invoiced costs for their hiring are recognized as "Trade and other liabilities" (Note 7.8). The Group retains as the performance bond a part of payments due to the subcontractors, which are recognized under "Liabilities under construction contracts - Retention" (Note 2.2).

Due to the carrying out construction contracts and the difference in time in recognising income and expenses for accounting and tax purposes, the deferred income tax assets and liabilities are accounted for in the statement of financial position - see Note 4.7.

2. CONSTRUCTION CONTRACTS

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

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

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

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

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

2.1. RECEIVABLES AND LIABILITIES UNDER CONSTRUCTION CONTRACTS

Revenues and costs related to construction contracts for the period and cumulatively are presented in the table below.

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
	Contracts over the period	Contracts over the period
Amounts recognised over the period		
Revenues from construction contracts	1 740 315	1 611 938
Costs related to construction contracts	1 648 956	1 450 870
Result before recognition and accounting for of future losses	**91 359**	**161 068**
Creation of provisions for future losses	(21)	(373)
Release /use of provisions created in previous periods	(4 608)	-
Gross result	**95 946**	**160 695**
Gross profit margin		
without provisions	5%	10%
with provisions	6%	10%

2. CONSTRUCTION CONTRACTS

2.2. RECEIVABLES AND LIABILITIES UNDER CONSTRUCTION CONTRACTS - RETENTION

	2017			2016		
	Returnable within 12 months	Returnable beyond 12 months	Total	Returnable within 12 months	Returnable beyond 12 months	Total
Receivables under construction contracts - retention	42 670	16 911	**59 581**	32 264	12 565	**44 829**
Liabilities under construction contracts - retention	96 143	8 353	**104 496**	89 130	7 588	**96 718**

2.3. RECONCILIATION OF AMOUNTS DUE TO CONSTRUCTION CONTRACTS IN PROGRESS

	2017	2016
Cumulative income from construction contracts	2 425 803	2 383 406
Cumulative amounts invoiced to customers	2 403 537	2 358 719
Balance of construction contracts settlement - revenues	**22 266**	**24 687**
including:		
(1) Receivables due to non-invoiced completed construction works	72 188	78 485
(2) Liabilities due to invoiced non-completed construction works	49 921	53 798
Cumulative costs due to construction contracts	2 230 814	2 209 915
	(21)	373
Cumulative expenses invoiced by customers	2 300 040	2 202 684
Balance of construction contracts settlement - costs	**69 226**	**(7 231)**
including:		
(3) Receivables due to invoiced non-completed construction works	99 450	49 115
(4) Liabilities due to non-invoiced completed construction works	30 224	56 346
	-	-
Balance of construction contracts settlement	**91 492**	**17 456**
including:		
Receivables due to construction contracts – valuation [(1)+(3)]	171 638	127 600
Liabilities due to construction contracts – valuation [(2)+(4)]	80 145	110 144

The amount of prepayments received from customers for non-finished construction contracts as at 31 December 2017 amounted to PLN 5 749 thousand (PLN 16 457 thousand as at 31 December 2016).

2. CONSTRUCTION CONTRACTS

Information about significant events that occurred during the twelve months of 2017 and after the balance sheet date.

On 2 January 2017, Erbud concluded a contract for construction works with a subsidiary of Vantage Development SA - VD spółka z ograniczoną odpowiedzialnością Mieszkania XIV sp.k. with its registered office in Wrocław (the "Customer").
The Contract includes carrying out of the Login City Housing Development Project – construction of a residential building located in Wroclaw on Grabiszyńska Street as a part of the City Login Development, including the necessary on-site infrastructure, services and landscaping.
The net Contract worth PLN 33.8 million was concluded for the period of the performance by Erbud SA of all obligations arising therefrom, within 74 weeks from the date of the Notice to Proceed with the Works, which may be issued by the Customer no later than on 31 March 2017.

On 27 January 2017, the Issuer signed a significant contract for construction works on the following terms and conditions:

- Contract: Building of a four-star hotel complex consisting of three buildings, including site development, on plots 5/12, 5/2, 5/3 and 179/8 in Świnoujście, Żeromskiego St., and obtaining occupancy permit for these buildings.
- Investor: Platinum Resort Sp. z o.o. ul. Bolesława Chrobrego 2/5, 72-600 Świnoujście.
- Completion period: 6.01.2017 - 31.07.2018.
- Volume: 61,425.00 m³.
- Gross area: 15,119.00 m².
- Range of works: Civil engineering works to build a three hotel building complex, incl. required in-building and on site facilities along with development works.
- Contract value: PLN 53,468,654.49.

On 31 March 2017, the Annex No. 1 to the building contract for construction of Seaside Park Hotel in Kołobrzeg worth PLN 25.9m has been signed on the following terms and conditions:

The total value of the contract after signing the annex is PLN 54m.

- Annex signed on 2017-03-31.
- Investor: SEASIDE Park Sp. z o.o. ul. Piękna 18 00-549 Warszawa.
- Contract value: PLN 25,939,158.70.
- The Annex covers masonry works, elevation and roof for the Spa and Hotel complex "Seaside Park".
- Site location: Kołobrzeg, Przesmyk St., cadastral numbers 29/1 and 29/2, cadastral district 6.
- Completion period: 01.11.2017 - 30.05.2018.
- Payment terms: 30 days from the delivery date of valid invoice to the Investor**.**

On 7 April 2017, a contract for construction works has been concluded on the following terms and conditions:

- Investor: "Durham 2 Spółka z ograniczona odpowiedzialnością; ul. Prosta 68, 00-838 Warszawa; NIP: 5252676797.
- Net contract value: PLN 37,936,126.93
- Contract subject: "Construction of two multi-storey residential buildings, including an underground garage; in-building systems: water supply, sanitary and storm drainage, central heating, mechanical ventilation and smoke venting, wiring (incl. low-current wiring and external lighting); playground; on-site roads with drainage, footways and structural landscaping called NOVUM II A APARTMENTS at Rakowicka and Wita Stwosza Strrets in Kraków."
- Site location: Kraków.
- Completion period: 10.04.2017 – 30.03.2019.
- Terms of payment: Invoicing on monthly basis; credit period: 30 days.

2. CONSTRUCTION CONTRACTS

On 27 April 2017, a construction contract was concluded on the following terms and conditions:

2. Contract subject: Building of a residential and medical complex.
- Contract concluded on 24 April 2017.
- Parties to the contract:
- Customer: IPG Gründstück und Verwaltunggsgesellschaft mbH;
- Contractor: GWI Bauunternehmung GmbH – earthworks, Berlin-type retaining wall, foundation piles, composite structure, steel frame structure, shell and core.
- Contract value: EUR 10,996,652 net add applicable VAT, what after conversion at the exchange rate as of the date of concluding the contract gives PLN 46,511,439.29.
- Completion period: from April this year till 24.09.2018.

On 28 April 2017, the Issuer concluded another contract with the same Investor over the last 12 months for the completion of Phase 4, under the following terms and conditions:

- Contract concluded on 2017.04.28.
- The Investor: CGL II Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa, 02-672 Warsaw, 32 Domaniewska St.
- Contract value: PLN 14,450,000.
- Contract subject: Residential and retail complex with an underground car park named "Bliski Tarchomin" in Warsaw at 1 Kowalczyka St., phase 4.
- Site location: Warsaw, 1 Kowalczyka St.
- Completion deadline: 30 July 2018.
- Payment terms: 30 days from receipt by the Investor of a valid invoice.

On 12 May 2017, in consortium with Elektra Invest Sp. z o.o. Sp.k., based in Poznań, the Issuer signed a contract for construction works on the following terms and conditions:

- Contract concluded on 12.05.2017.
- Investor: STUDENT DEPOT FUNKY Sp. z o.o., Aleja Jana Chrystiana Szucha 6, 00-582 Warszawa, KRS 0000618838, NIP: 5223063632.
- Contract value: Consortium contract – PLN 38,020,000 net, of which works to be performed by Erbud SA – PLN 36,400,000.
- Contract subject: Construction of the FUNKY Student House in Wrocław at 96 Robotnicza St.
- Site location: Wrocław, 96 Robotnicza St.
- Deadline for completion: 16.08.2018.

On 16 May 2017, the Issuer entered into a construction contract with Grupo Lar Real Estate VI Spółka z ograniczoną odpowiedzialnością V Sp. Komandytowa.to build the "Nowe Bielany 2" residential and retail complex with underground car park.

This is the second contract concluded within the last twelve months with a company from the Grupo Lar. The total value of contracts signed in the last twelve months is PLN 40,741,000.

- Contract concluded on 16.05.2017.
- Investor: Grupo Lar Real Estate VI Spółka z ograniczoną odpowiedzialnością V sp. komandytowa, 02-672 Warszawa, ul. Domaniewska 32.
- Contract value: PLN 10,370,000.00.
- Contract subject: "Nowe Bielany 2" residential and retail complex with underground car park in Warsaw on Duracza St. (Phase 3).
- Site location: Warsaw, Duracza St.
- Completion period: 21.05.2017 – 30.09.2018.

2. CONSTRUCTION CONTRACTS

On 31 May 2017, Erbud S.A. signed with CGL VIII Spółka z ograniczoną odpowiedzialnością sp.komandytowa a construction contract to build the "Grójecka 216" residential complex with underground car park, located in Warsaw on Grójecka Street. This is another contract concluded within the past 12 months with a company from the GRUPO LAR. The aggregate value of contracts signed over the last period amounts to PLN 76,125,188.10.

- Contract concluded on 31 May 2017.
- Investor: CGL VIII Spółka z ograniczoną odpowiedzialnością spółka komandytowa, 02-672 Warszawa, ul. Domaniewska 32.
- Contract value: PLN 17,312,805.
- Contract subject: "Grójecka 216" Housing Estate with underground car park in Warsaw on Grójecka Street, Phase II.
- Site location: Warsaw, Grójecka Street.
- Completion period: 31.05.2017 - 30.09.2018.

On 2 June 2017, a contract for construction works has been concluded on the following terms and conditions:

- Contract concluded on 2 Juni 2017.
- Investor: Nordic Astrum Sp z o.o. ul. E. Plater 53, 00-113 Warszawa.
- Net contract value: PLN 73,250,000.
- Contract subject: construction as General Contractor of the NORDIC ASTRUM residential and commercial building in Bydgoszcz on Babia Wieś Street.
- Site location: Bydgoszcz, Babia Wieś Street.
- Completion period: The handing over possession of the Construction Site to the General Contractor will take place within 30 days from the date of signing the Contract. The commencement of Works will take place within 5 days after the handing over possession of the Construction Site and the delivery of complete Design Documentation. The project will be completed within 24 months.

On 22 June 2017, the Issuer concluded a construction contract on the following terms and conditions:

- Investor: Lake Hill spółka z ograniczoną odpowiedzialnością spółka komandytowa seated 00-124 Warsaw, 12 Al. Jana Pawła II, entered in the Register of Business Companies kept by the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register; KRS 0000651524; REGON 366037258; NIP: 5252687387.
- Contract value: PLN 48,973,087.
- Contract subject: Construction of two buildings numbered A and B forming a leisure complex called "Lake Hill Resort & Spa".
- Site location: 58-564 Sosnówka, Tyrolska St., community of Podgórzyn.
- Completion period: For building A - 31.07.2018; for building B according to the construction schedule.
- Payment terms - credit period of 30 days.

On 23 June 2017, the subsidiary company GWI GmbH signed a significant contract for construction works under the following terms and conditions:

- Contract subject: construction of the "Reuter C Ersatz" combined heat and power plant.
- Contract concluded on 23.06.2017.
- Parties to the contract:
  a. Client: Vattenfall Europe Wärme AG, Puschkinallee 52, 12435 Berlin;
  b. Contractor: Arge GWI/Matthäi, where the participation of GWI Bauunternehmung GmbH, Hansaallee 247 b, 40549 Düsseldorf is 50%.
- Contract value: EUR 17.6m net (equal to PLN 74,368,800) + applicable VAT, of which contract value for GWI: EUR 8.8m net (equal to PLN 37,184,400) + applicable VAT.

- Completion period: 23.06.2017 - 31.12.2018.

On **27June 2017,** the Issuer entered into two contracts with a subsidiary of VD spółka z ograniczoną odpowiedzialnością Mieszkania XVII with its registered office in Wrocław, carrying out residential development project "Dorzecze Legnickiej" located in Wrocław at Małopanewska Street.

The total value of these contracts is PLN 55.1m net.
Under the first contract the Issuer is obliged to the comprehensive construction of residential buildings within the development Dorzecze Legnickiej Phase 1A along with the necessary technical and service infrastructure, land development, demolition of existing buildings and construction of an access road. The Phase 1A of will comprise 198 flats with a total area of 10,721 sq. m. The contract is valued at PLN 38.6 m net.
Under the second contract the Issuer is obliged to the comprehensive construction of residential buildings within the development Dorzecze Legnickiej Phase 1B, including the necessary technical and service infrastructure, and land development. The Stage 1B will consist of 90 flats with a total area of 4,771 m2. The net value of the contract is PLN 16.5 million.
Both contracts were concluded for the time necessary to fulfil by the Issuer all obligations arising from thereof, but not later than within 71 weeks after the date of delivery of the Notice to Proceed with the Works, which the Ordering Party may issue at the latest by 30 September 2017 for the Phase 1A and at the latest by 31 March 2018 for the Phase 1B.
Both contracts include a condition clause saying that if the Ordering Party does not issue the Notice to Proceed within the above said dates, the contract expires and the General Contractor shall not be entitled to the right to withdraw from the contract, to charge contractual penalties or to any other compensation claims. The contracts provide contractual penalties reserved for the Ordering Party; however, the total amount of all penalties cannot exceed 15% of the contractual remuneration. The Ordering Party is entitled to claim compensation for damage in excess of the contractual penalty under the general provisions of the Civil Code.

On 12July 2017, Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A from Toruń (the "Contractor") which is a 90% owned subsidiary of the Issuer, entered with Galeria Libero-Projekt Echo-120 spółka z ograniczoną odpowiedzialnością seated in Kielce, 36 Solidarności Av., (the "Customer") into a contract for roadworks and engineering works (network construction works) at the LIBERO Shopping Centre in Katowice under the following terms and conditions:

- Contract concluded on 7 July 2017.
- Customer: Galeria Libero - Projekt Echo - 120 spółka z ograniczoną odpowiedzialnością seated in Kielce, 36 Solidarności Av.
- Net contract value: PLN 38,899,586.88.
- Contract subject: Reconstruction of roads near the intersection of Streets: Kościuszki, Kolejowa, Gen. Zygmunta Waltera Jankego and Rzepakowa in Katowice.
- Completion period: till 30 June 2018.

On 13 July 2017, Erbud S.A. concluded a contract to build the Residential Complex (Phase III) in Kraków on Spiska Street, including site surroundings, road infrastructure, buried utilities, underground infrastructure, car parks and development works. The contract was signed with Echo Investments S.A. based in Kielce. This is another contract that has been entered into in the past 12 months with this Customer. Total value of contracts signed in the last 12 months is PLN 160,250,000.

- Contract concluded on13.07.2017.
- Investor: ECHO Investment S.A., Al. Solidarności 36, 25-323 Kielce, NIP: 657-023-09-12.
- Contract value: PLN 17.2 million net.
- Contract subject: Construction under a general construction contract of the Residential Complex (Phase III) in Kraków on Spiska Street, incl. site surroundings, road infrastructure, buried utilities, underground infrastructure, car parks and development works.
- Site location: Kraków.
- Completion period: 13.07.2017 - 14.04.2019.

2. CONSTRUCTION CONTRACTS

On 21 July 2017, Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. from Toruń (the "Contractor") - a subsidiary 90% owned by the Issuer, concluded with Chatteris Investements Sp. z o.o. headquartered in Warsaw, 11a Warecka Street (the "Customer") a contract for power engineering and construction works required to build the Photovoltaic Power Plants: Mierki I, Mierki II, Mierki III, Mierki IV, Mierki V, Mierki VI, Dobrcz I, Dobrcz II, Dobrcz III, Dobrcz VI, under the following terms and conditions:

- Contract concluded on 21.07.2017.
- Customer: Chatteris Investements Sp. z o.o., 00-034 Warsaw, 11a Warecka Street.
- Contract value: PLN 28,903,117.02 net.
- Contract subject: Comprehensive power engineering and construction works required to build the Photovoltaic Power Plants: Mierki I, Mierki II, Mierki III, Mierki IV, Mierki V, Mierki VI, Dobrcz I, Dobrcz II, Dobrcz III.
- Completion deadline: 16.02.2018.

On 27 July 2017, The Management Board of Erbud SA with its registered office in Warsaw (the "Issuer") informs that on 27July 2017, a contract was signed to construct as general contractor three stages of residential project in Białołęka, a district of Warsaw.
Dom Development S.A. based in Warsaw is the Investor of and the Party to the Contract.
The remuneration for Erbud S.A. for the completion of the above said project amounts to PLN 148,335,480.50 (in words: one hundred and forty eight million three hundred thirty five thousand four hundred and eighty Zlotys and 50/100) net plus due VAT.
The construction of 843 residential units and one retail unit will commence in the third quarter of 2017.
The completion of works is planned for the fourth quarter of 2019.

On 27 April 2017 a construction contract was signed by GWI GmbH, a subsidiary of ERBUD S.A. for the erection of a rest home located in Düsseldorf at 118 Gräulinger Straße.

- Parties to the contract:
    a. Customer: Consulting & Construction GmbH & Co. KG;
    b. Contractor: GWI Bauunternehmung GmbH, Hansaallee 247 b, 40549 Düsseldorf.
- Net contract value: EUR 5,916,652.37 / PLN 25,291,913.81 PLN (conversion at the NBP exchange rate from 21.08.2017 – 4.2747).
- Completion period: 18.09.2017 - 31.07.2018.

On 21 August 2017, the Issuer signed a contract for construction works on following terms and conditions:

- Investor: PORTO OFFICE A Sp. z o.o., 331-115 Kraków, 3/7 Garncarska St; NIP: 676-252-86-94.
- Contract value: PLN 32.3 million net.
- Contract subject: general contracting works to build an office and retail building (segment A) with underground car park, including in-building systems: forced ventilation, air conditioning, wiring, lightning protection, transformer station, and on-site technical infrastructure: construction of road entry and alteration of pavement, bicycle path, street drainage and traffic lights; as well as lateral service line and central heating line.
- Site location: Kraków.
- Completion period: commencement of work until 21.08.2017; completion until 31.12.2018.

On 27 September 2017, the Issuer received information about signing a contract for construction works of significant value by the Issuer's subsidiary GWI GmbH under the following terms and conditions:

- Contract subject: Construction of an office building named Kö-Quartier Development Düsseldorf, including shall and core and roof framework.
- Contract concluded on 26 September 2017.
- Parties to the contract:
    - Customer: KQ Development S.C.S, 35F, AVENUE J.F. KENNEDY, 1855 LUXEMBOURG;

- Contractor: GWI Bauunternehmung GmbH, Hansaallee 247 b, 40549 Düsseldorf.
- Contract value: EUR 9,620,978.80 net, what after conversion at the exchange rate as of 26.09.2017 gives PLN 41,197,031.22 (FX: Table 186/A/NBP/2017 of 26.09.2017 - 4.2820).
- Completion period: 26.09.2017 - 15.10.2018.

On **6 October 2017** it has been concluded Annex No. 2 to the Contract for the construction of the "Seaside Park" Hotel and Spa Complex with a value of PLN 23,313,624.69 million on the following terms and conditions:

- Annex concluded on 06.10.2017.
- Investor: SEASIDE Park Sp. z o.o., 00-549 Warszawa, 18 Piękna Street.
- Annex value: PLN 23,313,624.69.
- Contract subject: comprehensive finishing works, plumbing and HVAC for the "Seaside Park" Hotel and Spa Complex.
- Site location: Kołobrzeg, Przesmyk Street; plots with a cadastral Nos.29/1 and 29/2, cadastral district 6.
- Completion period: 06.10.2017 – 31.01.2019.

On 20 October 2017, the Issuer entered into a construction contract for the extension, vertical enlargement and alteration of existing buildings, including landscaping of site located in Międzyzdroje at 9 Zdrojowa Street.

- Investor: TROFANA Bogdan Sadka Sp.k. ul. Zdrojowa 9 72-500 Międzyzdroje.
- Completion period: 02.11.2017 - 30.06.2019.
- Contract value: PLN 25.2 net.

On 3 November 2017, a contract has been concluded for the refurbishment of air pollution control system at heating plant in Czestochowa, including the turnkey construction of flue gas denitrification, scrubbing and desulphurisation systems for WR-25 boilers Nos. K1, K2 and K3 and WR-40 boiler No.K5, under the following terms and conditions:

- Contract concluded on 03.11.2017 between the Cconsortium formed by Erbud SA (the "Leader"), Erbud Industry Sp. z o.o. (the "Partner") and Fortum Power and Heat Oy, seated in 02150 Espoo, 1 Keilaniementie (jointly called the "Contractor") and Fortum Power and Heat Polska Sp. z o..o seated in 50-304 Wrocław, 1a Antoniego Słonimskiego St. (the "Client")
- Investor: Fortum Power and Heat Polska Sp. z o.o, 50-304 Wrocław, 1a Antoniego Słonimskiego Street.
- Contract value: PLN 49,780,000 net + 23% VAT (of which ERBUD SA PLN 20,000; Erbud Industry Sp. z o.o. PLN 40,180,000; and Fortum Power and Heat Oy PLN 9,580,000).
- Contract subject: Refurbishment of air pollution control system at heating plant Czestochowa, including the turnkey construction of flue gas denitrification, scrubbing and desulphurisation systems for WR-25 boilers Nos. K1, K2 and K3 and WR-40 boiler No.K5.
- Site location: Rejtana Heating Plant; Czestochowa, 37/39 Rejtana Street.
- Completion period: 03.11.2017-19.09.2019.

On 10 November 2017 a significant contract was signed on the following terms and conditions:

- Investor: Szpital Specjalistyczny im. Ludwika Rydygiera w Krakowie sp. z o.o.; os. Złotej Jesieni 1, 31 – 826 Kraków; KRS 0000352784; NIP 6783105119.
- Contract value: PLN 29,662,170.73 net.
- Contract subject: Design & Build Contract for:
  - Task 1: "New seat of the Malopolska Centre of Burns Treatment and Rehabilitation, Plastic and Reconstructive Surgery and Intensive Care Unit for Children";
  - Task 2: "Refurbishment of hospital facilities for the purpose of "Małopolska Centre of Maternity and Woman's Medicine".
- Site location: 31 – 826 Kraków, os. Złotej Jesieni 1.
- Completion period: Task 1 - 15 months from the conclusion of the Contract (10.11.2017 - 10.02.2019); Task 2 - 7 months from the conclusion of the Contract (10.11.2017 - 10.06.2018)

2. CONSTRUCTION CONTRACTS

On 10 November 2017, the Issuer signed with Promenady VIII VD spółka z ograniczoną odpowiedzialnością sp. k. seated in Wrocław („Client") two contracts of a total net value of PLN 44 million to perform as general contractor construction works at the Promenady Wrocławskie Residential Development Project in Wrocław, Phase VIII.
Under the first contract, the Issuer will erect two residential buildings numbered A and B, comprising of 181 flats with a total area of 8 892 m2 and 6 retail units with a total area of 445 m2, including the necessary services and utilities, site development, circulation system and essential roads. The value of the contract is PLN 37.4 million.
Under the second contract, the Issuer will construct the residential building numbered C, consisting of 22 flats with a total area of 1 123 m2, including the necessary services and utilities, site development, circulation system and essential roads. The value of this contract amounts to PLN 6.6 million.
Both contracts were concluded for the time required to fulfil all obligations arising therefrom, but for not more than 106 weeks after the date of receipt Notice to Proceed with the Works in the case of the contract for buildings A and B and 77 weeks after the date of receipt Notice to Proceed for the contract concerning the building numbered C. The Notice to Proceed was submitted by the Client to the Issuer immediately after the conclusion of the contracts.

On 4 December 2017, Erbud signed the Annex to the construction contract of 22 June 2016. The value of the original contract amounted to PLN 21.5 million and was not a significant contract, which means that the Issuer did not inform about its signing.
Conclusion of the Annex to the aforementioned contract increases the total value of the contract to the amount of PLN 37.790.000, and following this, the contract becomes a significant one.
Annex No. 1 has been signed under the following terms and conditions:

- Contract: Contract for construction works at the project named "Stara Cegielnia" Phase II located in Poznań at 4 Ceglana Street.
- Investor: Poznań Kartuska Spółka z o.o. Sp. K.
- Completion period: 05.12.2017 - 30.06.2019, including the obtaining of occupancy permit.
- Contract value: PLN 16,290,000 PLN.

On 7 December 2017, Erbud entered into a construction contract on the following terms and conditions:

- Contract execution date: General Contracting Contract of 07.12.2017.
- Investor: SILESIA OUTLET Sp. z o.o.; 18 Piękna Street, 00-549 Warszawa; NIP: 7010533434.
- Contract value: PLN 57,560,000.
- Contract subject: Construction as general contractor of a retail and shopping centre in Gliwice on Rybnicka Street, including road system, parking area and associated infrastructure, retaining walls, water meter chamber, pumping station and fire-fighting tanks, pylon and monument sign – 1st stage of completion / phase 1.
- Site location: Gliwice.
- Completion period:: 29.12.2017 - 29.03.2019.

On 19 December 2017, the Issuer concluded with the company Centrum Praskie Koneser Spółka z ograniczoną odpowiedzialnością sp.k., which carries out the "Kwartał Centralny" Office and Retail Complex as part of the "Centrum Praskie Koneser" development project in Warsaw, annexes to the construction contract of 12 October 2015 and to the contract of 21 December 2016..
Pursuant to the annex to the contract of 21 December 2016 (Current Report No. 90/2016), the Contractor's remuneration for the Works has been changed due to additional work to be performed, taking into account costs resulting from the change of the completion date. The Contractor's net remuneration under this annex amounts to EUR 3,055,175.85.
The Contractor's total remuneration for the execution of all works after the annex will be EUR 15.586.533.96.
According to the annex to the contract of 12 October 2015 (Current Report No. 60/2015) the Contractor's remuneration for the Works due to additional work to be performed, taking into account the costs arising from the change of the completion date increased by EUR 3,748,842.22.
The Contractor's total remuneration under the contract of 12.10.2015 for the execution of all works after the above-mentioned annex will be EUR 9,064,084.27 and PLN 3,073,166.67.

2. CONSTRUCTION CONTRACTS

Additionally, in order to hedge foreign exchange risk resulting from cash flows from the aforementioned annexes, at the same time the Issuer concluded with mBank S.A. seated in Warsaw a series of Par Forwards securing cash flows from both contracts.

On 22 December 2017, the Issuer signed a significant contract for the construction of Phase II (Building No. 3) of the "ZAJEZDNIA POZNAŃ" residential, commercial and retail complex with underground car park, located in Poznań,

- Investor: REF Eastern Opportunities Sp. z o.o.; 60- 815 Poznań; 1A Gajowa St.
- Contract value: PLN 39,498,400.
- Completion period: 08.01.2018 - 08.09.2019.

On 22 February 2018, ERBUD SA entered into a contract with CGL VIII Spółka z ograniczoną odpowiedzialnością spółka komandytowa on the construction of the BLISKIE BEMOWO Residential Complex, Phase II, located in Warsaw on Powstańców Śląskich Street. This is another contract concluded within the last 12 months with a company from the GRUPO LAR. The total value of contracts signed in recent months amounts to PLN 94,236,553.

The above said contract has been concluded on the following terms and conditions:

- Investor: CGL VIII Spółka z ograniczoną odpowiedzialnością spółka komandytowa, 02-672 Warszawa, 32 Domaniewska St.
- Contract value: PLN 18,111,365.
- Contract subject: BLISKIE BEMOWO Residential Complex, Phase II, located in Warsaw on Powstańców Śląskich Street.
- Site location: Warsaw, Powstańców Śląskich Street.
- Completion period: Commencement of Works - 22.02.2018, completion of Works - 31.03.2019.

3. CAPITAL MANAGEMENT AND DEBT

3.1. CAPITAL MANAGEMENT

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

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

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

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

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

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

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

3. CAPITAL MANAGEMENT AND DEBT

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

ROE

	2017	2016	Assumed ratio level
(1) Net profit attributable to shareholders of the Parent Company	22 563	1 789	
(2) Equity	285 856	260 803	
ROE [(1)/(2) * 100%]	**7.89%**	**0.69%**	**7% -10%**

Total debt ratio

	2017	2016	Assumed ratio level
(1) Liabilities and provisions for liabilities	656 829	686 490	
(2) Total assets	942 685	947 295	
Total debt ratio [(1)/(2) * 100%]	**69,68%**	**72.47%**	**not more than 75%**

Equity-debt ratio

	2017	2016	Assumed ratio level
(1) Liabilities and provisions for liabilities	656 829	686 490	
(2) Equity	285 856	260 803	
Equity-debt ratio [(1)/(2)]	**229,78%**	**263.22%**	**not more than 300%**

Share capital

The share capital of the Parent as of 31 December 2017 consisted of 12,811,859 shares with a total value of PLN 1 281 thousand, and the shareholding structure was as follows:

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

3. CAPITAL MANAGEMENT AND DEBT

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

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

3.2. DIVIDENDS PAID AND DECLARED

Pursuant to the Resolution No. 3 of the Extraordinary General Meeting of Shareholders of ERBUD SA dated 22 December 2016 the extraordinary dividend has been paid to the Shareholders on 23 January 2017.

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

The earnings appropriated for dividend payment totalled PLN 1.17 each share entitling to participate in the dividend. To the dividend were entitled 12,811,859 shares.

NET DEBT

		2017	2016
Note 3.9.	**Cash and cash equivalents (A)**	**190 170**	**257 273**
Note 3.4.	Debt due to loans and borrowings	4 234	8 002
Note 3.5.	Debt arising from issued bonds	52 000	52 000
Note 3.6.	Debt under finance lease	6 806	5 656
	Long-term debt	**63 040**	**65 658**
Note 3.4.	Debt due to loans and borrowings	43 959	43 916
Note 3.5.	Debt arising from issued bonds	3 950	-
Note 3.6.	Debt under finance lease	6 454	5 026
	Current debt	**54 363**	**48 942**
	Total debt(B)	**117 403**	**114 600**
	Net debt / Net cash and cash equivalents ((A)-(B))	**72 767**	**142 673**

Net debt is defined as the balance of debt due to loans and borrowings, bonds issued and financial leases reduced by cash and cash equivalents. If there is a surplus of cash and cash equivalents over debt, the net amount constitutes "net cash and cash equivalents".

3. CAPITAL MANAGEMENT AND DEBT

Changes in net debt during the reporting period were as follows:

Debt due to:	loans and borrowings	issued bonds	finance lease	Total debt
Debt as of 1 January 2016	66 045	65 000	12 382	**143 427**
Proceeds from the debt incurred - received funding	25 085	-	4 026	**29 111**
Proceeds from the debt incurred – transaction costs	-	-	-	**-**
Charging interest on debt	-	-	-	**-**
Expenses related to incurred debt – repayment of capital	40 096	-	5 571	**45 667**
Expenses related to incurred debt - interest payment	467	-	328	**795**
Exchange differences on debt in foreign currencies	1 351	-	-	**1 351**
Other non-cash changes	-	(13 000)	173	**(12 827)**
Change in net debt over the period	**(14 127)**	**(13 000)**	**(1 700)**	**(28 827)**
Debt as of 31 December 2016	**51 918**	**52 000**	**10 682**	**114 600**
Proceeds from the debt incurred - received funding	36 642	3 950	9 607	**50 199**
Proceeds from the debt incurred – transaction costs	-	-	-	**-**
Charging interest on debt	117	-	-	**117**
Expenses related to incurred debt – repayment of capital	37 216	-	6 790	**44 006**
Expenses related to incurred debt - interest payment	1 522	-	354	**1 876**
Exchange differences on debt in foreign currencies	(1 746)	-	-	**(1 746)**
Other non-cash changes	-	-	115	**115**
Change in net debt over the period	**(3 725)**	**3 950**	**2 578**	**2 803**
Debt as of 31 December 2017	**48 193**	**55 950**	**13 260**	**117 403**

3.3. LOANS AND BORROWINGS LIABILITIES

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

	2017	2016
Long-term		
Bank loans	4 234	8 002
Short-term		
Overdrafts	20 239	31 300
Bank loans	23 720	12 616
Borrowings	-	-
	43 959	43 916
Total loans and borrowings debt	**48 193**	**51 918**

3. CAPITAL MANAGEMENT AND DEBT

	2017		2016	
	In functional currency	In foreign currency EUR	In functional currency	In foreign currency EUR
Loans and borrowings				
Long-term	4 234	-	8 002	-
Short-term	43 959	-	43 916	-
Total	**48 193**	**-**	**51 918**	**-**
of which:				
fixed interest rate	-	-	-	-
Interest	1.5% - 4%	0	1.5% - 4%	0
variable interest rate	-	-	-	-
Interest rate base	Wibor 1m -3m; EURIBOR;EONIA	0	Wibor 1m-3m; EURIBOR;EONIA	0

As of the balance sheet date, the Group has access to bank multi-purpose lines with a total value of PLN 1 038 075 thousand and EUR 31 050 thousand which can be used mainly for loans or bank guarantees. As at the balance sheet date, the Group used PLN 88 745 thousand to take out loans and PLN 543 828 thousand for guarantees.

3. CAPITAL MANAGEMENT AND DEBT

Covenants

Under loan agreements with a total amount of PLN 88 745 thousand, the Group companies are obliged to meet certain financial ratios (covenants) based mainly on EBITDA, debt, net debt and total assets. Violation of the terms of loan agreements may result in: increased margin, increased collaterals and, ultimately, immediate repayment of the loan. As at 31 December 2017, all covenants are met, except for covenants calculated for Erbud Industry Sp. z o.o..

Erbud Industry Sp. z o.o. - covenant calculated on the basis of separate figures:

mBank S.A.	**Current liquidity ratio =** (inventory - illiquidable inventory + short-term receivables - bad debts - receivables pursued in court + short-term investments + short-term prepayments) divided by short-term liabilities to related parties and to other entities, excluding special funds.	**not less than 1.1**	**0.81**
mBank S.A.	**Net financial liabilities / EBITDA per year =** (long-term and short-term loans and borrowings + securities issued + other financial liabilities to related parties and other entities) less cash and other cash assets.	**not more than 3.5**	**27**
mBank S.A.	**Debt Service Coverage Ratio** (**EBITDA per year / Debt service),** where i. EBITDA per year = net earnings + interest + income tax + depreciation; ii. Debt service = the total amount of interest liabilities and total amount of the Borrower's financial debt (capital + interest) that is due or early payable within a 12-month period, excluding revolving liabilities (overdraft, revolving loan), amounts due for revolving loans and annual operating leases.	**not less than 1.2**	**0.19**

The agreement with mBank has not been extended and it has been terminated on 31 January 2018. The fact that the level of financial ratios required by the agreement is not met does not adversely affect the Company's current operating activity.

3. CAPITAL MANAGEMENT AND DEBT

3.4. ISSUED BONDS LIABILITIES

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

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

Issue date	Type of bonds issued	Currency (functional / foreign)	Interest	Maturity date	Purpose of obtaining funding	Nominal value of the issue	Debt balance as at 31 December	
							2017	2016
26-03-2014	B-series bearer, dematerialized, unsecured	functional	WIBOR 6m+ 3% margin	26-03-2018	financing increased working capital demand	10	3 950	52 000
27-09-2017	C-series bearer, dematerialized, unsecured	functional	0	27-09-2021	financing increased working capital demand	1	52 000	-
			Total current liabilities			11	**55 950**	**52 000**
			Liability for accrued interest disclosed under "Trade and other liabilities"""			-	-	846

3. CAPITAL MANAGEMENT AND DEBT

3.5. FINANCIAL LEASE LIABILITIES

Lease is classified as a finance lease if substantially all risks and benefits resulting form the ownership of the leased asset are transferred substantially to the lessee. Finance lease contracts are initially recognized at the lower of: the fair value of the leased asset or the current value of the minimum lease payments.

Fixed assets used under financial lease agreements are amortized according to the principles used by the Group for its own assets. If there is no reliable certainty that once the lease contract is over the Group will be assigned the ownership title, the assets are amortized over the period which is shorter: the lease term or the useful life period.

Period		2017 Nominal value of minimum fees	2016 Nominal value of minimum fees
Less than 1 year	Current	6 947	5 405
1 - 5 years	Non-current	6 978	5 799
		13 925	**11 204**
Finance costs due to financial leasing		665	522
Current value of minimum fees		**13 260**	**10 682**

3.6. COLLATERAL FOR ASSET-BACKED LIABILITIES

As at 31 December 2017, liabilities due to tangible fixed assets debt totalling PLN 3 795 thousand (PLN 3 909 thousand as at 31 December 2016) were secured as follows:

	2017	2016
Property, plant and equipment	3 795	3 909
inventory	-	-
Assets held for sale	-	-
Other	-	-
Total	**3 795**	**3 909**

For information on debt related to loans and borrowings see Note 3.4.

3. CAPITAL MANAGEMENT AND DEBT

3.7. CONTINGENT ASSETS AND LIABILITIES

	Contingent assets		Contingent liabilities	
	2017	**2016**	**2017**	**2016**
Other entities				
Guarantees and sureties	95 227	113 877	448 316	461 525
Promissory notes	5 720	-	11 478	7 344
Litigations	-	-	46 682	41 935
of which case against MPL Modlin	-	-	34 381	34 381
Total	**100 947**	**113 877**	**506 476**	**510 804**

Contingent assets include guarantees and sureties received by the Group from the subcontractors as performance bonds and warranty.

The Group's contingent liabilities mainly concern guarantees issued by the Group and by banks to the customers of the Group in order to secure their claims under construction contracts, primarily performance bonds and bid bonds.

3.8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with a maturity of three months or less.

The Group has at its disposal restricted cash. This category comprises primarily funds securing bank guarantees issued in relation to the building contracts executed by the Group and derivatives-related liabilities, if their restricted availability period does not exceed 3 months.

The Group discloses restricted cash in "Cash and cash equivalents" in the consolidated statement of financial position.

	2017	**2016**
Cash in hand	72	120
Cash on bank accounts	174 682	202 146
Restricted cash on bank accounts (as security for bank guarantees)	15 416	19 007
Other cash	-	36 000
Total cash and cash equivalents	**190 170**	**257 273**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.1. SEGMENT REPORTING

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

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

In 2017 the following changes were made in the scope of segment reporting:

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

The breakdown of the overall business into individual segments was done through qualification of individual Group companies according to their business profile arising from the articles of association and their importance for the segment. Such a division corresponds to the distribution of principal risks and returns of expenditures incurred.

The financial figures for the purpose of management reporting that are the basis of data on the reporting segments are prepared on the same accounting policies as those applied to the preparation of the Consolidated Financial Statements of the Group. The transactions between segments are based on arm's length principle.

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

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Key information about segments for the reporting periods 01.2017 - 12.2017 and 01.2016 - 12.2016

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

	For the 12 months ended 31-12-2017			For the 12 months ended 31-12-2016		
	At home (Poland)	Abroad	Total	At home (Poland)	Abroad	Total
Sales to external customers, including::	1 577 392	228 067	**1 805 459**	1 414 019	375 757	**1 789 776**
Revenue from construction contracts	1 513 706	226 609	**1 740 315**	1 238 827	373 111	**1 611 938**
Revenue from other contracts – industry	51 772	503	**52 275**	157 102	1 328	**158 430**
Other revenue	11 914	955	**12 869**	18 090	1 318	**19 408**
Fixed assets other than financial instruments and deferred tax assets	78 601	2 550	**81 151**	71 444	2 458	**73 902**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

						For the 12 months ended 31-12-2017
	Building construction at home	Building construction abroad	Road-engineering	Industrial construction	Other segments	Total continuing operations
Total income						
Intersegment sales	-	-	(62 256)	(62 148)	(11 222)	**(135 626)**
Sale to external clients	1 196 731	226 389	219 011	287 617	11 337	**1 941 085**
Total income from sales	**1 196 731**	**226 389**	**156 755**	**225 469**	**115**	**1 805 459**
Segment results and reconciliation to gross profit of the Group before discontinued operations						
Prime costs	1 123 308	217 298	131 667	201 552	-	**1 673 825**
Result on other operating activity	(49 902)	(7 001)	(11 341)	(21 276)	(4 397)	**(93 917)**
Segment result – EBIT	**23 521**	**2 090**	**13 747**	**2 641**	**(4 282)**	**37 717**
EBIT margin	2.00%	1.00%	6.00%	1.00%	-38.00%	**2.00%**
Result on financial activity	(4 079)	(1 918)	(151)	(1 181)	5	**(7 324)**
Result before tax excluding discontinued operations	**19 442**	**172**	**13 596**	**1 460**	**(4 277)**	**30 393**
Income tax	3 520	(390)	2 839	325	167	**6 461**
Net result excluding discontinued operations	**15 922**	**562**	**10 757**	**1 135**	**(4 444)**	**23 932**
Depreciation and amortization	3 051	836	2 890	3 695	716	**11 188**
Segment result – EBITDA	**26 572**	**2 926**	**16 637**	**6 336**	**(3 566)**	**48 905**
Assets and liabilities						
Total assets	**578 501**	**137 611**	**129 515**	**87 624**	**9 434**	**942 685**
Total liabilities	**429 683**	**76 352**	**67 972**	**80 199**	**2 623**	**656 829**
Other relevant items						
Share in profit (loss) of associates and joint ventures measured using the equity method	-	-	(145)	-	-	**(145)**
Impairment losses on assets	5 734	-	220	58	6	**6 018**
Expenditures on tangible fixed assets and intangible assets	1 809	694	492	829	372	**4 196**
Interest income	1 238	978	749	12	-	**2 977**
Interest expense	4 659	644	125	1 036	15	**6 479**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

						For the 12 months ended 31-12-2016	
	Building construction at home	Building construction abroad	Road-engineering	Industrial construction	Other segments	Total continuing operations	Housing development - operations discontinued in 2016
Total income							
Intersegment sales	-	-	(15 072)	(83 022)	-	**(98 094)**	-
Sale to external clients	1 048 504	375 757	156 843	298 098	8 668	**1 887 870**	59 816
Total sales	**1 048 504**	**375 757**	**141 771**	**215 076**	**8 668**	**1 789 776**	**59 816**
Segment results and reconciliation to gross profit of the Group before discontinued operations							
Prime costs	977 698	354 041	126 509	193 688	8 348	**1 660 284**	54 551
Result on other operating activity	(45 289)	(10 528)	(8 804)	(19 079)	35	**(83 665)**	(1 225)
Segment result – EBIT	**25 517**	**11 188**	**6 458**	**2 309**	**355**	**45 827**	**4 040**
EBIT margin	2.00%	3.00%	4.00%	1.00%	4.00%	**2.00%**	7.00%
Result on financial activity	(1 881)	(475)	545	(1 193)	397	**(2 607)**	(820)
Result before tax excluding discontinued operations	**23 636**	**10 713**	**7 003**	**1 116**	**752**	**43 220**	**3 220**
Income tax	15	5 279	1 480	513	663	**7 950**	1 040
Net result excluding discontinued operations	**23 621**	**5 434**	**5 523**	**603**	**89**	**35 270**	**2 180**
Depreciation and amortization	3 189	785	2 759	3 717	446	**10 896**	830
Segment result – EBITDA	**28 706**	**11 973**	**9 217**	**6 026**	**801**	**56 723**	**4 870**
Assets and liabilities							
Total assets	**615 202**	**140 231**	**97 567**	**85 765**	**8 532**	**947 297**	**-**
Total liabilities	**446 269**	**96 515**	**59 751**	**83 908**	**49**	**686 492**	**-**
Other relevant items							
Share in profit (loss) of associates and joint ventures measured using the equity method	-	-	-	-	-	**-**	-
Impairment losses on assets	172	-	1 074	426	-	**1 672**	4 611
Expenditures on tangible fixed assets and intangible assets	1 048	1 446	574	659	146	**3 873**	63
Interest income	1 411	44	958	30	3	**2 446**	528
Interest expense	5 250	1 367	146	1 026	73	**7 862**	1 207

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.2. REVENUES FROM SALE

Approximately 96% of the Group's revenue is achieved from construction contracts. Details regarding the recognition of this kind of income are described in Note 2. The remaining 4% of revenue comes from industry. The Group recognizes revenues on this account on a monthly basis. Revenues above 10% amounted to PLN 220,715 the Group has reached in the segment of building construction in Poland from the customer Gryffin Real Estate.

The main estimates regarding revenues refer to the recognition of revenues from construction contracts. They are described in Note 2.

Revenues data are presented in Note 4.1 Segment reporting.

4.3. COST OF SALES

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
External services	1 165 609	1 204 591
Consumption of materials and energy	375 089	248 904
Costs of employee benefits	236 916	212 504
Amortization and depreciation	11 188	10 896
Taxes and fees	9 420	9 804
Other costs	16 947	18 129
Value of sold goods and materials	3 233	8 180
Total costs by nature	**1 818 402**	**1 713 008**
Change in inventories, products and deferred expenditures due to construction contracts	(53 084)	32 842
Sales costs (negative value)	(5 488)	(5 236)
General and administrative expenses (negative value)	(86 005)	(80 330)
Product cost of goods sold	**1 673 825**	**1 660 284**

4.4. COST OF EMPLOYEE BENEFITS

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
Payroll	192 338	173 345
Costs of programs for benefits in the post-employment period	-	-
Social security contributions other benefits for employees	44 578	39 159
Total	**236 916**	**212 504**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.5. OTHER OPERTING INCOME AND COSTS

	2017	2016
Other operating income		
Profit on disposal of non-financial fixed assets	1 102	4 127
Penalties, fines and indemnities	1 986	1 463
Other	10 547	5 877
	13 635	**11 467**

		For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
	Other operating costs		
Note 7.8.	Impairment losses on receivables	8 155	1 774
Note 7.10.	Created / released provisions	2 942	2 908
Note 7.10.	Litigation costs	119	413
	Other	4 698	4 471
		15 914	**9 566**

4.6. FINANCIAL INCOME AND COSTS

		2017	2016
	Financial income		
Note 5.1.2.	Interest		
	on loans granted	1 915	638
	other	1 062	1 807
	Exchange differences	74	4 713
	Other	38	668
		3 089	**7 826**

		2017	2016
	Financial costs		
	Interest		
Note 3.5.	on issued bonds	2 962	2 605
Note 3.4.	on loans and borrowings	2 890	2 851
	other	627	1 905
Note 3.4.	Front-end fee paid to the bank for overdraft financing	2 238	2 010
	Exchange differences	1 136	59
	Other	560	1 003
		10 413	**10 433**

4.7. TAXATION

The mandatory burdening of the financial result consists of two elements: current income tax and deferred tax.

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

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

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

The Group recognizes a deferred tax asset based on the assumption that in the future a tax gain will be achieved that will allow the asset to be realized.

The carrying amount of the deferred tax asset is verified at each balancing date and reduced accordingly by as much as it probability that sufficient taxable income will be achieved realize the deferred tax asset partially or fully.

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

	2017	2016
Gross profit before tax from continuing operations	**30 393**	**43 220**
Tax at the statutory tax rate applicable in Poland - 19%	**5 775**	**5 546**
Additional tax charge arising from the rate exceeding 19% in Germany	(293)	3 674
Adjustments to current income tax from previous years	(3)	-
Surplus of non-deductible expenses over income not recognised as taxable income	982	(1 376)
Tax recognized in the Consolidated Profit and Loss Statement, including:	**6 461**	**7 950**
Current income	13 208	17 986
Deferred income	(6 747)	(10 036)
Effective tax rate	**21.26%**	**18.39%**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

			Impact on		Impact on	Impact on		
		01.01. 2016	Net earnings	Other comprehensive income	31.12. 2016	Net earnings	Other comprehensive income	31.12. 2017
	Deferred tax assets							
Note 2.3.	Valuation of receivables from construction contracts	23 630	5 510	-	29 140	(13 140)	-	16 000
Note 7.7.	Provisions	6 364	(900)	-	5 464	952	-	6 416
	Tax loss	1 340	(411)	-	929	789	-	1 718
	Margin on intra-Group sales	938	(938)	-	-	-	-	-
	Accrued remuneration and charges	702	(274)	-	428	9	-	437
Note 7.5.	Impairment losses on receivables	1 484	(130)	-	1 354	689	-	2 043
	Other financial liabilities	1 582	(226)	-	1 356	211	-	1 567
	Accrued expenses	1 724	(1 153)	-	571	1 696	-	2 267
	Other	1 236	(585)	-	651	23 045	(148)	23 548
	Total	**39 000**	**893**	**-**	**39 893**	**14 251**	**(148)**	**53 996**
	Deferred tax liabilities							
	Valuation of liabilities due to construction contracts	24 615	(2 216)	-	22 399	7 074	-	29 473
	Revaluation of assets	7 253	(5 169)	-	2 084	(114)	-	1 970
	Capitalised finance costs	312	(234)	-	78	(78)	-	-
	Balance sheet valuation and liabilities discount	594	(576)	-	18	109	-	127
	Accrued interest on debt	-	59	-	59	163	-	222
	Accrued revenue	-	-	-	-	(3)	-	(3)
	Other	1 858	(1 007)	-	851	353	320	1 524
	Total	**34 632**	**(9 143)**	**-**	**25 489**	**7 504**	**320**	**33 313**
	Set-off between assets and liabilities	4 368			14 404			20 683
	After sett-off	**73 632**			**19 654**			**25 345**
	Assets	39 000			17 029			23 014
	Liabilities	34 632			2 625			2 331
	Net impact of changes in the period		**10 036**	**-**		**6 747**	**(468)**	

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

The table below presents periods in which deferred income tax assets and liabilities were realized.

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Current	20 119	2 331	14 840	2 625
Non-current	2 895	-	2 189	-
Total	**23 014**	**2 331**	**17 029**	**2 625**

Information on receivables and payables due to income tax is presented in Notes 7.5 and 7.9.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.1. ASSETS AND FINANCIAL LIABILITIES

The Group is in the possession of the following categories of financial instruments:

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

Loans and receivables mainly include:

Note 5.1.2.	Financial assets - loans granted:
Note 2.2.	Receivables under construction contracts – retention money
Note 7.5.	Trade and other receivables
	Receivables from construction contracts - valuation
Note 3.9.	Cash and cash equivalents

Financial liabilities measured at amortized cost mainly include:

Note 2.2.	Liabilities under construction contracts – retention money
Note 2.3.	Liabilities under construction contracts – valuation
Note 7.9.	Trade and other liabilities
Notes 3.3 – 3.6.	Debt

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

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

The table below shows the carrying amount of main groups of financial assets and financial liabilities broken down by category. The carrying amount of financial assets and financial liabilities held by the Group disclosed in the tables below did not differ significantly from their fair value in both presented periods

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

		Categories of financial instruments			
	Item in the Statement of Financial Position	**Loans and receivables**	**Financial liabilities measured at amortized cost**	**Assets and liabilities due to derivatives - hedge accounting**	**Total relevant categories**
	2017				
Note 5.1.2	Financial assets - loans granted	15 583	-	-	**15 583**
	Financial assets - secured guarantees	3 951	-	-	**3 951**
Note 2.2.	Receivables from construction contracts - retention money	59 581	-	-	**59 581**
Note 7.5.	Receivables due to deliveries and services and other receivables (excluding income tax receivables)	385 310	-	-	**385 310**
Note 2.3.	Receivables from construction contracts - valuation	171 638	-	-	**171 638**
Note 3.9.	Cash and cash equivalents [transferred to the "Loans and receivables" category]	190 170	-	-	**190 170**
Note 2.2.	Liabilities due to construction contracts - retention money	-	104 496	-	**104 496**
Note 2.3.	Liabilities due to construction contracts – valuation	-	80 145	-	**80 145**
Note 2.9.	Liabilities due to deliveries and services and other receivables (excluding income tax receivables)	-	305 564	-	**305 564**
Note 3.3.	Debt	-	117 403	-	**117 403**
	Total	**826 233**	**607 608**	**-**	**1 433 841**
	2016				
Note 5.1.2	Financial assets - loans granted	22 788	-	-	**22 788**
	Financial assets - secured guarantees	2 386	-	-	**2 386**
Note 2.2.	Receivables from construction contracts - retention money	44 829	-	-	**44 829**
Note 7.5.	Receivables due to deliveries and services and other receivables (excluding income tax receivables)	390 083	-	-	**390 083**
Note 2.3.	Receivables from construction contracts - valuation	127 600	-	-	**127 600**
Note 3.9.	Cash and cash equivalents [transferred to the "Loans and receivables" category]	257 273	-	-	**257 273**
Note 2.2.	Liabilities due to construction contracts - retention money	-	96 718	-	**96 718**
Note 2.3.	Liabilities due to construction contracts – valuation	-	110 144	-	**110 144**
Note 2.9.	Liabilities due to deliveries and services and other receivables (excluding income tax receivables)	-	298 614	-	**298 614**
Note 3.3.	Debt	-	114 600	-	**114 600**
	Total	**844 959**	**620 076**	**-**	**1 465 035**

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

		Categories of financial instruments			
		Loans and receivables	Financial liabilities measured at amortized cost	Assets and liabilities due to derivatives - hedge accounting	Total relevant categories
	2017				
	Impact on the income statement				
Note 4.6.	Financial income / (financial costs) - interest	1 408	(4 910)	-	**(3 502)**
Note 4.6.	Financial income / (financial costs) - exchange differences	(823)	(239)	-	**(1 062)**
	Reclassification from other comprehensive income in connection with the realization of derivative financial instruments (cash flow hedge accounting	-	-	-	**-**
Note 4.5.	Other operating income / (Other operating costs) – release / (creation) of impairment losses on receivables	5 954	64	-	**6 018**
		6 539	**(5 085)**	**-**	**1 454**
	Impact on other comprehensive income				
	Gains / (losses) on the measurement of derivatives in cash flow hedge accounting	-	-	-	**-**
		-	**-**	**-**	**-**
	Total	**6 539**	**(5 085)**	**-**	**1 454**
	2016				
	Impact on the income statement				
Note 4.6.	Financial income / (financial costs) - interest	1 096	(6 012)	-	**(4 916)**
Note 4.6.	Financial income / (financial costs) - exchange differences	3 338	1 316	-	**4 654**
	Reclassification from other comprehensive income in connection with the realization of derivative financial instruments (cash flow hedge accounting	-	44	-	**44**
Note 4.5.	Other operating income / (Other operating costs) – release / (creation) of impairment losses on receivables	(1 757)	-	-	**(1 757)**
		2 677	**(4 652)**	**-**	**(1 975)**
	Impact on other comprehensive income				
	Gains / (losses) on the measurement of derivatives in cash flow hedge accounting	-	-	-	**-**
		-	**-**	**-**	**-**
	Total	**2 677**	**(4 652)**	**-**	**(1 975)**

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.1.1. FINANCIAL ASSETS

As of 31 December, the Group had the following items disclosed as financial assets in the Statement of Financial Position:

		2017	2016
Note 5.1.2.	Loans granted	15 583	22 788
	Other	4 448	2 903
	Total	**20 031**	**25 691**
	Long-term	8 900	2 903
	Short-term	11 131	22 788

5.1.2. FINANCIAL ASSETS – LOANS GRANTED

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

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

Borrower	Currency	Interest	Maturity date	2017	2016
Grabianowski	EUR	4	31.12.2018	170	262
X2 GmbH	EUR	5	31.12.2018	10 960	10 053
Wento Operations Cyprus Limited	PLN	WIBOR 1Y+4%	23.06.2019	3 603	5 409
Efektywność Energetyczna dla Polski Sp. z o.o.	PLN	0.1	18.12.2027	850	-
Budlex Sp. z o.o.	0	0	0	-	7 064
Total, of which:				**15 583**	**22 788**
Long-term				4 452	-
Short-term				11 131	22 788

No impairment was recognized for loans granted. As at the balance sheet date loans are not overdue. Loans granted are exposed to credit risk and interest rate risk, which have been described accordingly.

5.2. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative financial instruments owned by the Group are hedging instruments under the cash flow hedge accounting policy applied by the Group.

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

Details of derivative financial instruments owned by the Group are presented in the table below.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

			2017			2016		
Hedged item	**Hedged risk**	**Description of financial instruments designated as hedging instruments in hedge accounting**	**Basic value of the derivative**	**Expected period of occurrence of hedged flows and their impact on the financial result**	**Carrying amount of the hedging instrument – Assets / (Liabilities)**	**Basic value of the derivative**	**Expected period of occurrence of hedged flows and their impact on the financial result**	**Carrying amount of the hedging instrument – Assets / (Liabilities)**
Securing the construction contract with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and for additional works in the D building of the Centrum Praskie Koneser complex in Warsaw on Ząbkowska St., incl. accompanying infrastructure – providing a hedging instrument.	Securing the cash flow risk related to future cash flows in a foreign currency.	Par Forward contracts concluded with mBank S.A. and ING Bank S.A. on 21.12.2016.	29 941	10-03-2017 to 10-04-2018	2 062	0	10-03-2017 to 10-04-2018	(415)
Securing the construction contract referred to in the Annex of 19.12.2017 to the contract with Centrum Praskie Koneser sp. z o.o. sp.k. for the construction of buildings B and C and for additional works in the D building of the Centrum Praskie Koneser complex in Warsaw on Ząbkowska St., incl. accompanying infrastructure – providing a hedging instrument.	Securing the cash flow risk related to future cash flows in a foreign currency.	Par Forward contracts concluded with mBank S.A. on 19.12.2017.	28 811	31-12-2017 to 9-10-2018	113	0	0	-

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Securing the construction contract with Ghelamco Poland sp. z o.o. sp.k. for the construction of class A+ office building and refurbishment of two existing buildings forming the project: "Nowa Formiernia Office and Conference Centre"– providing a hedging instrument.	Securing the cash flow risk related to future cash flows in a foreign currency.	Par Forward contracts concluded with mBank S.A. on 10.12.2015.	50 762	8-02-2016 to 9-10-2017	-	32 775	8-02-2016 to 9-10-2017	(376)
Securing the construction contract with Hala Koszyki Grayson Investments sp. z o.o. sp.k. – providing a hedging instrument.	Securing the cash flow risk related to future cash flows in a foreign currency.	Par Forward contracts concluded with ING Banki Śląski S.A. on 14.08.2014	0	0	-	62 547	14-11-2014 to 12-08-2016	-
0	0	0	0	0	-	0	0	-
Total, including:					**2 175**			**(791)**
Financial assets					5 085			900
Financial liabilities					2 910			1 691

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

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

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

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

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

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

5.3. FINANCIAL RISK MANAGEMENT POLICY

In the course of conducting its business, the Erbud Group is exposed to various types of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management Board of the Parent Company is responsible for setting the principles of managing these risks and for verifying them.

5.3.1. MARKET RISK - CURRENCY RISK

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

With regard to receivables and liabilities arising from concluded construction contracts for which payments will be made in EUR and with respect to loans denominated in EUR, the Group applies forward agreements hedges for EUR as part of hedge accounting system.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

					2017	
		Exposure to currency risk (PLN '000)	Impact on profit or loss (PLN '000)		Impact on other comprehensive income (PLN '000)	
			change in the exchange rate +10%	change in the exchange rate -10%	change in the exchange rate +10%	change in the exchange rate -10%
	Assets					
Note 3.9.	Cash and cash equivalents	16 654	1 665	(1 665)	-	-
	Amounts on fiduciary accounts	-	-	-	-	-
Note 7.5.	Receivables due to deliveries and services and other receivables	28 788	2 879	(2 879)	-	-
Note 2.2.	Receivables due to construction contracts - retention	9 330	933	(933)	-	-
Note 5.1.2.	Financial assets - loans granted	507	51	(51)	-	-
	Liabilities					
Note 3.3.	Debt	-	-	-	-	-
Note 7.9.	Liabilities due to deliveries and services, and other liabilities	3 710	371	(371)	-	-
Note 2.2.	Liabilities due to construction contracts - retention	92	9	(9)	-	-
	Impact of exchange rate changes – total assets and liabilities	**59 081**	**5 908**	**(5 908)**	**-**	**-**
	Impact of currency risk hedging items (hedge accounting)	-	-	-	-	-
	Impact of exchange rate changes, including items hedging currency risk	**59 081**	**5 908**	**(5 908)**	**-**	**-**

2016

		Exposure to currency risk (PLN '000))	Impact on profit or loss (PLN '000)		Impact on other comprehensive income (PLN '000)	
			change in the exchange rate +10%	change in the exchange rate -10%	change in the exchange rate +10%	change in the exchange rate -10%
	Assets					
Note 3.9.	Cash and cash equivalents	42 722	4 272	(4 272)	-	-
	Amounts on fiduciary accounts	-	-	-	-	-
Note 7.5.	Receivables due to deliveries and services and other receivables	27 082	2 708	(2 708)	-	-
Note 2.2.	Receivables due to construction contracts - retention	3 621	362	(362)	-	-
Note 5.1.2.	Financial assets - loans granted	-	-	-	-	-
	Liabilities					
Note 3.3.	Debt	-	-	-	-	-
Note 7.9.	Liabilities due to deliveries and services, and other liabilities	5 074	507	(507)	-	-
Note 2.2.	Liabilities due to construction contracts - retention	-	-	-	-	-
	Impact of exchange rate changes – total assets and liabilities	**78 499**	**7 849**	**(7 849)**	**-**	**-**
	Impact of currency risk hedging items (hedge accounting)	-	-	-	-	-
	Impact of exchange rate changes, including items hedging currency risk	**78 499**	**7 849**	**(7 849)**	**-**	**-**

5.3.2. MARKET RISK – INTEREST RATE RISK

The interest rate risk occurs mainly when Group member companies take advantage of debt instruments, i.e. bank loans and borrowings (Note 3.4.), issued bonds (Note 3.5.) and financial lease (Note 3.6.).

In addition, the Group invests free cash partly in deposits with a variable interest rate and grants loans bearing interest mainly at a floating rate.

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

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

The analysis of the sensitivity of interest rate items bearing interest to changes in the interest rate is presented in the table below.

	2017			2016		
	Balance sheet value of the item with a variable interest rate	Impact on profit or loss		Balance sheet value of the item with a variable interest rate	Impact on profit or loss	
		+100 bps	-100 bps		+100 bps	-100 bps
Cash and cash equivalents	190 170	1 902	(1 902)	236 292	2 363	(2 363)
Financial assets - Loans granted	15 413	154	(154)	22 526	225	(225)
Debt on loans and borrowings	48 193	482	(482)	51 918	519	(519)
Debt arising from issued bonds	55 950	560	(560)	52 000	520	(520)
Liabilities under finance lease	13 260	133	(133)	10 682	107	(107)
Total impact		**3 231**	**(3 231)**		**3 734**	**(3 734)**

5.3.3.CREDIT RISK

Financial assets of the Group that are exposed to credit risk are mainly items listed in the table below.

		Maximum exposure to credit risk corresponding to the carrying amount of the balance sheet item	
		2017	2016
Note 3.9.	Cash and cash equivalents	190 170	257 273
Note 5.1.2.	Financial assets - loans granted	15 583	22 788
Note 7.5.	Receivables due to deliveries and services	368 373	370 057
Note 2.2.	Receivables due to construction contracts - retention	59 581	44 829
Note 2.3.	Receivables due to construction contracts - valuation	171 638	127 600
	Total	**805 345**	**822 547**

Cash and cash equivalents

The Group minimizes the credit risk associated with cash and cash equivalents by diversifying the banks with which the deposit transactions are made. The Group cooperates only with high credibility financial institutions, according to the information in the table below, without causing a significant concentration of credit risk.

According to the Euro rating agency Rating	2017
Banks with AAA rating	43%
Banks with A- rating	21%
Banks with BBB+ rating	36%
	100%

As at 31 December 2017, the value of cash assets and cash equivalents located in one financial institution did not exceed 43% of the total balance.

Trade receivables and receivables under construction contracts

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

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

Changes in impairment allowance and age structure of overdue receivables are presented in note 7.5.

5.3.4. LIQUIDITY RISK

In order to mitigate the risk of losing liquidity risk, the Group keeps an appropriate amount of cash and transferable securities, and also concludes credit facility agreements which serve as an additional liquidity security. To finance investment purchases, the Group uses its own funds or long-term finance leases, ensuring durability of the financing structure for this type of assets.

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

Liquidity management is supported by the Group's current reporting system for liquidity forecasts.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The table below presents the Group's financial liabilities as at 31 December by maturity date based on contractual non-discounted payments.

	2017						
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total undiscounted cash flows	Discount	Balance sheet values
Liabilities due to loans and borrowings	11 287	32 672	4 233	-	**48 192**	-	**48 192**
Liabilities due to issued bonds	-	3 950	52 000	-	**55 950**	-	**55 950**
Liabilities under financial lease	1 017	5 438	6 806	-	**13 261**	-	**13 261**
Liabilities under construction contracts – retention	3 313	93 202	8 528	-	**105 043**	547	**104 496**
Liabilities due to deliveries and services	69 528	193 358	-	-	**262 886**	-	**262 886**
Liabilities from derivative financial instruments	-	-	-	-	-	-	-
Total	**85 145**	**328 620**	**71 567**	-	**485 332**	**547**	**484 785**

	2016						
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total undiscounted cash flows	Discount	Balance sheet values
Liabilities due to loans and borrowings	469	43 447	8 002	-	**51 918**	-	**51 918**
Liabilities due to issued bonds	-	-	53 312	-	**53 312**	1 312	**52 000**
Liabilities under financial lease	428	4 598	5 656	-	**10 682**	-	**10 682**
Liabilities under construction contracts – retention	-	89 130	8 071	-	**97 201**	483	**96 718**
Liabilities due to deliveries and services	245 829	-	-	-	**245 829**	-	**245 829**
Liabilities from derivative financial instruments	-	846	-	-	**846**	-	**846**
Total	**246 726**	**138 021**	**75 041**	-	**459 788**	**1 795**	**457 993**

6. DISCONTINUED OPERATIONS

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

The table below details the net result of discontinued operations.

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
DISCONTINUED OPERATIONS		
Revenues from sales	-	59 816
Costs of sold products and services, goods and materials	-	54 551
Costs of sale	-	1 719
General and administrative expense	-	1 550
Other operation income	-	2 171
Other operating cost	-	127
Share in net profit (loss) of subsidiaries valued by equity method	-	-
Financial income	-	750
Financial costs	-	1 570
Result before tax	**-**	**3 220**
Income tax	-	1 040
Net result from discontinued operations	**-**	**2 180**

The following figures in the Consolidated Cash Flow Statement relate to discontinued operations:

	For the 12 months ended 31-12-2017	For the 12 months ended 31-12-2016
Net cash flow from operating activities	-	(1 811)
Net cash flow from investing activities	-	10 816
Net cash flow from financing activities	-	(38 955)
Total net cash flow from discontinued operations	**-**	**(29 950)**

7. OTHER NOTES

7.1. PROPERTY, PLANT AND EQUIPMENT

Key items of property, plant and equipment are means of transport as well as technical equipment and machinery, connected primarily with the construction of public, commercial, residential and industrial buildings. In addition, the Group also owns buildings, structures and land.

Tangible fixed assets are recognised at purchase price/production cost less accumulated amortization and any impairment losses. The policy on assessment of impairment losses is presented in Note 7.3.

The initial value of property, plant and equipment comprises their purchasing price plus all costs related directly to the buying and adaptation of the asset to be capable for use. The initial value also includes costs of replacement parts for plant and equipment as they are incurred, if the recognition criteria are met, i.e. replacement parts are expected to be used for more than one year and they can be recognised in a specific item of tangible fixed assets.

Costs incurred after the commissioning of the asset, such as maintenance and repair costs, are recognized in profit or loss when incurred, except when such costs cause an increase in expected future economic benefits from holding a given item of tangible fixed asset - then the costs borne enhance the initial value of this asset.

Key items of property, plant and equipment are means of transport as well as technical equipment and machinery, connected primarily with the construction of public, commercial, residential and industrial buildings. In addition, the Group also owns buildings, structures and land.

Tangible fixed assets are recognised at purchase price/production cost less accumulated amortization and any impairment losses. The policy on assessment of impairment losses is presented in Note 7.3.

Amortization rates are based on the expected economic useful lives of tangible fixed assets. The Group annually verifies the useful lives based on current estimates.

7. OTHER NOTES

As at 31 December, the Group was in the possession of the following categories of tangible fixed assets:

Tangible fixed assets	2017			2016		
	Gross value	Depreciation and write-downs	Net value	Gross value	Depreciation and write-downs	Net value
Land, (including the right of perpetual usufruct of land	8 496	395	8 101	8 802	103	8 699
Buildings and structures	18 376	6 930	11 446	16 730	6 229	10 501
Plant and equipment	34 206	26 121	8 085	27 093	17 170	9 923
incl. finance lease	13 325	9 887	3 438	12 908	8 445	4 463
Means of transport	45 206	27 494	17 712	36 933	22 965	13 968
incl. finance lease	36 702	21 120	15 582	29 142	17 793	11 349
Other fixed assets	8 084	6 307	1 777	6 045	4 245	1 800
Fixed assets under construction	-	-	-	1 132	-	1 132
Other	5 607	3 445	2 162	5 343	3 335	2 008
Total	**119 975**	**70 692**	**49 283**	102 078	54 047	48 031

The Group has entered into finance lease agreements for an average period of 5 years. These contracts include an extension option after the end of the base period. In addition, the concluded agreements give the Group the right to buy the leased asset at the end of the lease term.

Financial lease liabilities are described in Note 3.6.

7. OTHER NOTES

	Land, incl. perpetual usufruct	Buildings and structures	Plant and equipment	Means of transport	Other tangible fixed assets	Fixed assets under construction	Other	Total
Net value as at 1 January 2016	**5 780**	**8 646**	**11 870**	**14 518**	**2 979**	**2 150**	**2 283**	**48 226**
Increases:								
Purchase	-	559	1 030	1 148	874	-	261	**3 872**
Finance lease	-	-	385	3 815	-	-	-	**4 200**
Other, including reclassification adjustments	3 904	2 046	77	24	-	(913)	-	**5 138**
Decreases:								
Depreciation and amortization	28	795	3 194	4 615	1 730	-	534	**10 896**
Sale and liquidation	-	37	131	314	51	105	-	**638**
Presentation adjustments	-	-	6	96	2	-	-	**104**
Assets of the sold subsidiary	957	(82)	108	512	225	-	-	**1 720**
Other	-	-	-	-	45	-	2	**47**
Net value as at 31 December 2016	**8 699**	**10 501**	**9 923**	**13 968**	**1 800**	**1 132**	**2 008**	**48 031**
Increases:								
Purchase	-	667	963	468	1 162	-	936	**4 196**
Finance lease	-	-	525	9 783	-	-	-	**10 308**
Other, including reclassification adjustments	-	1 167	-	-	-	-	-	**1 167**
Decreases:								
Depreciation and amortization	27	866	3 296	5 170	1 139	-	690	**11 188**
Sale and liquidation	538	23	22	262	3	-	92	**940**
Presentation adjustments	-	-	-	9	-	1 132	-	**1 141**
Other	34	-	-	995	-	-	-	**1 029**
Exchange differences on translation	1	-	(8)	(71)	(43)	-	-	**(121)**
Net value as at 31 December 2016	**8 101**	**11 446**	**8 085**	**17 712**	**1 777**	**-**	**2 162**	**49 283**

Depreciation and amortization

	2017	2016
General and administrative expenses	5 085	7 494
Production costs of products and services sold	6 103	3 402
Total	**11 188**	**10 896**

Planned capital expenditures

As of 31 December 2017, capital expenditures planned by the Group amounted to PLN 43 233 thousand (PLN 3 800 thousand as at 31 December 2016).

7.1.1. CONTRACTUAL LIABILITIES TAKEN TO ACQUIRE TANGIBLE FIXED ASSETS

As at 31 December 2017, the Group did not have any obligations related to contracts for the purchase of fixed assets (as at 31 December 2016, the Group did not have such liabilities).

7.2. GOODWILL

Goodwill arises as a result of accounting for the acquisition of investments by applying the purchase method - details are described below..

The accounting policy for impairment of goodwill is described in Note 7.3.

	2017	2016
Goodwill at the beginning of the period	**22 968**	**22 968**
Increases	-	-
Exchange differences on translation	-	-
Goodwill at the end of the period	**22 968**	**22 968**
of which due to the acquisition of:		
Przedsiębiorstwa Budownictwa Drogowo- Inżynieryjnego S.A.	18 274	18 274
Other	4 694	4 694

7.3. FIXED ASSETS IMPAIRMENT

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

Fixed assets impairment

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

Impairment of goodwill

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

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

Impairment of goodwill

Goodwill is allocated to the cash-generating centres of the Group. For goodwill arising on the acquisition of shares in Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego SA by Erbud SA it is assumed that the cash-generating unit is the whole road-engineering segment related to Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego SA.

The recoverable value of cash-generating unit is determined on the basis of utility value calculations. These calculations use cash flow projections over three years. Cash flows beyond the three-year period were estimated at a constant level. The growth rate does not exceed the long-term average growth rate for the construction industry, where operates the cash generating unit. For the purpose of calculations, the average gross margin of 11.5% was assumed, while the discount rate realised was 8.4% (in round numbers and after gross-up). The Management Board has set a budget gross margin based on historical results and its expectations of market development. Medium weighted average growth rates are consistent with the projections in branch reports. The applied discount rate is the rate before tax, reflecting the specific risks relating to individual segments.

As a result of analysis carried out in 2017 and in 2016, no reasons for creating an impairment allowance for an asset or group assets were identified.

The goodwill impairment test which was performed as at 31 December 2017 did not show the necessity for making impairment write-downs.

7.4. INVENTORY



The individual inventory categories carry the following items:

- Materials – elements kept at storage places to be used in manufacturing processes, especially for construction purposes;
- Work in progress: costs of uncompleted development projects;
- Finished goods: apartments, commercial premises and ready-to-sell buildings;
- Goods: land used during the implementation of development projects.

Materials and goods are valued at the purchase price and their use is measured using the "first in-first out" method. Work in progress and finished goods are valued at the cost of direct materials and labour, together with an appropriate mark-up of indirect production costs determined based on the assumption of normal utilization of production capacity, excluding costs of external financing. At the balancing date the inventory is priced taking lower of the two values: purchasing price or the cost of manufacturing and net selling price.

Under materials the Group posts construction site stored inventories for general purposes, low processing degree that could be used in a straightforward manner and without incurring material costs for other contracts or sold (if they turn out to be redundant in case of execution of a certain contract). The inventory items are not items stored on construction sites with a specific use on a certain construction site or processed on the company own or by the subcontractor, generally these are items where it is not certain whether they could be used for other contracts or sold. Such items are posted directly into contract costs and thus they are included into contract pricing taking into consideration their progress rate (for details see Note 2).

7. OTHER NOTES

	2017	2016
Materials	11 304	2 893
Production in progress	463	-
Finished products	91	129
Goods	-	-
Inventories for development projects;	-	-
Gross value of inventories	**11 858**	**3 022**
Write-downs of inventories	281	265
Net value of inventories	**11 577**	**2 757**

The change in the write-down of inventories during 2017 and 2016 was irrelevant.

7.5. TRADE AND OTHER RECEIVABLES

The Group's receivables from supplies and services include mainly trade receivables from non-related parties (first of all due to invoices issued in relation to the construction contracts carried out by the Group) and receivables from the state budget, including receivables due to corporate income tax and VAT.

Receivables from supplies and services with maturity usually ranging between 30 and 180 days are recognised at their nominal value, i.e. according to the amounts initially invoiced. As at the balance sheet date, these items are measured at amortized cost, including any impairment loss.

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

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

	2017			2016		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Trade receivables from non-related parties	382 286	13 913	368 373	378 256	8 199	370 057
Receivables due to corporate income tax	3 729	-	3 729	4 771	-	4 771
Other receivables from the state budget	2 566	-	2 566	9 975	-	9 975
Other receivables	15 587	1 216	14 371	11 267	1 216	10 051
Total	**404 168**	**15 129**	**389 039**	**404 269**	**9 415**	**394 854**

Changes in impairment losses are shown in the table below.

	2017	2016
Impairment allowances at the beginning of the period	**9 415**	**13 500**
Created	8 306	1 795
Reversed	2 288	1 070
Used	304	197
Other	-	(4 613)
Exchange differences on translation	-	-
Impairment allowances at the end of the period	**15 129**	**9 415**

The age structure of overdue receivables for which no impairment loss has been identified is as follows:

Overdue receivables:	2017	2016
less than 1 month	41 332	63 164
1 to 3 months	23 591	29 823
3 to 6 months	1 829	9 414
6 to 12 months	8 620	7 135
over 1 year	40 679	29 762
Total	**116 051**	**139 298**

The amount of overdue receivables not covered by the impairment loss as of 31.12.2017 includes but is not limited to: mortgage-backed receivables of PLN 8 188 thousand from Kępska SA and receivables from the Academy of Music of PLN 1 895 thousand. A partial write-off based on estimated discounted cash flows was created for disputable receivables. Disputes with these entities, described in Note 7.7, are pending.

The Group is exposed to credit risk and currency risk arising from trade receivables. However, there is no concentration of credit risk related to trade receivables, as the Group has a large number of domestic and foreign clients.

7. OTHER NOTES

7.6. OTHER ASSETS

Held-for-Sale Assets are assets whose carrying amount in the balance sheet will be recovered principally through a sale instead of through their further use. The valuation of these items is made at the lower of amounts: carrying amount in the balance sheet and fair value less costs of sale (fair value is determined in accordance with IFRS 13).

Insurance are prepayments made by the Group under insurance contracts for future accounting periods. They are recognized in the profit and loss statement according to the passage of time.

	2017	2016
Assets held for sale	-	-
Insurance	4 595	4 785
Other	767	1 480
Total	**5 362**	**6 265**

7.7. PROVISIONS

Provisions mainly include provisions for warranty claims, short-term employee benefits and post-employment benefits as well as provisions for litigations and disputes.

Remedying defects provision

Provision for costs of remedying defects results from the Group's guarantee for construction services provided. Provision is created at a percentage rate calculated as the quotient of historically incurred costs for warranty repairs and historically recognized revenues from the carrying out of construction contracts. The cost of provision for warranty defects is recognised in costs of services sold. In the case of services other than construction works, mainly service for maintenance services for industry, the provision is set up on the basis of historical data and a reliable estimate of the liability amount in this respect. Assumptions used to calculate the provision for remedying defects as at 31 December 2017 were based on records of warranty repairs in the years 2013-2017.

Provision for short-term employee benefits

This category comprises provision for unused leaves. The provision is calculated on the basis of a list of unused holiday days as at the certain balance sheet day for each employee and their gross daily remuneration plus broken down by employees and their daily gross salary plus social contribution surcharges paid by the Employer.

Provision for post-employment benefits

This category includes provision for retirement and pension severance payments, which the Group is obliged to pay in accordance with the law and the remuneration regulations. The amount of the provision is determined at the current value using actuarial techniques that require certain assumptions like levels of discount rates, projected rates of return on asset and forecast wage increases. Due to the complexity of the valuation, the assumptions made, and its long-term nature, the liabilities related to the aforementioned benefits are very sensitive to any changes. All of the above assumptions are reviewed and updated at the end of each reporting period.

Provision for litigations and disputes

Detailed analysis of the potential risks associated with pending court cases, decisions about the need to include the effects of these proceedings in the Group's financial statements as well as the amount of the provision are made by Legal Departments and Boards of individual member companies of the Group.

7. OTHER NOTES

Provisions by categories are presented in the table below:

:

	Remedying defects provision	Provision for short-term and post-employment benefits *	Provision for litigations and damages	Other	Total
As at 01.01.2016	**17 721**	**10 258**	**4 659**	**3 240**	**35 878**
Increased	3 262	4 239	1 696	13 564	22 761
Reversed	5 040	482	5 348	1 820	12 690
Used	115	3 111	-	749	3 975
As at 31.12.2016	**15 828**	**10 904**	**1 007**	**14 235**	**41 974**
Short-term	13 264	8 972	921	14 235	37 392
Long-term	2 564	1 932	86	-	4 582
As at 01.01.2017	**15 828**	**10 904**	**1 007**	**14 235**	**41 974**
Increased	1 910	7 784	1 061	1 797	12 552
Reversed	892	216	170	6 306	7 584
Used	895	2 959	135	2 083	6 072
Exchange differences on translation	(115)	1	-	(549)	(663)
As at 31.12.2017	**15 836**	**15 514**	**1 763**	**7 094**	**40 207**
Short-term	13 723	12 353	1 763	7 094	34 933
Long-term	2 113	3 161	-	-	5 274

*) The main part of this item is provision for unused holidays

7. OTHER NOTES

7.8. LIGATIONS

Party to the dispute	Case short description	Impact on the financial statements 31.12.2017	31.122016
Cases brought against the Group			
Mazowiecki Port Lotniczy Warszawa - Modlin Sp. z o.o.	The case concerns the contract dated 14 September 2010 performed for Mazowiecki Port Lotniczy Warszawa - Modlin Sp. z o.o. [Warsaw-Modlin Airport] in which the Parent Company acted as the general contractor of the Warsaw-Modlin Airport runway. Due to the surface defects found, a decision was issued in 2012 to ban the use of a part of the runway. The Parent Company replaced the concrete pavement surface (as substitute contractor) without waiting for an explanation of the causes of the damage and without confirmation, that the Company is obliged make repair works under the warranty. The work was completed in June 2013 and the airport was re-admitted to passenger traffic on 3 July 2013. The Parent Company does not acknowledge its responsibility for the defective condition of the runway surface, and independent technical reports which were commissioned indicate that the causes of the damage were independent of it. The Management Board believes that the expenses incurred on the replacement of runway surfaces in the total amount of PLN 20.1 million accounted for in equity and retained amounts of PLN 2.9 million r accounted for in the balance sheet assets as at 31 December 2017 as well as any claims related to this case finally will not be charged to the Parent Company.	Recognized as a contingent liability	Recognized as a contingent liability
Cases brought by the Group			
Bank Millenium S.A.	Claim of 22 December 2010 for payment of PLN 71 065 thousand arising from the advice to conclude FX option transaction as hedging against exchange rate risk for contracts denominated in EUR, carrying out by the Parent Company. In 4Q 2008, as a result of the drastic change in the PLN/EUR exchange rate, the exposures held by the Parent Company was negative measured . At the same time, a dispute arose over the content of FX option transactions, primarily as regards the exclusion of option structures	No impact	No impact
Cemex Polska sp. z o.o. oraz Lafarge Kruszywa i Beton sp. z o.o.	On 18 March 2015, the Parent Company filed a suit for damages due to improper performance of the contract in the amount of PLN 18 686 thousand (against Cemex Polska Sp. z o.o. for PLN 8 098 thousand and against Lafarge Kruszywa i Beton Sp. z o.o. for PLN 10 588 thousand). The parties were subcontractors of the works described in the above-said contract with Mazowiecki Port Lotniczy Warszawa - Modlin Sp. z o.o.	No impact	No impact
Kępska S.A.	Lawsuit of 22 April 2014, in which the Parent Company claims from Kępska SA the payment of remuneration for completed works. Total amount in dispute: PLN 9 877 thousand	A partial write-off based on discounted cash flows was created.	Write-down of overdue receivables amounting to PLN 8 188 thousand was not created.
Międzyzdrojski Rynek Sp. z o.o.	The Parent Company claimed the payment of receivables resulting from the invoices issued for the construction of a building commissioned against the Final Acceptance Certificate. Amount of dispute: PLN 3 700 thousand.	A partial write-off based on discounted cash flows was created.	Write-down of overdue receivables amounting to PLN 3 700 thousand was not created
Akademia Muzyczna w Łodzi	Lawsuit of 20 December 2013 for the payment of remuneration for construction works performed by the Parent Company plus interest and damages for improper performance of the contract. Amount of dispute: PLN 2 051 thousand.	A partial write-off based on discounted cash flows was created.	Write-down of overdue receivables amounting to PLN 1 895 thousand was not created

7.9. TRADE AND OTHER LIABILITIES

Trade payables and other liabilities include mainly liabilities due to deliveries and services form non-related parties, advances received, payroll liabilities and tax liabilities.

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

Received advances mainly concern payments from customers for the performance of construction contracts and recognized at the face value of the payment.

Payroll liabilities are recognized at the value due for work performed, calculated in accordance with the concluded agreements.

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

	2017	2016
Trade liabilities	**262 886**	**245 829**
of which form related parties	1 303	766
Advances received	-	-
Financial liabilities:	**-**	**24 788**
interest	-	-
leasing of fixed assets	-	-
forward pricing	-	-
other	-	9 798
dividend	-	14 990
Liabilities to state budget:	**33 726**	**24 271**
VAT	21 589	9 873
corporate income tax	934	4 610
personal income tax	2 431	2 121
social security contributions (ZUS)	7 690	6 138
real property tax	-	-
tax on civil law transactions	-	-
rehabilitation fund contributions (PFRON)	139	115
holiday fund (tax paid in Belgium)	825	1 402
other	118	12
Other liabilities	**9 886**	**8 336**
remuneration	7 043	6 699
accrued expenses	346	-
other	2 497	1 637
Total	**306 498**	**303 224**

7.10. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of changes in working capital for the period from 1 January to 31 December 2017 and for the period from 1 January to 31 December 2016 is presented below.

	Change in cash flows 01.2017-12.2017	Change in cash flows 01.2016-12.2016
Change in provisions	**(803)**	7 040
Change in inventories	**(8 820)**	59 446
Change in receivables	**10 927**	(74 547)
Change in short-term liabilities, except for loans and borrowings	**(591)**	43 939
Change in prepayments	**(72 654)**	(14 563)
Change in working capital	**(71 941)**	**21 315**

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

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

Subsidiaries are consolidated using the full method from the date on which control is assumed until the date that control ceases. The control takes place when the Parent Company, in respect of its involvement with the investee, is exposed to variable financial returns or when it has the right to variable returns or is capable of influencing the amount of these financial results by exercising control over this unit.. The financial statements of subsidiaries are prepared for the same reporting period as the financial statement of the Parent Company using uniform accounting policies. In the case of losing control over a subsidiary, the gain or loss on the transaction resulting in the loss of control is recognized in the income statement.

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

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

Group structure

As at 31 December 2017, the Group is comprised of the Parent Company Erbud S.A. and fully consolidated subsidiaries.

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

Item No.	Business name	Seat	Profile	Parent's company share in equity (equal to the voting power) 2017	2016
	Shares held directly				
1	Erbud International Sp. z o.o.	Toruń	Construction	**100.00%**	100.00%
2	Przedsiębiorstwo Budownictwa Drogowo - Inżynieryjnego S.A.	Toruń	Road engineering	**90.00%**	90.00%
3	Erbud Rzeszów Sp. z o.o.	Rzeszów	Construction	**79.00%**	79.00%
4	Erbud Construction Sp. z o.o. *	Toruń	Construction	**100.00%**	100.00%
5	Erbud Industry Sp. z o.o.	Toruń	Engineering services	**100.00%**	100.00%
6	GWI GmbH	Dusseldorf, Germany	Construction	**85.00%**	85.00%
7	Erbud Centrum Usług Wspólnych Sp. z o.o.	Warszawa	Support services	**100.00%**	0.00%
8	Toruńska Sportowa w likwidacji Sp. z o.o.*	Toruń	Sports, entertainment and recreation services	**39.00%**	39.00%

* Companies not included in the consolidated financial statements due to immateriality.

Item No.	Business name	Seat	Profile	Parent's company share in equity (equal to the voting power) 2017	2016
	Shares held indirectly				
1	Erbud Industry Centrum Sp. z o.o.	Łódź	Maintenance services for energy sector	**98.92%**	98.92%
2	Erbud Industry Pomorze Sp. z o.o.	Gdańsk	Maintenance services for energy sector	**100.00%**	100.00%
3	Erbud Industry Południe Sp. z o.o.	Będzin	Maintenance services for energy sector	**99.29%**	99.29%
4	PDI Dusseldorf Malmedyerstrasse Ost GmbH	Dusseldorf, Germany	Construction	**43.35%**	43.35%
5	PDI Dusseldorf Malmedyerstrasse West GmbH	Dusseldorf, Germany	Construction	**43.35%**	43.35%
7	Efektywność Energetyczna dla Polski Sp.z o.o.	Szczecin	Consulting services	**50.00%**	0.00%

7. OTHER NOTES

On 05 September 2017, Przedsiębiorstwo Budownictwa Drogowo Inżynieryjnego S.A., a subsidiary of ERBUD, acquired 3 340 newly issued shares constituting 50% of the share capital of the company Efektywność Energetyczna dla Polski Sp. z o.o.

On November 28, 2017, a company under the name HEBUD established by the Resolution No. 24/2017 of the ERBUD SA Management Board dated 6 November 2017 was registered in the Ministry of Justice of the Republic of Belarus. HEBUD is 100 percent owned by ERBUD S.A.

Related party transactions

The table below shows the total amounts of transactions concluded by the Parent Company with related parties for the period ended 31 December 2017 and as of 31 December 2016:

		2017			2016		
		Joint Venture	Other relationship	Total	Joint Venture	Other relationship	Total
	Trade receivables	1 766	56	**1 822**	-	91	**91**
Note 5.1.2.	Loans granted	-	-	**-**	-	-	**-**
	Trade liabilities	857	-	**857**	-	766	**766**
	Revenue from sales	-	-	**-**	-	24	**24**

Transactions with key members of the managerial staff

Remuneration paid to members of the Management Board and members of the Supervisory Board by Erbud S.A. and its subsidiaries are presented in the table below:

	2017	2016
Management Board		
Short-term employee benefits (remuneration), incl:	3 785	4 511
jubilee awards	-	-
Supervisory Board		
Short-term employee benefits (remuneration)	462	462
Total	**4 247**	**4 973**

7. OTHER NOTES

As at 31 December 2017 the managing persons (members of the Management Board and the Supervisory Board) held the following number of shares (all shares are ordinary ones):

	2017		2016	
Shareholder	**Number of shares / votes**	**share in the equity / votes at the AGM**	**Number of shares / votes**	**share in the equity / votes at the AGM**
Dariusz Grzeszczak	773 900	6.04%	773 900	6.04%
Józef Adam Zubelewicz	259 500	2.03%	259 500	2.03%
Agnieszka Głowacka	4 077	0.03%	4 077	0.03%
Albert Durr	28 000	0.22%	28 000	0.22%
DGI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych kontrolowany przez Dariusza Grzeszczaka	2 136 260	16.67%	2 136 260	16.67%
Adler Properties Sp. z o.o. kontrolowana przez Józefa Zubelewicza	412 087	3.22%	512 087	4.00%
Razem	**3 613 824**	**28.21%**	**3 713 824**	**28.99%**

As of the date of issuing these Financial Statements, the Board members and holders of a commercial power of attorney did not have Erbud's stock options or other share-based benefits.

7.12. EVENTS AFTER THE REPORTING PERIOD

On 5 February 2018, ERBUD Beteiligungs GmbH with its registered office in Düsseldorf was formed. ERBUD Beteiligungs GmbH is 100 percent owned by 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 seated in Düsseldorf. The purchase price amounted to EUR 12,500.00.

On 27 February 2018, ERBUD Beteiligungs GmbH indirectly dependent on ERBUD through its subsidiary Erbud Deutschland Holding GmbH) concluded as a buyer with shareholders of IVT Weiner + Reimann GmbH with its registered office in Oberhausen ("IVT") as sellers an agreement to sell and transfer shares. Thus, ERBUD S.A. indirectly became the holder of 100% shares in IVT Weiner + Reimann GmbH and in IVT Menzenbach GmbH, a subsidiary 100 percent owned by IVT Weiner + Reimann GmbH. The transaction value amounted to EUR 8.5 million.

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

7. OTHER NOTES

Signatures of the Management Board Members

Józef Zubelewicz
/ Management Board Member /

Dariusz Grzeszczak
/ Management Board Member /

Agnieszka Głowacka
/ Management Board Member /

Warsaw, March 27, 2018