

ERBUD GROUP

Interim Condensed Consolidated Financial Statements
for the period ended June 30, 2018
prepared in accordance with
International Accounting Standard 34
"Interim Financial Reporting""

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30-06-2018	For the six months ended 30-06-2017	For the three months ended 30-06-2018	For the three months ended 30-06-2017
	CONTINUING OPERATIONS				
Note 4.1.	Revenue from sales of products and services and of goods and materials	959 762	776 320	527 407	432 235
Note 4.1.	Cost of sold products and services and of goods and materials	949 746	715 853	542 020	396 652
	Loss/(profit) from sales before tax	**10 016**	**60 467**	**(14 613)**	**35 583**
Note 4.1.	Cost of sales	2 753	2 717	1 336	1 418
Note 4.1.	General and administrative costs	45 512	45 323	23 966	23 188
Note 4.1.	Other operating income	7 940	6 882	4 236	3 560
Note 4.1.	Other operating expenses	10 110	4 463	9 666	3 635
	Share of net loss/(profit)of subsidiaries valued by equity method	(22)	-	(42)	-
Note 4.1.	**Loss/(profit) on jointly controlled entities**	**(40 441)**	**14 846**	**(45 387)**	**10 902**
Note 4.1.	Financial income	8 313	2 018	3 821	1 529
Note 4.1.	Financial expenses	4 571	7 474	2 212	3 382
	Loss/(profit) from continuing operations before tax	**(36 699)**	**9 390**	**(43 778)**	**9 049**
Note 4.2.	Income tax	(6 789)	2 395	(9 250)	2 151
	Net loss/(profit) from continuing operations	**(29 910)**	**6 995**	**(34 528)**	**6 898**
	Net loss/(profit) for the financial period	**(29 910)**	**6 995**	**(34 528)**	**6 898**
	Net loss/(profit) for the financial period attributable to:				
	Shareholders of the Parent Company	(28 425)	7 136	(32 887)	6 803
	Minority shareholders	(1 485)	(141)	(1 641)	95
	Weighted average number of ordinary shares (in pcs.)	12 811 859	12 811 859	12 811 859	12 811 859
	Net earnings per share from continuing operations (in PLN)	-2.33	0.55	-2.69	0.54
	Basic net earnings per share (in PLN)	**-2.33**	**0.55**	**-2.69**	**0.54**
	Diluted weighted average number of shares (in pcs.)	12 811 859	12 811 859	12 811 859	12 811 859
	Diluted net earnings per share from continuing operations (in PLN)	-2.33	0.55	-2.69	0.54
	Diluted net earnings per share (in PLN)	**-2.33**	**0.55**	**-2.69**	**0.54**
	ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS, INCL. ALTERNATIVE PERFORMANCE MEASURES				
	Amortization and depreciation	7 235	5 304	4 459	3 316
Note 4.1.	**EBITDA**	(33 206)	20 150	(40 928)	14 218

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the six months ended 30-06-2018	For the six months ended 30-06-2017	For the three months ended 30-06-2018	For the three months ended 30-06-2017
Consolidated net loss/(profit)	**(29 910)**	**6 995**	**(34 528)**	**6 898**
Foreign exchange differences on translation of foreign entities	1 449	(723)	2 117	31
Valuation of hedging instruments	(2 149)	2 971	(691)	(632)
Other comprehensive income (including tax effect) subject to reclassification to the result	**(700)**	**2 248**	**1 426**	**(601)**
Total revenue for the period	**(30 610)**	**9 243**	**(33 102)**	**6 297**
attributable to:				
Shareholders of the Parent Company	(29 205)	9 517	(31 519)	6 192
Minority interests	(1 405)	(274)	(1 583)	104
Total income attributable to Shareholders of the Parent Company from:				
Continuing operations	(29 205)	9 517	(31 519)	6 192
	(29 205)	**9 517**	**(31 519)**	**6 192**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

for the 6 months ended 30.06.2017 and for the 6 months ended 30.06.2018

Accumulated other comprehensive income

	Share capital	Share premium	Reserve capital	Exchange differences on translation of foreign entities	Valuation of hedging instruments	Retained earnings	Total	Minority interests	Equity
As at 1 January 2017	**1 281**	**213 197**	**-**	**1 343**	**(640)**	**36 479**	**251 660**	**9 145**	**260 805**
Net profit/loss for the period	-	-	-	-	-	7 136	**7 136**	(141)	**6 995**
Total income for the financial period	-	-	-	(576)	2 971	(14)	**2 381**	(133)	**2 248**
Total comprehensive income	**-**	**-**	**-**	**(576)**	**2 971**	**7 122**	**9 517**	**(274)**	**9 243**
Dividend	-	-	-	-	-	-	**-**	(105)	**(105)**
Net profit/loss from the previous year forwarded to retained earnings	-	-	11 103	-	-	(11 103)	**-**	-	**-**
As at 30 June 2017	**1 281**	**213 197**	**11 103**	**767**	**2 331**	**32 498**	**261 177**	**8 766**	**269 943**
As at 1 January 2018	**1 281**	**213 197**	**11 103**	**860**	**1 762**	**47 654**	**275 857**	**9 999**	**285 856**
Net profit/loss for the period	-	-	-	-	-	(28 425)	**(28 425)**	(1 485)	**(29 910)**
Total income for the financial period	-	-	-	1 344	(2 149)	25	**(780)**	80	**(700)**
Total comprehensive income	**-**	**-**	**-**	**1 344**	**(2 149)**	**(28 400)**	**(29 205)**	**(1 405)**	**(30 610)**
Dividend	-	(1 554)	-	-	-	(12 539)	**(14 093)**	(958)	**(15 051)**
Capital increase in a subsidiary	-	-	-	-	-	-	**-**	44	**44**
Write-off in accordance with MSFF 9	-	-	-	-	-	(9 528)	**(9 528)**	-	**(9 528)**
As at 30 June 2018	**1 281**	**211 643**	**11 103**	**2 204**	**(387)**	**(2 813)**	**223 031**	**7 680**	**230 711**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30-06-2018	31-12-2017
	ASSETS	**1 022 145**	**942 685**
Note 6.2.	Goodwill	39 698	22 968
Note 6.1.	Property, plant and equipment	67 050	49 283
Note 5.1.	Financial assets	7 704	8 900
Note 4.2.	Deferred tax assets	32 052	23 014
Note 2.1.	Receivables under construction contracts -retention	13 808	16 911
	Shares in subsidiaries valued by equity method	-	22
	Fixed assets	**160 312**	**121 098**
	Inventory	15 980	11 577
Note 2.1.	Receivables under construction contracts -retention	44 666	42 670
	Receivables under construction contracts -valuation	243 292	171 638
Note 6.4.	Trade and other receivables	446 456	389 039
Note 5.1.	Financial assets	12 005	11 131
Note 3.8.	Cash and cash equivalents	91 922	190 170
Note 6.5.	Short-term prepayments	7 512	5 362
	Current assets	**861 833**	**821 587**
	LIABILITIES	**1 022 145**	**942 685**
Note 3.1.	Share capital	1 281	1 281
	Share premium	211 643	213 197
	Reserve capital	11 103	11 103
	Accumulated other comprehensive income	1 817	2 622
	Retained earnings	(2 813)	47 654
	Equity of shareholders of the Parent Company	223 031	275 857
	Minority interests	7 680	9 999
	Equity	**230 711**	**285 856**
Note 3.3.-3.5	Interest debt	78 510	63 040
Note 6.6.	Provisions	16 745	5 274
Note 4.2.	Deferred tax liabilities	3 355	2 331
Note 2.1.	Liabilities under construction contracts - retention	8 372	8 353
	Long-term liabilities	**106 982**	**78 998**
Note 3.3.-3.5	Interest debt	110 251	54 363
Note 6.6.	Provisions	38 206	34 933
Note 2.1.	Liabilities under construction contracts - retention	97 809	96 143
	Liabilities under construction contracts - valuation	113 000	80 145
Note 6.8.	Trade and other payables	317 413	306 498
	Advances received for deliveries	7 773	5 749
	Short-term liabilities	**684 452**	**577 831**
Note 3.6.	Assets to secure debt obligations	10 904	3 795
Note 3.7.	Contingent assets	96 039	100 947
Note 3.7.	Contingent liabilities	606 888	506 476

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30-06-2018	For the six months ended 30-06-2017
	CASH FLOWS FROM OPERATING ACTIVITIES		
	Profit (loss) before tax	(36 699)	9 390
	Depreciation and amortization	7 235	5 304
	Profit (loss) from exchange rate differences	(16)	(617)
	Interest and share in profit (dividends)	(651)	2 610
	Other non-cash adjustments	(333)	(182)
	Income tax paid	(3 509)	(10 557)
Note 6.9.	Change in working capital	(84 972)	(127 688)
	Net cash used in operating activities	**(118 945)**	**(121 740)**
	CASH FLOWS FROM INVESTMENT ACTIVITIES		
	Proceeds from loans granted	4 131	2 013
	Other inflows	3 384	848
Note 6.1.	Expenditure on acquisition of property, plant and equipment	(3 666)	(2 125)
	Expenditure on loans granted	(4 503)	(10 438)
	Expenditure on acquisition of shares in companies	(60)	-
	Expenditure for the acquisition of subsidiaries, less cash taken over	(24 158)	-
	Other	(103)	(1 500)
	Net cash used in investment activities	**(24 975)**	**(11 202)**
	CASH FLOWS FROM FINANCIAL ACTIVITIES		
Note 3.3.	Proceeds from debt incurred - loans and loans	88 579	44 282
	Other inflows	1 116	-
Note 3.3.	Expenditures on repayment of debt - capital	(23 609)	(10 059)
Note 3.3.	Expenditures on repayment of debt - interest	(2 371)	(2 167)
Note 3.2.	Dividend payment	(14 093)	(14 990)
	Other outflows	(3 950)	-
	Net cash used in financing activities	**45 672**	**17 066**
	NET CASH FLOWS	**(98 248)**	**(115 876)**
	Opening cash and cash equivalents	**190 170**	**257 273**
	Foreign exchange differences on cash and cash equivalents	-	(30)
	Closing cash and cash equivalents, incl.:	**91 922**	**141 367**
	- restricted cash	16 402	22 282

KEY FIGURES CONVERTED TO THE EURO

	30-06-2018		31-12-2017	
	PLN	EUR	PLN	EUR
Fixed assets	160 312	36 755	121 098	29 034
Current assets	861 833	197 596	821 587	196 981
Equity capital	230 711	52 896	285 856	68 536
Liabilities and provisions for liabilities	791 434	181 455	656 829	157 479

	For the six months ended 30-06-2018		For the six months ended 30-06-2017	
	PLN	EUR	PLN	EUR
Net cash flow from operating activities	*(118 945)*	*(28 056)*	*(121 740)*	*(28 662)*
Net cash flow from investing activities	*(24 975)*	*(5 891)*	*(11 202)*	*(2 637)*
Net cash flow from financing activities	*45 672*	*10 773*	*17 066*	*4 018*
Net cash flow	*(98 248)*	*(23 174)*	*(115 876)*	*(27 281)*
Opening cash and cash equivalents	*190 170*	*45 594*	*257 273*	*58 154*
Closing cash and cash equivalents	*91 922*	*21 075*	*141 367*	*33 448*

	For the six months ended 30-06-2018		For the six months ended 30-06-2017	
	PLN	EUR	PLN	EUR
Revenues from sales of products and services and of goods and materials	959 762	226 386	776 320	182 775
Cost of sold products and services and of goods and materials	949 746	224 023	715 853	168 539
Gross profit from sales	10 016	2 363	60 467	14 236
Los/(profit) from operating activities	(40 441)	(9 539)	14 846	3 495
Gross loss/(profit) from continuing operations	(36 699)	(8 656)	9 390	2 211
Net loss/(profit) from continuing operations	(29 910)	(7 055)	6 995	1 647

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In the Financial Statements you will find icons that represent :

 Accounting policies

 Estimates

1. GENERAL INFORMATION

1.1. INTRODUCTION

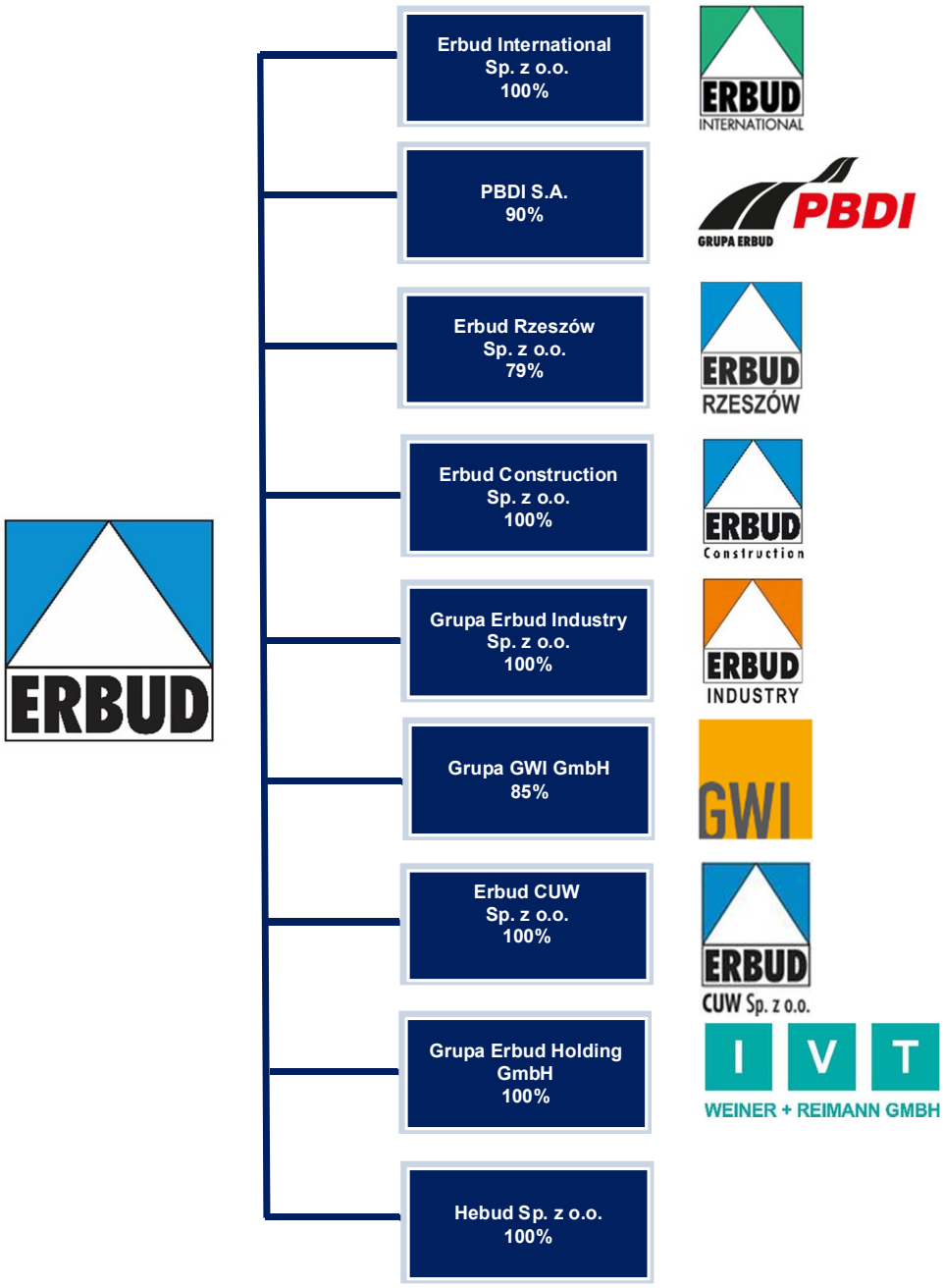
Erbud S.A. with its registered office in Warsaw, 1 Franciszka Klimczaka Street, is the parent company (the "Parent Company"/"Parent") of the Erbud S.A. Group.

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 carried out in the capacity of 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.

1. GENERAL INFORMATION



The detailed structure of the Group is presented in Note 6.10.

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 2017.

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

These interim condensed consolidated financial statements have been prepared as at and for the six months ended 30 June 2018 and comparative figures as at 31 December 2017 and for the six months ended 30 June 2017.

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 5 September 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

During the measurement 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. NEW STANDARDS

The following regulations resulting from the entry into force of IFRS 9 and IFRS 15 were applied by the Group in these interim condensed consolidated financial statements. The impact of the changes is described below.

New IFRS 9 "Financial Instruments"

The new standard replaced 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.

By the end of 2017, 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. The allowance recognized as of 1 January 2018 amounted to PLN 9.5 million. The impairment loss calculated on the basis of the model amounted in these condensed consolidated financial statements to PLN 7 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 did not affect the financial situation presented in the consolidated financial statements of the Group.

The IFRS 9 was applied retrospectively without adjusting the comparative data due to the fact that it would not be possible without using the knowledge obtained post factum. The results of the implementation of the standard were posted as a change in the opening balance of retained earnings as at 1 January 2018.

New IFRS 15 "Revenue from Contracts with Customers"

The new standard replaced the existing IAS 11 and IAS 18 by providing one consistent revenue recognition model.

The Group decided to implement the retrospective method with the combined effect of the first implementation of this standard, i.e. the IFRS 15 was applied retrospective without adjusting the comparative data. The results of the implementation of the standard were posted as a change in the opening balance of retained earnings as at 1 January 2018. In addition, the Group applied 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.

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.

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 did 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 financial result for 2017 has 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 did 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 a 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. Moreover, 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 does not recognize the granted warranties as a separate obligation. This does not make a difference in accounting approach after the implementation of IFRS 15 compared 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 related to the preparation of an offer.
- Provision for contract losses – the manner of recognizing provisions for anticipated losses on contracts does 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 did not identify any 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.

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 flats (including whole housing estates), hotels, SPA facilities, shopping centres, wind farms, power plants, production halls and motorways are signed by the Group at fixed prices.

Revenues and expenditures due to construction contracts are recognized by the Group in accordance with the works progress method. 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, which 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 they 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 6.4). Under construction contracts signed with the Group, the counterparties retain part of the payments as retention money. These amounts are included in "Receivables under 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 building works. The invoiced costs for their hiring are recognized as "Trade and other liabilities" (Note 6.8). As the performance bond, the Group retains a part of payments due to the subcontractors, which are recognized under "Liabilities under construction contracts - Retention" (Note 2.1).

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 4.2.

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 - RETENTION

	30-06-2018			31-12-2017		
	Returnable within 12 months	Returnable beyond 12 months	Total	Returnable within 12 months	Returnable beyond 12 months	Total
Receivables under construction contracts - retention	44 666	13 808	**58 474**	42 670	16 911	**59 581**
Liabilities under construction contracts - retention	97 809	8 372	**106 181**	96 143	8 353	**104 496**

Significant contracts signed during the period of six months of 2018 and after the balance sheet date

On **22.02.2018,** Erbud S.A. 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 over the last few months amounts to PLN 94,236,553. Terms and conditions of the contract:

1. Contract date: 22.02.2018.
2. Investor: CGL VIII Spółka z ograniczoną odpowiedzialnością spółka komandytowa, 02-672 Warszawa, 32 Domaniewska St.
3. Contract value: PLN 18,111,365.
4. Scope of works: BLISKIE BEMOWO Residential Complex, Phase II, located in Warsaw on Powstańców Śląskich Street.
5. Site location: Warsaw, Powstańców Śląskich Street.
6. Completion period: commencement of Works - 22.02.2018, completion of Works - 31.03.2019.

On **7 March 2018,** the Issuer concluded with a subsidiary of Vantage Development S.A. - company under the name of VD Spółka z ograniczoną odpowiedzialnością Mieszkania XVII Spółka Komandytowa a contract to perform the residential development project: "Dorzecze Legnicka in Wrocław on Małopanewska Street.

2. CONSTRUCTION CONTRACTS

The contract is valued at PLN 29 million net.

Under the Contract, the Issuer as the General Contractor is obliged to the comprehensive completion of a multi-family residential building within the Project "Dorzecze Legnicka, phase 2", including the necessary services and utilities, site development works, demolition of existing buildings and construction of an access road. The second phase of the Project will comprise 142 apartments with a total area of 7,248 sq. m.
All works will be finished within 66 weeks from the date of delivery of Notice to Proceed, which may be issued by the Customer by 31 March 2018 at the latest.
Until the Notice to Proceed is issued, but no later than by 31 March 2018, the Employer is entitled to terminate the Contract without giving a reason and without the right to charge a contractual penalty for the termination. If the Customer does not issue the Notice to Proceed within the above time, the Contract expires on 31 March 2018, and the Contractor is not entitled to the withdrawal from the Contract, to charge contractual penalties or to any other claims for damages.
In addition, in the event of delays in the execution of milestones the Customer may withdraw from the Contract by 31 December 2019.

On **15.03.2018,** a contract has been concluded between the consortium of Erbud Industry Sp. z o.o., 87-100 Toruń, 10 Wapienna St. (as the "Leader") and Erbud S.A., 02-797 Warsaw.1 Klimczaka St. (as the "Partner"), and Michelin Polska S.A., 10-454 Olsztyn, 9 Leonharda St. (as the "Customer") to perform construction works on the following terms and conditions.

1. Contract value: PLN 38,200,000 million PLN net (of which Erbud Industry Sp. o.o. - PLN 38,060,000 million net, and Erbud S.A - PLN 140,000 net).
2. Scope of works: Construction of a gas boiler house as part of the remodelling of the existing Michelin Polska S.A. CHP that includes the demolition of the plant building No. 58 and construction of a new one as well as installation of a new gas powered steam boiler with a capacity of 42MWt and steam capacity of 55t/hr along with the reconstruction of the necessary infrastructure.
3. Site location: Michelin Polska S.A. Combined Heat and Power Station, 10-454 Olsztyn, 9 Leonharda Street.
4. Completion period: 15.03.2018 – 31.12.2019 (Completion Date and Final Acceptance).

On **16 March 2018,** Erbud S.A. concluded a contract with the Medical University of Gdańsk to perform the construction project on the following terms and conditions:

a. Contract date: 2018.03.16.
1. Investor: Gdański Uniwersytet Medyczny, 80-210 Gdańsk, 3a M.Skłodowskiej-Curie Street.
2. Contract value: PLN 152,457,714.96 net.
3. Scope of works: Construction as general contractor of Building "A" being part of the Non-invasive Medicine Centre locate in Gdańsk on Smoluchowskiego Street, corner /Dębinki Street, including the construction of a link building to the Invasive Medicine Centre, technical infrastructure, mains and services, land development, demolition works and supply of permanently connected medical equipment
4. Site location: Gdańsk; Smoluchowskiego Street, corner of Dębinki Street.
5. Completion period: a) Handing over of the construction site within 7 working days from the receipt by the Contractor from the Customer of the notice of readiness to handover the site; the Customer will notify the Contractor about the readiness to handover the site in the fourth quarter of 2018; b) Commencement of Works within 7 working days from the date of handing over the construction site; c) Completion of Works within 25 months from the date of handing over the construction site.

On **17 April 2018,** Erbud S.A. signed with Cedrowa Sp. z o.o., 02-703 Warszawa, 24A Bukowińska St,.a construction contract on the following terms and conditions:

1. Contract date: 17.04.2018.
2. Customer: Cedrowa Sp. z o.o., 02-703 Warszawa, 24A Bukowińska St.
3. Contract value: PLN 28,864,966 net.
4. Scope of works: Housing complex "F" with underground car park and retail units, including the surrounding and site infrastructure, i.e. site development, greenery, parking lots and shared zone, in-building and on-site services, and retention basin located in Gdańsk on Cedrowa Street.
5. Site location: Gdańsk, Cedrowa Strret.
6. Completion period: seventeen-and-a-half months.

2. CONSTRUCTION CONTRACTS

On **25 April 2018**, the Issuer entered with STUDENT DEPOT FOXTROT Sp. z o.o. into a contract to complete the project: STUDENT HOUSE - DORM "Akademik Foxtrot" in Warsaw at 37 Woronicza Street on the following terms and conditions:

1. Contract date: 25.04.2018.
2. Customer: STUDENT DEPOT FOXTROT Sp. z o.o., 00-582 Warszawa, 6 Aleja Szucha Street.
3. Contract value: PLN 39,500,000.
4. Scope of works: STUDENT HOUSE - DORM "Akademik Foxtrot" in Warsaw.
5. Site location: Warsaw, 37 Woronicza Street.
6. Completion period: 02.05.2018 – 15.09.2019.

On **26 April 2018**, the Issuer's subsidiary Erbud Rzeszów Sp. z o.o. signed in a consortium with Fast Group sp. o.o. a construction contract on the following terms and conditions:

1. Contract date: 26.04.2018.
2. Customer: Uniwersytet Medyczny w Łodzi seated in Łódź, 4 Al. Kościuszki Street; NIP 725-18-43-739.
3. Contract value: PLN 25,108,291.22 of which Erbud Rzeszów Sp. z o.o. has 63.03%, i.e. PLN 15,825,755.96.
4. Scope of Works: Building works involving the construction of a Specialist Clinic and Server Room in the A2 building of the Teaching and Clinical Centre at the Medical University of Łódź, 251 Pomorska Street, as part of the second phase of construction of the Teaching and Clinical Centre.
5. Site location: Łódź, 251 Pomorska Street.
6. Completion period: 07.05.2018 - 20.02.2019.

On **14 May 2018,** ERBUD S.A. as the leader of the consortium signed a contract worth PLN 55.5 million for the construction of a combined use building located in Lublin on Berylowa Street, consisting of kindergarten, community centre, primary school with a gymnasium, together with providing the financing of the project by transfer of receivables due to the Contractor against the Customer for the completion of Works for the benefit of the Bank or another financial institution, on the following terms and conditions::

1. Contract date: 14.05.2018.
2. Customer: Gmina Lublin, Plac Króla Władysława Łokietka 1, 20-109 Lublin.
3. Contract value: PLN 55,539,000 net / PLN 68,298,570 gross.
4. Scope of works: construction of a combined use building located in Lublin on Berylowa Street, consisting of kindergarten, community centre, primary school with a gymnasium, together with providing the financing of the project by transfer of receivables due to the Contractor against the Customer for the completion of Works for the benefit of the Bank or another financial institution.
5. Site location: 20-582 Lublin, Berylowa Street.
6. Completion date: 30.06.2020.

On **15 May 2018,** GWI GmbH with its registered office in Düsseldorf, a subsidiary of ERBBU S.A., entered into a building contract on the following terms and conditions:

1. Scope of works: Construction of a complex consisting of residential building, office building, underground garage and kindergarten.
2. Contract date: 15 May 2018.
3. Parties to the contract:
   a. Customer: Wilma DW GmbH , Pempelfurtstr. 1, 40880 Ratingen;
   b. Contractor: GWI Bauunternehmung GmbH.
4. Contract value: EUR 6,812,000 which, translated at the exchange rate of the National Bank of Poland as at 15 May 2018, gives PLN 29,171,028.
5. Completion period: 05.2018 - 02.2019.

On **25 May 2018,** the Issuer signed with VD spółka z ograniczoną odpowiedzialnością Mieszkania XVII sp. k. (the "Customer"), a subsidiary of Vantage Development S. A. a contract for the performance of a development project "Dorzecze Legnicka Housing Estate", located in Wrocław on Małopanewska Street ("the Project").

2. CONSTRUCTION CONTRACTS

The net contract value amounts to PLN 47 million.

Under the contract, the Contractor is obliged to carry out works for complete construction of multi-family residential buildings with underground car park at the Dorzecze Legnickiej project, phase III, including site development and service infrastructure, of which structural landscaping, greenery, accompanying structures, as well as the traffic circulation system and necessary roads related to the performance of the non-road investment by the Customer in Wrocław on Małopanewska Street. The 3rd Phase of the Project includes 204 apartments. The completion of all works is scheduled within the period of 64 weeks from the date of delivery of Notice to Proceed, which should be issued by the Customer by 31 March 2019 at the latest.

Until the Notice to Proceed, but not later than on 31 March 2019, the Customer is entitled to withdraw from the Contract without giving a reason and without the right to charge a contractual penalty for such withdrawal. If the Notice to Proceed will be not issued by the Customer within the above time limit, the Contract expires on 31 March 2019, and the Contractor is not entitled to withdraw from the Contract, to charge contractual penalties or to any other claims for damages. Until 31 December 2020, the Customer may withdraw from the Agreement in the event of, inter alia, delays in the completion of particular stages of work.
In case the withdrawal from the Contract by the Customer or the Contractor for reasons attributable to the Contractor, the Contract provides for a contractual penalty of 10% of the total remuneration under the Contract. The total amount of all contractual penalties charged may not exceed 15% of the remuneration.
The Customer is entitled to demand compensation in excess of the amount of contractual penalty available under the provisions of Civil Code.

On **25 May 2018,** the Issuer signed with Promenady X spółka z ograniczoną odpowiedzialnością sp.k. (the "Customer"), a subsidiary of Vantage Development S. A. a contract for the performance of a development project "Promenady Wrocławskie, Phase X", located in Wrocław (the "Projct").

The net contract value amounts to PLN 48 million.

Under the contract, the Contractor is obliged to carry out works for complete construction of the multi-family residential complex with underground car park located in Wrocław on Zakładowa Street, including in-building and on-site infrastructure, site development and services, of which structural landscaping, greenery, accompanying structures, as well as the traffic circulation system and necessary roads. The 10th Phase of the Project will include 233 flats and 6 retail units.
The completion of all works is scheduled within the period of 102 weeks from the date of delivery of Notice to Proceed, which should be issued by the Customer by 31 December 2018 at the latest. If the Notice to Proceed will be not issued by the Customer within the above time limit, the Contract expires on 31 December 2018, and the Contractor is not entitled to withdraw from the Contract, to charge contractual penalties or to any other claims for damages. By 31 December 2018, the Customer is entitled to withdraw from the Contract without giving a reason and without the right to charge a contractual penalty for such withdrawal. Moreover, until 31 December 2021, the Customer may withdraw from the Contract in the event of, inter alia, delays in the completion of particular stages of work.
In case of the withdrawal from the Contract by the Customer or the Contractor for reasons attributable to the Contractor, the Contract provides for a contractual penalty of 10% of the total remuneration under the Contract. The total amount of all contractual penalties charged may not exceed 15% of the remuneration.
The Customer is entitled to demand compensation in excess of the amount of contractual penalty available under the provisions of Civil Code.

On **4 June 2018,** ERBUD S.A. (the „Issuer") concluded a significant construction contract on the following terms and conditions:

The Management Board of Erbud SA (the "Issuer") informs that a building contract was signed on the following terms and conditions:

1. Contract data: 2018-06-04.
2. Customer: Martinique Investment Sp. z o.o.; 87-100 Toruń, 29 Sienkiewicza Street.
3. Net contract value: PLN 90.797.000.
4. Scope of works: Construction as general contractor of an office building, incl. other supporting facilities and structures, link building to the distribution centre, on-site infrastructure (mains, services and roads), structural

landscaping, greenery and other land development works for the Phase III of the project "Construction of the distribution centre and NEUCA new headquarters on Forteczna Street in Toruń".
5. Site location: Toruń, Forteczna Street.
6. Completion period:
   a. Commencement of Work on the date of signing the contract;
   b. Deadline: 23.12.2019.

On **7 June 2018,** a significant Design & Build Contract was signed on the following terms and conditions:

1. Customer: Winhall Investments sp. z o. o. (a subsidiary of Vantage Development S.A.).
2. Range of Works: Design, construction and final hand-over of the residential complex consisting of three multi-family buildings with underground garage, named Port Popowice (Stage 1), including site development and service infrastructure (structural landscaping, greenery, associated buildings and structures, utilities and services). Stage 1 of the project will include construction of 415 flats and 5 commercial units and will be divided into two phases. Phase I will cover the design of the entire Stage I and the construction of building "A", and Phase II will cover the construction of buildings "B" and "C".
3. Completion period.
   a. The commencement pursuant to Notice to Proceed ("NtP") issued for particular phases; on 7 June 2018, NtP was issued to start the design of the entire Stage I and to complete Phase I. NtP for Phase II may be issued until 31 March 2019 at the latest. If the Customer does not issue NtP for Phase II within the above-mentioned period, the Contract expires in the part concerning the construction of Phase II, unless the reason for not issuing NtP for Phase II is delay in obtaining a construction permit for Phase II, and the Contractor is not entitled to withdraw from the Contract, charge contractual penalties or any other claims for damages.
   b. The completion of all works of Phase I is scheduled by 15 October 2019, and of Phase II is planned within 75 weeks from the date of issue NtP.
4. Contract value: PLN 114.5 million, while the remuneration due to the Contractor for the execution of the above works amounts to PLN 43.6 million net.

On **8 June 2018,** a significant contract was signed by the Issuer's ("Erbud S.A.") subsidiary Erbud Industry Sp. z o.o., on behalf of the Consortium formed by the following companies: Erbud Industry Sp. z o. o. ("Leader"), Erbud S.A. ("Partner"), and Fabryka Kotłów SA, and Grupa Azoty Zakłady Azotowe "Puławy" S.A. ("Customer"), on the following terms and conditions:

1. Customer: Grupa Azoty Zakłady Azotowe „Puławy" S.A. seated in 24-110 Puławy, 13 Aleja Tysiąclecia Państwa Polskiego St.
2. Net contract value: PLN 83,500,000, of which PLN 42,860,000 PLN - Erbud Industry Sp. z o.o., PLN 140,000 - Erbud S.A. and PLN 40,500,000 - Sefako S.A.
3. Scope of works: Construction on a turnkey basis of a SCR plant together with the comprehensive modernisation of the OP-215 Boiler No. K2 in Zakłady Azotowe Puławy S.A.
4. Site location: Combined Heat and Power Station at Zakłady Azotowe „Puławy" S.A., 24-110 Puławy, 13 Aleja Tysiąclecia Państwa Polskiego St.
5. Completion period: Commissioning within 21 months from the date of signature of the contract.

On **19 June 2018,** the Issuer signed a significant contract with Nicolaus Copernicus University in Toruń on the following terms and conditions:

1. Contract date: 2018-06-19.
2. Customer: Uniwersytet Mikołaja Kopernika, 87-100 Toruń, 11 Gagarina Street.
3. Net contract value: PLN 25,479,674.80.
4. Scope of works: Construction of the Centre for Research and Conservation of Cultural Heritage at the Faculty of Fine Arts of the Nicolaus Copernicus University in Toruń.
5. Site location: Toruń, Broniewskiego St. / Sienkiewicza St.
6. Completion period: 1 000 days from the date of concluding the contract.

2. CONSTRUCTION CONTRACTS

On **3 July 2018,** it has been concluded Annex No. 3 to the Contract for building the "Seaside Park" Hotel and Spa Complex with a value of PLN 67.6 million on terms and conditions as follows:

1. Annex date: 03.07.2018.
2. Investor: SEASIDE Park Sp. z o.o., 02-222 Warszawa, 181B Al. Jerozolimskie Street.
3. Annex value: PLN 67,587,684.
4. Scope of works: comprehensive finishing works, plumbing and HVAC for the "Seaside Park" Hotel and Spa Complex.
5. Site location: Kołobrzeg, Przesmyk Street; plots with a cadastral Nos.29/1 and 29/2, cadastral district 6.
6. Completion: July 2019.

On **16 July 2018,** ERBUD S.A. signed a construction contract on the following terms and conditions:

1. Contract date: Contract No. PL/000126652/18-567/TDDP concluded on 16.07.2018.
2. Customer: Chopin Airport Development Sp. z o.o.; 00-906 Warszawa, 1 Żwirki i Wigury St.
3. Contract value: PLN 33,900,000 net; 41,697,000 gross.
4. Scope of works: Construction of the Holiday Inn Express Hotel at the Rzeszów–Jasionka Airport. The contract includes building on a turnkey basis, delivery of equipment and obtaining all necessary permissions for the use of the building under the Holiday Inn brand, in accordance with the requirements of the InterContinental Hotels Group specified in the standards for the Holiday Inn Express hotels.
5. Site location: Plots with a cadastral number 1867/268 and 1867/261 located in Jasionka near Rzeszów.
6. Completion period: 14 months from the date of signing the contract.

On **1 August 2018**, the Issuer **e**ntered into a significant construction contract on the following terms and conditions:

1. Contract date: 2018-08-01.
2. Customer: Polnord – Apartamenty Sp. z o.o., 81-310 Gdynia, 35/37 Śląska Street.
3. Net contract value: PLN 52,000,000.
4. Scope of works: Construction of a complex of multi-family residential buildings numbered B4, B5, B6 (Phase II) and B7, B8 (Phase III) including underground garages, estate road system and on-grade car parking space, technical infrastructure (services and utilities as water supply and sanitary sewage system, storm water drainage, lighting, section of public road named Flisykowskiego Street 045-KD80 (design No. 1818) together with estate access points at the public road Flisykowskiego Street, and other site structures within the "Fotoplastykon" development project, in Gdańsk near the intersection of Guderskiego and Flisykowskiego Streets.
5. Site location: Corner of Guderskiego St. and Flisykowskiego St.
6. Completion period: Commencement - 27.08.2018 and completion - 30.09.2020.

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 main objective of the Group's capital management is to maintain a good credit rating and safe capital ratios, which would support the Group's operations and increase the goodwill for its shareholders.

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

Share capital

The share capital of the Parent as of 30 June 2018 consisted of 12,811,859 shares with a total value of PLN 1 281 thousand.
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 (dawniej 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%
Agnieszka Głowacka	4 077	0.03%
Free Float	1 974 745	15.42%
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 rights to the shares nor restrictions on the transferability of shares.

3.2. DIVIDENDS PAID AND DECLARED

In accordance with Resolution No. 5/2018 of the Extraordinary General Meeting of ERBUD S.A. dated 18 May 2018, the extraordinary dividend has been paid to the Shareholders on 19 June 2018.

For the dividend for shareholders was allocated an amount of PLN 14,093,044.90, coming from the existing Company's supplementary capital, created from profits generated in previous years.

The payment of the Extraordinary Dividend pursued by the reduction (partial release) of the Company's supplementary capital by PLN 1,553,797.97 in its part resulting from the Company's profits achieved in previous years. The remaining amount of PLN 12,539,246.93 comes from the net profit generated by the Company in 2017.

Profit allocated for the dividend payment amounted to PLN 1.10 per each share entitling to participate in the dividend. To the dividend were entitled 12,811,859 shares.

3.3. LOANS AND BORROWINGS LIABILITIES

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

	30-06-2018	31-12-2017
Long-term		
Bank loans	18 234	4 234
Short-term		
Overdrafts	79 735	20 239
Bank loans	24 308	23 720
Borrowings	16	-
	104 059	43 959
Total loans and borrowings debt	**122 293**	**48 193**

3. CAPITAL MANAGEMENT AND DEBT

	In functional currency	In functional currency
Loans and borrowings		
Long-term	18 234	4 234
Short-term	104 059	43 959
Total	**122 293**	**48 193**
of which:		
fixed interest rate	-	-
Interest	1.5% - 4%	1.5% - 4%
variable interest rate	-	-
Interest rate base	Wibor 1m- 3m; EURIBOR; EONIA	Wibor 1m-3m; EURIBOR; EONIA

As of the balance sheet date, the Group has access to bank multi-purpose lines with a total value of PLN 722,509 thousand which can be utilised mainly for loans or bank guarantees. As at the balance sheet date, the Group used PLN 122,293 thousand for taking out loans and PLN 319,214 thousand for guarantees.

Covenants

Due to the negative result on EBIT and EBITDA margins, both in the separate financial statements and consolidated financial statements of the Erbud Group prepared as at 30 June 2018, the financial covenants included in loan agreements has been broken.

All loan agreements that oblige the borrower to maintain specific financial ratios are short-term contracts.

As at the date of preparing the statements, the Management Board of ERBUD S.A. negotiates with Banks the consent for not meeting the financial ratios by 30 June 2019.

Erbud S.A. – covenant counted on the basis of separate figures:

mBank S.A.	**EBIT**	not less than 1.0%	-2.64%
	Current liquidity ratio	not less than 1.2	1.15
	Debt ratio	not more than 70%	74.00%
	EBITDA per year	not less than PLN 18million	-11 373

Alior Bank	**EBIT**	not less than 1.0%	-2.70%
	Net Debt / EBITDA	not more than 3.5	-1.65
	Current liquidity ratio	not less than 1.1	1.53
	Capitalisation	not less than 25%	26.00%

3. CAPITAL MANAGEMENT AND DEBT

Erbud S.A. – covenant counted on the basis of consolidated figures:

ING S.A.	**Net Debt / EBITDA**	(not more than 2.5 at the end of 2Q, not more than 2 at the end of 4Q)	-21.74
	Capitalisation	not less than 0.25	0.23
	Current liquidity ratio	not less than 1.2	1.23

BZ WBK S.A.	**Net Debt / EBITDA**	not more than 3.5	-21.74
	Current liquidity ratio	not less than 1	1.08

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 debt due to issued bonds, constituting short-term and long-term liabilities:

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

3. CAPITAL MANAGEMENT AND DEBT

3.5. FINANCIAL LEASE LIABILITIES

Lease is classified as a finance lease if substantially all risks and benefits resulting from the ownership of the leased asset are assigned to the lessee. Financial 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.

The fixed assets used under financial lease agreements are amortized following 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 receive the ownership title, the assets are amortized over the period which is shorter: the lease term or the useful life period.

Period		30-06-2018 Nominal value of minimum fees	31-12-2017 Nominal value of minimum fees
Less than 1 year	Current	6 500	6 947
1 - 5 years	Non-current	8 661	6 978
		15 161	**13 925**
Finance costs due to financial leasing		693	665
Current value of minimum fees		**14 468**	**13 260**

3.6. ASSET-BACKED SECURITIES DUE TO LIABILITIES

As at 30 June 2018, debt liabilities under property, plant and equipment totalling PLN 10, 904 thousand (PLN 3 795 thousand as at 31 December 2017) were secured by the following assets:

	30-06-2018	31-12-2017
Property, plant and equipment	10 904	3 795
Other	-	-
Total	**10 904**	**3 795**

For information on debt related to loans and advances see Note 3.3.

3.7. CONTINGENT ASSETS AND LIABILITIES

	Contingent assets		Contingent liabilities	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
Other entities				
Guarantees and sureties	93 813	95 227	526 831	448 316
Promissory notes	2 225	5 720	33 375	11 478
Litigations	-	-	46 682	46 682
of which against MPL Modlin	-	-	34 381	34 381
Total	**96 039**	**100 947**	**606 888**	**506 476**

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

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, mainly performance bonds and bid bonds.

3.8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at banks and in hand and short-term deposits with a maturity of three months or less.

The Group has at its disposal restricted cash that primarily comprises funds securing bank guarantees issued in relation to the construction contracts carried out by the Group and derivatives-related liabilities, unless their restricted availability period does not exceed 3 months.

The Group recognises restricted cash in "Cash and cash equivalents" in the Consolidated Statement of Financial Position.

	30-06-2018	31-12-2017
Cash in hand	94	72
Cash on bank accounts	72 926	174 682
Restricted cash on bank accounts (as security for bank guarantees)	16 402	15 416
Other cash	2 500	-
Total cash and cash equivalents	**91 922**	**190 170**

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 at home;
- industrial construction abroad;
- other segments.

In 2018, the following change was made in the scope of segment reporting:

- Dividing the reporting segment "Industrial construction" into two separate accounting segments: "Industrial construction at home" and "Industrial construction abroad". This change results from the growing importance of industry construction abroad from the point of view of the Group's activity.

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. and Hebud Sp. z.o.o. In addition, the segment includes a part of operations of the ERBUD S.A. Parent Company related to the mediation in concluding contracts performed by subsidiaries on the basis of specifically identifiable actually generated revenues and incurred costs related the segment concerned.	Operating segments were aggregated on the basis of similarity of: - long-term average gross margins; - similarity of goods and services offered by the companies; - production processes; - distribution methods; - type of 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, the segment includes a part of operations of the ERBUD S.A.Parent Company related to the mediation in concluding contracts performed by subsidiaries on the basis of specifically identifiable revenues and incurred costs related to the segment concernd and a part of operations of Erbud International Sp. z o. o. according to the same principles as those 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 at home	Industrial projects in the broadly understood industrial segment	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 is allocated to the segment in accordance with the same principles as those applied to the segment "Building construction abroad".	Not aggregated
Industrial construction abroad	Industrial projects in the broadly understood industrial segment	The operating segment consists of the whole Erbud Holding Group formed by: Erbud Holding Deutschland GmbH, Erbud Beteiligungs GmbH, Target – IVT. In addition, a part of operations of the subsidiary Erbud Industry Południe Sp. z o.o. is allocated to the segment in accordance with the same principles as those applied to the segment "Building construction abroad".	Not aggregated
Other segments	Broadly understood support services	Erbud CUW Sp. z o.o. is the operating segment.	Not aggregated

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Basic information about segments for the reporting periods 01.2018 – 06.2018 and 01.2017 – 06.2017

The Group operates in Poland and abroad (in Germany, Belgium, Holland, Sweden and France). 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 6 months ended 30-06-2018			For the 6 months ended 30-06-2017		
	At home (Poland)	Abroad	Total	At home (Poland)	Abroad	Total
Sales to external customers, including::	821 091	138 671	**959 762**	683 259	93 061	**776 320**
Revenue from construction contracts	778 802	98 367	**877 169**	592 359	92 714	**685 073**
Revenue from other industry contracts	36 179	35 953	**72 132**	86 119	328	**86 447**
Other revenue	6 110	4 351	**10 461**	4 781	19	**4 800**
Fixed assets other than financial instruments and deferred tax assets	77 902	36 550	**114 452**	75 097	23 217	**98 314**

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 6 months ended 30-06-2018	
	Building construction at home	Building construction abroad	Road-engineering	Industrial construction at home	Industrial construction abroad	Other segments	Total continuing operations
Total income							
Intersegment sales	-	-	(614)	(16 538)	-	-	**(17 152)**
Sale to external clients	614 627	93 046	114 933	107 209	45 625	1 474	**976 914**
Total income from sales	**614 627**	**93 046**	**114 319**	**90 671**	**45 625**	**1 474**	**959 762**
Segment results and reconciliation to gross (loss)/profit of the Group							
Prime costs	622 550	101 419	104 404	84 444	36 131	798	**949 746**
Result on other operating activity	(20 027)	(7 140)	(6 433)	(9 000)	(2 346)	(5 511)	**(50 457)**
Segment result – EBIT	**(27 950)**	**(15 513)**	**3 482**	**(2 773)**	**7 148**	**(4 835)**	**(40 441)**
EBIT margin	-5.00%	-17.00%	3.00%	-3.00%	16.00%	-328.00%	**-4.00%**
Result on financial activity	2 839	989	687	(576)	(205)	8	**3 742**
Result before tax excluding discontinued operations	**(25 111)**	**(14 524)**	**4 169**	**(3 349)**	**6 943**	**(4 827)**	**(36 699)**
Income tax	(5 454)	(4 783)	1 085	(455)	2 779	38	**(6 789)**
Net result excluding discontinued operations	**(19 657)**	**(9 741)**	**3 084**	**(2 894)**	**4 164**	**(4 865)**	**(29 910)**
Depreciation and amortization	1 771	493	1 759	1 763	1 027	422	**7 235**
Segment result – EBITDA	**(26 179)**	**(15 020)**	**5 241**	**(1 010)**	**8 175**	**(4 413)**	**(33 206)**
Assets and liabilities							
Total assets	**598 762**	**122 475**	**112 111**	**102 445**	**77 456**	**8 896**	**1 022 145**
Total liabilities	**523 266**	**68 393**	**53 824**	**93 347**	**50 702**	**1 902**	**791 434**
Other relevant items							
Share of profit (loss) of associates and joint ventures measured using the equity method	-	-	(22)	-	-	-	**(22)**
Impairment losses on assets	887	2 120	262	-	-	-	**3 269**
Expenditures on tangible fixed assets and intangible assets	796	920	472	634	468	376	**3 666**
Interest income	2 412	7	421	101	-	13	**2 954**
Interest expense	2 242	273	106	612	115	5	**3 353**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

For the 6 months ended 30-06-2017

	Building construction at home	Building construction abroad	Road-engineering	Industrial construction at home	Industrial construction abroad	Other segments	Total continuing operations
Total income							
Intersegment sales	-	-	(44 696)	(24 913)	-	(5 723)	**(75 332)**
Sale to external clients	552 266	92 733	73 208	127 664	-	5 781	**851 652**
Total sales	**552 266**	**92 733**	**28 512**	**102 751**	**-**	**58**	**776 320**
Segment results and reconciliation to gross (loss)/profit of the Group							
Prime costs	512 967	87 881	22 169	92 836	-	-	**715 853**
Result on other operating activity	(25 008)	(4 472)	(5 482)	(11 025)	-	366	**(45 621)**
Segment result – EBIT	**14 291**	**380**	**861**	**(1 110)**	**-**	**424**	**14 846**
EBIT margin	3.00%	0.00%	1.00%	-1.00%	-	7.00%	**2.00%**
Result on financial activity	(3 396)	(1 643)	121	(541)	-	3	**(5 456)**
Result before tax excluding discontinued operations	**10 895**	**(1 263)**	**982**	**(1 651)**	**-**	**427**	**9 390**
Income tax	2 570	(239)	257	(321)	-	128	**2 395**
Net result excluding discontinued operations	**8 325**	**(1 024)**	**725**	**(1 330)**	**-**	**299**	**6 995**
Depreciation and amortization	1 432	395	1 286	1 876	-	315	**5 304**
Segment result – EBITDA	**15 723**	**775**	**2 147**	**766**	**-**	**739**	**20 150**
Assets and liabilities							
Total assets	**582 094**	**152 471**	**104 347**	**102 206**	**-**	**9 764**	**950 882**
Total liabilities	**442 325**	**84 382**	**57 146**	**94 466**	**-**	**2 620**	**680 939**
Other relevant items							
Share of profit (loss) of associates and joint ventures measured using the equity method	-	-	-	-	-	-	**-**
Impairment losses on assets	2 592	510	(3)	(80)	-	6	**3 025**
Expenditures on tangible fixed assets and intangible assets	1 178	242	116	473	-	289	**2 298**
Interest income	335	476	308	8	-	12	**1 139**
Interest expense	2 901	273	60	464	-	8	**3 706**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4.2. 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:

	For the 6 months ended 30-06-2018	For the 6 months ended 30-06-2017
Gross profit before tax from continuing operations	**(36 699)**	**9 390**
Tax at the statutory tax rate applicable in Poland - 19%	**(6 973)**	**1 784**
Additional tax charge arising from the rate exceeding 19% in Germany	(942)	(42)
Adjustments to current income tax from previous years	-	(3)
Surplus of non-deductible expenses over income not recognised as taxable income	1 126	656
Tax recognized in the Consolidated Profit and Loss Statement, including:	**(6 789)**	**2 395**
Current income	2 936	13 796
Deferred income	(9 725)	(11 401)
Effective tax rate	**18.50%**	**25.51%**

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

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

			Impact on			Impact on		
		01.01.2017	Net earnings	Other comprehensive income	31.12. 2017	Net earnings	Other comprehensive income	30.06. 2018
	Deferred tax assets							
	Valuation of receivables from construction contracts	29 140	(13 140)	-	16 000	20 061	-	36 061
Note 6.6.	Provisions	5 464	952	-	6 416	47	1 099	7 562
	Tax loss	929	789	-	1 718	9 691	-	11 409
	Accrued remuneration and charges	428	9	-	437	83	-	520
Note 6.4.	Impairment losses on receivables	1 354	689	-	2 043	690	-	2 733
	Other financial liabilities	1 356	211	-	1 567	105	-	1 672
	Accrued expenses	571	1 696	-	2 267	494	-	2 761
	Other	651	23 045	(148)	23 548	(8 382)	204	15 370
	Total	**39 893**	**14 251**	**(148)**	**53 996**	**22 789**	**1 303**	**78 088**
	Deferred tax liabilities							
	Valuation of liabilities due to construction contracts	22 399	7 074	-	29 473	12 954	348	42 775
	Revaluation of assets	2 084	(114)	-	1 970	(163)	2 940	4 747
	Capitalised finance costs	78	(78)	-	-	-	-	-
	Balance sheet valuation and liabilities discount	18	109	-	127	44	-	171
	Accrued interest on debt	59	163	-	222	(129)	-	93
	Accrued revenue	-	(3)	-	(3)	-	-	(3)
	Other	851	353	320	1 524	358	(274)	1 608
	Total	**25 489**	**7 504**	**320**	**33 313**	**13 064**	**3 014**	**49 391**
	Set-off between assets and liabilities	14 404			20 683			28 697
	After sett-off	**19 654**			**25 345**			**35 407**
	Assets	17 029			23 014			32 052
	Liabilities	2 625			2 331			3 355
	Net impact of changes in the period		**6 747**	**(468)**		**9 725**	**(1 711)**	

4. EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

In the year ended 30 June 2018 and 31 December 2017, 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.

	30-06-2018		31-12-2017	
	Assets	Liabilities	Assets	Liabilities
Current	26 459	1 128	20 119	2 331
Non-current	5 593	2 227	2 895	-
Total	**32 052**	**3 355**	**23 014**	**2 331**

Information on receivables and payables due to income tax is presented in Notes 6.4 and 6.8.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.1. FINANCIAL ASSETS AND LIABILITIES



The Group possesses 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 2.1.	Receivables under construction contracts – retention money
Note 6.4.	Trade and other receivables
	Receivables from construction contracts - valuation
Note 3.8.	Cash and cash equivalents

Financial liabilities measured at amortized cost mainly include:

Note 2.1.	Liabilities under construction contracts – retention money
	Liabilities under construction contracts – valuation
Note 6.8.	Trade and other liabilities
Notes 3.3 - 3.5.	Debt

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

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

5.1.1. FINANCIAL ASSETS

As at 30 June 2018, the Group had the following items disclosed in the statement of financial position as financial assets:

		30-06-2018	31-12-2017
Note 5.1.2.	Loans granted	17 267	15 583
	Other	2 442	4 448
	Total	**19 709**	**20 031**
	Long-term	7 704	8 900
	Short-term	12 005	11 131

5.1.2. FINANCIAL ASSETS – LOANS GRANTED

Loans granted 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).

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. In the period in which the item hedged by a derivative financial instrument affects the financial result, the amount relating to that instrument previously recognised in other comprehensive income is also transferred to the statement of other comprehensive income.

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.

5.3.2. 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 3.3.), issued bonds (Note 3.4.) and financial lease (Note 3.5.).

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.

5.3.3. CREDIT RISK

Cash and cash equivalents

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

Trade receivables and receivables under construction contracts

In order to protect against credit risk arising from receivables related to the performance of construction contracts (i.e. trade receivables, receivables due to construction contracts – retention money and measurement of construction contracts), the Group applies the credit risk assessment and verification policy related to all contracts, both at the before-offer and in-progress stages. Before signing a contract, each customer is appraised for the possibility of meeting its financial obligations. In the event of a negative assessment of the contracting partner's payment capacity, the establishment of appropriate financial collaterals or asset based securities decides whether the agreement is entered into. Moreover, the conditions of agreements with customers provide for the right to suspend the performance of works, in case of any delay in payment for services rendered. As far as 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 6.4.

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.

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

The table below presents the Group's financial liabilities as at 30 June by maturity date based on contractual non-discounted payments.

					30-06-2018		
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total undiscounted cash flows	Discount	Balance sheet values
Debt due to loans and borrowings	23 248	80 811	18 234	-	**122 293**	-	**122 293**
Debt due to issued bonds	-	-	52 000	-	**52 000**	-	**52 000**
Financial leasing debt	1 046	5 145	8 277	-	**14 468**	-	**14 468**
Liabilities under construction contracts – retention	4 373	93 839	8 414	130	**106 756**	575	**106 181**
Trade payables	62 987	196 503	-	-	**259 490**	-	**259 490**
Liabilities from derivative financial instruments	-	478	-	-	**478**	-	**478**
Total	**91 654**	**376 776**	**86 925**	**130**	**555 485**	**575**	**554 910**

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

							31-12-2017
	Less than 3 months	**3-12 months**	**1-5 years**	**More than 5 years**	**Total undiscounted cash flows**	**Discount**	**Balance sheet values**
Debt due to loans and borrowings	11 287	32 672	4 233	-	**48 192**	-	**48 192**
Debt due to issued bonds	-	3 950	52 000	-	**55 950**	-	**55 950**
Financial leasing debt	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**
Trade payables	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**

6. OTHER NOTES

6.1. 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 6.3.

The initial value of property, plant and equipment, includes their purchase 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.

Every year, the Group reviews the residual value, useful life and depreciation and amortisation method of components of property, plant and equipment.

Construction-in-progress is valued at costs incurred, directly related to the acquisition or production, including financing costs, less impairment losses. Assets under construction are not depreciated until they are completed.

Amortization rates are based on the expected economic useful lives of tangible fixed assets. Every year, the Group reviews the useful lives based on current estimates.

The Group entered into finance lease agreements for an average period of 5 years. These contracts include an option of extension 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 3.5.

6. 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 2017	**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	33	-	8	1 066	43	-	-	**1 150**
Net value as at 31 December 2017	**8 101**	**11 446**	**8 085**	**17 712**	**1 777**	**-**	**2 162**	**49 283**
Increases:								
Purchase	-	429	753	1 356	637	250	241	**3 666**
Finance lease	-	-	1 377	4 123	-	-	-	**5 500**
Acquisition of fixed assets	793	4 991	480	2 844	2 010	-	5 456	**16 574**
Decreases:								
Depreciation and amortization	15	642	1 721	3 445	844	-	568	**7 235**
Sale and liquidation	-	216	181	374	24	-	-	**795**
Other	-	-	79	433	-	-	-	**512**
Exchange differences on translation	23	139	18	140	93	-	156	**569**
Net value as at 30 June 2018	**8 902**	**16 147**	**8 732**	**21 923**	**3 649**	**250**	**7 447**	**67 050**

6. OTHER NOTES

6.2. GOODWILL

Goodwill arises as a result of accounting for the acquisition of investments by applying the purchase method - details are described in Note 6.10.

The accounting policy for impairment of goodwill is described in Note 6.3.

	For the 6 months ended 30-06-2018	For the 12 months ended 31-12-2017
Goodwill at the beginning of the period	**22 968**	**22 968**
Increases	16 262	-
Goodwill at the end of the period	**39 698**	**22 968**
of which due to the acquisition of:		
Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A.	18 274	18 274
Erbud Holding GmbH	16 730	-
Other	4 694	4 694

6.3. 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.

Assets impairment

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

Impairment of goodwill

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

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

The goodwill impairment test, which was performed as at 31 December 2017, did not identify, that there was a need for recognising an impairment loss.

6. OTHER NOTES

6.4. 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.

	30-06-2018			31-12-2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Trade receivables from unrelated parties	448 674	26 874	421 800	382 286	13 913	368 373
Receivables due to corporate income tax	3 883	-	3 883	3 729	-	3 729
Other receivables from the state budget	3 304	-	3 304	2 566	-	2 566
Other receivables	18 685	1 216	17 469	15 587	1 216	14 371
Total	**474 546**	**28 090**	**446 456**	**404 168**	**15 129**	**389 039**

Changes in impairment losses are shown in the table below

	For the 6 months ended 30-06-2018	For the 12 months ended 31-12-2017
Impairment allowances at the beginning of the period	**15 129**	**9 415**
Impact of IFRS 9 - fixed assets opening balance	9 528	-
Created	6 098	8 306
Reversed	2 829	2 288
Utilized	-	304
Other	101	-
Exchange differences on translation	63	-
Impairment allowances at the end of the period	**28 090**	**15 129**

6. OTHER NOTES

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

Overdue receivables:	**30-06-2018**	**31-12-2017**
less than 1 month	29 108	41 332
1 to 3 months	11 285	23 591
3 to 6 months	32 040	1 829
6 to 12 months	9 945	8 620
over 1 year	34 521	40 679
Total net receivables	**116 899**	**116 051**

The amount of overdue receivables not covered by the impairment loss as of 31.06.2018 includes but is not limited to mortgage-backed receivables of PLN 8 188 thousand from Kępska SA and receivables of PLN 1 895 thousand from the Academy of Music. Based on estimated discounted cash flow, partial write-downs were made for disputable receivables. Court cases as described in Note 6.7 are pending with the above-mentioned entities.

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.

6.5. 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 agreements related to future reporting periods. They are recognized in the profit and loss account over the passage of time.

	30-06-2018	**31-12-2017**
Insurance	4 446	4 595
Other	3 066	767
Total	**7 512**	**5 362**

6. OTHER NOTES

6.6. 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 30 June 2018 have been based on the recorded warranty repairs in the years 2014-2018.

Provision for short-term employee benefits

This category comprises provision for unused leaves. It 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.

6. OTHER NOTES

Provisions by groups 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 01.01.2017	**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	1 010	2 958	135	2 632	6 735
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
As at 01.01.2018	**15 836**	**15 514**	**1 763**	**7 094**	**40 207**
Increased	2 260	8 485	498	3 688	14 931
Reversed	2 193	282	590	4 848	7 913
Increased due to take over	-	14 448	-	974	15 422
Used	-	7 499	-	878	8 377
Exchange differences on translation	47	420	-	214	681
As at 30.06.2018	**15 950**	**31 086**	**1 671**	**6 244**	**54 951**
Short-term	13 770	18 060	1 173	5 203	38 206
Long-term	2 180	13 026	498	1 041	16 745

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

Provision for litigations and damages

The decrease in provisions in the current reporting period by PLN 92 thousand was caused by the reverse of provisions for employee compensation by the Group.

6. OTHER NOTES

6.7. LIGATIONS

Party to the dispute	Case description	Impact on the financial statements	
		30 June 2018	31 December 2017
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 30 June 2018 as well as any claims related to this case finally will not be charged to the Parent Company.	Recognised as a contingent liability	Recognised as a contingent liability
Cases brought by the Group			
Bank Millenium S.A.	On 29 May 2018, the Court of Appeal in Warsaw passed judgment in the case brought by the Issuer against Bank Millennium S. A. under the reference VII AGa 283/18, in which it upheld the Issuer's appeal. In its judgment of 29 May 2018, the Court of Appeals in Warsaw overturned the appealed judgment of the Regional Court in Warsaw of 16 September 2016, issued in the case ref. Act XVI GC 964/10 and refer the case back to that court for judgment, together with the decision on costs of the appeal proceedings. On 13 July 2018, Erbud received information that Bank Millennium S.A. submitted a complaint with the Supreme Court about the judgment of the Court of Appeals in Warsaw of 29 May 2018 in the action brought by the Issuer against Bank Millennium S.A. In the complaint, Bank Millennium questions the advisability of revoking the judgment and referring the case back to the Regional Court in Warsaw for reheard, indicating that the Court of Appeal should settle the case on its own. Currently, the Issuer's legal advisors are preparing a response to the complaint to the Supreme Court. As of the date of publication of these financial statements, the court dispute is pending.	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 (of which 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.	A partial write-off based on discounted cash flows was created.

6. OTHER NOTES

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.	A partial write-off based on discounted cash flows was 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.	A partial write-off based on discounted cash flows was created.

6.8. 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.

	30-06-2018	31-12-2017
Trade liabilities	**259 490**	**262 886**
incl. those from related parties	480	1 303
Liabilities to state budget:	**40 033**	**33 726**
VAT	21 913	21 589
corporate income tax	2 511	934
personal income tax	4 655	2 431
social security contributions (ZUS)	9 662	7 690
real property tax	105	-
tax on civil law transactions	148	139
rehabilitation fund contributions (PFRON)	667	825
holiday fund (tax paid in Belgium)	372	118
other	**17 890**	**9 886**
Other liabilities	11 672	7 043
remuneration	785	346
accrued expenses	5 433	2 497
other	**317 413**	**306 498**

6. OTHER NOTES

6.9. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of changes in working capital for the period from 1 January to 30 June 2018 and for the period from 1 January to 31 June 2017 is presented below.

	Change in cash flows JAN. 2018 – JUN. 2018	Change in cash flows JAN. 2017 – JUN. 2017
Change in provisions	**(842)**	(1 672)
Change in inventories	**(10 103)**	(993)
Change in receivables	**(49 145)**	(37 492)
Change in short-term liabilities, except for loans and borrowings	**(892)**	(58 739)
Change in prepayments	**(23 990)**	(28 792)
Change in working capital	**(84 972)**	**(127 688)**

6.10. GROUP STRUCTURE, INVESTMENTS IN JOINT VENTURES AND TRANSACTIONS WITH RELATED PRATES

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.

The Group structure

As at 30 June 2018, the Group is comprised of the Erbud S.A. Parent Company and fully consolidated subsidiaries.

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

6. OTHER NOTES

Item No.	Business name	Seat	Business profile	Parent's Company share in equity (equal to the voting power) 30-06-2018	31-12-2017
	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%**	100.00%
8	Erbud Holding GmbH	Dusseldorf, Germany	Management services	**100.00%**	-
9	Hebud Sp. z o.o.	Mińsk, Belarus	Construction	**100.00%**	-
10	Toruńska Sportowa w likwidacji Sp. z o.o.*	Toruń	Sports, entertainment and recreation services	**39.00%**	39.00%
11	JV WMER Matoc Poland Sp.z o.o	Warszawa	Construction	**100.00%**	-

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

Item No.	Business name	Seat	Business profile	Intermediate Parent's share in equity (equal to the voting power) 30-06-2018	31-12-2017
	Shares held indirectly				
1	Erbud Industry Centrum Sp. z o.o.	Łódź	Maintenance services for energy segment	**98.92%**	98.92%
2	Erbud Industry Pomorze Sp. z o.o.	Gdańsk	Maintenance services for energy segment	**100.00%**	100.00%
3	Erbud Industry Południe Sp. z o.o.	Będzin	Maintenance services for energy segmenyr	**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%**	50.00%
8	Erbud Beteiligungs GmbH	Dusseldorf, Germany	Purpose company	**100.00%**	-
9	IVT Weiner + Reimann GmbH	Oberhausen, Germany	Maintenance services for industry segment	**100.00%**	-
10	IVT Menzenbach GmbH	Oberhausen, Niemcy	Maintenance services for industry segment	**100.00%**	-
11	PflegeQuatier Düren GmbH	Dusseldorf, Germany	Construction	**43.35%**	-

Acquisition of an undertaking

On 5 February 2018, ERBUD Beteiligungs GmbH, a company with its registered office in Düsseldorf, was set up. Treuhand copia 1 GmbH, currently ERBUD Holding Deutschland GmbH with its registered office in Düsseldorf, is the hundert percent owner of ERBUD Beteiligungs GmbH is. On 14 February 2018, ERBUD S. A. acquired a 100% stake in ERBUD Holding Deutschland GmbH headquartered in Düsseldorf. The purchase price was EUR 8 500 thousand.

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

IVT Weiner + Reimann GmbH seated in Oberhausen operates mainly in the business segments of energy, industry and municipal services. The scope of its activities includes:

- Industrial and plant engineering;
- Electrical engineering, measurement and control technology;
- Building services engineering (Facility Management);
- Structural steelwork and pipeline engineering;
- Industrial vulcanisation;
- Temporary employment.

	Fair value
Property, plant and equipment	16 303
Cash and cash equivalents	12 869
Inventory	3 850
Receivables	22 105
Prepayments	2 596
Deferred tax assets	1 082
Assets (A)	**58 805**
Liabilities and accruals	20 953
Provisions	18 398
Liabilities (B)	**39 351**
Fair value of net assets (A-B)	**19 454**
Acquisition price (paid in cash)	35 453
Total acquisition price with non-controlling interest (E)=(C)+(D)	**35 453**
GOODWILL *	**15 999**

* Goodwill presented as at the acquisition date

6. OTHER NOTES

Acquired receivables

The fair value of receivables taken over as a result of the transaction was PLN 22,105 thousand. The receivables covered by the contract amounted to PLN 22,191 thousand gross, of which PLN 86 thousand was written off.

Acquired entity's income and profit

The revenues and net profit generated by the acquiree, which were included in the consolidated statement of comprehensive income for the reporting period from the acquisition date, i.e. from 1 March 2018, amounted to:

- Reveneus: PLN 39 865 thousand
- Net profit: PLN 3 578 thousand.

If the acquisition took place on 1 January 2018, i.e. at the beginning of the annual reporting period, the revenues and profit of the acquiree for the current reporting period would be:

- Reveneus: PLN 55 138 thousand
- Net profit: PLN 3 578 thousand

These amounts were calculated based on the financial data of the acquired entity, which were adjusted in accordance with the accounting policy applied in the Erbud Group.

Note to the consolidated statement of cash flows

	For the 6 months ended 30-06-2018
Cash outflows arising from acquisition of an entity	37 074
- Cash acquired due to acquisition	12 916
= Net cash flows from acquisition - investing activities	**24 158**

6. OTHER NOTES

Related party transactions

The table below shows the total amounts of transactions concluded by the Parent Company with related parties for the period ended 30 June 2018 and as of 31 December 2017:

		30-06-2018			31-12-2017		
		Joint Venture	Other relationship	Total	Joint Venture	Other relationship	Total
	Trade receivables	1 408	-	**1 408**	1 766	56	**1 822**
Note 5.1.2.	Loans granted	-	-	**-**	-	-	**-**
	Trade liabilities	462	-	**462**	857	-	**857**
	Revenue from sales	-	-	**-**	-	-	**-**

6.11. EVENTS AFTER THE REPORTING PERIOD

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

Signatures of the Management Board Members

Józef Zubelewicz

/ Management Board Member /

Dariusz Grzeszczak

/ Management Board Member /

Agnieszka Głowacka

/ Management Board Member /

Warsaw, September 5, 2018