Disclosure pursuant to Section 5 Paragraph 2 of Financial Reporting Enforcement Act

The consolidated financial statements of STRABAG SE as at 31 December 2018 as well as the half-year accounts as at 30 June 2018 and 30 June 2019 contain the following errors:

STRABAG SE understands the term claims to include agreed contract modifications (variation orders) as well as disputed claims for additional costs due to changes in the scope of work or due to disruption. A vague definition of claims is provided in the notes to the consolidated financial statements on page 215 of the 2018 Annual Report.

While the costs incurred from claims and variation orders are recognised in profit or loss immediately when they are incurred, revenue from claims and variation orders, as explained in the notes to the consolidated financial statements, is generally recognised only after receipt of written approval by the client or, in the event that payment is received before the written approval, with the payment of the claims and variation orders itself. As a result, the revenue from contracts that are not executed under a joint agreement is almost exclusively recognised only when the claims for additional costs incurred have been approved by the client.

Claims and variation orders that are to be treated analogously to the illustrative example of IFRS 15 IE42f “Example 9 – Unapproved change in scope and price” are accordingly accounted for by the company as contract modifications under IFRS 15:18-21. IFRS 15:19 clarifies that a contract modification may exist even if the parties to the contract disagree on the scope and/or price of the modification or if they have agreed to a modification of the contract’s scope but have not yet determined the corresponding price modification. As a result, the change in the transaction price must be estimated in accordance with IFRS 15:50-54 (estimating variable consideration) and IFRS 15:56-58 (constraining estimates of variable consideration), and revenue recognition only when the claim for additional costs is approved is not acceptable.

The estimate must be based on the relevant facts and circumstances, including the terms of the contract and other evidence (e.g. experience), and requires appropriate documentation within the company.

STRABAG SE was unable to distinguish the claims and variation orders reported by the relevant construction managers according to the type of claim or variation order (changes to vs. disruption of the work to be performed), nor was it able to provide suitable documentation for assessing the “high probability criterion” as defined within IFRS 15:56. As a result, STRABAG SE was unable to provide documentation showing for which claims and variation orders revenue was not recognised in the financial year and which claims and variation orders from previous periods actually led to revenue in the current financial year. Claims from different legal titles were thus combined in a single category “Claims” in an undifferentiated manner, and an estimate was made which could not be supported by experience or other documentation. Accordingly, IFRS 15:18f and IFRS 15:47ff in connection with IFRS 15:56 were applied incorrectly.

Furthermore, the information on the accounting policies for claims and variation orders in the notes is incomplete. This applies in general to the definition of claims (and variation orders) but also to the required disclosures on sources of estimation uncertainty in accordance with IAS 1:125 and disclosures of revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price) in accordance with IFRS 15:116(c).

Claims and variation orders assume considerable proportions in the company's business, as even a medium-sized construction project often involves up to 100 claims and variation orders. Irrespective of the specific monetary impact on revenue and on earnings before taxes in the consolidated financial statements of STRABAG SE as at 31 December 2018 and in the half-year accounts as at 30 June 2018 and 30 June 2019, a material accounting error therefore exists.