ERBUD GROUP

Condensed Consolidated Financial Statements for the period ended 30 September 2018

prepared pursuant to
International Financial Reporting Standards



ERBUD

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the nine months ended 30-09-2018	For the nine months ended 30-09-2017	For the three months ended 30-09-2018	For the three months ended 30-09-2017
	CONTINUING OPERATIONS				
Note 4.1.	Revenue from sales of products and services and of goods and materials	1 624 564	1 282 198	664 802	505 878
Note 4.2.	Cost of sold products and services and of goods and materials	1 572 595	1 190 181	622 848	474 328
	Profit/(Loss) from sales before tax	**51 969**	**92 017**	**41 954**	**31 550**
Note 4.2.	Cost of sales	4 048	3 941	1 295	1 224
Note 4.2.	General and administrative costs	69 716	66 062	24 204	20 739
	Other operating income	7 160	10 981	(781)	4 099
	Other operating expenses	12 478	7 958	2 368	3 495
	Share of net profit/(loss)of subsidiaries valued by equity method	(31)	-	(8)	-
Note 4.1.	**(Loss)/Profit on operating activity**	**(27 144)**	**25 037**	**13 298**	**10 191**
	Financial income	5 932	3 160	(2 381)	1 143
	Financial expenses	7 859	8 786	3 288	1 312
	(Loss)/Profit from continuing operations before tax	**(29 071)**	**19 411**	**7 629**	**10 022**
Note 4.3.	Income tax	(4 290)	4 508	2 498	2 113
	Net (loss)/profit from continuing operations	**(24 781)**	**14 903**	**5 131**	**7 909**
	(Loss)/Profit for the financial period	**(24 781)**	**14 903**	**5 131**	**7 909**
	Net loss/(profit) for the financial period attributable to:				
	Shareholders of the Parent Company	(23 611)	14 957	4 814	7 821
	Minority shareholders	(1 169)	(53)	317	88
	Weighted average number of ordinary shares (in units)	12 811 859	12 811 859	12 811 859	12 811 859
	Net earnings per share from continuing operations (in PLN)	-1.93	1.16	0.40	0.62
	Basic net earnings per share (in PLN)	**-1.93**	**1.16**	**0.40**	**0.62**
	Diluted weighted average number of shares (in units)	12 811 859	12 811 859	12 811 859	12 811 859
	Diluted net earnings per share from discontinued operations (in PLN)	-1.93	1.16	0.40	0.62
	Diluted net earnings f per share (in PLN)	**-1.93**	**1.16**	**0.40**	**0.62**
	ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS, INCL. ALTERNATIVE PERFORMANCE MEASURES				
	Amortization and depreciation	10 314	7 649	3 082	2 344
Note 4.1.	**EBITDA**	(16 830)	32 686	16 380	12 535

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the nine months ended 30-09-2018	For the nine months ended 30-09-2017	For the three months ended 30-09-2018	For the three months ended 30-09-2017
Consolidated net (loss)/profit	**(24 781)**	**14 903**	**5 131**	**7 909**
Foreign exchange differences on translation of foreign entities	778	(425)	(674)	328
Valuation of hedging instruments	(1 768)	1 950	381	(1 653)
Other comprehensive income (including tax effect) subject to reclassification to the result	**(990)**	**1 525**	**(293)**	**(1 325)**
Total revenue for the period	**(25 771)**	**16 428**	**4 838**	**6 584**
attributable to:				
Shareholders of the Parent Company	(24 401)	16 604	4 803	13 279
Minority interests	(1 370)	(176)	35	202
Total income attributable to Shareholders of the Parent Company from:				
Continuing operations	(24 401)	16 604	4 803	13 279
	(24 401)	**16 604**	**4 803**	**13 279**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

For the 9 months ended 30-09-2017 and for the 9 months ended 30-09-2018

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	-	-	-	-	-	14 956	**14 956**	(53)	**14 903**
Total income for the financial period	-	-	-	120	1 950	(422)	**1 648**	(123)	**1 525**
Total comprehensive income	**-**	**-**	**-**	**120**	**1 950**	**14 534**	**16 604**	**(176)**	**16 428**
Dividend	-	-	-	-	-	-	**-**	(105)	**(105)**
Net profit/loss from the previous year forwarded to retained earnings	-	-	11 103	-	-	(11 103)	**-**	-	**-**
As at 30 September 2017	**1 281**	**213 197**	**11 103**	**1 463**	**1 310**	**39 910**	**268 264**	**8 864**	**277 128**
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	-	-	-	-	-	(23 612)	**(23 612)**	(1 169)	**(24 781)**
Total income for the financial period	-	-	-	962	(1 768)	17	**(789)**	(201)	**(990)**
Total comprehensive income	**-**	**-**	**-**	**962**	**(1 768)**	**(23 595)**	**(24 401)**	**(1 370)**	**(25 771)**
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 September 2018	**1 281**	**211 643**	**11 103**	**1 822**	**(6)**	**1 992**	**227 835**	**7 715**	**235 550**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30-09-2018	31-12-2017
	ASSETS	**1 052 264**	**942 685**
	Goodwill	39 352	22 968
	Property, plant and equipment	64 512	49 283
Note 5.1.	Financial assets	7 800	8 900
Note 4.3.	Deferred tax assets	32 260	23 014
	Receivables under construction contracts -retention	15 473	16 911
	Shares in subsidiaries valued by equity method	-	22
	Fixed assets	**159 397**	**121 098**
	Inventory	15 951	11 577
	Receivables under construction contracts -retention	43 013	42 670
Note 2.1.	Receivables under construction contracts -valuation	206 037	171 638
Note 6.2.	Trade and other receivables	519 571	389 039
Note 5.1.	Financial assets	11 587	11 131
	Cash and cash equivalents	89 857	190 170
	Short-term prepayments	6 851	5 362
	Current assets	**892 867**	**821 587**
	LIABILITIES	**1 052 264**	**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	1 816	2 622
	Retained earnings	1 992	47 654
	Equity of shareholders of the Parent Company	227 835	275 857
	Minority interests	7 715	9 999
	Equity	**235 550**	**285 856**
Note 3.3.-3.5	Interest debt	78 768	63 040
	Provisions	16 276	5 274
Note 4.3.	Deferred tax liabilities	3 628	2 331
	Liabilities under construction contracts - retention	10 090	8 353
	Long-term liabilities	**108 762**	**78 998**
Note 3.3.-3.5	Interest debt	62 772	54 363
	Provisions	39 803	34 933
	Liabilities under construction contracts - retention	100 601	96 143
Note 2.1.	Liabilities under construction contracts - valuation	119 437	80 145
Note 6.3.	Trade and other payables	362 473	306 498
	Advances received for deliveries	22 866	5 749
	Short-term liabilities	**707 952**	**577 831**
	Assets to secure debt obligations	10 904	3 795

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the nine months ended 30-09-2018	For the nine months ended 30-09-2017
	CASH FLOWS FROM OPERATING ACTIVITIES		
	Profit (loss) before tax	(29 070)	19 411
	Depreciation and amortization	10 314	7 649
	Profit (loss) from exchange rate differences	582	(1 285)
	Interest and share in profit (dividends)	302	3 595
	Other non-cash adjustments	(810)	(384)
	Income tax paid	(7 530)	(14 158)
Note 6.4.	Change in working capital	(43 837)	(167 060)
	Net cash used in operating activities	**(70 049)**	**(152 232)**
	CASH FLOWS FROM INVESTMENT ACTIVITIES		
	Proceeds from loans granted	3 705	2 013
	Other inflows	5 552	1 289
	Expenditure on acquisition of property, plant and equipment	(5 055)	(3 261)
	Expenditure on loans granted	(4 685)	(10 864)
	Expenditure on acquisition of shares in companies	(57)	-
	Expenditure for the acquisition of subsidiaries, less cash taken over	(23 391)	(1 667)
	Other	(103)	-
	Net cash used in investment activities	**(24 034)**	**(12 490)**
	CASH FLOWS FROM FINANCIAL ACTIVITIES		
	Proceeds from debt incurred - loans and loans	46 337	77 912
	Other inflows	256	1 496
	Expenditures on repayment of debt - capital	(29 440)	(13 913)
	Expenditures on repayment of debt - interest	(4 081)	(3 853)
Note 3.2.	Dividend payment	(15 297)	(15 095)
	Other outflows	(4 003)	-
	Net cash used in financing activities	**(6 228)**	**46 547**
	NET CASH FLOWS	**(100 311)**	**(118 175)**
	Opening cash and cash equivalents	**190 170**	**257 273**
	Foreign exchange differences on cash and cash equivalents	-	-
	Closing cash and cash equivalents, incl.:	**89 857**	**139 098**
	- restricted cash	14 837	18 842

KEY FIGURES CONVERTED TO THE EURO

	30-09-2018		31-12-2017	
	PLN	EUR	PLN	EUR
Fixed assets	159 397	37 317	121 098	29 034
Current assets	892 867	209 034	821 587	196 981
Equity capital	235 550	55 146	285 856	68 536
Liabilities and provisions for liabilities	816 714	191 205	656 829	157 479

	For the nine months ended 30-09-2018		For the nine months ended 30-09-2017	
	PLN	EUR	PLN	EUR
Net cash flow from operating activities	(70 049)	(16 469)	(152 232)	(35 764)
Net cash flow from investing activities	(24 034)	(5 650)	(12 490)	(2 934)
Net cash flow from financing activities	(6 228)	(1 464)	46 547	10 935
Net cash flow	(100 311)	(23 583)	(118 175)	(27 762)
Opening cash and cash equivalents	190 170	45 594	257 273	58 154
Closing cash and cash equivalents	89 857	21 037	139 098	32 280

	For the nine months ended 30-09-2018		For the nine months ended 30-09-2017	
	PLN	EUR	PLN	EUR
Revenues from sales of products and services and of goods and materials	1 624 564	381 936	1 282 198	301 226
Cost of sold products and services and of goods and materials	1 572 595	369 718	1 190 181	279 608
Gross profit/(loss) from sales	51 969	12 218	92 017	21 617
Operating (loss)/profit)	(27 144)	(6 382)	25 037	5 882
Gross (loss)/profit from continuing operations	(29 071)	(6 835)	19 411	4 560
Net (loss)/profit from continuing operations	(24 781)	(5 826)	14 903	3 501

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1. GENERAL INFORMATION

1.1. INTRODUCTION

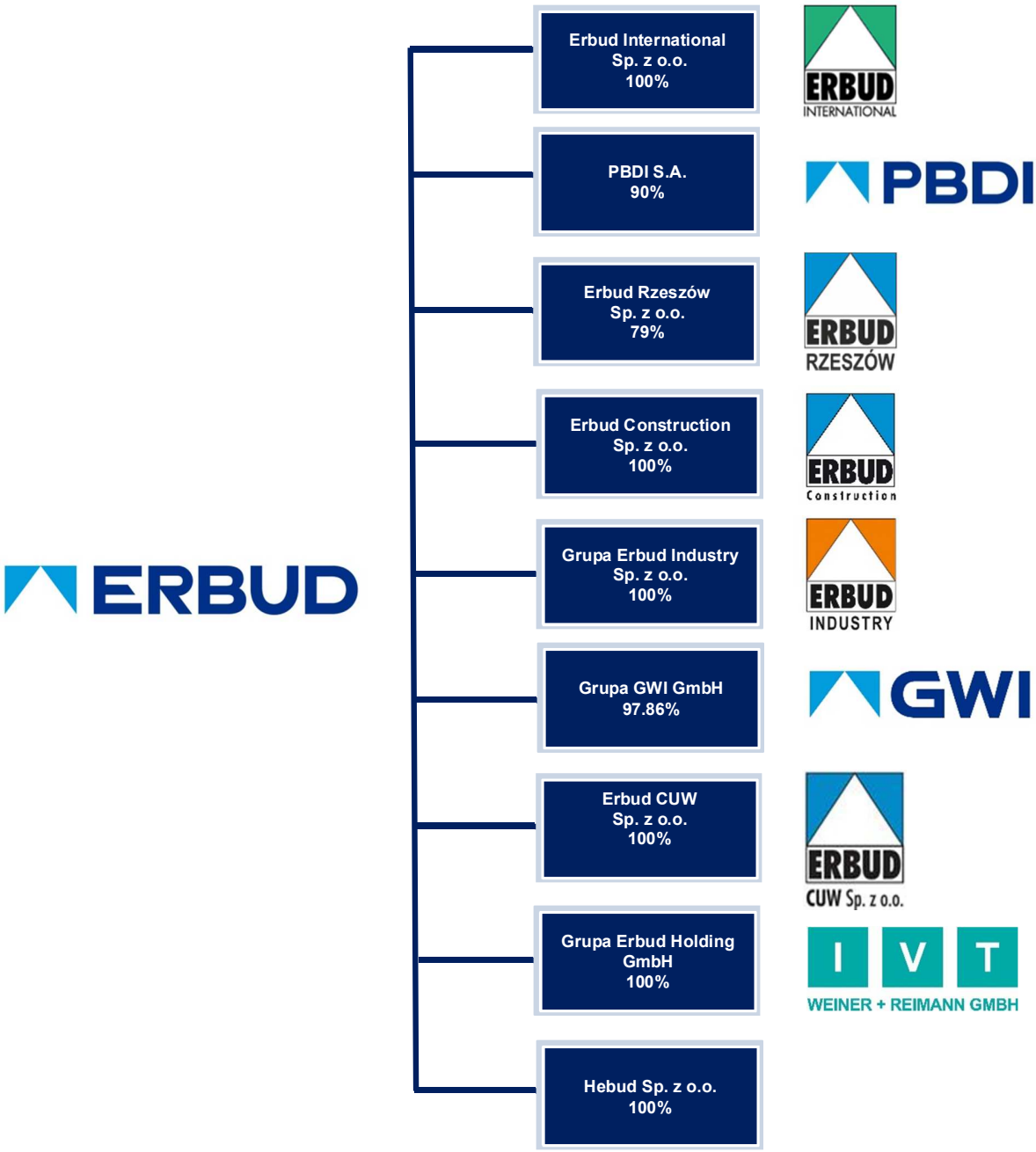
Erbud S.A. with its registered office in Warsaw, 1 Franciszka Klimczaka Street, is the parent company (the "Parent Company"/"Parent") of the Erbud S.A. Group.

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 6.5.

1.2. BASIS OF PREPARATION

Statement of compliance with IFRS

The financial statements have been prepared in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34), which was endorsed by the European Union. These 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 condensed consolidated financial statements have been prepared as at and for the nine months ended 30 September 2018 and comparative figures as at 31 December 2017 and for the nine months ended 30 September 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 14 November 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.

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 has 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 S.A. Group 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 6.2). 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" 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 6.3). As the performance bond, the Group retains a part of payments due to the subcontractors, which are recognized under "Liabilities under construction contracts - Retention".

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 4.3.

2. CONSTRUCTION CONTRACTS

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

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

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

The Group keeps records of completed projects – building contracts within the internal system used for project management. Information about a contract, including the progress of works, is entered into the system by the contract/site manager, and then approved by the branch director, to whom the site is subordinated. The budgets of individual contracts are formally updated during the year, based on current information throughout the year and they are approved by the Management Board. If any events that have material impact on the contract outcome have occurred between official budget revisions, the value of total revenues or costs of the contract is updated on an ongoing basis, i.e. the changes in the scope of the contract are reflected in the internal system of the Group as soon as they has been negotiated by the Group with a customer.

2.1. RECONCILIATION OF AMOUNTS DUE TO UNFINISHED CONSTRUCTION CONTRACTS

	30-09-2018	31-12-2017
YTD income from construction contracts	2 458 951	2 425 803
YTD amounts invoiced to customers	2 401 717	2 403 537
Balance of settlements under construction contracts - revenue	**57 234**	**22 266**
of which:		
(1) Receivables for completed but not yet invoiced construction works	126 873	72 188
(2) Liabilities due to invoiced unfinished construction works	69 639	49 921
YTD costs due to construction contracts	2 242 295	2 230 814
	21	(21)
YTD costs invoiced by customers	2 271 661	2 300 040
Balance of settlements under construction contracts - costs	**29 366**	**69 226**
of which:		
(3) Receivables for invoiced unfinished construction works	79 164	99 450
(4) Liabilities due to completed but not yet invoiced construction works	49 798	30 224
	-	-
Balance of settlements under construction contracts	**86 600**	**91 492**
of which:		
Receivables under construction contracts – valuation [(1)+(3)]	206 037	171 638
Liabilities under construction contracts – valuation [(2)+(4)]	119 437	80 145

Significant contracts signed in the third quarter of 2018 and after the balance sheet date

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

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

1. Customer: Chopin Airport Development Sp. z o.o.; 00-906 Warszawa, 1 Żwirki i Wigury St.
2. Contract value: PLN 33,900,000 net; 41,697,000 gross.
3. 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.
4. Site location: Plots with a cadastral number 1867/268 and 1867/261 located in Jasionka near Rzeszów.
5. 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. Customer: Polnord – Apartamenty Sp. z o.o., 81-310 Gdynia, 35/37 Śląska Street.
2. Net contract value: PLN 52,000,000.
3. 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.
4. Site location: Corner of Guderskiego St. and Flisykowskiego St.
5. Completion period: Commencement on 27.08.2018 and completion on 30.09.2020.

On **14 August 2018,** the Issuer concluded a construction contract on the following terms and conditions:

1. Customer: ASO MR spółka z ograniczoną odpowiedzialnością spółka komandytowa, 26-600 Radom, 68/70 Kielecka St.; NIP: 948-239-89-38
2. Contract value: PLN 41,900,000 net.
3. Contract subject: "Construction of a commercial and retail building with underground garage, on-grade parking spaces, shared zone, down ramp, sidewalks structural landscaping; building service systems: electrical wiring, water piping (for domestic uses and fire), sewage piping (combined storm and sanitary), air-conditioning; on-site sections of electrical, water supply and sewage systems; civil engineering structures: retaining walls, trafo stations, storm water retention tank, drainage gullies, oil/water separator, built heat exchanger, circulation systems and development works on site located in Kraków on Zakopiańska Street – Project Phase I" ; and "Construction of exit lane and reconstruction of exit road from Zakopiańska Strret (the G-class county road), incl. reconstruction of the bus bay and pavement, construction of drainage, diversion of water mains and power lines and street lighting Phase III".
4. Site location: Kraków, 68 Zakopiańska Street.

5. Completion period: 24.08.2018 - 23.12.2019.

On **12 June 2018**, a significant construction contract (the "Contract") with a value of PLN 119,264,434 was signed by the Consortium formed by PBDI S.A. with headquarters in Toruń (a subsidiary of the Issuer), the Issuer and Electrum sp. o.o. with headquarters in Białystok (the "Contractor"). The task involves the development of detailed design, construction and commissioning of the Potęgowo-Wschód Wind Farm with a capacity of 101.25 MW on the following terms and conditions:

1. Customer: Potegowo Winergy spółką z ograniczoną odpowiedzialnością with its registered office in 00-105 Warsaw at 18 Twarda Street, XXIV Floor, entered in the register of entrepreneurs of the National Court Register under the KRS number 0000278619.
2. Net contract value: PLN 119,264,including the value of works to be executed by Electrum sp. z o.o. - PLN 42,776,000.
3. Contract subject: Construction as general contractor of the Potęgowo-Wschód Wind Farm consisting of 38 individual wind turbines, grouped in four wind parks: Bięcino, Głuszynko-Grapice, Wrzeście-Kępno and Karżcino, incl. the accompanying infrastructure (i.e. construction, road, power and low voltage infrastructure) and power transfer system, i.e. 30/110 kV cable lines with associated network and 30/110 kV power take-off unit.
4. Completion period: 51 weeks from the commencement of works.

On **23 August 2018,** PBDI S.A. with its registered office in Toruń (a subsidiary of the Issuer) signed a construction contract under the following terms and conditions.

1. Customer: Województwo Pomorskie; 88-810 Gdańsk, 21/27 Okopowa Street.
2. Net contract value: PLN 31,613,731.39.
3. Contract subject: Development of the provincial road No. 209 from Suchorze to Bytów, section III.2: Borzytuchom - Bytów. (from 53 + 264 km to 61 + 262 km; length 7 998 km),
4. Deadline: 22 September 2019.

On **28 August 2018,** Erbud S.A. concluded a construction contract on the following terms and conditions:

1. Customer: LIDL Sp. z o. o Sp. komandytowa, Jankowice, 62-080 Tarnowo Podgórne, 48 Poznańska Street.
2. Contract value: PLN 195,478,559 net.
3. Contract subject: Construction of the LIDL STARGARD Distribution Centre in Stargard on Metalowa Street.
4. Site location: Stargard, Metalowa Street.
5. Completion period: Beginning - delivery of the construction site; obtaining a temporary occupancy permit - 30.08.2019.

On **29 August 2018,** Erbud S.A. entered into a construction contract on the following terms and conditions:

1. Customer: Miasto Tomaszów Lubelski, 22-600 Tomaszów Lubelski, 57 Lwowska Street.
2. Contract value: PLN 26,279,600 net / PLN 32,323,908 gross.
3. Contract subject: Renovation of degraded buildings of the Sport and Recreation Centre - extension with an indoor swimming pool under a public procurement contract building: "Refurbishment of the sports hall and office and welfare facilities at the Sport and Recreation Centre, and extension with an indoor swimming pool within the task entitled Revitalisation of marginalized areas of the city of Tomaszów Lubelski through renovation of buildings belonging to the Sport and Recreation Centre consisting in extension with an indoor swimming pool, renovation of the sports hall and office and welfare facilities, as well as construction of a multi-family residential building with council flats and retail units in Tomaszów Lubelski. Reference number: R.271.35.2018".
4. Site location: Tomaszów Lubelski, 8 Al. Sportowa Street.
5. Deadline: 15.10.2020.

On **31 August 2018** a contract was signed with Przedsiębiorstwo Produkcyjno-Handlowe GRALBET Sp. z o.o., a subcontracting firma performing the prefabricated reinforced concrete structures at the LIDL STARGARD Distribution Centre located in Stargard on Metalowa Street, on the following terms and conditions:

1. Subcontractor/Supplier: Przedsiębiorstwo Produkcyjno-Handlowe GRALBET Sp. z o.o.; Rybno, Gralewo PKP nr 194, 13-214 Uzdowo.
2. Net contract price: PLN 33,950,000.
3. Contract subject: Comprehensive design (detailed design; workshop drawings and specifications; as-built design), manufacturing, delivery and construction of the complete reinforced concrete prefabricated structures at the LIDL STARGARD Distribution Center located in Stargard on Metalowa Street.
4. Site location: Stargard, Metalowa Street.
5. Completion period: As per agreed contractual dates.

On 31 August 2018, the Issuer signed Annex No. 6 to the contract for the construction the GALERIA MŁOCINY Shopping and Entertainment Centre increasing the value of the contract by PLN 56,578,834.15.
After taking into account changes agreed in Annex No. 6, the total price of the contract to build the Galeria Młociny is PLN 591,189,073.15. The increase in the contract value results from approved extra and varied works and form an additional payment.
Berea Sp. z o.o., 00-133 Warszawa, 22 Al. Jana Pawła II Street is the the Customer:

On **6 September 2018,** the Issuer signed a significant construction contract on the following terms and conditions:

1. Contract: Construction contract for the extension of the Solny Hotel in. in Kołobrzeg at 5 Aleksandra Fredry Street, incl. site development and technical infrastructure.
2. Condition of entry into force of the contract: Conditional contract - the parties shall be entitled to withdraw from the Contract without the right to make any claims in the event of failure to obtain the design change by 2 November 2018.
3. Customer: Solny Investment Sp. z o.o., 78-400 Szczecinek, 21 Królowej Jadwigi Street.
4. Completion period: commencement of works on 02.11.2018; completion - 16 months from the commencement date. Obtaining an occupancy permit within one month from completion date.
5. Volume: 25,147 m^3.
6. Area: Usable floor area – 4 468 m^2; Gross building area - 6 114 m^2.
7. Range of works: construction works including mechanical, electrical and plumbing works, site development and accompanying technical infrastructure.
8. Net contract price: PLN 25,950,000.
9. Site location: Kołobrzeg, 5 Aleksandra Fredry Street.

On **14 September 2018,** ERBUD S.A. entered into a significant construction contract on the following terms and conditions:

1. Customer: Gmina Miasta Toruń - Miejski Ośrodek Sportu i Rekreacji w Toruniu; 87-100 Toruń, 23/29 gen. J. Bema St.
2. Net contract value: PLN 41,883,538.08.
3. Contract subject: Refurbishment and extension of the swimming pool building located in Toruń at 9/17 Bażyńskich Street, incl. development of surrounding areas for recreation purposes.
4. Site location: Toruń, 9/17 Bażyńskich Street
5. Completion period:
   a. Commencement of contract performance - on the contract signing date.
   b. Handing over the construction site shall take place within 7 days from the date of signing the contract.
   c. Submission to the Customer of an agreement concluded by the contractor with a bank for the purchase of receivables by the date of handing over the construction site.
   d. Commencement of construction - on the date of handover of the construction site.

e. Completion of construction - 31.07.2020.
f. Training, start-up and commissioning of the swimming pool - until 31.08.2020.

On **1 October 2018,** ERBUD S.A. concluded a construction contract on the following terms and conditions:

1. Customer: Nowa Metale Sp. z o.o.; 87-100 Toruń, 5 Starotoruńska Street.
2. Net contract value: PLN 40,550,696.67.
3. Contract subject: Comprehensive construction of a production and warehouse building, office and welfare facilities, including external infrastructure, located in Ostaszewo.
4. Site location: Ostaszewo near Toruń.
5. Completion period:
   a. taking over the construction site - 01.10.2018;
   b. completion of construction works - 10.5 months from the date of taking over the site;
   c. obtaining an operation/occupancy permit - 1.5 months from the date of notification of the investment task for use.

On **1 October 2018**, ERBUD S.A. entered into a significant construction contract on the following terms and conditions:

1. Customer: Sanok Rubber Company S.A.; 38-500 Sanok, 24 Przemyska Street, NIP (Tax Identification Number): 687-000-43-21.
2. Net Contract value: Remuneration resulting from the contract is PLN 49,900,000. Settlement will be based on net unit prices.
3. Contract subject: Construction of a production and warehouse building with office and welfare area, accompanying facilities with plant and systems as well as necessary in-building and on-site infrastructure.
4. Site location: Sanok, 24 Przemyska Street; plots with a cadastral number 583/46 and 583/48, Sanok Olchowce.
5. Completion period: ca. 15 months.

On **10 October 2018,** the Issuer received information that its indirect subsidiary Erbud Industry Południe Sp. z o. o. signed an agreement on the following terms and conditions:

1. Contract concluded on 09.10.2016 in Jaworzno by and between ERBUD INDUSTRY Południe Sp. z o.o. ("Contractor") and TAURON Wytwarzanie Spółka Akcyjna ("Customer").
2. Customer: TAURON Wytwarzanie Spółka Akcyjna seated in Jaworzno, 43-603 Jaworzno, 51 Promienna Street.
3. Net contract value: PLN 20,985,710.
4. Contract subject: Heavy repair of the OFz-425 No. 2 boiler in TAURON Wytwarzanie Spółka Akcyjna, Siersza Power Plant in Trzebinia, Range: Lot 1 - Overhaul of the OFz-425 No. 2 boiler.
5. Site location: TAURON Wytwarzanie Spółka Akcyjna, Siersza Power Plant.
6. Completion period: 10.10.2018 - 01.06.2019.

On **15 October 2018**, ERBUD S.A. signed a significant contract on the following terms and conditions:

1. Customer: Oleofarm Sp. z o.o; 52-407 Wrocław, 8 Mokronoska Street.
2. Net contract value: PLN 22,850,000.
3. Contract subject: Extension of OLEOFARM Sp. z o.o. in Wroclaw – Phase 1: Office and welfare facilities together with production and warehouse building.
4. Site location: Wrocław, Mokronoska Street.
5. Completion period: from 16 October 2018 to August 2019.

2. CONSTRUCTION CONTRACTS

On **17 October 2018,** PBDI S A. seated in Toruń (a 90% subsidiary of the Issuer), acting in a consortium ("Contractor") formed by Mosty Łódź S.A. with its registered office in Łódź, 52 Bratysławska Street ("Consortium Leader"), and PBDI S. A. (Consortium Partner) concluded a significant construction contract on the following terms and conditions:

1. Customer: Skarb Państwa – Generalny Dyrektor Dróg Krajowych i Autostrad seated in Warszawa; 00-874 Warszawa, 53 Wronia Street.
2. Total **c**ontract value: PLN 715,200,788.37 net. The value of the scope to be completed by PBDI S.A. is 50% of the contract value.
3. Contract subject: Design and construction of the S3 road form Legnica (A4) to Lubawka, task IV from the Kamienna Góra Północ interchange (incl. the interchange) to the state border, about 15.3 km long.
4. Completion period: 31 months from the conclusion of the contract (including obtaining an use permit). Winter period (i.e. from 15 December to 15 March) is not included in the completion period, but it is included in the design period.

On **19.10.2018,** the Issuer entered into a significant construction contract on the following terms and conditions:

1. Customer: Krakowskie Centrum Rehabilitacji i Ortopedii in Kraków; 30-224 Kraków, 22 Modrzewiowa Street.
2. Contract value: PLN 23,427,410.00 net / PLN 28,815,714.30 gross.
3. Contract subject: Extension of the existing hospital building No. 2 with the facility for the operating theatre, anaesthesiology and intensive care unit, X-ray laboratory, ultrasound room, densitometry, and central sterilization, including accompanying functions and site development; alteration of rooms used as X-ray laboratory, reception, medical secretariat located on the ground floor of the building No. 2 as well as patient rooms with isolation located on the first floor of the building No. 2 on plot No. 228/2, cadastral district 9 Krowodrza, 22 Modrzewiowa Street in Kraków.
4. Site location: 30-224 Kraków, 22 Modrzewiowa Street.
5. Deadline: 30.09.2019.

On **19 October 2018,** the Issuer entered into a construction contract on the following terms and conditions:

1. Customer: Miasto Stołeczne Warszawa – Dzielnica Białołęka; 03-122 Warszawa, 197 Modlińska Street; NIP: 525-22-48-481, REGON: 015259640.
2. Contract value: PLN 43,741,463.41 net / PLN 53,802,000.00 gross.
3. Contract subject: Design of part and execution of construction works under the project: "Construction of primary school".
4. Site location: Warszawa-Białołęk, on Ruskowy Bród Street, corner Verdiego Street.
5. Completion period: 19.10.2018 - 30.07.2020.

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 September 2018 consisted of 12,811,859 shares with a total value of PLN 1 281 thousand and the shareholding structure was as follows:

Shareholder	Number of shares	Equity percentage
Wolff & Muller Holding GmbH & Co.KG	4 152 865	32.41%
DGI Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych controlled by Dariusz Grzeszczak	2 136 260	16.67%
NATIONALE - NEDERLANDEN Powszechne Towarzystwo Emerytalne S.A (formerly ING PTE)	1 200 000	9.37%
AVIVA Otwarty Fundusz Emerytalny BZ WBK	1 183 146	9.23%
Dariusz Grzeszczak	773 900	6.04%
PKO OFE	715 279	5.58%
Adler Properties Sp. Z o.o. controlled by Józef Zubelewicz	412 087	3.22%
Józef Zubelewicz	259 500	2.03%
Agnieszka Głowacka	4 077	0.03%
Free Float	1 974 745	15.42%
Total	**12 811 859**	**100.00%**

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. DEBT DUE TO LOANS AND BORROWINGS



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

	30-09-2018	31-12-2017
Long-term		
Bank loans	17 701	4 234
Short-term		
Overdrafts	28 310	20 239
Bank loans	28 871	23 720
Borrowings	-	-
	57 181	43 959
Total loans and borrowings debt	**74 882**	**48 193**

3.4. DEBT DUE TO BONDS ISSUED



Liabilities arising from bonds issued are initially recognized at fair value less transaction costs. At each balance sheet date, the liability is measured at amortized cost using 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 30 September 2018	Debt balance as at 30 September 2017
26-03-2014	B-series bearer, dematerialized, unsecured	functional	WIBOR 6 M + 3% margin	26-03-2018	financing the increased working capital demand	10	-	3 950
27-09-2017	C-series bearer, dematerialized, unsecured	functional	WIBOR 6 M + 3% margin	27-09-2021	financing the 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""			-	-	-

3.5. FINANCIAL LEASE DEBT

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		30-09-2018 Nominal value of minimum fees	31-12-2017 Nominal value of minimum fees
Less than 1 year	Current	5 928	6 947
1 - 5 years	Non-current	9 497	6 978
		15 425	**13 925**
Finance costs due to financial leasing		767	665
Current value of minimum fees		**14 658**	**13 260**

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.

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

Basic information about segments for the reporting periods 01.2018 – 09.2018 and 01.2017 – 09.2017

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 9 months ended 30-09-2018			For the 9 months ended 30-09-2017		
	At home (Poland)	Abroad	Total	At home (Poland)	Abroad	Total
Sales to external customers, including::	1 403 882	220 682	**1 624 564**	1 135 938	146 260	**1 282 198**
Revenue from construction contracts	1 320 633	153 881	**1 474 514**	1 070 174	144 466	**1 214 640**
Revenue from other industry contracts	71 439	61 295	**132 734**	43 421	1 057	**44 478**
Other revenue	11 810	5 506	**17 316**	22 343	737	**23 080**
Fixed assets other than financial instruments and deferred tax assets	72 932	38 732	**111 664**	73 729	2 691	**76 420**

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 tables below.

						For the 9 months ended 30-09-2018	
	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	-	-	(6 036)	(37 202)	-	-	**(43 238)**
Sale to external clients	1 064 150	147 775	187 084	194 720	72 660	1 413	**1 667 802**
Total income from sales	**1 064 150**	**147 775**	**181 048**	**157 518**	**72 660**	**1 413**	**1 624 564**
Segment results and reconciliation to gross (loss)/profit of the Group							
Prime costs	1 055 488	150 962	166 315	141 428	56 733	1 669	**1 572 595**
Result on other operating activity	(32 050)	(12 016)	(8 885)	(13 090)	(7 745)	(5 327)	**(79 113)**
Segment result – EBIT	**(23 388)**	**(15 203)**	**5 848**	**3 000**	**8 182**	**(5 583)**	**(27 144)**
EBIT margin	-2.00%	-10.00%	3.00%	2.00%	11.00%	-395.00%	**-2.00%**
Result on financial activity	(1 031)	(199)	600	(950)	(359)	12	**(1 927)**
Result before tax excluding discontinued operations	**(24 419)**	**(15 402)**	**6 448**	**2 050**	**7 823**	**(5 571)**	**(29 071)**
Income tax	(5 088)	(4 706)	1 526	589	3 295	94	**(4 290)**
Net result excluding discontinued operations	**(19 331)**	**(10 696)**	**4 922**	**1 461**	**4 528**	**(5 665)**	**(24 781)**
Depreciation and amortization	2 040	640	2 741	2 723	1 541	629	**10 314**
Segment result – EBITDA	**(21 348)**	**(14 563)**	**8 589**	**5 723**	**9 723**	**(4 954)**	**(16 830)**

	Building construction at home	Building construction abroad	Road-engineering	Industrial construction at home	Industrial construction abroad	Other segments	Total continuing operations
							For the 6 months ended 30-09-2017
Total income							
Intersegment sales	-	-	(57 019)	(43 991)	-	(8 290)	**(109 300)**
Sale to external clients	897 637	145 202	130 039	210 239	-	8 381	**1 391 498**
Total sales	**897 637**	**145 202**	**73 020**	**166 248**	**-**	**91**	**1 282 198**
Segment results and reconciliation to gross (loss)/profit of the Group							
Prime costs	841 887	136 131	62 544	149 619	-	-	**1 190 181**
Result on other operating activity	(36 500)	(7 736)	(7 423)	(15 507)	-	186	**(66 980)**
Segment result – EBIT	**19 250**	**1 335**	**3 053**	**1 122**	**-**	**277**	**25 037**
EBIT margin	2.00%	1.00%	2.00%	1.00%	-	3.00%	**2.00%**
Result on financial activity	(4 650)	(442)	297	(840)	-	9	**(5 626)**
Result before tax excluding discontinued operations	**14 600**	**893**	**3 350**	**282**	**-**	**286**	**19 411**
Income tax	3 499	8	743	104	-	154	**4 508**
Net result excluding discontinued operations	**11 101**	**885**	**2 607**	**178**	**-**	**132**	**14 903**
Depreciation and amortization	1 690	575	2 104	2 800	-	480	**7 649**
Segment result – EBITDA	**20 940**	**1 910**	**5 157**	**3 922**	**-**	**757**	**32 686**

4.2. PRIME COSTS

	For the 9 months ended 30-09-2018	For the 9 months ended 30-09-2017	For the 3 months ended 30-09-2018	For the 3 months ended 30-09-2017
External services	1 062 021	810 722	413 443	310 152
Materials and power	315 975	243 912	111 661	105 807
Costs of employee benefits	234 711	174 383	77 603	59 252
Amortization and depreciation	10 314	7 649	3 082	2 344
Taxes and fees	6 855	6 573	2 021	2 384
Other costs	16 210	12 799	5 358	3 970
Value of goods and materials sold	1 812	2 817	282	1 230
Total costs by natural classification	**1 647 898**	**1 258 855**	**613 450**	**485 139**
Change in products, work-in-progress and accruals related to construction contracts	(1 539)	1 329	34 897	11 152
Sales cost (negative value)	(4 048)	(3 941)	(1 295)	(1 224)
Overheads (negative value)	(69 716)	(66 062)	(24 204)	(20 739)
Total cost of production of products sold	**1 572 595**	**1 190 181**	**622 848**	**474 328**

4.3. 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 9 months ended 30-09-2018	For the 9 months ended 30-09-2017
Gross profit before tax from continuing operations	**(29 071)**	**19 411**
Tax at the statutory tax rate applicable in Poland - 19%	**(5 523)**	**3 688**
Additional tax charge arising from the rate exceeding 19% in Germany	(895)	3
Adjustments to current income tax from previous years	-	(3)
Surplus of non-deductible expenses over income not recognised as taxable income	2 128	820
Tax recognized in the Consolidated Profit and Loss Statement, including:	**(4 290)**	**4 508**
Current income	5 474	17 925
Deferred income	(9 764)	(13 417)
Effective tax rate	**14.76%**	**23.22%**

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

			Impact on			Impact on		
		01.01.2017	Net result	Other comprehensive income	31.12. 2017	Net result	Other comprehensive income	30.09. 2018
	Deferred tax assets							
	Valuation of receivables from construction contracts	29 140	(13 140)	-	16 000	18 249	-	34 249
	Provisions	5 464	952	-	6 416	(232)	1 103	7 287
	Tax loss	929	789	-	1 718	11 249	-	12 967
	Accrued remuneration and charges	428	9	-	437	68	-	505
Note 6.2.	Impairment losses on receivables	1 354	689	-	2 043	643	-	2 686
	Other financial liabilities	1 356	211	-	1 567	268	-	1 835
	Accrued expenses	571	1 696	-	2 267	(162)	-	2 105
	Other	651	23 045	(148)	23 548	(15 426)	16	8 138
	Total	**39 893**	**14 251**	**(148)**	**53 996**	**14 657**	**1 119**	**69 772**
	Deferred tax liabilities							
	Valuation of liabilities due to construction contracts	22 399	7 074	-	29 473	5 008	349	34 830
	Revaluation of assets	2 084	(114)	-	1 970	(269)	2 949	4 650
	Capitalised finance costs	78	(78)	-	-	-	-	-
	Balance sheet valuation and liabilities discount	18	109	-	127	(6)	-	121
	Accrued interest on debt	59	163	-	222	(130)	-	92
	Accrued revenue	-	(3)	-	(3)	-	-	(3)
	Other	851	353	320	1 524	290	(364)	1 450
	Total	**25 489**	**7 504**	**320**	**33 313**	**4 893**	**2 934**	**41 140**
	Set-off between assets and liabilities	14 404			20 683			28 632
	After sett-off	**19 654**			**25 345**			**35 888**
	Assets	17 029			23 014			32 260
	Liabilities	2 625			2 331			3 628
	Net impact of changes in the period		**6 747**	**(468)**		**9 764**	**(1 815)**	

In the year ended 30 September 2018 and 31 December 2017, there were no negative temporary differences from which deferred tax assets were recognized.

For information on income tax receivables and payables, see Notes 6.2 and 6.3.

5. FINANCIAL INSTRUMENTS FINANCIAL RISK MANAGEMENT

5.1. ASSETS AND FINANCIAL 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 5.1.1.	Financial assets - loans granted:
	Receivables under construction contracts – retention money
Note 6.2.	Trade and other receivables
Note 2.1.	Receivables from construction contracts - valuation
	Cash and cash equivalents

Financial liabilities measured at amortized cost mainly include:

	Liabilities under construction contracts – retention money
Note 2.1.	Liabilities under construction contracts – valuation
Note 6.3.	Trade and other liabilities
Notes 3.3. - 3.5.	Debt

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

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

5.1.1. FINANCIAL ASSETS – LOANS GRANTED

Loans 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 held by the Group, i.e. forward contracts, are measured at fair value and classified as Level 2 in the fair value hierarchy, i.e. they are measured on the basis of observable inputs other than quoted prices. In accordance with the Group's risk management policy, a prospective ("ex-ante") and a retrospective ("ex-post") hedge effectiveness test is performed for each balance sheet date. In the prospective security effectiveness testing the dollar offset method was applied using the so-called hypothetical derivative instrument. For the purpose of the prospective test there are used historical market rates of exchange rates and interest rates on every monthly date prior to the balance sheet day. For each of the above 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. In the retrospective hedge effectiveness testing the dollar offset method is applied 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" or "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 6.2.

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.

6. OTHER NOTES

6.1. FIXED ASSETS IMPAIRMENT



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

Assets impairment

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

Impairment of goodwill

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

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

Impairment of goodwill

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.

6.2. 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.

	30-09-2018			31-12-2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Trade receivables from unrelated parties	517 806	27 162	490 644	382 286	13 913	368 373
Receivables due to corporate income tax	6 480	-	6 480	3 729	-	3 729
Other receivables from the state budget	7 173	-	7 173	2 566	-	2 566
Other receivables	16 490	1 216	15 274	15 587	1 216	14 371
Total	**547 949**	**28 378**	**519 571**	**404 168**	**15 129**	**389 039**

Changes in impairment losses are shown in the table below.

	For the 9 months ended 30-09-2018	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	3 978	8 306
Reversed	236	2 288
Utilized	-	304
Other	(21)	-
Exchange differences on translation	-	-
Impairment allowances at the end of the period	**28 378**	**15 129**

6.3. TRADE AND OTHER PAYABLES

Trade payables and other liabilities include mainly liabilities due to deliveries and services from 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.

	30-09-2018	31-12-2017
Trade liabilities	**299 709**	**262 886**
of which form related parties	426	1 303
Liabilities to state budget:	**47 246**	**33 726**
VAT	29 808	21 589
corporate income tax	3 598	934
personal income tax	3 749	2 431
social security contributions (ZUS)	8 844	7 690
real property tax	56	-
rehabilitation fund contributions (PFRON)	152	139
holiday fund (tax paid in Belgium)	520	825
other	519	118
Other liabilities	**15 518**	**9 886**
remuneration	10 273	7 043
accrued expenses	2 634	346
other	2 611	2 497
Total	**362 473**	**306 498**

6.4. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Change in cash flows 01.2018 - 09.2018	Change in cash flows 01.2017 - 09.2017
Change in provisions	**287**	(1 999)
Change in inventories	**(421)**	(3 962)
Change in receivables	**(111 802)**	(67 100)
Change in short-term liabilities, except for loans and borrowings	**59 612**	(47 804)
Change in prepayments	**8 487**	(46 195)
Change in working capital	**(43 837)**	**(167 060)**

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

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

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

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

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

Group structure

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

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

				Direct Parent's Company share in equity (equal to voting power)	
Item No.	Business name	Seat	Profile	30-09-2018	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	**100.00%**	100.00%
6	GWI GmbH	Dusseldorf, Germany	Construction	**97.86%**	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.	Minsk, 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

				Intermediate parent's share in equity (equal to the voting power)	
Item No.	Business name	Seat	Profile	30-09-2018	31-12-2017
	Shares held indirectly				
1	Erbud Industry Centrum Sp. z o.o.	Łódź	Maintenance services for energy segment	**99.01%**	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 segment	**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	Target company	**100.00%**	
9	IVT Weiner + Reimann GmbH	Oberhausen, Germany	Maintenance services for industry segment	**100.00%**	
10	IVT Menzenbach GmbH	Oberhausen, Germany	Maintenance services for industry segment	**100.00%**	
11	PflegeQuatier Düren GmbH	Dusseldorf, Germany	Construction	**43.35%**	

In the first three quarters of 2018 and until the date of publication of the financial statements prepared as at 30 September 2018, the structure of the ERBUD Group as compared 30 June 2018 and to the date of publication of the financial statements for the first half of 2018 changed following:

- the capital increase in the subsidiary GWI GmbH on 31 August 2018 from EUR 500,000 up to EUR 3,500,000. As a result of the capital rise, the ownership structure in the subsidiary changed. Before the increase ERBUD S. A. owned 85% of the GWI GmbH share capital and had 85% of votes at the general meeting. After raising the capital, the share of ERBUD S. A. in the share capital increased to 97.86%. The share of the minority shareholder Mr. Axel Whal has been reduced from 15% to 2.14%.
- Repurchase of two shares in Erbud Industry Centrum Sp. z o.o. by Erbud Industry Sp. z o.o., a subsidiary of ERBUD S.A. Before the transaction ERBUD S.A held indirectly in Erbud Industry Centrum sp. o.o. 98.92% of shares in the share capital and 98.92% of votes at the general meeting. After the repurchase of two shares from one of the minority shareholders, the indirect share of ERBUD S.A. raised to 99.01%. The Court's decision to register the change in shares was made on 9 October 2018.

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

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**

6.6. EVENTS AFTER THE REPORTING PERIOD

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

Signatures of the Management Board Members

Józef Zubelewicz
/ Management Board Member /

Dariusz Grzeszczak
/ Management Board Member /

Agnieszka Głowacka
/ Management Board Member /

Warsaw, November 14, 2018