THE BUDIMEX GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

prepared in accordance with
International Financial Reporting Standards

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(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	Note	31 December 2016	31 December 2015
Non-current (long-term) assets			
Property, plant and equipment	9	114 674	83 248
Investment property	10	25 581	63 410
Intangible assets	11	29 926	4 000
Goodwill of subordinated entities	12	73 237	73 237
Investments in equity accounted entities	13	43 427	45 762
Available-for-sale financial assets	14	9 396	9 247
Retentions for construction contracts	29	23 333	20 388
Trade and other receivables	17	36 256	34 909
Receivables from service concession arrangement	16	46 096	45 688
Other financial assets	15	10 035	396
Deferred tax assets	24	444 975	440 922
Total non-current (long-term) assets		**856 936**	**821 207**
Current (short-term) assets			
Inventories	18	1 183 649	867 581
Trade and other receivables	17	516 720	420 558
Retentions for construction contracts	29	30 818	16 276
Amounts due and receivable from customers under construction contracts	27	288 456	171 763
Current tax assets		194	421
Other financial assets	15	1 758	2 432
Cash and cash equivalents	19	2 715 134	2 413 126
		4 736 729	**3 892 157**
Total current (short-term) assets		**4 736 729**	**3 892 157**
TOTAL ASSETS		**5 593 665**	**4 713 364**

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	**Note**	**31 December 2016**	**31 December 2015**
EQUITY			
Issued capital	20	145 848	145 848
Share premium	20	87 163	87 163
Other reserves	25, 39	4 725	4 801
Foreign exchange differences on translation of foreign operations		5 525	5 425
Retained earnings		558 116	355 969
Shareholders' equity attributable to the shareholders of the Parent		**801 377**	**599 206**
Equity attributable to non-controlling interests	21	**4 443**	**3 918**
Total equity		**805 820**	**603 124**
LIABILITIES			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	22	62 333	44 563
Retentions for construction contracts	29	206 147	207 239
Provisions for long-term liabilities and other charges	26	210 303	181 691
Retirement benefits and similar obligations	25	7 937	7 657
Other financial liabilities	15	1 984	3 076
Total non-current (long-term) liabilities		**488 704**	**444 226**
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	22	20 276	19 778
Trade and other payables	23	1 520 870	1 135 894
Retentions for construction contracts	29	186 244	168 033
Amounts due and payable to customers under construction contracts	27	1 352 639	1 239 940
Deferred income	28	1 002 017	896 448
Provisions for short-term liabilities and other charges	26	161 835	135 565
Current tax liability		52 820	67 568
Retirement benefits and similar obligations	25	1 422	1 350
Other financial liabilities	15	1 018	1 438
Total current (short-term) liabilities		**4 299 141**	**3 666 014**
Total liabilities		**4 787 845**	**4 110 240**
TOTAL EQUITY AND LIABILITIES		**5 593 665**	**4 713 364**

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated profit and loss account

	Note	Year ended 31 December 2016	2015
Continuing operations			
Net sales of finished goods, services, goods for resale and raw materials	30	5 572 290	5 133 994
Cost of finished goods, services, goods for resale and raw materials sold	31	(4 821 025)	(4 641 280)
Gross profit on sales		**751 265**	**492 714**
Selling expenses	31	(32 671)	(29 742)
Administrative expenses	31	(198 766)	(190 081)
Other operating income	33	46 451	56 205
Other operating expenses	33	(61 172)	(36 878)
Operating profit		**505 107**	**292 218**
Finance income	34	43 227	39 545
Finance costs	34	(34 657)	(31 535)
Shares in net (losses) of equity accounted subordinates	13	(2 272)	(3 427)
Gross profit		**511 405**	**296 801**
Income tax	24	(100 929)	(60 281)
Net profit from continuing operations		**410 476**	**236 520**
Net profit for the period		**410 476**	**236 520**
of which:			
Attributable to the shareholders of the Parent		***409 851***	***235 846***
Attributable to non-controlling interests	*21*	*625*	*674*

Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)	*35*	*16.05*	*9.24*

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2016	2015
Net profit for the period		**410 476**	**236 520**
Other comprehensive income which:			
Items to be reclassified to profit or loss upon satisfaction of certain conditions:			
Foreign exchange differences on translation of foreign operations	37	100	99
Deferred tax related to components of other comprehensive income		-	-
Items not to be reclassified to profit or loss:			
Actuarial gains/ (losses)	25	139	(804)
Deferred tax related to components of other comprehensive income	24	(26)	152
Other comprehensive income, net		**213**	**(553)**
Total comprehensive income for the period		**410 689**	**235 967**
of which:			
Attributable to the shareholders of the Parent		***410 053***	***235 293***
Attributable to non-controlling interests	*21*	*636*	*674*

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity

	Equity attributable to the shareholders of the Parent							Non-controlling interests	Total equity
			Other reserves						
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)	Foreign exchange differences on translation of foreign operations	Retained earnings	Total		
Balance as at 1 January 2016	**145 848**	**87 163**	**7 349**	**(2 548)**	**5 425**	**355 969**	**599 206**	**3 918**	**603 124**
Profit for the period	-	-	-	-	-	409 851	409 851	625	**410 476**
Other comprehensive income	-	-	-	102	100	-	202	11	**213**
Total comprehensive income for the period	-	-	-	**102**	**100**	**409 851**	**410 053**	**636**	**410 689**
Dividends (note 36)	-	-	-	-	-	(207 815)	(207 815)	-	**(207 815)**
Share-based payments (note 39)	-	-	(178)	-	-	-	(178)	-	**(178)**
Adjustment to non-controlling interests (note 21)	-	-	-	-	-	111	111	(111)	**-**
Balance as at 31 December 2016	**145 848**	**87 163**	**7 171**	**(2 446)**	**5 525**	**558 116**	**801 377**	**4 443**	**805 820**

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity (cont.)

	Equity attributable to the shareholders of the Parent							Non-controlling interests	Total equity
			Other reserves						
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)	Foreign exchange differences on translation of foreign operations	Retained earnings	Total		
Balance as at 1 January 2015	**145 848**	**87 163**	**6 712**	**(1 896)**	**5 326**	**276 112**	**519 265**	**3 244**	**522 509**
Profit for the period	-	-	-	-	-	235 846	235 846	674	**236 520**
Other comprehensive income	-	-	-	(652)	99	-	(553)	-	**(553)**
Total comprehensive income for the period	-	-	-	**(652)**	**99**	**235 846**	**235 293**	**674**	**235 967**
Dividends	-	-	-	-	-	(155 989)	(155 989)	-	**(155 989)**
Share-based payments (note 39)	-	-	637	-	-	-	637	-	**637**
Balance as at 31 December 2015	**145 848**	**87 163**	**7 349**	**(2 548)**	**5 425**	**355 969**	**599 206**	**3 918**	**603 124**

Warsaw, 16 March 2017

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	Note	Year ended 31 December 2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax		**511 405**	**296 801**
Adjustments for:			
Depreciation/ amortisation	31	25 923	22 348
Shares in net (profits)/ losses of equity accounted subordinates	13	2 272	3 427
Foreign exchange (gains)/ losses		(149)	(104)
Interest and shares in profits (dividends)		1 620	78
(Profit)/ loss on investing activities		1 682	(17 212)
Change in valuation of derivative financial instruments	15	(3 503)	(2 122)
Change in provisions and liabilities arising from retirement benefits and similar obligations		55 373	27 491
Other adjustments	37	(421)	664
Operating profit/ (loss) before changes in working capital		**594 202**	**331 371**
Change in receivables and retentions for construction contracts		(128 038)	84 023
Change in inventories		(277 665)	(218 608)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings		403 489	13 750
Change in deferred income		105 569	375 682
Change in amounts due and receivable under construction contracts		(3 994)	320 057
Change in cash and cash equivalents of restricted use	19	37 948	(124 087)
Cash flow from operating activities		**731 511**	**782 188**
Income tax paid		(120 009)	(82 929)
NET CASH FLOW FROM OPERATING ACTIVITIES		**611 502**	**699 259**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of intangible assets and property, plant and equipment		1 060	8 919
Proceeds from sale of non-current assets held for sale		-	14 000
Purchase of intangible assets and property, plant and equipment		(42 664)	(31 380)
Purchase of investment property	10	-	(38 788)
Liquidation of joint-venture	13	47	-
Purchase of shares in subsidiaries and associates	13, 14	(150)	(42 563)
Loans granted	15	(9 163)	(21 260)
Repayment of loans granted	15	-	40 248
Dividends received	13, 34	22	35
Interest received	15	1 918	299
Other investing inflows		-	28
NET CASH FLOW USED IN INVESTING ACTIVITIES		**(48 930)**	**(70 462)**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of loans and borrowings		(900)	(555)
Dividends paid	36	(207 815)	(155 989)
Payments of liabilities under finance lease		(11 808)	(12 437)
Interest paid		(1 925)	(1 902)
Other financial expenditure		(652)	(627)
NET CASH USED IN FINANCING ACTIVITIES		**(223 100)**	**(171 510)**
TOTAL NET CASH FLOW		**339 472**	**457 287**
Foreign exchange differences, net		484	100
CASH AND CASH EQUIVALENTS - OPENING BALANCE	**19**	**2 184 077**	**1 726 690**
CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**19**	**2 524 033**	**2 184 077**
Cash and cash equivalents of disposable groups		-	-
TOTAL CASH AND CASH EQUIVALENTS OF THE GROUP		**2 524 033**	**2 184 077**

Warsaw, 16 March 2017

Notes to the consolidated financial statements

1. General information

The parent company of the Budimex Group (hereinafter the "Group") is Budimex SA (the "Parent Company", the "Company" or the "Parent") with its registered office in Warsaw, ul. Stawki 40, entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register under KRS No. 1764.

The main scope of the Parent Company's business activities are broadly understood construction and assembly services, and rendering management and advisory services to other companies in the Budimex Group. The industry branch in which the Parent Company operates was classified by the Warsaw Stock Exchange as general construction and civil engineering business.

The main area of Group business activities are broadly understood construction and assembly services rendered under the system of general contracting at home and abroad, property development activities, property management, and limited scope trading, production, services and other business. Apart from the construction business, Budimex SA serves in the Group as an advisory, management and financial centre. These three functions are aimed at securing:

- efficient flow of information within Group structures,
- strengthening the efficiency of cash and financial management of individual Group companies,
- strengthening market position of the Group as a whole.

The Parent Company and other Group companies have an unlimited period of operation.

The Budimex Group operates as part of the Ferrovial Group with Ferrovial SA with its registered office in Madrid, Spain, as its parent company.

These consolidated financial statements were authorized by the Management Board of the Parent Company on 16 March 2017.

1.1 Going concern assumption

The consolidated financial statements of the Group for the year 2016 were prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of signing these consolidated financial statements, the Management Board of the Parent Company is not aware of any facts or circumstances that would indicate any threat to the main Group companies' continued activities after the reporting date due to an intended or compulsory withdrawal from or a significant limitation in their activities.

2. Key accounting policies

The main accounting policies applied during the course of the preparation of these consolidated financial statements are presented below. These accounting policies were applied consistently in all the periods presented, unless stated otherwise.

2.1 Basis of preparing consolidated financial statements

These financial statements for the year ended 31 December 2016 were prepared in accordance with International Financial Reporting Standards ("IFRSs") endorsed by the European Union and prevailing as at the reporting date.

Amendments to Standards applied for the first time in 2016

The following amendments to the existing Standards published by the International Accounting Standards Board (IASB) were endorsed by the EU and became effective in 2016:

- Amendments to IFRS 11 „Joint Arrangements" – *Accounting for Acquisitions of Interests in Joint Operations*, endorsed in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 „Presentation of Financial Statements" – *Disclosure Initiative*, endorsed in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 „Property, plant and equipment" and IAS 41 „Agriculture" – *Bearer Plants*, endorsed in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 „Property, plant and equipment" and IAS 38 „Intangible Assets" – *Clarification of Acceptable Methods of Depreciation and Amortization*, endorsed in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 19 „Employee Benefits" – *Defined Benefit Plans: Employee Contributions*, endorsed in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 „Separate Financial Statements" – *Equity Method in Separate Financial Statements*, endorsed in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Annual Improvements to IFRSs (Cycle 2010-2012) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38, mainly with a view to removing inconsistencies and ensuring wording clarification; endorsed in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Annual Improvements to IFRSs (Cycle 2012-2014) – improvements to IFRS 5, IFRS 7, IAS 19 and IAS 34, mainly with a view to removing inconsistencies and ensuring wording clarification, endorsed in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 „Consolidated Financial Statements", IFRS 12 „Disclosure of Interests in Other Entities" and IAS 28 „Investments in Associates and Joint Ventures" – *Investment Entities: Applying the Consolidation Exception,* endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016).

The above amendments did not have any significant impact on the current accounting policy of the Group.

Amendments to Standards already published, but not yet effective

At the date of the authorization of the attached consolidated financial statements, the Group did not apply the following Standards, which had been issued and authorised for use in the EU, but were not yet effective:

- IFRS 9 „Financial Instruments", endorsed in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 „Revenue from Contracts with Customers" and Amendments to IFRS 15 - *Effective date of IFRS 15*, endorsed in the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The Group has elected not to use the opportunity of early adoption of IFRS 9. The Group estimates that IFRS 9 would not have any material impact on the consolidated financial statements, had it been applied at the reporting date. With respect to IFRS 15, the Group has decided to adopt it in 2017. The Group estimates however that the early adoption of IFRS 15 will not have a material impact on the consolidated financial statements in the coming years.

Standards and amendments to Standards and IFRIC Interpretations adopted by IASB, but not yet endorsed by the EU

The IFRSs endorsed by the EU do not differ materially from regulations adopted by the International Accounting Standards Board (IASB), except for the below standards, amendments to Standards and IFRIC Interpretations, which as at the date of the preparation of these consolidated financial statements were not yet adopted for use:

- IFRS 14 „Regulatory Deferral Accounts" (the EU has decided to suspend the endorsement process),
- IFRS 16 „Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 „Share-based Payment" – *Classification and Measurement of Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 „Insurance Contracts" – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2018 or upon first-time application of IFRS 9 "Financial Instruments"),
- Amendments to IFRS 10 „Consolidated Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures" – *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (the EU suspended the endorsement process for an indefinite period of time),
- Amendments to IAS 7 „Statement of Cash Flows" – *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 „Income Taxes" – *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017),
- Explanations to IFRS 15 „Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- Annual Improvements to IFRSs (Cycle 2014-2016) – improvements to IFRS 1, IFRS 12 and IAS 28, mainly with a view to removing inconsistencies and ensuring wording clarification (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018),
- Amendments to 40 "Investment Property" - *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 „Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Group estimates that the application of IFRS 16 „Leases" may, to some extent, increase both its non-current assets and its financial liabilities. At the same time, positive impact on operating result and negative impact on the result from financing activities are expected. These changes are, however, to offset so that the implementation of IFRS 16 will not bear any material impact on Group's net result. The remaining standards, standards amendments or improvements and the IFRIC Interpretation would not have any material impact on the consolidated financial statements, had these been applied by the Group at the reporting date.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose policies have not been adopted for use by the EU, is still unregulated. The Group does not apply hedge accounting to its portfolio of financial assets and financial liabilities and therefore any potential changes thereto would not have any impact on the consolidated financial statements of the Group.

The consolidated financial statements were prepared under the historical cost convention, except for the hyperinflation adjustment described in note 20, and except for certain financial instruments measured at fair value at the end of each reporting period in compliance with the accounting policies described below.

In principle, historical cost is determined based on the fair value of the payment for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the principal (or the most advantageous) market at the measurement date and under current market conditions, irrespective of whether the price is directly observable or estimated using another valuation technique. When re-measuring an asset or a liability to fair value, the Group takes into account factors specific to the asset or liability, provided such factors are considered by market participants at asset or liability measurement date. For the purpose of measurement and/or disclosure in the consolidated financial statements of the Group, fair value is defined on the above basis, except for share-based payments which are within the scope of IFRS 2, leasing transactions which are within the scope of IAS 17, as well as measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The Group classifies fair value measurements using the following fair value hierarchy that reflects the significance of a particular input to the entire measurement:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),
- Level 3 inputs: input data for the asset or liability that are not based on observable market data (i.e. unobservable source data).

2.2 Principles of consolidation

Subsidiary companies

The consolidated financial statements comprise the financial statements of the Parent Company and the financial statements of the entities controlled by the Parent Company prepared as at the reporting date. Control takes place where the Parent Company controls the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiary companies are subject to full consolidation from the date the Group obtains control over them until such time as the control ends. Comprehensive income of subsidiary companies is attributable to the owners of the Parent Company and to non-controlling interests, even if such attribution results in a deficit balance of non-controlling interests.

The financial statements of subsidiary companies are prepared for the same reporting period as the financial statements of the Parent Company using uniform accounting policies for like transactions and other events in similar circumstances.

Consolidation procedure

The following policies were observed while performing full consolidation of subsidiary companies:

- all like items of assets and liabilities of subsidiary companies and the Parent Company were combined in full amounts, irrespective of the share of the Parent Company in those assets and liabilities,
- all like items of revenues and expenses of subsidiary companies and the Parent Company were combined in full, irrespective of the ownership share of the Parent Company of the given subsidiary (i.e. irrespective of the Parent's interest in the given subsidiary),
- consolidation adjustments and exclusions were made after data combining.

The following were excluded from the consolidated financial statements:

- equity of subsidiary companies that originated prior to obtaining control over those entities,

- value of shares in the subsidiary companies held by the Parent Company or other entities consolidated by subsidiaries,
- intra-Group receivables and liabilities and other similar settlements of the entities included in consolidation,
- revenues and costs arising from business operations between entities included in consolidation,
- unrealised, from the point of view of the Group, gains from operations between entities included in consolidation, and included in the value of consolidated assets and liabilities, as well as unrealised losses, unless the transaction proves the impairment of the asset acquired,
- dividends accrued or paid by subsidiary companies to the Parent Company or to other entities subject to consolidation.

The consolidated net result is attributed to the shareholders of the Parent Company and to non-controlling interests.

Associates

An associate is an entity over which the Parent Company has significant influence and which is not a subsidiary of the investor or a joint arrangement of the investor. Significant influence means the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Investments (shares) in associates are measured using the equity method, except where the investment is classified as held for sale. Investments in associates are stated at acquisition cost after considering changes in the share in net assets of the company that occurred until the reporting date, less impairment of individual investments. Losses of associates in excess of the Group's investment in the associate are *not* recognised, insofar as there is no commitment by the Parent to absorb losses or to make payment on behalf of the associate.

Any excess of acquisition cost above the Group's share of the net fair value of identifiable net assets (inclusive of contingent liabilities) of an associate at acquisition date is recognised as goodwill, and increases the value of the investment in associate. Where the acquisition cost is lower than the Group's share of the net fair value of identifiable net assets (inclusive of contingent liabilities) of an associate at acquisition date, the difference is recognised as gain at the time of establishing Group's share in the associate's profit or loss for the period in which the acquisition took place.

Joint arrangements

Share of the Group in joint arrangements is recognised:

- as joint operation - (registered partnerships, civil law partnerships – where the Group has right to its share in the assets and obligations for the liabilities relating to the arrangement) - its assets and liabilities (including share in the assets and liabilities held/incurred jointly), the part of its revenues and costs of joint activities is included directly in the books of account of partners,
- as joint venture (companies – where the Group has right to company's net assets) – these entities are consolidated using the equity method.

Transactions with non-controlling interests without control change effect

Transactions with non-controlling interests without control change effect are recorded in correspondence with equity.

Acquisitions of entities which are not under joint control

Acquisitions of subsidiaries, except for acquisitions of entities under joint control, are accounted for using the purchase method.

The consideration transferred in a business combination transaction is measured at fair value and is calculated as the sum of the acquisition-date fair value of assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity instruments issued by the Group in exchange for obtaining control over the acquiree. Acquisition related costs are recognised in the profit or loss when incurred.

At acquisition date, the identifiable assets and liabilities are measured at fair value, except for the following:

- deferred tax assets and deferred tax liabilities resulting from deferred income tax are recognised and measured in accordance with IAS 12 "Income tax", and liabilities and assets, if any, related to employee benefit arrangements are recognised and measured in accordance with IAS 19 "Employee benefits";
- liabilities or equity instruments relating to share-based payment programs operated by the acquiree or the Group that are to replace similar arrangements operated by the acquire are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date, and
- acquired non-current assets (or groups of assets) classified as held for sale at the acquisition date are measured in accordance with the requirements of IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations".

Goodwill is valued as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired entity (acquire) and the fair value of shares in the acquired entity previously held by the acquirer over the net of the acquisition date fair value of identifiable acquired assets and liabilities. If after another testing, the net acquisition-date value of

identifiable assets and liabilities exceeds the sum total of the consideration transferred, the value of non-controlling interest in the acquired entity and the fair value of shares in the acquired entity previously held by the acquirer, the surplus is recognised directly in profit or loss as gain on a bargain purchase.
Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of entity's liquidation are initially measured at either fair value or at the present ownership instrument's proportionate share in the recognised amounts of the acquiree's identifiable net assets. Measurement method is selected by the Group individually for each acquisition.

If the consideration paid in business acquisition includes any contingent asset or contingent liability, the contingent consideration is measured at the acquisition-date fair value and is recognised as part of the consideration transferred in business acquisition transaction. Changes in the fair value of contingent consideration representing measurement period adjustment are recognised retrospectively in correspondence with appropriate goodwill adjustments. Measurement period adjustments include those arising from obtaining additional information concerning measurement period (which cannot be longer than one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Changes in the fair value of contingent consideration which do not qualify as measurement adjustments are recognised depending on the classification of contingent payment. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is re-measured at ensuing reporting dates in accordance with IAS 39 or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", with any resulting gain or loss recognised in profit or loss.

In case of a business combination achieved in stages, the Group re-measures its previously held interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in profit or loss. Any amounts arising from interest held in the acquired entity in prior reporting periods and recognised in other comprehensive income are taken to profit or loss, if such treatment is correct upon interest disposal.

If the initial accounting for business combination is not complete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items, for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date (see above) or recognises additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date, which, if known, would affect the amounts recognised as at that date.

Acquisition of jointly controlled entities

Business combinations arising from transfers of interests in entities that are directly or indirectly under the control of the main shareholder who, at the same time, controls the Budimex Group are accounted for using the pooling of interests method, i.e. as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that joint control was established. The acquired assets and liabilities are recognised at their carrying amounts after bringing into line any dissimilar accounting policies that may exist, and after making appropriate consolidation exclusions. Subject to exclusion is equity of the acquired company while all differences between carrying amounts and purchase price are recognised directly in the consolidated equity under retained earnings. Subject to exclusion are also intra-Group receivables and liabilities, revenues and expenses realised in intra-Group business transactions, gains and losses from pre-acquisition business transactions capitalised in the value of consolidated assets and liabilities. Costs relating to acquisition of entities under common control are taken to other operating activities in the period, in which they were incurred.

Loss of control

Where the Group loses control of a subsidiary, any resulting gain or loss is calculated as a difference between:

- the sum total of the fair value of the consideration received and fair value of the investment retained, and
- the carrying amount of assets (including goodwill) and liabilities of the subsidiary,

and recognised in profit or loss. If assets of the subsidiary are measured at re-valued amount or at fair value, and the resulting accumulated gain or loss is recognised in other comprehensive income and taken to equity, the amounts that were previously recognised in other comprehensive income and accumulated in equity are accounted for as if the assets were directly disposed of (i.e. they are reclassified to profit or loss or transferred directly to retained earnings, as required by appropriate IFRSs). At the date of loss of control, the fair value of an investment retained in the former subsidiary is treated as fair value upon investment initial recognition, which is subsequently accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or is treated as cost upon initial recognition of an investment in an associate or jointly controlled entity.

2.3 Foreign currency transactions and valuation of foreign currency items

Functional and presentation currency

Items recognised in the financial statements of individual Group entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements of the Group are presented in the Polish zloty, which is the functional and presentation currency of the Parent Company. Figures in the financial statements are rounded up to the nearest PLN thousand, unless stated otherwise in specific cases.

Transactions and balances

Foreign currency transactions are initially stated in the functional currency; for translation of foreign currency balances into functional currency, spot exchange rate prevailing on the transaction date is used.

At each reporting date:

- monetary items expressed in foreign currency are translated using the closing rate,
- non-monetary items stated at historical purchase price or at cost of production expressed in foreign currency are translated using the exchange rate prevailing on the transaction date,
- non-monetary items stated at fair value expressed in foreign currency are translated using the exchange rates prevailing on the date, on which the fair value was determined.

Foreign exchange differences relating to foreign currency assets and liabilities that originated on the date of assets and liabilities measurement, on settlement of foreign currency receivables and payables as well as on sale of currencies are included under finance income or finance costs, as appropriate. In the event of non-monetary items stated at fair value, where gains or losses on re-measurement to fair value are recognised in equity, then the foreign exchange differences are also recognised in equity. If gains or losses from re-measurement to fair value are included in the profit and loss account, the translation exchange differences are also recognised in the profit and loss account.

Foreign operations and interest in subsidiaries using other functional currencies

The financial result, assets, equity and liabilities of foreign operations of Group entities as well as those of the Group subsidiaries with a functional currency other than that of the Parent Company (provided their functional currency is not the currency of a hyperinflationary economy) are translated into Polish zloty as follows:

- assets and liabilities of branches and of each of the presented statement of financial position of a company with a different functional currency (i.e. including comparative data) are translated using the closing rate prevailing at the reporting date,
- revenues and costs in each profit and loss account (i.e. including comparative data) are translated using the average exchange rate (unless application of the average exchange rate would materially differ from the values obtained using the exchange rate prevailing on the transaction date),
- all resultant exchange differences are recognised as a separate item of other comprehensive income, and accumulated as an item of equity under "foreign exchange differences on translation of foreign operations".

In the event of disposal of a foreign operation, the accumulated amount of deferred foreign exchange differences recognised as a separate item of equity is recognised in the financial result upon recognition of profit or loss on disposal of this entity.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost or cost of production less accumulated depreciation and impairment losses. Land is stated at cost less accumulated impairment losses.

Property, plant and equipment, except for land, are depreciated in the manner reflecting the pattern of consumption of economic benefits of specific items so as to spread their initial cost reduced by residual value over the period of their estimated useful lives. Depreciation starts when a given item of property, plant and equipment is available for use. The useful lives of the Group's property, plant and equipment are as follows:

- perpetual usufruct right to land 40 – 78 years
- buildings and constructions 10 – 67 years
- plant and machinery 2 – 17 years
- means of transport 2 – 14 years
- other [tangible fixed assets] 2 – 14 years

Any subsequent expenditure is included in the carrying amount of a given fixed asset or is recognised as a separate item, if and only if it is probable that an inflow of economic benefits will flow to the Group and the cost of the item may be reliably measured. Other costs incurred since the initial recognition such as costs of repair, overhaul or operating fees affect the financial result for the reporting period, in which they were incurred, except for the significant costs of overhauls which are recognised in the carrying amount of (capitalised in) the appropriate item of property, plant and equipment.

Verification of the recoverable amounts and useful lives of property, plant and equipment is performed at least once a year and, if necessary, their values are adjusted.

Where the carrying amount of a given item of property, plant and equipment exceeds its estimated recoverable amount, the carrying amount is immediately reduced to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by way of comparing sale proceeds with assets carrying amount and are recognised in the profit or loss.

Construction in progress

Construction-in-progress is stated at the amount of aggregate costs directly attributable to the acquisition or production of such assets, including financing costs, less any impairment losses. Construction-in-progress is not depreciated until completed and brought into use.

2.5 Investment property

Investments in property (investment property) are initially stated at acquisition cost or cost of production, after including transaction costs. After initial recognition, investment property, except for land and properties meeting the classification criteria of held for sale items, is depreciated in the manner reflecting the pattern of consumption of economic benefits from those assets and adjusted for accumulated impairment losses.

The useful lives of the Group's investment property are as follows:

- perpetual usufruct right to land 40 – 78 years
- buildings and constructions 2 – 50 years
- other investment property 2 – 22 years

2.6 Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are directly attributable to the assets will flow to the company and that the acquisition cost or cost of development of an intangible asset can be reliably measured.

Initially, intangible assets are stated at cost or cost of development. Following initial recognition, intangible assets are stated at cost or cost of development less accumulated amortisation and total value of impairment losses.

Intangible assets are amortized in the manner reflecting the pattern of consumption of economic benefits from those assets over their estimated useful lives. The expected useful lives of the Group's intangible assets are as follows:

- patents and licenses 5 – 10 years
- software 2 – 10 years

The estimated useful lives and the amortisation method are subject to review at the end of each financial year and the results of changes in estimates are accounted for prospectively.

2.7 Long-term assets (disposal groups) classified as held for sale

Included in this group are non-current assets (or disposal groups) provided their carrying amount will be recovered through disposal rather than through further use of the asset.

Non-current assets (or disposal groups) are measured at the lower of carrying amount and fair value less selling expenses. The fair value of non-current assets (disposal groups) classified as held for sale is defined in accordance with IFRS 13.

2.8 Goodwill

Goodwill is the excess of the aggregate of:

- the consideration transferred measured at acquisition-date fair value;
- contingent consideration, measured at acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree measured either at its fair value or at its proportionate interest in the net identifiable assets;
- in a business combination achieved in stages, measured at acquisition-date fair value of the acquirer's interest previously held in the acquired entity;

over the fair value of net identifiable assets at the acquisition date, including exceptions provided in IFRS 3.

Goodwill represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

Goodwill is recognised under assets and is not subject to amortisation, but is tested for impairment at least on an annual basis. Any impairment loss is recognised directly in the profit and loss account and is not subject to reversal in the subsequent reporting periods.

If the activities belonging to a cash generating unit to which the goodwill was allocated are to be disposed of, then the goodwill allocated to the activities disposed of is accounted for when determining gain or loss on sale.

Goodwill that originated prior to transitioning to IFRSs was recognised at the value determined using the earlier applied accounting policies and was tested for impairment at the date of transitioning to IFRSs. In addition, goodwill is tested annually for impairment and is recognised in the statement of financial position at cost less accumulated impairment losses. For impairment testing purposes, goodwill is allocated to cash generating units.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

2.9 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such assets are generally fit for the intended use or disposal.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

In the Budimex Group, the qualifying assets are mainly inventories in developer companies as well as property, plant and equipment, investment property and intangible assets.

2.10 Leases

The Group companies are parties to lease agreements under which they use third-party tangible fixed assets over an agreed period of time in return for payments.

In the case of a finance lease agreement, which transfers substantially all of the risks and rewards of ownership of an asset, the leased asset is recorded under fixed assets or investments at fair value or at the present value of minimum lease payments determined at lease term inception, if the present value is lower than the asset's fair value. Lease payments are apportioned between finance costs and reduction of the outstanding lease liability so as to produce a constant rate of interest on the outstanding lease liability.

Leased assets are depreciated over the shorter of asset's expected useful life and the lease term, if there is any uncertainty regarding the transfer of the ownership of the asset before lease term completion.

Lease payments made under lease agreements which do not meet the criteria of finance leases are recognised in profit or loss on a straight line basis over the lease term.

Finance costs are recognised directly in profit or loss in accordance with policies described in note 2.9.

2.11 Impairment of non-financial assets

An assessment is made by the Group companies at each reporting date to determine whether there is any objective evidence that a non-financial asset or a group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The latter corresponds to the present value of estimated future cash flows discounted using the pre-tax discount rate, which includes the current market assessment of the time value of money and the risk specific to a given item of assets.

For the purpose of impairment testing, assets are grouped on the lowest possible level, on which identifiable separate cash flows occur (cash generating units). A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognised in the profit and loss account.

If a previously recognised impairment loss is reversed, the carrying amount of an asset (or a cash generating unit) is increased to a new estimated recoverable amount. That increased amount cannot exceed the carrying amount of this asset that would have been determined, had no impairment loss been recognised for the asset (cash generating unit) in prior years. Such reversal is recognised immediately in the profit or loss.

2.12 Prepayments for non-financial assets

Prepayments for property, plant and equipment, investment property, intangible assets or inventories ("Prepayments made") are recognised under short-term receivables.

2.13 Inventories

Inventories comprise raw materials, goods for resale, work in progress and finished goods. In classifying inventory items to individual categories, the following policies are applied by the Group:

- Raw materials – represent items kept in warehouses or other places of storage that are to be used in production processes, especially to be consumed in construction activities,
- Work in progress – represents costs of uncompleted development projects, including land used during performance of those projects, as well as general purpose and low processed inventory items which are stored on construction sites and which may be used, in a simple way and without incurring significant costs, for the realisation of other contracts, or sold (if considered unnecessary for given contract performance),
- Goods for resale – inventory items purchased for re-sale purposes,
- Finished goods – internally developed goods for which the process of development was completed as well as flats, service spaces/ premises and completed constructions ready for sale.

Excluded from inventories are items stored on construction sites which are to be used for a given construction project or processed either internally or externally by a subcontractor, which are not certain to be simply used for other contracts performance or sold. Such items are recognised directly in contract costs.

Inventories are measured at the lower of cost or cost of production and net realisable value.

Net realisable value is the selling price estimated at the reporting date, net of VAT and excise taxes, less any rebates, discounts and other similar items, less the estimated costs to complete and costs to sell.

Issues/ decreases of raw materials are measured at cost determined as the weighted average price of raw materials, Issues/ decreases of goods for resale are measured at cost determined on the “first in – first out” basis, while those of the work in progress and finished goods – at the cost of direct materials and labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

2.14 Cash and cash equivalents

Cash on hand and cash at bank is carried at nominal value.

Cash and cash equivalents presented in the cash flow statement comprise cash on hand, a-vista deposits and these bank deposits which can easily be changed into known amount of cash and which incur insignificant risk of price fluctuations.

Included in the cash of restricted use are mainly cash items representing:

- security for bank guarantees,
- funds gathered at open housing escrow accounts,
- cash at escrow accounts and current accounts in the part due to construction contract contractors together with a Group company.

The Group recognises cash of restricted use in the statement of financial position under cash and cash equivalents, while for the purpose of cash flow statement – the balance of cash at the beginning and at the end of the reporting period is reduced by cash of restricted use, and change in their balance is recognised under cash flow from operating activities.

2.15 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Group when the Group becomes a party to a binding agreement. The financial instruments held are classified into the following categories:

- Financial assets: financial assets available for sale, investments held to maturity, loans and receivables and financial assets at fair value through profit or loss (inclusive of derivative financial instruments);
- Financial liabilities and equity instruments: bank loans and borrowings, trade liabilities, retentions for construction contracts, liabilities at fair value through profit or loss (inclusive of derivative financial instruments).

The above classification is based on the criterion of the purpose of the investment acquired or the liability incurred. The Management Board determines the classification of a given item upon item initial recognition, and subsequently verifies this initial classification at each reporting date. During the period covered by these consolidated financial statements, the Group did not hold any financial instruments classified as held to maturity.

Financial assets and financial liabilities at fair value through profit or loss

This category covers the following two sub-categories:

- Financial assets and financial liabilities held for trading, and
- Financial assets or financial liabilities classified upon initial recognition at fair value through profit or loss with gains or losses recognised in profit or loss.

A financial asset or financial liability is classified as held for trading if it is:

- acquired or incurred with a view to selling or repurchasing in a near term,
- a derivative (except for a derivative that is designated as an effective hedging instrument).

The transactions of investment purchase or sale, commitment or liability discharge are recognised at the transaction date, i.e. at the date on which the Group becomes party to the underlying contract. Investments are initially measured at fair value. Transaction costs concerning acquisition are recognised in the profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Trade receivables arising from executed construction contracts or prepayments made (but not classified as financial instruments) are recognised as current receivables, since it is expected that these will be settled during the course of a normal operating cycle of the entity.

Receivables from retentions for construction contracts and loans with a maturity of less than 12 months are recognised as current assets. Long-term receivables arising from retentions for construction contracts are discounted to the present value using the effective interest rate.

Trade loans and receivables are initially stated at fair value and subsequently – at amortised cost less impairment losses. Impairment losses are recognised if objective evidence exists that the Group will not be able to recover all amounts due under original receivables' terms and conditions.

Investments held to maturity

Investments held to maturity are non-derivative financial assets that are not classified as financial assets held for trading or loans and receivables, with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Investment purchase or sale transactions are recognised at the transaction date, i.e. the date on which the Group commits to purchase or sell a given asset item. Investments held to maturity are initially stated at fair value increased by transaction costs; after initial recognition, investments held to maturity are measured at amortised cost less impairment losses, if any.

Available for sale financial assets

Financial assets available for sale are non-derivative financial instruments not classified to any of the preceding categories of financial instruments. These are recorded under long-term assets, unless the Group intends to dispose of these investments within 12 months of the reporting date. If the investment is intended for disposal within 12 months of the reporting date, such assets are reclassified to current assets.

Asset purchase or sale transactions are recognised at the transaction date i.e. at the date, on which the Group commits to purchase or sell a given asset. Assets are initially recognised at fair value increased by transaction costs. This relates to all financial assets not classified as at fair value through profit or loss with gains or losses recognised in profit or loss. Assets are derecognised when the contractual rights to the underlying cash flow expired or were transferred, and the Group transferred substantially all of the risks and rewards of the ownership of the assets.

Following initial recognition, available for sale financial assets are measured at fair value. Gains or losses arising from changes in asset fair value are recognised in the period in which they originated. Gains and losses arising from the difference between asset fair value (if there is a market value determined on an active market or if fair value can be determined in another reliable manner) and acquisition cost, less deferred tax, are taken to other comprehensive income. Gains and losses arising from changes in the fair value of available for sale financial assets which are monetary items that result from foreign exchange differences are recognised in the profit or loss for the period in which they arose. Where the fair value is not determinable, available for sale financial assets constituting non-monetary items are measured at acquisition cost less impairment losses, if any. In the case of disposal of securities classified as "available for sale" or in the case of their loss of value, the cumulative fair value adjustments recognised in other comprehensive income in equity are taken to the profit or loss as gains/ losses on financial assets.

At each reporting date, an assessment is made to determine whether there is any objective evidence that an item of financial assets or a group of financial assets may be impaired. In case of equity securities classified as "available for sale", in determining financial asset impairment, a significant or extended loss of asset fair value below its cost is taken into account. If such evidence exists, in case of available for sale financial assets with measurable fair value, cumulative losses incurred to date calculated as the difference between acquisition cost and current fair value, less impairment losses recognised previously in profit or loss, are derecognised from equity and recognised in profit or loss. Where fair value measurement is not possible, any impairment losses are recognised directly in the profit or loss.

Trade liabilities and retentions for construction contracts

Initially, trade liabilities are measured at the present value of the amount due and payable, while in the subsequent reporting periods – at amortised cost.

Trade liabilities arising from construction contracts in progress are classified as current liabilities as it is expected that they will be settled during the course of the normal operating cycle of the entity.

Liabilities arising from retentions for construction contracts with settlement date of less than 12 months are recognised as current liabilities. Long-term liabilities arising from retentions for construction contracts are discounted to the present value using the effective interest rate. Short-term retentions for construction contracts are initially measured at the present value of anticipated payment and recognised in the subsequent periods at amortised cost.

Loans and borrowings and other external sources of finance

Bank loans and borrowings and other external sources of finance are initially stated at fair value adjusted by transaction costs which may be directly attributed to acquisition or issue of financial liabilities item. At the reporting date, these financial liabilities are measured at amortised cost using the effective interest rate.

Derivative financial instruments

Group companies enter into derivative transactions to hedge against foreign currency risk and interest rate risk. Policies on the use of derivative financial instruments have been described in the risk management policy of the Group approved by the Management Board as described in detail in note 3 “Financial risk management”.

At the reporting date, derivative financial instruments are measured at reliably determined fair value. The fair value of derivative financial instruments is assessed using the model which is based, among others, on currency exchange rates (average NBP rates) prevailing at the reporting date or on differences in interest rate levels of the quotation and base currencies.

The effects of periodic valuation of FX forward contracts and FX options as well as gains and losses determined at the date of their settlement are reported in the profit and loss account under "Other operating income (expenses)" as part of operating activity.

The effects of periodic valuation of interest rate swaps (IRSs) as well as gains and losses determined at the date of their settlement are reported in the profit and loss account under "Finance income (finance costs)" as part of financing activity.

Group companies do not apply hedge accounting.

As regards transactions on the money, equity or derivatives markets, Group companies cooperate with banks of good financial standing and thus do not contribute to significant credit risk concentration.

2.16 Equity

Equity

Issued capital comprises ordinary shares and is recorded at nominal value (consistently with the provisions of Parent Company’s Articles of Association and entry in the National Court Register) adjusted by the effects of hyperinflation for the period, in which Polish economy was hyperinflationary.

Share premium represents a difference between the price for which Parent Company’s shares were taken up and their nominal value. It was adjusted by the effects of hyperinflation for the period, in which Polish economy was hyperinflationary.

Other reserves cover the costs of introduction by Ferrovial SA of the share-based payment plan (note 2.18) as well as actuarial gains/(losses) on retirement benefits and similar obligations.

Foreign exchange differences on translation of foreign operations comprise the effect of translation of the financial statements of foreign operations of the Group from foreign currencies to Polish zloty (PLN).

Equity attributable to non-controlling interests

Equity attributable to non-controlling interests is the part of equity of a subsidiary consolidated using the full method, which is attributable to the shareholders other than those of the entities belonging to the Group.

Net profit (loss) of a subsidiary in the part belonging to the shareholders other than the entities belonging to the Group represents gain/ (loss) of non-controlling interests.

2.17 Employee benefits

Group entities operate retirement benefits/ pension plan programs and to this end create provisions for the present value of their underlying liabilities. Payments under these programs are expensed to the profit or loss so as to ensure that the costs of those benefits are spread over employees' entire working lives at the companies. The amount of the provision is determined by an independent actuary using the projected unit credit method. Actuarial gains and losses on post-employment benefits are recognised in other comprehensive income and are not transferrable to profit or loss.

Future Group employee benefits and allowances are not funded as no separate fund is recognised for this purpose.

2.18 Share-based payments

Ferrovial SA operates own equity-settled, share-based compensation plan under which employees of the Group render services to the Parent Company and its subsidiaries in exchange for equity instruments of Ferrovial SA. In accordance with IFRS 2, the fair value of employee services provided in exchange for equity awards of Ferrovial SA is recognised in the consolidated financial statements as an expense with a corresponding increase in equity, over the period in which vesting conditions are fulfilled (vesting period). The fair value of employee services is indirectly measured by reference to the fair value of equity instruments at the grant date. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the entire transaction so that, ultimately, the cost of services received is based on the number of equity instruments that are expected to vest.

Pursuant to an agreement with the Ferrovial Group concluded in 2014, Budimex SA undertook to cover program costs with respect to the tranche of equity instruments granted in 2014 and in the ensuing years. Therefore, the fair value of employee services related to equity instruments granted in 2014 and in the ensuing years was classified as liabilities (with a corresponding cost entry).

2.19 Provisions

Group entities create provisions for future liabilities, the maturity or amount of which are not certain. Provisions are recognised when:

- the company has a present obligation (legal or constructive) as a result of a past event, and
- it is highly probable that settlement of this obligation will result in an outflow of resources embodying economic benefits, and
- a reliable estimate can be made of the amount of this obligation.

Group entities create provisions for costs of future warranty repairs because they are required to provide warranty for their construction services rendered. Warranty provision relates to construction segments and has the amount ranging from 0.3% to 1.4% of total revenue from a given contract. This value is assessed on an individual basis and in justified cases may be increased or decreased. The cost of future warranty repairs are recognised in the cost of goods sold.

2.20 Recognition of revenues and expenses

Sales revenue is stated at the fair value of payments received or receivable and represents receivables for finished goods, goods for resale and services provided under regular business activities, less rebates, VAT and other sale-related taxes.

Revenue from sales of goods for resale are recognised when the goods were delivered and all rights attached to the goods have been transferred, and when all the following conditions have been met:

- significant risks and rewards of ownership were passed from the Group to the buyer,
- the Group transferred management functions to the extent generally associated with ownership right and effective control over goods sold,
- the amount of revenue may be reliably estimated,
- it is probable that the transaction-related economic benefits will flow to the entity, and
- transaction-related costs already incurred or anticipated can be reliably measured.

Payments received for goods not delivered or services not completed are recognised in the statement of financial position under deferred income.

Revenue from performance of construction contracts is recognised in accordance with the accounting policies of the Group presented below.

Interest income is recorded on a cumulative basis with respect to the principal amount due, using the effective interest rate method. Dividend income is recognised upon determining shareholder right to receive payment.

In accordance with the accruals concept, the Group recognises in the profit and loss account all costs relating to the given reporting period, irrespective of the period in which they were actually settled. Incurred costs that do not relate to the given reporting period are recognised under assets as prepayments (included under "trade and other receivables"), while the costs of the period that were not incurred – under accruals (included under "trade and other payables").

2.21 Construction contracts

Revenue from uncompleted construction service for the period from contract date to the reporting date, less revenues that affected financial result in prior reporting periods, is determined in proportion to stage of service completion, if this can be reliably measured. The Group companies measure stage of service completion using the proportion method that measures the proportion that the contract costs incurred for work performed to date bear to the estimated total contracts costs, and using the surveys of work performed method *(metoda obmiaru wykonanych prac).*

When it is possible that total contract costs will exceed total contract revenue, the expected loss (excess of cost over revenue) is recognised as an operating expense.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Included in assets are the amounts due and receivable from customers (ordering parties) for contract works, with reference to all contracts in progress, for which recognised profits exceed progress billings. The outstanding invoiced amounts due and payable for the contract work performed are recognised under “Trade and other receivables”, while the amounts retained by contractors - under “Retentions for construction contracts”.

Included in liabilities are the amounts due and payable to investors under all construction work, with reference to all contracts in progress, for which progress billings exceed recognised profits. Recorded under "Amounts due and payable to customers under construction contracts" are also provisions for contract losses. The outstanding amounts due and payable to suppliers, for which invoices have been received are recognised under “Trade and other payables”, while the amounts retained for suppliers - under “Retentions for construction contracts”.

2.22 Developer contracts

Revenue from sale of developer production is recognised when all significant risks and rewards of property ownership are transferred to the ultimate consumer. The Group deems that the transfer of risks, control and rewards takes place upon signing of a notarial deed transferring ownership right to the acquired property.

Developer companies keep records that allow to determine the amount of costs relating to individual project elements which may be sold separately. Upon recognition of sales revenue, the Company recognises the cost of construction of a given area by reducing finished goods by the share of the premises sold in the total area of a given type of premises.

2.23 Revenue and expenses of service concession arrangements

The Group companies are party to service concession arrangements which include construction, operation and maintenance of public utility buildings for a determined period of time in exchange for consideration over the term of arrangement. Such agreements are executed with public sector entities (grantors) who control or regulate the services the operators must provide with the infrastructure, to whom they must provide them and at what price. In service concession arrangements, grantors also control significant residual interest in the infrastructure at the end of the term of the arrangement. The financial impact of such arrangements is recognised by the Group under “Service concession arrangements” in accordance with IFRIC 12.

The operator recognises and measures revenues and costs of construction services provided in accordance with IAS 11, while the revenues and costs of management/maintenance services - in accordance with IAS 18, i.e. at the time of the transfer of all significant risks and rewards.

Arrangement consideration may be recognised in the statement of financial position as a financial asset (option 1), as an intangible asset (option 2) or as a mixed model (option 3).

Option 1: The value of guaranteed consideration (unconditional contractual right to receive cash or other financial assets from or at the direction of the grantor for construction services) for the entire term of the arrangement in present values is higher than the fair value of revenues from construction services - in which case a financial asset with a value equating fair value of revenues from construction services is recognised.

Option 2: The operator does not receive guaranteed consideration, but the right (a licence) to charge users of the public service with a total value depending on the degree of the public use of such service – in this case, an intangible asset is recognised with a value equating fair value of revenues from construction services, with an expectation to cover the difference by proceeds from sale of services.

Option 3: The value of guaranteed consideration for the entire term of the concession arrangement in present values is lower than the fair value of revenues generated from construction service - in this case, a financial asset is recognised with a value not higher than the present value of guaranteed consideration, as well as an intangible asset with a value equating a difference between the fair value of revenues from construction services and recognised financial asset, with an expectation to cover the difference by proceeds from sale of services.

In order to define the nature/ type of such consideration as well as the value to be disclosed in the statement of financial position, a test is performed at the date of the arrangement to confirm to what extent the payments guaranteed under the concession arrangement may cover consideration for construction services expressed at fair value.

A discount rate reflecting the weighted average cost of operator capital is applied to calculate the present value of guaranteed consideration.

In the financial year ended 31 December 2016, Group companies were party to only one concession arrangement, for which the relevant test disclosed that the value of guaranteed consideration for the term of the arrangement calculated in present values is higher than the fair value of receivables from the construction service provided. Thus, the receivables under the construction services were recognised using the option no. 1, i.e. as a financial asset.

The assets are recognised under “Receivables from service concession arrangements” in the statement of financial position, as they are classified as loans and borrowings in accordance with IAS 39. The assets are measured at amortised cost, using the effective interest rate method. Assets increases resulting from the reflection of the time value of money are recognised under “Finance income” in the profit and loss account.

In addition, at the end of each settlement period, the assets are reduced by the amount of payments from guaranteed consideration allocated to each period proportionally to the share of construction service consideration in the entire amount of guaranteed consideration provided under service concession arrangement.

Such assets are tested for impairment at each reporting date.

Revenues generated from payments imposed on public utility service users, above the value of guaranteed consideration, are recognised as revenues from operation/maintenance at the time of service provision.

In the event the operator is contractually obligated to maintain or restore the infrastructure to a specified level of serviceability (modernisation excluded), such obligation is recognised as provision in accordance with IAS 37.

In accordance with IAS 23, borrowing costs related to service concession arrangement are recognised as an expense when incurred, unless the operator has the contractual right to obtain intangible assets. If this is the case, borrowing costs related to service concession arrangements are capitalised during the construction stage (as per the standard referred to above). In the concluded service concession arrangement, the Group recognised financial assets and therefore, the costs of financing are expensed to the profit or loss under “finance costs”.

2.24 Gross profit/ (loss) on sales

Gross profit/ (loss) on sales is the difference between:

- revenue from sale of ordinary production and other services rendered as part of ordinary business activities of the Group, and from sale of goods for resale and raw materials, and
- the cost of finished goods and services sold and the purchase cost of goods for resale and raw materials sold.

2.25 Operating profit/ (loss)

Operating profit/ (loss) covers revenues and costs of operating activities without taking into account finance costs and finance income, which primarily include interest, foreign exchange differences and cost of commission and bank guarantees.

2.26 Income tax (incl. deferred tax)

The item "income tax" in the profit and loss account includes current and deferred tax.

Income tax on revenues earned in Poland is calculated in accordance with Polish tax regulations, while revenues from foreign operations are subject to local tax regulations, after considering appropriate treaties on avoiding double taxation.

Due to the temporary differences between the carrying amount of assets and liabilities recognised in the books of account and their tax bases and due to carry-forward of unused tax losses, Group companies recognise deferred tax liability and deferred tax assets in their financial statements.

Deferred tax liabilities are recognised in the amount of income tax to be paid in the future in respect of all taxable temporary differences i.e. differences that will cause an increase in the tax base (taxable amount) in the future.

Deferred tax assets are determined in the amount that is anticipated to be deducted from income tax in connection with deductible temporary differences, which in the future will cause a decrease in the tax base (taxable amount) and in the amount of carry-forward of unused tax losses.

Deferred tax assets and deferred tax liabilities are not recognised if temporary differences result from goodwill or initial recognition (except for mergers) of other assets and liabilities in a transaction that does not affect taxable or accounting profit.
The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and deferred tax liabilities are measured using the tax rates that are expected to apply in the period when the asset is realised and or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date.

Current tax and deferred tax are included in the profit and loss account, except for items recorded in other comprehensive income or directly in equity. In such situation, current tax and deferred tax are included, as appropriate, in other comprehensive income or directly in equity. If current or deferred tax results from the initial settlement of a business combination transaction, tax effects are included in any further settlements of such transaction.

Deferred tax assets and deferred tax liabilities are netted off at a Group company level.

2.27 Operating segments reporting

The Budimex Group management and organisation is based on segments.

The Group operates in the area of two main operating segments:

- construction business,
- development activities and property management.

Other business areas that do not meet the requirements to be classified as reporting segments relate to the companies conducting, among others, production, service or trading activities.

The division of business into individual segments has been made by classification of individual entities based on their main statutory business activities or the importance of their business to the given segment. Such division reflects the spread of main business risks and returns on the expenditure made.

The Group applies uniform accounting policies for all segments. Transactions between individual segments (inter-segment transactions) are made at arm's length.

Shares in equity accounted entities have been classified to the appropriate segment, based on entity's type of business.

3. Financial risk management

The main financial instruments used by the Budimex Group are:

- bank loans and borrowings, finance leases, the objective of which is to obtain financial resources to finance Group activities,
- trade receivables and trade liabilities as well as other receivables and other payables, and cash and short-term deposits that arise during the course of normal business activities of the Group,
- derivative financial instruments such as foreign currency forward contracts and currency options, the purpose of which is to manage currency risk arising from construction contracts in foreign currency, as well as interest rate swaps (IRSs) entered into in order to swap floating into fixed interest rates.

In the course of its business, the Budimex Group is exposed to various financial risks, such as currency risk, interest rate risk, price risk, credit risk or loss of liquidity risk. The Management Board verifies and determines risk management policies for each of the risk types identified.

Currency risk

As part of its core business activities, Group companies enter into construction contracts denominated in foreign currencies and into agreements with subcontractors and vendors. The foreign currency risk management policy adopted by the Management Board consists in hedging future cash flows on these contracts in order to limit the effect of volatility of currency exchange rates on the results of the Group. In accordance with this policy, Group companies hedge against foreign currency risk attached to each construction contract, where the value of payments (gains or costs) in foreign currencies is considered significant. Hedging against foreign currency risk is made using derivative financial instruments, mainly currency forward contracts (FX forwards) and currency options, and, if possible, using natural hedge mechanism, which consists in concluding supplier or subcontractor agreements in the currency of the underlying contract.

(all amounts are expressed in PLN thousand, unless stated otherwise)

In accordance with the Group policy, foreign currency exposure is systematically measured both for individual construction contracts (analysis of foreign currency inflows and outflows for the purposes of investor contracts concluded in foreign currency and foreign currency outflows for the purposes of contracts concluded in domestic currency) and for all contracts in aggregate (global currency exposure). It is the Management Board's policy to hedge the net foreign currency exposure on individual contracts. As at 31 December 2016, the Group had approx. 93% of its foreign currency exposure hedged. The Budimex Group companies are also exposed to foreign exchange risk relating to planned future payments in foreign currencies that arise from concluded contracts for the purchase of tangible fixed assets, where payments were not hedged against foreign exchange risk. After considering these additional planned future payments in foreign currencies, as at 31 December 2016, the Group had approx. 73% of its foreign exchange risk hedged.

The Budimex Group companies do not apply hedge accounting.

Foreign currency risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in exchange rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, „feasible and possible" fluctuations in exchange rates were assessed at -10% / +10% as at 31 December 2016 and as at 31 December 2015.

The table below shows sensitivity of the net result to reasonably possible changes in foreign currency rates with other factors remaining unchanged (the impact on net assets is identical).

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2016	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts/ FX options			
– EUR	60 016	(9 753)	9 753
– USD	2 547	877	(877)
– GBP	122	(63)	63
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	11 550	5 110	(5 110)
– USD	(1 139)	(476)	476
– GBP	(30)	(15)	15
Gross effect on the result for the period and net assets		**(4 320)**	**4 320**
Deferred tax		821	(821)
Total		**(3 499)**	**3 499**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2015	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts/ FX options			
– EUR	58 352	(16 444)	16 389
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	6 187	2 637	(2 637)
– USD	3	1	(1)
Gross effect on the result for the period and net assets		**(13 806)**	**13 751**
Deferred tax		2 623	(2 613)
Total		**(11 183)**	**11 138**

Interest rate risk

Interest rate risk occurs mainly due to the use by Group companies of bank loans, borrowings and finance leases. The above financial instruments are based on variable interest rates and expose the Group to fluctuations in cash flows.

The risk related to the current debt balances was assessed as relatively low from the point of view of its effect on the results of the Group. At present, interest rate risk management covers both ongoing monitoring of market situation and debt levels, and hedging against the risk of fluctuations of market interest rates by way of entering into FX swap transactions (floating rates to fixed rates).

(all amounts are expressed in PLN thousand, unless stated otherwise)

Interest rate risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in interest rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, "reasonably possible" fluctuations in interest rates were assessed at -0.5 p.p./ +0.5 p.p. as at 31 December 2016 and 31 December 2015 for PLN and at -0.25 p.p. / +0.25 p.p. for EUR. The reasonably possible fluctuations in USD as at 31 December 2016 was assessed at -0.75 p.p./ +0.75 p.p. (as at 31 December 2015 – at -0.25 p.p./ +0.25 p.p.), while for GBP at -0.25 p.p./ +0.25 p.p.(as at 31 December 2015, there was no exposure to GBP).
At the same time, a parallel shift was assumed of interest rate curve to calculate the sensitivity of discount to interest rates fluctuations.
Higher estimations for interest rate fluctuations for USD, compared to 2015, result from the expected increases in USD/PLN exchange rate.

Presented below is the effect on the net result and on net assets as at 31 December 2016 and 31 December 2015 :

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2016	
		+50 bp (PLN) +25 bp (EUR, GBP) +0,75 bp (USD)	-50 bp (PLN) -25 bp (EUR, GBP) -0,75 bp (USD)
Cash at bank (fair value)	2 715 093	13 439	(13 439)
Derivative financial instruments – interest rate swap			
– recognised in assets (fair value)	68	229	(68)
– recognised in liabilities (fair value)	(2 608)	872	(1 096)
Loans granted	9 163	46	(46)
Bank loans and borrowings (principal)	(41 043)	(182)	182
Finance lease liabilities (present value)	(41 561)	(208)	208
Gross effect on the result for the period and on net assets		**14 196**	**(14 259)**
Deferred tax		(2 697)	2 709
Total		**11 499**	**(11 550)**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2015	
		+50 bp (PLN) +25 bp (EUR, USD)	-50 bp (PLN) -25 bp (EUR, USD)
Cash at bank (fair value)	2 413 090	11 951	(11 951)
Derivative financial instruments – interest rate swap			
– recognised in liabilities (fair value)	(3 770)	1 048	(1 094)
Bank loans and borrowings (principal)	(41 537)	(186)	186
Finance lease liabilities (present value)	(22 798)	(114)	114
Gross effect on the result for the period and on net assets		**12 699**	**(12 745)**
Deferred tax		(2 413)	2 422
Total		**10 286**	**(10 323)**

In the assessment of sensitivity to interest rates, cash on hand was disregarded.

Valuation of forward contracts and currency options does not show sensitivity to parallel fluctuations in interest rates with the exchange rates remaining unchanged.

Price risk

The Group is exposed to the price risk relating to increases in prices of the most popular construction materials such as steel products, being among others, reinforcing bars, rails and other steel goods, aggregates, concrete or crude oil derivatives such as petrol, diesel oil, asphalts or fuel oil. The price risk regarding materials purchased on the domestic market is estimated as moderate, while the price risk related to crude oil derivatives and steel goods is assessed as high. Increases in prices of construction materials and labour costs may, in turn, translate into higher prices of services rendered by Group subcontractors. The prices set forth in investor contracts remain fixed over the entire period of contract execution i.e. most often for the period of 6 – 36 months, while subcontractor contracts are made at a later date, as work on individual contract progresses. The highest risk of raw material price volatility (increases) exists in the case of public procurements due to the lengthy process of general contractor selection. This pertains to the period from bid placing to general contractor selection and contract signing, during which further commitments not always can be made, and prices - secured.

In order to limit the incurred price risk, the Budimex Group monitors prices of the most popular construction materials on an ongoing basis, and the construction contracts signed specify the parameters relating, among others, to contract duration and value, that exactly match market situation. The Central Procurement Department operating in the Budimex Group negotiates framework agreements with the suppliers of basic construction materials, based on the construction works planned.

Credit risk

As far as cash and capital transactions are concerned, the Group companies cooperate with financial institutions of high financial standing without incurring material credit risk concentration. At the same time, the Group applies the policy of limiting credit exposure to individual financial institutions and issuers of debt securities, which are acquired as investments for periodic cash surpluses.

The financial assets of the Group exposed to increased credit risk are trade receivables. The Budimex Group has in place the policy of credit risk assessment and review in respect of all contracts, both at contract pre-tender stage and during contract performance.

Prior to contract signing, each business partner is assessed for the capacity to discharge his financial liabilities. Signing contracts with parties with negative payment capacity assessment depends on establishing adequate financial and property collateral/ security. In addition, clauses are included in investor contracts that provide for the right to discontinue any work if payments for the services already performed are defaulted.

No significant credit risk concentration has been identified at the Group, while taking into account the fact that its main customer is a government agency (*urząd administracji rządowej*).

The Group *is not* exposed to significant credit risk to one business partner or a group of business partners with similar features. Credit risk relating to liquid assets and derivative financial instruments is limited as the Group's business partners are banks with high credit ratings awarded by reputable international rating agencies.

Except for the data presented in note 47, the carrying amount of recognised financial assets, before losses, reflects the maximum credit risk, before accounting for collaterals and securities.

Liquidity risk

In order to limit the risk of loss of liquidity, Group companies hold appropriate amounts of cash and marketable securities, and enter into credit facilities contracts which serve as an additional security against loss of liquidity. To finance its investment purchases, the Group uses own funds or long-term finance lease contracts that ensure appropriate stability of financing structure for this type of assets.

Liquidity management is supported by the obligatory system of reporting of liquidity forecasts by Group companies.

The maturity structure of liabilities under loans, borrowings and other external sources of finance is presented in note 22. The maturity structure of other financial liabilities is presented in the respective notes.

Goof financial position of the Budimex Group as regards its liquidity and availability of external sources of finance does not pose any threat to financing of its business.

4. Capital management

The main objective of capital management at the Group is to keep good credit rating and safe financial covenants that would support operating business of the Group and increase its value to the shareholders.

The Group manages its capital structure and modifies it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may return equity to the shareholders, issue new shares or pay out dividend. In 2016 and 2015, no changes were made to the objectives and policies binding in this area.

The Group monitors the level of equity using the gearing ratio which is calculated as the ratio of net debt to total shareholders' equity increased by net debt. Net debt includes interest-bearing loans and borrowings and other external sources of finance, trade and other payables (except for accrued expenses), retentions for construction contracts, amounts due and payable to customers (investors) under construction contracts, deferred income (except for other deferred income) and current tax liabilities decreased by cash and cash equivalents.

(all amounts are expressed in PLN thousand, unless stated otherwise)

	31 December 2016	31 December 2015
Interest-bearing loans and borrowings and other external sources of finance	82 609	64 341
Trade and other payables	4 091 245	3 498 928
Less: Cash and cash equivalents	(2 715 134)	(2 413 126)
Net debt	1 458 720	1 150 143
Equity	805 820	603 124
Equity and net debt	2 264 540	1 753 267
Gearing ratio	64.42%	65.60%

5. Key estimates and assumptions

Estimates and assumptions are verified on a regular basis. These result from previous experience and other factors, including forecasts of future events, which seem to be reasonable in the given circumstances.

5.1 Key accounting estimates

The Group makes estimates and assumptions regarding future which are reflected in these consolidated financial statements. The actual results may differ from these estimates. The Group's estimates relate, among others, to established provisions, valuation of construction contracts, impairment write-downs of assets, accruals and deferred income or adopted depreciation/ amortisation rates. Material assumptions, not described in this point, and adopted in the estimate of above values have been described in note 2 "Key accounting policies".

Provisions for warranty repairs

The Budimex Group companies are required to issue warranties for their construction services rendered. The amount of warranty provision is linked to particular construction segments and ranges from 0.3% to 1.4% of total revenue from a given contract. This ratio is, however, analysed on an individual basis and in justified cases may be increased or reduced, as appropriate. The amount of warranty provision has been presented in note 26.

Companies not engaged in construction business at the reporting date assess their risk of warranty for their products or services based on historical data and current estimates.

Un-invoiced services

The Group companies execute the majority of construction contracts in the capacity of general contractor with extensive support from various subcontractors. Realised construction works are approved by the investor in the process of technical approval and acceptance on the basis of technical acceptance protocol and invoice. At each reporting date, a number of completed, yet not accepted and un-invoiced by subcontractors, construction projects is recorded. In accordance with the accruals concept, these are recognised by Group companies as contract costs. The value of costs of completed and un-invoiced projects is determined by technical surveyors on the basis of quantity survey and may be different from that determined in the formal process of technical acceptance of construction works.

Tax settlements

Polish law contains numerous regulations concerning VAT, excise tax, corporate income tax and social security contributions. Regulations regarding these taxes are subject to frequent changes which cause that these regulations are unclear and inconsistent. Frequent differences in the legal interpretation of tax regulations both between government bodies, and between government bodies and taxpayers contribute to the origination of areas of uncertainty and conflict. Tax and other settlements (e.g. customs or foreign currency settlements) may become subject to inspection by tax authorities for a period of five years. Relevant tax control authorities are authorised to impose high penalties and fines together with high interest. There is a risk that tax or other administrative bodies take standpoint on certain matters different to that adopted by Group companies as regards interpretations of binding regulations. This, in turn, could have a significant impact on tax liabilities of the Group.

Provision for litigation

The Group companies are parties to litigation proceedings. Legal departments and management boards of Group companies prepare detailed analyses of potential risks relating to pending legal cases and, based on these, take decisions on the necessity to account for the effects of such proceedings in the books of account, or reflect them in the amount of the provision.

5.2 Professional judgment in applying accounting policies

Recognition of construction contracts revenue

Revenue from construction contracts during the period from contract date to the reporting date, after deducting revenue that affected prior periods financial result, is determined in proportion to the stage of contract completion, which is determined based on the surveys of work performed or as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Twice a year, budgets of individual contracts are subject to the update (revision) procedure, based on the current information, and are approved by the Management Board. Where events are identified that materially affect contract result, total contract revenue or costs may be updated earlier, i.e. prior to scheduled contract revision date.

(all amounts are expressed in PLN thousand, unless stated otherwise)

When at the reporting date, the outcome of a construction contract cannot be estimated reliably, the revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable from the investor.

6. Discontinued operations

In 2016 and 2015, no operations were discontinued within the meaning of IFRS 5.

7. The Budimex Group Entities

Presented below is the list of **subsidiaries** of the Budimex Group:

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Consolidated					
Mostostal Cracow SA	Cracow / Poland	100.00%	100.00%	full	full
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. [1]	Warsaw / Poland	-	100.00%	-	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Elektromontaż Poznań SA	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Import Sp. z o.o.	Warsaw / Poland	92.31%	92.31%	full	full
Instal Poland Sp. z o.o.	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Warsaw SA	Warsaw / Poland	92.31%	92.31%	full	full
Non-consolidated					
Budimex Autostrada SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A-1 SA (in liquidation) [2]	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in bankruptcy with liquidation	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex F Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex H Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex I Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Inwestycje „Grunwald" SA [3]	Warsaw / Poland	100.00%	-	non-consolidated	-
MK Logistic Sp. z o.o. in liquidation)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. in liquidation)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated

[1]) Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o. on 14 April 2016. This transaction had no impact on the consolidated financial statements of the Budimex Group.
[2]) on 28 December 2016, the General Shareholders' Meeting of Budimex Autostrada A-1 SA resolved to liquidate the company.
[3]) Budimex Inwestycje „Grunwald" SA was entered in the National Court Register on 25 February 2016.

(all amounts are expressed in PLN thousand, unless stated otherwise)

The list of **joint arrangements** of Budimex Group is as follows:

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Joint operations					
Budimex SA - Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex SA Energetyka 1 Sp.j.	Warsaw / Poland	100.00%	100.00%		
Budimex SA Ferrovial Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%	Share in assets, liabilities, revenues and costs	Share in assets, liabilities, revenues and costs
Budimex SA Ferrovial Agroman SA 2 s.c. [1]	Warsaw / Poland	95.00%	-		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA III s.c. [2]	Warsaw / Poland	60.00%	-		
Budimex SA – Cadagua SA IV s.c. [3]	Warsaw / Poland	60.00%	-		
Budimex SA – Cadagua SA V s.c. [4]	Warsaw / Poland	60.00%	-		
Budimex SA Ferrovial Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA – Cadagua SA s.c. [5]	Warsaw / Poland	-	50.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Ferrovial Agroman (UK) Limited – Metro II Sp.j. [6]	Warsaw / Poland	-	40.00%		
Budimex SA Energetyka 2 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Joint ventures					
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. [7]	Warsaw / Poland	-	30.00%	equity method	equity method

[1]) The company was incorporated on 12 February 2016.
[2]) The company was incorporated on 9 March 2016.
[3]) The company was incorporated on 1 August 2016.
[4]) The company was incorporated on 7 December 2016.
[5]) The company was liquidated on 23 August 2016.
[6]) The company was dissolved with no liquidation and removed from the National Court Register on 13 April 2016.
[7]) The company was liquidated on 14 October 2016. Removed from the National Court Register on 15 December 2016.

The main scope of business activities of the joint arrangements of Budimex Group is construction.

In 2016 and after the reporting date, **the following changes occurred in the structure of the Budimex Group**:

On 12 February 2016, articles of association were signed for the company Budimex SA – Ferrovial Agroman SA 2 s.c. Budimex SA holds 95% shares in this company, while Ferrovial Agroman SA – the remaining 5%.

On 25 February 2016, Budimex Inwestycje „Grunwald" SA was entered in the National Court Register. Budimex SA holds 100% of shares in this company.

On 9 March 2016, articles of association were signed for the company Budimex SA - Cadagua SA III s.c., in which Budimex SA holds 60% of shares, while Cadagua SA – the remaining 40%.

On 13 April 2016, Budimex SA Ferrovial Agroman (UK) Limited – Metro II Sp.j. was dissolved with no liquidation and removed from the National Court Register due to the non-commencement of planned business activities. Budimex SA held 40% of shares in this company.

On 14 April 2016, Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o.

On 1 August 2016, articles of association were signed for the company Budimex SA - Cadagua SA IV s.c. Budimex SA holds 60% of shares in this company, while Cadagua SA – the remaining 40%.

On 23 August 2016, Budimex SA – Cadagua SA s.c. was removed from the REGON register, in which Budimex SA held 50% of shares.

On 14 October 2016, a decision was taken concerning final liquidation of Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. The company was removed from the National Court Register on 15 December 2016 .

On 7 December 2016, articles of association were signed for the company Budimex SA - Cadagua SA V s.c. Budimex SA holds 60% of shares in this company, while Cadagua SA – the remaining 40%.

On 28 December 2016, the General Shareholders' Meeting of Budimex Autostrada A-1 SA (the subsidiary of Budimex Autostrada SA) resolved to liquidate the company.

In the period covered by these consolidated financial statements, no significant activities were discontinued and there were no formal plans to discontinue any significant activity.

8. Operating segments

Operating segments

For management purposes, the Group has been divided into segments based on the products and services offered. The Group operates in the following operating segments:

- construction business
- development business and property management.

Construction business covers rendering of widely understood construction and assembly services at home and abroad and is realised by the following Group companies:

- Budimex SA
- Mostostal Kraków SA
- Budimex Bau GmbH
- Budimex Budownictwo Sp. z o.o.
- Budimex Kolejnictwo SA

Development business and property management services comprise preparation of land for investment, execution of investment projects in the field of residential building, sale of apartments and rental and management of property on own account. Included in this operating segment are the following Group companies:

- Budimex Nieruchomości Sp. z o.o.
- SPV-BN 1 Sp. z o.o.
- Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. (until the merger with Budimex Nieruchomości Sp. z o.o. on 14 April 2016)
- Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. (until the merger with Budimex Nieruchomości Sp. z o.o. on 27 May 2015)
- Budimex SA in the part relating to the development business, as a result of the merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

Segment performance is evaluated based on sales revenue, gross profit (loss) on sales, operating profit (loss) and net profit (loss) for the period.

Other business conducted does not meet the requirements of reportable segments. Included in other business are entities of the Group that mainly conduct production, service or trading activities, or operate as public-private partnership.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Segment results for the **year ended 31 December 2016** are presented in the table below:

	Construction business	Property management and development business	Other business	Exclusions	Consolidated value
Revenue from external sales	5 079 431	348 469	144 390	-	**5 572 290**
Inter-segment sales	312 022	1 117	18 625	(331 764)	**-**
Total sales revenue	**5 391 453**	**349 586**	**163 015**	**(331 764)**	**5 572 290**
Cost of finished goods, goods for resale and raw materials sold externally	(4 439 707)	(258 522)	(122 796)	-	**(4 821 025)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(288 760)	(9 156)	(19 501)	317 417	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(4 728 467)**	**(267 678)**	**(142 297)**	**317 417**	**(4 821 025)**
Gross profit on sales	**662 986**	**81 908**	**20 718**	**(14 347)**	**751 265**
Selling expenses	(11 680)	(15 809)	(5 235)	53	**(32 671)**
Administrative expenses	(184 238)	(18 364)	(5 657)	9 493	**(198 766)**
Other operating income/ (expenses), net	(14 183)	(1 000)	462	-	**(14 721)**
Operating profit	**452 885**	**46 735**	**10 288**	**(4 801)**	**505 107**
Finance income / (finance costs), net, of which:	1 917	4 288	2 365	-	**8 570**
- interest income	*33 162*	*4 521*	*655*	*(301)*	***38 037***
- interest expense	*(1 960)*	*(588)*	*(1 401)*	*301*	***(3 648)***
Shares in losses of equity accounted entities	(8)	-	(2 264)	-	**(2 272)**
Income tax	(89 983)	(9 738)	(2 121)	913	**(100 929)**
Net profit / (loss)	**364 811**	**41 285**	**8 268**	**(3 888)**	**410 476**

In 2016, sales revenue from one customer amounted to PLN 2 823 863 thousand and related entirely to the construction segment.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Segment results for the **year ended 31 December 2015** are presented in the table below:

	Construction business	Property management and development business	Other business	Exclusions	Consolidated value
Revenue from external sales	4 673 666	291 404	168 924	-	**5 133 994**
Inter-segment sales	263 226	1 195	17 881	(282 302)	**-**
Total sales revenue	**4 936 892**	**292 599**	**186 805**	**(282 302)**	**5 133 994**
Cost of finished goods, goods for resale and raw materials sold externally	(4 271 705)	(219 820)	(149 755)	-	**(4 641 280)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(238 934)	(7 398)	(17 881)	264 213	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(4 510 639)**	**(227 218)**	**(167 636)**	**264 213**	**(4 641 280)**
Gross profit on sales	**426 253**	**65 381**	**19 169**	**(18 089)**	**492 714**
Selling expenses	(11 129)	(14 027)	(4 631)	45	**(29 742)**
Administrative expenses	(177 090)	(15 350)	(5 217)	7 576	**(190 081)**
Other operating income/ (expenses), net	6 659	10 686	(150)	2 132	**19 327**
Operating profit	**244 693**	**46 690**	**9 171**	**(8 336)**	**292 218**
Finance income / (finance costs), net, of which:	1 690	5 111	1 209	-	**8 010**
- interest income	*30 212*	*5 272*	*464*	*(318)*	***35 630***
- interest expense	*(2 346)*	*(670)*	*(1 488)*	*318*	***(4 186)***
Shares in losses of equity accounted entities	(28)	-	(3 399)	-	**(3 427)**
Income tax	(51 624)	(9 981)	(257)	1 581	**(60 281)**
Net profit / (loss)	**194 731**	**41 820**	**6 724**	**(6 755)**	**236 520**

In 2015, sales revenue from one customer amounted to PLN 2 027 872 thousand and related entirely to the construction segment.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Other segment-related items recognised in the profit and loss account **for the year ended 31 December 2016** are as follows:

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 31)	(24 218)	(933)	(772)	**(25 923)**
(Recognition)/ reversal of impairment write-downs against receivables (note 17)	(10 506)	(3)	242	**(10 267)**
(Recognition)/ reversal of impairment write-downs against inventories (note18)	(776)	(1 332)	(1)	**(2 109)**
(Recognition)/ reversal of impairment write-downs against property, plant and equipment (note 9)	(1 677)	-	(114)	**(1 791)**
Other non-monetary income/ (costs)*	153 817	(85)	(5 022)	**148 710**
Capital expenditure	69 644	889	365	**70 898**

Other segment-related items recognised in the profit and loss account **for the year ended 31 December 2015** are as follows:

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 31)	(20 356)	(891)	(1 101)	**(22 348)**
(Recognition)/ reversal of impairment write-downs against receivables (note 17)	4 966	(24)	(19)	**4 923**
(Recognition)/ reversal of impairment write-downs against inventories (note 18)	(1 337)	(1 172)	200	**(2 309)**
Other non-monetary income/ (costs)*	(226 742)	(2 289)	(785)	**(229 816)**
Capital expenditure	27 944	39 401	570	**67 915**

*) Other non-monetary income / (costs) cover reversal / (creation) of provisions for contract losses and warranty repairs.

Capital expenditure covers increases in property, plant and equipment, investment property and intangible assets.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Geographical information

The Budimex Group conducts business in Poland and abroad. Other markets include Ukraine, Lithuania, Estonia, Sweden, Russia, Spain and Belgium.

Revenue from sale of finished goods, goods for resale and raw materials

	2016	2015
Domestic market	5 371 130	4 927 035
German market	184 852	174 854
Other markets	16 308	32 105
Total	**5 572 290**	**5 133 994**

Non-current assets

	31 December 2016	31 December 2015
Domestic market	255 972	234 721
German market	461	440
Other markets	-	20
Total	**256 433**	**235 181**

Capital expenditure

	2016	2015
Domestic market	70 720	67 769
German market	178	146
Other markets	-	-
Total	**70 898**	**67 915**

The geographical split of sales revenue matches customer distribution and is consistent with the internal organisational structure of the Group.

Non-current assets comprise property, plant and equipment, investment property, intangible assets, goodwill of subordinates, as well as long-term prepayments and accruals.

The split of total non-current assets and capital expenditure matches location of branches and foreign operations included in the Budimex Group.

(all amounts are expressed in PLN thousand, unless stated otherwise)

9. Property, plant and equipment

	Land & perpetual usufruct right to land	Buildings and constructions	Plant and machinery	Means of transport	Other [tangible] fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2016	**3 026**	**29 586**	**204 575**	**22 213**	**23 674**	**1 150**	**284 224**
Increases:	**1**	**1 300**	**32 591**	**4 073**	**11 268**	**7 390**	**56 623**
– purchase (incl. acceptance for use under lease contracts)	-	1 259	32 044	3 957	10 898	-	**48 158**
– transfer from construction in progress	-	41	541	113	329	(1 024)	**-**
– increase in construction in progress	-	-	-	-	-	8 414	**8 414**
– other increases	1	-	6	3	41	-	**51**
Decreases:	**-**	**(132)**	**(6 202)**	**(607)**	**(968)**	**-**	**(7 909)**
– sale	-	(23)	(3 714)	(484)	(341)	-	**(4 562)**
– liquidation, scrapping	-	(109)	(2 488)	(123)	(627)	-	**(3 347)**
Gross value as at 31 December 2016	**3 027**	**30 754**	**230 964**	**25 679**	**33 974**	**8 540**	**332 938**
Accumulated depreciation as at 1 January 2016	**(28)**	**(10 430)**	**(154 953)**	**(17 583)**	**(16 605)**	**-**	**(199 599)**
Movements for the period:	**(13)**	**(1 163)**	**(10 916)**	**(654)**	**(2 751)**	**-**	**(15 497)**
– charge for the period (note 31)	(20)	(1 230)	(17 020)	(1 238)	(3 540)	-	**(23 048)**
– sale	-	6	3 698	484	202	-	**4 390**
– liquidation, scrapping	-	61	2 408	103	627	-	**3 199**
– other	7	-	(2)	(3)	(40)	-	**(38)**
Accumulated depreciation as at 31 December 2016	**(41)**	**(11 593)**	**(165 869)**	**(18 237)**	**(19 356)**	**-**	**(215 096)**
Impairment write-downs as at 1 January 2016	**-**	**(1 377)**	**-**	**-**	**-**	**-**	**(1 377)**
– (increases)/ decreases (note 33)	(1 677)	-	(114)	-	-	-	**(1 791)**
Impairment write-downs as at 31 December 2016	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
Net value as at 1 January 2016	**2 998**	**17 779**	**49 622**	**4 630**	**7 069**	**1 150**	**83 248**
Net value as at 31 December 2016	**1 309**	**17 784**	**64 981**	**7 442**	**14 618**	**8 540**	**114 674**

(all amounts are expressed in PLN thousand, unless stated otherwise)

	Land & perpetual usufruct right to land	Buildings and constructions	Plant and machinery	Means of transport	Other [tangible] fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2015	**3 051**	**26 865**	**211 991**	**22 150**	**21 435**	**349**	**285 841**
Increases:	**-**	**3 289**	**17 624**	**533**	**5 534**	**885**	**27 865**
– purchase (including acceptance for use under lease contracts)	-	3 177	17 440	533	5 518	-	**26 668**
– transfer from construction in progress	-	112	184	-	-	(296)	**-**
– increases in construction in progress	-	-	-	-	-	1 181	**1 181**
– other increases	-	-	-	-	16	-	**16**
Decreases:	**(25)**	**(568)**	**(25 040)**	**(470)**	**(3 295)**	**(84)**	**(29 482)**
– sale	(25)	(219)	(22 611)	(379)	(321)	-	**(23 555)**
– liquidation, scrapping	-	(13)	(2 425)	(90)	(2 973)	-	**(5 501)**
– transfer to inventories	-	(333)	-	-	-	-	**(333)**
– transfer to investment property (note10)	-	-	-	-	-	(84)	**(84)**
– other decreases	-	(3)	(4)	(1)	(1)	-	**(9)**
Gross value as at 31 December 2015	**3 026**	**29 586**	**204 575**	**22 213**	**23 674**	**1 150**	**284 224**
Accumulated depreciation as at 1 January 2015	**(88)**	**(9 960)**	**(160 330)**	**(16 744)**	**(17 829)**	**-**	**(204 951)**
Movements for the period:	**60**	**(470)**	**5 377**	**(839)**	**1 224**	**-**	**5 352**
– charge for the period (note 31)	(40)	(967)	(15 647)	(1 278)	(2 037)	-	**(19 969)**
– sale	25	219	18 623	370	321	-	**19 558**
– liquidation, scrapping	-	8	2 394	68	2 954	-	**5 424**
– foreign exchange differences	-	-	5	-	(1)	-	**4**
– transfer to inventories	-	15	-	-	-	-	**15**
– other	75	255	2	1	(13)	-	**320**
Accumulated depreciation as at 31 December 2015	**(28)**	**(10 430)**	**(154 953)**	**(17 583)**	**(16 605)**	**-**	**(199 599)**
Impairment write-downs as at 1 January 2015	**-**	**(1 377)**	**-**	**-**	**-**	**-**	**(1 377)**
– (increases)/decreases	-	-	-	-	-	-	**-**
Impairment write-downs as at 31 December 2015	**-**	**(1 377)**	**-**	**-**	**-**	**-**	**(1 377)**
Net value as at 1 January 2015	**2 963**	**15 528**	**51 661**	**5 406**	**3 606**	**349**	**79 513**
Net value as at 31 December 2015	**2 998**	**17 779**	**49 622**	**4 630**	**7 069**	**1 150**	**83 248**

(all amounts are expressed in PLN thousand, unless stated otherwise)

Depreciation of property, plant and equipment was recognised under the following items of profit and loss account:

	2016	2015
Cost of finished goods and services sold	21 473	18 545
Administrative expenses	1 115	1 001
Other costs	460	423
Total (note 31)	**23 048**	**19 969**

The Group as lessee uses the following property, plant and equipment under finance lease contracts:

	31 December 2016		31 December 2015	
	Initial cost – capitalised finance lease	Net carrying amount	Initial cost – capitalised finance lease	Net carrying amount
Plant and machinery	60 774	44 265	55 269	29 373
Means of transport	2 414	1 542	3 465	1 982
Other tangible fixed assets	126	56	303	73
Total	**63 314**	**45 863**	**59 037**	**31 428**

The value of collaterals established on property, plant and equipment is described in note 38.

The total value of received or receivable compensations in respect of the fixed assets that were impaired or lost in 2016 is PLN 305 thousand (2015 – PLN 110 thousand).

10. Investment property

	31 December 2016	31 December 2015
Perpetual usufruct right to land	749	25 649
Buildings and constructions	24 717	37 651
Other	115	110
Total investment property	**25 581**	**63 410**
Fair value of investment property	*29 541*	*68 172*

Movements in the balance of investment property during 2016 and 2015 were as follows:

	2016	2015
Opening balance		
Gross value	65 926	27 229
Depreciation (incl. accumulated impairment losses)	(2 516)	(2 235)
Net value - opening balance	**63 410**	**24 994**
Movements for the period:		
Purchase	-	38 788
Improvements	9	48
Disposal	-	(165)
Transfer from property, plant and equipment (note 9)	-	84
Transfer to inventories	(38 403)	-
Depreciation (note 31)	(334)	(338)
Other	899	(1)
Closing balance		
Gross value	29 074	65 926
Depreciation (incl. accumulated impairment losses)	(3 493)	(2 516)
Net value	**25 581**	**63 410**

The value of collaterals established on investment property is described in note 38.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Depreciation of investment property for the years 2016 and 2015 was recognised in the profit and loss account under cost of finished goods and services sold.

Appraisals of certain parts of investment property for the amount of PLN 25 242 thousand were performed as at 31 December 2016. The appraisals confirmed that the investment property held by the Group were not impaired. The measurement of investment property fair value was classified as level 2 of the fair value hierarchy under IFRS 13. In 2016, there were no movements between fair value hierarchy levels. Investment property items were valued using the income method based on observable rental rates on local property markets similar to those appraised. The idea of commissioning appraisals of other investment property was abandoned due to negligible price fluctuations on the market and thus minimum likelihood of impairment of the investment property held by the Group.

Appraisals of certain parts of investment property for the amount of PLN 22 405 thousand were performed as at 31 December 2015. The appraisals confirmed that the investment property held by the Group were not impaired. The measurement of investment property fair value was classified as level 2 of the fair value hierarchy under IFRS 13. In 2015, there were no movements between fair value hierarchy levels. Investment property items were valued using the income method based on observable rental rates on local property markets similar to those appraised. The idea of commissioning appraisals of other investment property was abandoned due to negligible price fluctuations on the market and thus minimum likelihood of impairment of the investment property held by the Group.

The Group companies recognised in their profit and loss accounts the following balances of income from and costs of investment property management:

	2016	2015
Rental charge income	5 758	6 536
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that generated rental income	3 848	4 709
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that did not generate rental income	-	-

11. Intangible assets

	Computer software	Licenses and patents acquired	Other	Total
Gross value as at 1 January 2016	**28 428**	**969**	**3 336**	**32 733**
Increases:	**28 465**	**8**	**-**	**28 473**
– purchase	14 309	8	-	**14 317**
– settlement of advance payments	14 149	-	-	**14 149**
– other	7	-	-	**7**
Decreases:	**(3)**	**(24)**	**(1 287)**	**(1 314)**
– liquidation	(3)	(24)	(1 287)	**(1 314)**
Gross value as at 31 December 2016	**56 890**	**953**	**2 049**	**59 892**
Accumulated amortization as at 1 January 2016	**(24 563)**	**(869)**	**(3 301)**	**(28 733)**
Movements for the period:	(2 491)	(22)	1 280	**(1 233)**
– charge for the period (note 31)	(2 488)	(46)	(7)	**(2 541)**
– liquidation	3	24	1 287	**1 314**
– other	(6)	-	-	**(6)**
Accumulated amortisation as at 31 December 2016	**(27 054)**	**(891)**	**(2 021)**	**(29 966)**
Net value as at 1 January 2016	**3 865**	**100**	**35**	**4 000**
Net value as at 31 December 2016	**29 836**	**62**	**28**	**29 926**

(all amounts are expressed in PLN thousand, unless stated otherwise)

	Computer software	Licenses and patents acquired	Other	Total
Gross value as at 1 January 2015	**26 976**	**937**	**3 300**	**31 213**
Increases:	**1 494**	**35**	**36**	**1 565**
– purchase	1 189	5	36	**1 230**
– settlement of advance payments	288	30	-	**318**
– other	17	-	-	**17**
Decreases:	**(42)**	**(3)**	**-**	**(45)**
– sale	(42)	-	-	**(42)**
– liquidation	-	(3)	-	**(3)**
Gross value as at 31 December 2015	**28 428**	**969**	**3 336**	**32 733**
Accumulated amortisation as at 1 January 2015	**(23 020)**	**(770)**	**(2 929)**	**(26 719)**
Movements for the period:	(1 543)	(99)	(372)	**(2 014)**
– charge for the period (note 31)	(1 567)	(102)	(372)	**(2 041)**
– liquidation	42	-	-	**42**
– other	(18)	3	-	**(15)**
Accumulated amortisation as at 31 December 2015	**(24 563)**	**(869)**	**(3 301)**	**(28 733)**
Net value as at 1 January 2015	**3 956**	**167**	**371**	**4 494**
Net value as at 31 December 2015	**3 865**	**100**	**35**	**4 000**

Amortisation of intangible assets was recognised under the following items of the profit and loss account:

	2016	2015
Cost of finished goods and services sold	708	843
Administrative expenses	1 809	1 176
Other costs	24	22
Total	**2 541**	**2 041**

The Group did not report any material intangible assets developed internally.

As at 31 December 2016 and 31 December 2015, Group companies did not report any material public or obligatory charges established on their intangible assets.

No impairment write-downs against intangible assets were made in the year 2016 or 2015.

12. Goodwill of subordinated entities

Goodwill recognised in the statement of financial position as at 31 December 2016 and as at 31 December 2015 in the amount of PLN 73 237 thousand comprises goodwill that entirely related to Budimex Dromex SA, which merged with Budimex SA on 16 November 2009.

Goodwill impairment test

Goodwill is allocated to cash generating units in the Group. It is assumed that the cash generating unit for the goodwill that arose on the acquisition of Budimex Dromex SA by Budimex SA is the part of the construction segment referring to domestic general construction and infrastructure.

The recoverable amount of the cash generating unit is determined on the basis of calculations of value in use. The calculations make use of the projections of five-year cash flows. Cash flows beyond the five-year period were assessed at fixed level. The adopted growth rate does not exceed long-term average growth rate for the construction industry, in which the cash generating unit operates. The calculations assumed the gross margin ranging from 8% to 11% and the discount rate of 10% (after rounding and grossing up). The Management Board determined budgeted gross margin on the basis of historical data and its projections for market development. Weighted average growth rates are consistent with the forecasts presented in industry reports. The applied discount rate is a pre-tax rate that accounts for the specific threats of individual segments.

Based on the impairment test performed as at 31 December 2016, the Management Board concluded that there was no need to recognise goodwill impairment write-down.

(all amounts are expressed in PLN thousand, unless stated otherwise)

13. Investments in equity-accounted entities

	2016	2015
Opening balance	**45 762**	**7 539**
– of which goodwill	-	-
Acquisition of shares	-	41 650
Liquidation of an associate/joint venture	(47)	-
Share in profits / (losses)*	(2 272)	(3 427)
Dividend paid by associates/joint ventures	(15)	-
Other	(1)	-
Closing balance	**43 427**	**45 762**
– of which goodwill	**-**	**-**

*) Shares in profits (losses) for the period also cover part of the prior year's result, which was not consolidated in the year, to which it related. The consolidated financial statements of the Budimex Group were based on the preliminary financial data of associates/joint ventures for a given financial year, and the financial statements of equity accounted entities changed after publication by the Group of its consolidated financial statements. In 2016, the share in the results of equity accounted entities was adjusted by PLN (18) thousand. In 2015, the share in the results of equity accounted entities was adjusted by PLN 38 thousand.

The list of associates/joint ventures as at 31 December 2016 and 31 December 2015:

Entity name	Type	Registered office	Share in the issued capital and in the number of votes (%) 31 December 2016	Share in the issued capital and in the number of votes (%) 31 December 2015
PPHU Promos Sp. z o.o.	associate	Cracow / Poland	26.31%	26.31%
FBSerwis SA	associate	Warsaw / Poland	49.00%	49.00%
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	joint venture	Warsaw/ Poland	-	30.00%

The selected financial data of the associate, the FBSerwis SA Group, are as follows:

The FBSerwis SA Group	**2016**	**2015**
Non-current assets	183 488	79 937
Current assets	64 372	111 196
Non-controlling interests	(9 297)	-
Non-current liabilities	(67 227)	(15 449)
Current liabilities	(86 690)	(86 361)
Revenue	178 875	126 047
Profit (loss) on continuing activities	(4 649)	(7 094)
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	-	-
Total comprehensive income for the period	(4 649)	(7 094)
Dividend received from the associate	-	-

The reconciliation of the above financial information to the carrying amount of shares in (interest in) the FBSerwis SA Group reported in the consolidated financial statements is as follows:

The FBSerwis SA Group	**31 December 2016**	**31 December 2015**
Net assets	84 646	89 323
The Group's share in the associate	49.00%	49.00%
Other adjustments	-	-
Carrying amount of the Group's share (interest) in the associate	**41 477**	**43 768**

(all amounts are expressed in PLN thousand, unless stated otherwise)

The selected financial data of the associate, PPHU Promos Sp. z o.o., are as follows:

PPHU Promos Sp. z o.o.	**2016**	**2015**
Non-current assets	9 729	9 306
Current assets	2 014	2 474
Non-current liabilities	(2 750)	(3 085)
Current liabilities	(1 616)	(1 362)
Revenue	8 479	9 117
Profit (loss) on continuing activities	123	149
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	-	-
Total comprehensive income for the period	123	149
Dividend received from the associate	15	-

The reconciliation of the above financial information to the carrying amount of shares in PPHU Promos Sp. z o.o. reported in the consolidated financial statements is as follows:

PPHU Promos Sp. z o.o.	**31 December 2016**	**31 December 2015**
Net assets	7 377	7 333
The Group's share (interest) in the associate	26.31%	26.31%
Other adjustments	9	9
Carrying amount of the Group's share (interest) in the associate	**1 950**	**1 938**

The selected financial data of the joint venture, Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o., are as follows:

Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	**2016**	**2015**
Non-current assets	-	-
Current assets	-	188
Non-current liabilities	-	-
Current liabilities	-	(3)
The above assets and liabilities comprise:		
Cash and cash equivalents	-	184
Current financial liabilities (except for trade liabilities and other payables, and provisions)	-	-
Non-current financial liabilities (except for trade liabilities and other payables, and provisions)	-	-
Revenue	-	-
Profit (loss) on continuing activities	(28)	(94)
Profit (loss) on discontinued operations after tax		-
Other comprehensive income	-	-
Total comprehensive income for the period	(28)	(94)
Dividend received from the joint venture	-	-
The above items comprise:		
Depreciation/ amortization	-	-
Interest income	1	1
Interest expense	-	-
Income tax income/ (expense)	-	(61)

The reconciliation of the above financial information to the carrying amount of shares in Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. reported in the consolidated financial statements is as follows:

Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	**31 December 2015**
Net assets	185
The Group's share (interest) in the joint venture	30.00%
Other adjustments	-
Carrying amount of the Group's share (interest) in the joint venture	**56**

(all amounts are expressed in PLN thousand, unless stated otherwise)

On 14 October 2016, a decision was taken on the ultimate liquidation of Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. As at the date of company's ultimate liquidation, the value of its net assets was PLN 156 thousand. The company was removed from the National Court Register on 15 December 2016. The value of net assets attributable to the Budimex Group was PLN 47 thousand.

The Group's share in the results of associates/joint ventures was as follows:

	2016	2015
Shares in profits of associates/joint ventures	27	77
Share in losses of associates/joint ventures	(2 299)	(3 504)
Total	**(2 272)**	**(3 427)**

In 2016, the Group's share in other comprehensive income of associates amounted to PLN 0.00 (in 2015 also PLN 0.00).

As at 31 December 2016 and 31 December 2015, the Budimex Group had no share in the contingent liabilities of associates. As at 31 December 2016, the share of the Budimex Group in the contingent assets of associates was PLN 5 037 thousand (as at 31 December 2015 – PLN 5 286 thousand).

The associates conduct broadly understood activities within the scope of infrastructure and public utility property management, and community (or municipal) services *(usługi komunalne).*

14. Available-for-sale financial assets

	2016	2015
Opening balance	**9 247**	**8 376**
Increases:	**150**	**913**
– acquisition	150	913
Decreases	**(1)**	**(42)**
– included in consolidation	-	(42)
– other	(1)	-
Closing balance	**9 396**	**9 247**
of which::		
– long-term	***9 396***	***9 247***
– short-term	-	-

Available-for-sale financial assets comprise solely shares in companies.

The carrying amount of long-term financial assets available for sale as at 31 December 2016 and 31 December 2015 equated to their acquisition cost. The fair value of these assets cannot be established as there is no active market for those items.

The Group does not intend to sell any available-for-sale financial assets during the period of the next 12 months.

(all amounts are expressed in PLN thousand, unless stated otherwise)

15. Other financial assets/ financial liabilities

	31 December 2016	31 December 2015
Other financial assets – non-current portion	**10 035**	**396**
Derivative financial instruments	872	396
– 1-2 years	*774*	*396*
– 2-5 years	*30*	-
– above 5 years	*68*	-
Loans granted	9 163	-
– 1-2 years	*9 163*	-
Other financial assets - current portion	**1 758**	**2 432**
Derivative financial instruments	1 758	883
Loans granted	-	1 549
Other financial assets - total	**11 793**	**2 828**
Other liabilities – non-current portion	**1 984**	**3 076**
Derivative financial instruments	1 984	3 076
– 1-2 years	*574*	*703*
– 2-5 years	*990*	*1 482*
– above 5 years	*420*	*891*
Other liabilities – current portion	**1 018**	**1 438**
Derivative financial instruments	1 018	1 438
Other liabilities - total	**3 002**	**4 514**

15.1 Derivative financial instruments

Policies concerning use of derivative financial instruments are defined in the Group Risk Management Policy authorized by the Management Board.

Derivative financial instruments (derivatives) are measured at the reporting date at a reliably determined fair value. Fair value of forward transactions is estimated using the model based on currency exchange rates (average NBP rates) prevailing on the reporting date and on differences in interest rates of the quotation and base currencies. IRSs (interest rate swaps) fair value is estimated based on discounted future cash flows related to interest swaps. An IRS interest rate curve prevailing at the reporting date is used for discounting purposes.

The effects of periodic valuation and settlement of FX forward contracts and currency options are reported in the profit and loss account as part of the operating activity, while the effects of periodic valuation and settlement of interest rate swaps are reported in the financial activity.

	2016	2015
Gains/ (losses) on valuation of FX forward contracts and currency options	2 273	1 773
Gains / (losses) on realisation of FX forward contracts and currency options	(2 600)	881
Total gains / (losses) on derivative financial instruments recognised as part of operating activities (note 33)	**(327)**	**2 654**
Gains/ (losses) on valuation of IRS contracts	1 230	349
Gains/ (losses) on realisation of IRS contracts	(652)	(627)
Total gains / (losses) on derivative financial instruments recognised as part of financing activities (note 34)	**578**	**(278)**

The fair value of the transactions concluded by Group companies and open as at 31 December 2016 and 31 December 2015 is presented in the table below:

	Financial assets arising from derivatives valuation		**Financial liabilities arising from derivatives valuation**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
FX forward contracts and currency options	2 562	1 279	394	744
Interest rate swap	68	-	2 608	3 770

(all amounts are expressed in PLN thousand, unless stated otherwise)

The total nominal value of FX forward contracts as at 31 December 2016 was EUR 56 002 thousand, USD 2 547 thousand and GBP 122 thousand, while as at 31 December 2015 – EUR 49 739 thousand. As at 31 December 2015, the Group did not have open USD-based or GBP-based FX forward contracts.

Forward selling/ buying rate for Euro-based transactions open as at 31 December 2016 ranged EUR/ PLN 4.3163 – 4.7035 (as at 31 December 2015 – EUR/ PLN 4.0640-4.4045). Forward selling/ buying rate for USD-based transactions open as at 31 December 2016 ranged USD/PLN 3.8202 – 4.1970, while forward selling/ buying rate for GBP-based transactions was GBP/PLN 5.3244. Euro-based forward transactions open as at 31 December 2016 are to be settled within 29 - 1 074 days (as at 31 December 2015, transaction settlement date was 30 - 673 days). USD-based forward transactions open as at 31 December 2016 are to be settled within 45 - 311 days, while the GBP-based forward transactions open as at 31 December 2016 are to be settled within 44 days.

As at 31 December 2016, the value of acquired currency options amounted to EUR 4 014 thousand, and as at 31 December 2015 – to PLN 8 613 thousand. As at 31 December 2016 and as at 31 December 2015, the exchange rate for acquired currency options (call on call) amounted to EUR/PLN 4.53.

As at 31 December 2016 and as at 31 December 2015, the Group had open IRS transactions, under which it will pay fixed interest rate and will receive 3M WIBOR floating rate. The nominal value of individual IRS transactions did not exceed PLN 10 000 thousand. The longest maturity date for said transactions falls on 30 September 2030.

15.2 Loans granted

In the years 2013-2016, the Group granted loans to its associate, FBSerwis SA. The effective interest rate was 5.71% in 2016 and 5.73% in 2015. The fair value of the loans granted approximates their carrying amount.

	2016	2015
Opening balance	**1 549**	**18 988**
– loan granted	9 163	21 260
– accrued interest (note 34)	369	1 848
– loan principal repayment	-	(40 248)
– interest repayment	(1 918)	(299)
Closing balance	**9 163**	**1 549**
of which:		
– long-term	*9 163*	*-*
– short-term	*-*	*1 549*

(all amounts are expressed in PLN thousand, unless stated otherwise)

16. Receivables from service concession arrangement

A Group company (operator) concluded with a public sector entity an agreement concerning drafting design/ project documentation and construction of an underground car park with ground parking lots in Wrocław. As consideration, the company will be entitled to the exclusive, paid-for use of the car park and to the collection of charges for parking tickets from users. The service concession arrangement was concluded for a period of 30 years and 4 months. In accordance with this service concession arrangement, the operator is obligated to maintain the constructed infrastructure to certain unchanged level of serviceability throughout the term of the arrangement. The arrangement defines also the guaranteed level of revenue to be received by the operator, should the level of revenue from parking fees differ from the base revenue set forth in the service concession arrangement for the given year. The price for service provision (parking tickets) is determined in the service concession arrangement. The operator has the right to modify this price at least once a year by at least the value of indexation.

A test was performed at the date of service concession arrangement which confirmed that the payments guaranteed under the arrangement cover the construction fee expressed in fair value. Thus, the revenue from the construction services was recognised as financial asset in full.

The fair value of the receivables under service concession arrangement approximates its carrying amount.

Movements in receivables from service concession arrangement

	2016	2015
Opening balance	**45 688**	**45 214**
Increases:	**2 907**	**2 956**
– valuation of financial asset at amortised cost (note 34)	2 907	2 956
Decreases	**(2 499)**	**(2 482)**
– repayments	(2 499)	(2 482)
Closing balance	**46 096**	**45 688**
of which:		
– long-term	***46 096***	***45 688***
– short-term	-	-

In 2016 and 2015, revenue and gains(losses) from construction services under service concession arrangement did not occur because the construction of the underground car park was completed in 2014 and the car park was given over for use.

17. Trade and other receivables

	31 December 2016	31 December 2015
Long-term trade and other receivables		
Prepayments and accruals	13 015	11 286
Other receivables	23 241	23 623
Long-term trade and other receivables, net	**36 256**	**34 909**
Impairment write-down against long-term receivables	106	102
Long-term trade and other receivables, gross	**36 362**	**35 011**
Short-term trade and other receivables		
Trade receivables	442 597	352 284
Advances made	35 006	42 720
Taxation, subsidy, customs duty, social security, health insurance and other debtors	13 523	1 647
Prepayments and accruals	17 449	15 145
Other receivables	8 145	8 762
Short-term trade and other receivables, net	**516 720**	**420 558**
Impairment write-down against receivables	137 173	130 724
Short-term trade and other receivables, gross	**653 893**	**551 282**
Total trade and other receivables, net	**552 976**	**455 467**

No significant credit risk concentration in respect of trade receivables was identified at the Group due to the fact that its main customer is a government agency.

(all amounts are expressed in PLN thousand, unless stated otherwise)

The fair value of trade and other receivables approximates their carrying amount.

As at 31 December 2016 and 31 December 2015, no securities or collaterals were established on these assets.

Impairment write-downs against long-term and short-term trade and other receivables

	2016	2015
Impairment write-downs against receivables - opening balance	**130 826**	**138 979**
Charged to other operating expenses (note 33)	14 524	4 796
Reversed to other operating income (note 33)	(4 257)	(9 719)
Utilised	(4 593)	(4 154)
Foreign exchange differences	482	(95)
Other	297	1 019
Impairment write-downs against receivables - closing balance	**137 279**	**130 826**

Maturity analysis of past-due trade receivables

The table below shows the maturity analysis of trade and other receivables, which at the reporting date are overdue but not impaired. As at 31 December 2016 and 31 December 2015 there were no overdue debt balances with unrecognised impairment write-down.

	31 December 2016	31 December 2015
Past due trade receivables, outstanding for:		
– up to 1 month	58 246	39 817
– 1-3 months	2 849	11 662
– 3-6 months	4 883	1 062
– 6 months to 1 year	1 134	2 012
– above 1 year	28 199	28 544
Total past due trade receivables	**95 311**	**83 097**

The receivables for which no impairment write-down was recognised which are not past due, do not incur high credit risk.

18. Inventories

	31 December 2016	31 December 2015
Raw materials	158 384	86 539
Semi-finished goods and work in progress	546 436	421 726
Finished goods	36 501	44 224
Goods	442 328	315 092
Inventories net value - closing balance	**1 183 649**	**867 581**
Impairment write-downs	69 012	73 856
Inventories gross value - closing balance	**1 252 661**	**941 437**

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Inventory impairment write-downs

	2016	2015
Inventory impairment write-downs - opening balance	**73 856**	**72 984**
Charged to other operating expenses (note 33)	4 067	2 533
Reversed to other operating income (note 33)	(1 958)	(224)
Utilised	(6 953)	(1 437)
Inventory impairment write-downs – closing balance	**69 012**	**73 856**

Reasons for reversing inventory impairment write-downs are presented in the table below:

	2016	2015
Inventory disposal	975	224
Increase in recoverable amount	983	-
Total	**1 958**	**224**

The value of collaterals established on inventories is described in note 38.

(all amounts are expressed in PLN thousand, unless stated otherwise)

In the years 2015 – 2016, inventories were not financed by loans and therefore the Group companies did not capitalise to inventories any interest in those years, and the total value of interest capitalised to Group inventories (developer companies) was PLN 0 thousand as at 31 December 2015 and as at 31 December 2016.

As at 31 December 2016, the value of inventories to be utilised or sold in the period of more than 12 months is PLN 698 005 thousand, while as at 31 December 2015 – PLN 586 558 thousand.

Inventories with a value of PLN 1 021 777 thousand relate to investment expenditure incurred in respect of realised residential projects earmarked for further sale. Due to the general situation on the residential market, the Group is exposed to the risk of fluctuations of selling prices of apartments and service spaces/ premises. The risk of price fluctuations was mitigated in respect of apartments that had been sold based on preliminary sale agreements. As regards the investment projects for which the construction phase did not start, no binding agreements for construction services were signed.

To verify market value of held assets, the Management Board commissioned an external surveyor, Ernst & Young Real Estate Sp. z o.o., to perform valuation of certain inventory items. Inventory market value as at 31 December 2016 determined based on surveyor and in-house valuations exceeds the carrying amount of tested inventory items. Given the above, the Management Board decided that no impairment adjustment should be recognised other than that already recognised in the financial statements. However, due to the instability of the real estate market, one cannot exclude that future sales prices will differ from the prices used by the Group or independent surveyor for impairment test purposes, and that further write-downs or reversals of such write-downs may be necessary.

Up to the date of the preparation of these consolidated financial statements there were no events that should be reflected in the form of adjustment or disclosure in the consolidated financial statements.

19. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash on hand	41	36
Cash at bank	2 715 093	2 413 090
Total cash and cash equivalents	**2 715 134**	**2 413 126**
Cash and cash equivalents of restricted use	(191 101)	(229 049)
Cash recognised in the statement of cash flows	**2 524 033**	**2 184 077**

Included in cash and cash equivalents of restricted use are the following:

	31 December 2016	31 December 2015
Cash of the consortia in the portion attributable to other consortium members	32 156	47 770
Escrow accounts of development companies	33 821	48 689
Blocked development project bank accounts	123 530	128 072
Cash and cash equivalents serving as bank guarantee (note 38)	115	3 408
Other	1 479	1 110
Total cash and cash equivalents of restricted use	**191 101**	**229 049**

Short-term bank deposits and highly liquid investments included in cash and cash equivalents comprise mainly “overnight” deposits and short-term deposits with a maturity date of 2-365 days with an average effective interest rate as at 31 December 2016 of 1.50% per annum for PLN-based deposits (as at 31 December 2015: 1.70% p.a. for PLN-based deposits). The average maturity period for these deposits is 82 days (31 December 2015: 76 days).

In 2016, the Group obtained cash in the amount of PLN 1 322 thousand as a result of guarantee realisation (in 2015: PLN 2 343 thousand).

(all amounts are expressed in PLN thousand, unless stated otherwise)

20. Capital

At the date of transition to IFRSs, the Group adjusted the value of issued capital and of share premium for the period, in which the Polish economy was hyperinflationary. The effects of translation and reconciliation of balances shown in the books of account and corporate records of Group companies as at 31 December 2016 and 31 December 2015 to the balances recognised in the financial statements are presented in the table below.

	31 December 2016		31 December 2015	
	Ordinary shares	Share premium	Ordinary shares	Share premium
Capital as per books of account	**127 650**	**85 083**	**127 650**	**85 083**
Translation of capital due to hyperinflation	18 198	2 080	18 198	2 080
Capital as per financial statements	**145 848**	**87 163**	**145 848**	**87 163**

The value by which the issued capital and share premium were adjusted in connection with hyperinflation was recognised in equity under “Accumulated profits/ (losses) from previous years”.

The issued capital of the Parent Company consists of 25 530 098 shares with a total value of PLN 127 650 thousand. The structure of the issued capital of the Parent Company as at 31 December 2016 is as follows:

Share series/ issue	Class of shares	Type of preference	Type of restrictions on rights to shares	Number of shares	Value of series/ issues according to nominal value
A	ordinary/ registered	None	None	2 350	12
A	ordinary/bearer	None	None	2 997 650	14 988
B	ordinary/bearer	None	None	2 000 000	10 000
C	ordinary/bearer	None	None	1 900 285	9 501
D	ordinary/bearer	None	None	1 725 072	8 625
E	ordinary/bearer	None	None	2 000 000	10 001
F	ordinary/bearer	None	None	5 312 678	26 563
G	ordinary/bearer	None	None	2 217 549	11 088
H	ordinary/bearer	None	None	1 448 554	7 243
I	ordinary/bearer	None	None	186 250	931
K	ordinary/bearer	None	None	1 484 693	7 423
L	ordinary/bearer	None	None	4 255 017	21 275
Total				**25 530 098**	**127 650**

The number of shares making up authorised issued capital equates to the number of issued shares. The nominal value of one share in PLN 5.

The Parent Company does not hold treasury shares.
Subsidiary and associated companies do not hold any shares in the Parent Company. No shares were reserved in connection with share issue for the realisation of share options and sales agreements.

The amount of profit assigned for distribution results from the financial statements of the Parent Company.

(all amounts are expressed in PLN thousand, unless stated otherwise)

21. Equity attributable to non-controlling interest

	2016	2015
Balance at the beginning of the period	**3 918**	**3 244**
– share in profit/(loss) during the year	563	543
– share in consolidation adjustments	73	131
– adjustment to non-controlling interests	(111)	-
Balance at the end of the period	**4 443**	**3 918**

As at 31 December 2016 and as at 31 December 2015, non-controlling interests represent 7.69% in the issued capital, and in the number of votes at the General Shareholders' Meeting of Elektromontaż Poznań SA.

The adjustment to non-controlling interests represents a shift between the value of equity attributable to the Parent and non-controlling interests. This adjustment results from changes made to the financial data of the Elektromontaż Poznań SA Group after settlement of the transaction of acquisition of 41.65% of shares on 18 December 2014 by Budimex Budownictwo Sp. z o.o., the 100% subsidiary of Budimex SA, which at that time increased the total holding of the Budimex Group to 92.31%. The cost of the newly acquired shares amounted to PLN 14 529 thousand. The original proportional net value of assets of Elektromontaż Poznań SA attributable to non-controlling interests was PLN 17 573 thousand, while after changes to the data of Elektromontaż Poznań SA – PLN 17 684 thousand. The original difference of PLN 3 044 thousand was recognised in retained earnings, but the amount that was to be recognised was PLN 3 155 thousand. The difference of PLN 111 thousand was recognised in 2016 as an adjustment to non-controlling interests.

The selected financial data of the Elektromontaż Poznań SA Group were as follows:

The Elektromontaż Poznań SA Group	2016	2015
Statement of financial position*		
Non-current assets	37 903	35 861
Current assets	99 156	103 934
Non-current liabilities	(8 184)	(6 399)
Current liabilities	(71 489)	(83 329)
Statement of comprehensive income		
Revenue	162 583	185 102
Profit (loss) on continuing activities	7 175	7 057
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	144	-
Total comprehensive income for the period	7 319	7 057
Dividends received from the Elektromontaż Poznań SA Group	-	-

**part of net assets attributable to non-controlling interests is not the arithmetical product of the percentage share due to consolidation adjustments introduced both in the current and prior reporting periods*

22. Loans and borrowings and other external sources of finance

	31 December 2016	31 December 2015
	Carrying amount	
Non-current		
Bank loans and borrowings	30 858	31 883
Finance lease liabilities	31 475	12 680
	62 333	**44 563**
Current		
Bank loans and borrowings	10 185	9 654
Finance lease liabilities	10 086	10 118
Interest accrued on short-term loans and borrowings	5	6
	20 276	**19 778**
Total	**82 609**	**64 341**

(all amounts are expressed in PLN thousand, unless stated otherwise)

Maturity analysis of loans and borrowings based on undiscounted contractual cash flows is as follows:

	31 December 2016		31 December 2015	
	Carrying amount	Undiscounted contractual cash flows*	Carrying amount	Undiscounted contractual cash flows*
– up to 1 year	10 190	11 255	9 660	10 829
– 1-3 years	2 059	3 977	1 994	4 052
– 3-5 years	2 696	4 460	2 341	4 259
– above 5 years	26 103	30 906	27 548	33 579
	41 048	**50 598**	**41 543**	**52 719**

*) comprise both principal and interest payments; as at 31 December 2016 and 31 December 2015, the amounts expressed in foreign currency were translated at the NBP period-end exchange rates and interest payments were calculated using the interest rates prevailing in the last interest period before 31 December 2016 and 31 December 2015.

The Group companies are allowed to repay their loans and borrowings before maturity date. No penalty clause for earlier loan repayment has been included in the loan agreements signed by Group companies.

In the period covered by these consolidated financial statements, no instances were identified of default on principal or interest payment, non-compliance with the terms and conditions of escrow accounts, liability settlement or terms and conditions of factoring of borrowing-related liabilities.

The Group companies did not breach or renegotiate the terms of bank loans and borrowings before the date of authorization of consolidated financial statements.

The carrying amount of long-term loans and borrowings approximates their fair value as interest rate terms and conditions set forth in these agreements are based on variable interest rate.

Loans and borrowings, by currency (translated into PLN):

	31 December 2016		31 December 2015	
	Outstanding amount	Amount as per agreement	Outstanding amount	Amount as per agreement
Long-term portion	30 858	32 542	31 883	32 667
PLN	*30 858*	*32 542*	*31 883*	*32 667*
Short-term portion	10 190	10 185	9 660	9 654
PLN	*1 025*	*1 025*	*900*	*900*
EUR	*9 165*	*9 160*	*8 760*	*8 754*
	41 048	**42 727**	**41 543**	**42 321**

Loans and borrowings, by currency:

	31 December 2016		31 December 2015	
	Outstanding amount	Amount as per agreement	Outstanding amount	Amount as per agreement
Long-term portion	30 858	32 542	31 883	32 667
WIBOR	*30 858*	*32 542*	*31 883*	*32 667*
Short-term portion	10 190	10 185	9 660	9 654
WIBOR	*1 025*	*1 025*	*900*	*900*
EURIBOR	*9 165*	*9 160*	*8 760*	*8 754*
	41 048	**42 727**	**41 543**	**42 321**

Risk of interest rate fluctuations

The effective interest rate as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016		31 December 2015	
	PLN	EUR	PLN	EUR
Bank loans and borrowings	3.36%	0.67%	3.38%	1.08%
Finance lease liabilities	3.10%	-	3.03%	-

(all amounts are expressed in PLN thousand, unless stated otherwise)

Finance lease liabilities

The Budimex Group companies signed finance lease agreements for financing mainly technical equipment and machines, and means of transport. Leased assets were made available for the period of 36 - 60 months. After the completion of the original lease term and after discharging their liabilities, Group companies will have the right to acquire some of the leased assets for the price equating their residual value. The contractual liabilities are partly secured with a blank bill of exchange issued by the Lessee together with a written authorisation for its drawing. Future minimum lease payments under the above lease agreements and the present value of net minimum lease payments as at 31 December 2016 are as follows:

	Minimum lease payments	Present value of minimum lease payments
– less than 1 year	11 352	10 086
– 1-5 years	33 263	31 475
Total finance lease liabilities	**44 615**	**41 561**
of which: future finance costs under finance leases	(3 054)	-
Present value	**41 561**	**41 561**

For some of their lease agreements, Group companies have the right to early repayment of the remaining balances of finance lease liabilities. Lease contracts do not provide penalties for early repayment of finance lease liabilities.

23. Trade and other payables

	31 December 2016	31 December 2015
Short-term trade and other payables		
Financial liabilities		
Trade liabilities	515 197	297 653
Un-invoiced costs	605 318	502 188
Payroll	8 247	7 249
Accrued expenses, of which:	199 444	197 877
- unused annual leave	*39 726*	*36 700*
- employee bonus	*159 718*	*161 177*
Liabilities relating to consortia settlement	10 561	41 490
Non-financial liabilities		
Taxation and social security creditors	153 400	71 439
Accrued expenses	22 908	13 250
- costs of contracts completion	*22 603*	*12 976*
- other	*305*	*274*
Other liabilities	5 795	4 748
Total short-term trade and other payables	**1 520 870**	**1 135 894**
Total trade and other payables	**1 520 870**	**1 135 894**

All trade liabilities and other payables as at 31 December 2016 and 31 December 2015 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

(all amounts are expressed in PLN thousand, unless stated otherwise)

24. Income tax

	31 December 2016	31 December 2015
Deferred tax assets		
– to be realised after 12 months	154 912	240 775
– to be realised within 12 months	372 190	251 174
Total	**527 102**	**491 949**
Offsetting	(82 127)	(51 027)
Deferred tax assets, after set-off	**444 975**	**440 922**
Deferred tax liabilities		
– to be settled after 12 months	14 508	14 566
– to be settled within 12 months	67 619	36 461
Total	**82 127**	**51 027**
Offsetting	(82 127)	(51 027)
Deferred tax liabilities, after set-off	-	-

Movements in the net balance of deferred tax are as follows:

	2016	2015
Balance at the beginning of the year	**440 922**	**376 261**
Credit/ (charge) to financial result	4 091	64 323
Credit/ (charge) to other comprehensive income	(26)	152
Other	(12)	186
Balance at the end of the year	**444 975**	**440 922**

Deferred tax assets and deferred tax liabilities are recognised in respect of deductible and taxable temporary differences relating to local items of assets and liabilities using the 19% tax rate, while deferred tax assets and deferred tax liabilities arising from temporary differences relating to assets and liabilities of foreign operations – using the local tax rates of the country representing the primary economic environment, in which the given entity operates and pays income tax.

As at 31 December 2016, deductible temporary differences and carry-forward of unused tax losses for which no deferred tax asset was recognised in the statement of financial position amounted to PLN 6 858 thousand (as at 31 December 2015: PLN 1 199 thousand) and expire as follows: PLN 716 thousand in 2017, PLN 3 071 thousand in 2018 and PLN 3 071 thousand in 2019. The reason for non-recognition of a deferred tax asset is that the probability of non-recovery of debts that exists under Polish tax law is rather remote.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Movements in the balance of deferred tax assets, by title (before set-off), are presented in the table below:

	Deferred tax asset as at 1 January 2015	**Recognition/ (utilisation) of deferred tax asset through profit or loss**	**Recognition/ (utilisation) of deferred tax asset through other comprehensive income**	**Change in Group composition**	**Other movements**	**Deferred tax asset as at 31 December 2015**	**Recognition/ (utilisation) of deferred tax asset through profit or loss**	**Recognition/ (utilisation) of deferred tax assets through other comprehensive income**	**Change in Group composition**	**Other movements**	**Deferred tax asset as at 31 December 2016**
Amounts due and payable to customers under construction contracts	179 518	56 071	-	-	-	235 589	21 412	-	-	-	257 001
Contract costs related to accrued income	38 558	(12 848)	-	-	-	25 710	18 821	-	-	-	44 531
Liabilities – un-invoiced costs	47 721	47 695	-	-	-	95 416	(44 523)	-	-	-	50 893
Tax loss	991	(986)	-	-	-	5	4	-	-	-	9
Provisions for warranty repairs	37 705	4 033	-	-	-	41 738	9 770	-	-	-	51 508
Other provisions for liabilities	49 567	(32 210)	-	-	-	17 357	395	-	-	-	17 752
Receivables - impairment write-downs	26 763	(867)	-	-	-	25 896	(584)	-	-	-	25 312
Employee bonus	29 167	893	-	-	-	30 060	(273)	-	-	-	29 787
Liabilities – unused annual leave	6 346	120	-	-	-	6 466	676	-	-	-	7 142
Discount of retentions for construction contracts	182	(9)	-	-	-	173	112	-	-	-	285
Forward contracts valuation	1 376	(518)	-	-	-	858	(288)	-	-	-	570
Retirement benefits and similar obligations	1 368	191	152	-	-	1 711	93	(26)	-	-	1 778
Impairment write-down against long-term financial assets	2 416	184	-	-	-	2 600	(1)	-	-	-	2 599
Other	9 077	(893)	-	-	186	8 370	29 577	-	-	(12)	37 935
Total	**430 755**	**60 856**	**152**	**-**	**186**	**491 949**	**35 191**	**(26)**	**-**	**(12)**	**527 102**
Offsetting	(54 494)					(51 027)					(82 127)
After set-off (recognised in the statement of financial position)	**376 261**					**440 922**					**444 975**

(all amounts are expressed in PLN thousand, unless stated otherwise)

Movements in the balance of deferred tax liabilities, by title (before set-off), are presented in the table below:

	Deferred tax liability as at 1 January 2015	Recognition / (utilisation) of deferred tax liability through profit or loss	Recognition / (utilisation) of deferred tax liability through other comprehensive income	Change in Group composition	Deferred tax liability as at 31 December 2015	Recognition / (utilisation) of deferred tax liability through profit or loss	Recognition / (utilisation) of deferred tax liability through other comprehensive income	Change in Group composition	Deferred tax liability as at 31 December 2016
Amounts due and receivable from customers under construction contracts	34 830	(2 195)	-	-	32 635	22 172	-	-	54 807
Forward transactions valuation	154	89	-	-	243	257	-	-	500
Discount of retentions for construction contracts	2 428	776	-	-	3 204	721	-	-	3 925
Receivables – accrued interest	1 723	(898)	-	-	825	(249)	-	-	576
Deferred tax liability - German market	661	(214)	-	-	447	(26)	-	-	421
Lease	7 335	(766)	-	-	6 569	2 477	-	-	9 046
Other	7 363	(259)	-	-	7 104	5 748	-	-	12 852
Total	**54 494**	**(3 467)**	**-**	**-**	**51 027**	**31 100**	**-**	**-**	**82 127**
Offsetting	(54 494)				(51 027)				(82 127)
After set-off (recognised in the statement of financial position)	-				-				-

	2016	2015
Current tax	106 127	124 522
Deferred tax	(4 091)	(64 323)
Adjustments to prior periods current income tax	(1 107)	82
Tax expense/ (tax income)	**100 929**	**60 281**

The reconciliation of Group's accounting gross profit and notional amount that would be recognised had the weighted average rate of tax was applied to the profits of consolidated companies is as follows:

	2016	2015
Gross profit/ (loss)	**511 405**	**296 801**
Shares in (profits)/ losses of equity accounted entities	2 272	3 427
Pre-tax profit/ (loss)	**513 677**	**300 228**
Tax calculated using domestic tax rates	97 599	57 043
Differences in taxation of revenues of foreign operations	(638)	(503)
Adjustments to prior periods current income tax	(1 107)	82
Tax effects of permanent differences between gross profit and taxable income	2 325	3 081
Utilisation of carry-forward of unused tax losses or prior period deductible temporary differences	(524)	(1 761)
Deductible temporary differences, carry-forward of unused tax losses and carry-forward of unused tax credits for which no deferred tax assets were recognised in the statement of financial position	1 305	181
Tax expense/ (tax income) calculated with respect to industrial and commercial business operations in Germany	2 048	2 158
Other	(79)	-
Tax expense/ (tax income)	**100 929**	**60 281**
Effective tax rate	*19.65%*	*20.08%*

25. Retirement benefits and similar obligations

As at 31 December 2016, all employees of the Budimex Group enjoy two types of employee benefits:

- retirement benefits
- posthumous benefits (applicable only to the employees of Elektromontaż Poznań SA).

Retirement and pension benefits are one-off payments upon retirement. The amount of the retirement benefit/ pension benefit due and payable is the product of the base of benefit calculation at the date of entitlement (i.e. at the date the right to receive benefit payment vests) and the appropriate cumulative ratio (progressing in proportion to the years of service).

Posthumous benefits are paid to employee family upon employee demise. The amount of the posthumous benefit due and payable is the product of the base of benefit calculation at the date of entitlement (i.e. at the date the right to receive benefit payment vests) and the appropriate cumulative ratio (progressing in proportion to the years of service).

Usually, the obligation to pay the retirement and pension and posthumous benefits entails the actuarial risk consisting of:

Interest rate risk – the present value of liabilities from retirement benefits and similar obligations is calculated using the discount rate established by reference to the profitability of T-bonds available on the market, as in Poland there are no highly liquid, low-risk commercial bonds. In case of a decrease in bonds interest rates, the balance of liabilities from retirement benefits and similar obligations increases.

Remuneration risk - the present value of liabilities from retirement benefits and similar obligations is calculated by reference to the future level of remuneration of employees of Budimex Group companies. Thus, an increase in employee remuneration will result in an increase in liabilities from retirement benefits.

Longevity risk - the present value of liabilities from retirement benefits and similar obligations is calculated by reference to the best estimates of employee mortality during employment period. Therefore, an increase in expected employee life will result in an increase in liabilities from retirement benefits, and in a decrease in liabilities from posthumous benefits.

Risk of changes to retirement age - the present value of liabilities from retirement benefits and similar obligations is calculated based on statutory retirement age applicable in Poland. In the event of further raising of the retirement age, the present value of liabilities from retirement benefits will decrease.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Liabilities under employee benefits recognised in the statement of financial position:

	31 December 2016	31 December 2015
Retirement/ pension benefits, of which:	**8 826**	**8 323**
– present value of the obligation at the reporting date	8 826	8 323
– actuarial gains/ (losses) not recognised at the reporting date	-	-
– past service costs not recognised at the reporting date	-	-
Posthumous benefits, of which:	**533**	**684**
– present value of the obligation at the reporting date	533	684
– actuarial gains/ (losses) not recognised at the reporting date	-	-
– past service costs not recognised at the reporting date	-	-
Total retirement benefits and similar obligations	**9 359**	**9 007**
of which:		
– long-term portion	*7 937*	*7 657*
– short-term portion	*1 422*	*1 350*

Main actuarial assumptions (the table below shows the range of percentage rates adopted by actuary; these assumptions differ between Group companies and between individual years):

	31 December 2016	31 December 2015
Discount rate	1.77% – 2.98%	1.51% – 2.33%
Forecast inflation rate	1.3% – 2.5%	-0.8% – 1.5%
Forecast salary growth rate	1.7% – 5.0%	4.5% – 5.6%

Assumptions regarding mortality are based on 2013 Life Expectancy Tables for Poland published by the Central Statistical Office of Poland (with respect to valuation as at 31 December 2016 and 31 December 2015).

The last valuation of employee benefits was made by an independent actuary as at 31 December 2016.

Retirement and pension benefits

Changes in the balance of liability from retirement and pension benefits are presented in the table below.

	2016	2015
Present value of liability at the beginning of the period	**8 323**	**7 201**
Interest expense	158	140
Current service costs	841	658
Benefits paid	(570)	(480)
Actuarial (gains)/losses, of which:	74	804
- change in assumptions	*(537)*	*908*
- historical experience relating to program obligations	*611*	*(104)*
Present value of liability at the end of the period	**8 826**	**8 323**

Costs of future employee benefits charged to the profit and loss account are presented in the table below:

	2016	2015
Current service costs	841	658
Interest expense	158	140
Costs recognised in Profit and Loss Account (note 32)	**999**	**798**
Actuarial losses to be recognised in the period	74	804
Costs recognised in other comprehensive income	**74**	**804**
of which, employee allowances recognised in the profit and loss account under the following items:		
- cost of finished goods, goods for resale and raw materials sold	*139*	*120*
- selling expenses	*(32)*	*17*
- administrative expenses	*892*	*661*

(all amounts are expressed in PLN thousand, unless stated otherwise)

Posthumous benefits

Movements in the balance of posthumous benefits are presented in the table below:

	2016	2015
Present value of liability at the beginning of the period	**684**	**-**
Interest expense	14	-
Current service costs	48	-
Past service costs	-	684
Actuarial (gains)/losses, of which:	(213)	-
- change in assumptions	*(149)*	-
- historical experience relating to programme obligations	*(64)*	-
Present value of liability at the end of the period	**533**	**684**

Costs of posthumous benefits charged to the profit and loss account are presented in the table below:

	2016	2015
Current service costs	48	-
Interest expense	14	-
Past service costs	-	684
Costs recognised in Profit and Loss Account (note 32)	**62**	**684**
Actuarial losses to be recognised in the current period	(213)	-
Costs recognised in other comprehensive income	**(213)**	**-**
of which, employee allowances recognised in the profit and loss account under the following items:		
- cost of finished goods, goods for resale and raw materials sold	*47*	*549*
- selling expenses	*8*	*70*
- administrative expenses	*7*	*65*

Sensitivity analysis

Significant actuarial assumptions applied to calculate liabilities from retirement benefits and similar obligations cover discount rate, expected salary increase and staff turnover.

Analysis of sensitivity to fluctuations in interest rates

An increase in the assumed discount rate by 1 percentage point would result in a decrease in liabilities from retirement and similar benefits by PLN 775 thousand, while a decrease in the assumed discount rate by 1 percentage point would bring about an increase in said liability by PLN 926 thousand.

Analysis of sensitivity to fluctuations in salary growth rates

An increase in the assumed salary growth rate by 1 percentage point would result in an increase in liabilities from retirement and similar benefits by PLN 901 thousand, while a decrease in the assumed remuneration growth rate by 1 percentage point would bring about a decrease in liability under retirement and similar benefits by PLN 771 thousand.

Analysis of sensitivity to staff turnover

An increase in the assumed staff turnover by 1 percentage point would result in a decrease in liabilities from retirement and similar benefits by PLN 850 thousand, while a decrease in the assumed staff turnover by 1 percentage point would bring about an increase in said liability by PLN 1 012 thousand.

The above analysis may not be representative for the effective movements in liability from retirement benefits and similar obligations. It is also rather unlikely that the changes of certain assumptions occur separately, as some of the assumptions may be correlated.

The methods and assumptions underlying sensitivity analysis did not change materially compared to the prior year.

(all amounts are expressed in PLN thousand, unless stated otherwise)

26. Provisions for liabilities and other charges

	Litigation proceedings	Penalties and other sanctions	Warranty repairs	Restructuring	Other	Total
Balance as at 1 January 2015	**27 289**	**54 524**	**203 338**	**3 242**	**2 374**	**290 767**
Creation of additional provisions	855	11 872[1]	53 360	-	32[2]	66 119
Reversal of unused provisions	(318)	(4 363)[3]	(8 075)	(2 769)	-	(15 525)
Provisions utilisation	-	(1 281)	(22 722)	(104)	-	(24 107)
Other movements	-	-	2	-	-	2
Balance as at 31 December 2015	**27 826**	**60 752**	**225 903**	**369**	**2 406**	**317 256**
Balance as at 1 January 2016	**27 826**	**60 752**	**225 903**	**369**	**2 406**	**317 256**
Creation of additional provisions	377[4]	10 994[5]	94 033	-	215[6]	105 619
Reversal of unused provisions	(2 765)	(6 189)	(21 509)	-	-	(30 463)
Provisions utilisation	(24)	(20)	(19 784)	(207)	(301)	(20 336)
Other movements	(1)	-	64	-	(1)	62
Balance as at 31 December 2016	**25 413**	**65 537**	**278 707**	**162**	**2 319**	**372 138**

1) of which PLN 660 thousand was recognised under finance costs
2) of which PLN 30 thousand was recognised under cost of production/ development and PLN 2 thousand under finance costs
3) of which PLN 17 thousand was recognised as a decrease in finance costs
4) of which PLN 141 thousand was recognised as a decrease in other operating expenses
5) of which PLN 576 thousand was recognised under finance costs
6) of which PLN 209 thousand was recognised under cost of production/ development and PLN 6 thousand under finance costs

The creation/(reversal) of provisions for litigation, penalties and other sanctions and restructuring provision was recognised under other operating expenses (note 33), while creation / (reversal) of provisions for warranty repair – under other operating expenses.

The structure of total provisions is as follows:

	31 December 2016	31 December 2015
Non-current	210 303	181 691
Current	161 835	135 565
	372 138	**317 256**

27. Long-term construction contracts

The tables below present data relating to construction contracts valued by Group companies in accordance with the stage of completion method:

Selected consolidated data – statement of financial position

	31 December 2016	31 December 2015
Assets		
Amounts due and receivable from customers under construction contracts, of which:	288 456	171 763
– contracts valuation	*288 456*	*171 763*
Liabilities		
Amounts due and payable to customers under construction contracts, of which:	1 352 639	1 239 940
– contracts valuation	*944 184*	*610 251*
– provision for contract losses	*408 455*	*629 689*
Advance payments received for construction contracts in progress (note 28)	407 788	477 360

The fair value of amounts due and receivable from customers, and due and payable to customers under construction contracts approximates their carrying amount.

Selected consolidated data – profit and loss account

	2016	2015
Revenue from construction contracts	5 014 382	4 608 160
Cost of construction contracts	4 447 442	4 208 393
Gross profit on sale	**566 940**	**399 767**

(all amounts are expressed in PLN thousand, unless stated otherwise)

28. Deferred income

Deferred income comprises:

	31 December 2016	31 December 2015
Advance payments for construction contracts (note 27)	407 788	477 360
Advance payments for flats in developer companies	587 089	414 021
Other deferred income	7 140	5 067
Total	**1 002 017**	**896 448**

All advance payments received and other accrued income as at 31 December 2016 and 31 December 2015 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

29. Retentions for construction contracts

	31 December 2016	31 December 2015
Retained by customers – to be returned after 12 months	23 333	20 388
Retained by customers – to be returned within 12 months	30 818	16 276
Total retentions for construction contracts retained by customers	**54 151**	**36 664**
Received from suppliers – to be returned after 12 months	206 147	207 239
Received from suppliers – to be returned within 12 months	186 244	168 033
Total retentions for construction contracts received from suppliers	**392 391**	**375 272**

Retentions for construction contracts with a payment date of more than one year are discounted and are recognised in the statement of financial position at present value. The table below shows the results of discounting recognised in the statement of financial position and profit and loss account of the Group in individual periods. The amounts of discount reduce the nominal value of receivables from and liabilities under retentions for construction contracts. In addition, a deferred tax asset is recognised in the statement of financial position on the amounts stated calculated using the tax rate prevailing in Poland, i.e. 19%, and on the effect of change in the value of discount in the profit and loss account.

	31 December 2016	31 December 2015
Discount of long-term retentions for construction contracts retained by customers	1 502	911
Discount of long-term retentions for construction contracts received from suppliers	20 662	16 868

Amount of discount recognised in the profit and loss account:

	2016	2015
Decrease in sales revenue	(1 083)	(768)
Reduction in the cost of services sold	10 648	10 246
Total adjustment to gross margin	**9 565**	**9 478**
Adjustment to finance income / (finance costs) (note 34)	(6 362)	(5 346)
Deferred tax on the above adjustments	(609)	(785)
Net effect on the profit and loss account	**2 594**	**3 347**

The fair value of the amounts retained by customers and of the amounts received from suppliers approximates their respective carrying amounts.

Maturity analysis of overdue retentions for construction contracts (nominal values before discounting)

The table below shows the maturity analysis of retentions for construction contracts due to the Group companies, which at the reporting date are overdue, but not impaired:

	31 December 2016	31 December 2015
Retentions for construction contracts overdue for the period of:		
– up to 1 month	1 352	435
– 1-3 months	1 120	691
– 3-6 months	-	1 472
– 6 months to 1 year	1 385	501
– above 1 year	418	515
Total overdue retentions for construction contracts	**4 275**	**3 614**

(all amounts are expressed in PLN thousand, unless stated otherwise)

30. Sales revenue

	2016	2015
Revenue from sale of construction and assembly services	5 160 447	4 773 467
Revenue from sale of other services	36 204	25 014
Revenue from sale of finished goods	371 741	330 646
Revenues from sale of goods for resale and raw materials	3 898	4 867
	5 572 290	**5 133 994**

31. Costs by type

	2016	2015
Depreciation/ amortization of which:	25 923	22 348
– property, plant and equipment (note 9)	*23 048*	*19 969*
– investment property (note 10)	*334*	*338*
*– intangible assets (note 11**Error! Reference source not found.**)*	*2 541*	*2 041*
Employee benefits (note 32)	745 215	682 740
Materials and energy	1 566 901	1 355 383
External services	2 537 004	2 427 749
Taxes and charges	15 750	8 874
Advertising and representation	10 830	7 868
Non-life (property) and life insurance	9 096	10 052
Change in the balance of provision for contract losses (note 27)	(221 234)	184 531
Other costs by type	490 730	341 655
Selling expenses (negative value)	(32 671)	(29 742)
General administrative expenses (negative value)	(198 766)	(190 081)
Change in the balance of finished goods and work in progress	(131 602)	(182 313)
Cost of goods produced for the entity's own needs (negative value)	-	(85)
Cost of finished goods and services sold	**4 817 176**	**4 638 979**
Cost of goods for resale and raw materials sold	3 849	2 301
Cost of finished goods, services, goods for resale and raw materials sold	**4 821 025**	**4 641 280**

32. Cost of employee benefits

	2016	2015
Cost of salaries and wages, of which:	**622 437**	**574 826**
– retirement and pension benefits (note 25)	*1 061*	*1 482*
– share-based payments (note 39)	*2 292*	*2 897*
– termination benefits	*2 850*	*2 296*
Cost of social security surcharges and other allowances, of which:	**122 778**	**107 914**
– social security	*94 038*	*82 696*
– termination benefits	*538*	-
Total cost of employee benefits recognised in the costs by type (note 31)	**745 215**	**682 740**

(all amounts are expressed in PLN thousand, unless stated otherwise)

33. Other operating income and other operating expenses

Other operating income

	2016	2015
Gains on the sale of non-financial long-term assets and investment property	760	16 829
Reversal of impairment write-downs, of which:	6 215	9 943
– receivables (following receivables repayment by debtors) (note 17)	*4 257*	*9 719*
– inventories (following inventory scrapping and disposal) (note18)	*1 958*	*224*
Reversal of provisions, of which for:	8 954	7 433
– litigation and compensations (note 26)	*2 765*	*318*
– penalties and sanctions (note 26)	*6 189*	*4 346*
– restructuring (note 26)	-	*2 769*
Penalties/ compensations received	23 579	14 929
Write-off of time-barred liabilities	2 545	3 698
Gains on derivative financial instruments (note 15)	2 273	2 654
Other	2 125	719
Total	**46 451**	**56 205**

Other operating expenses

	2016	2015
Recognition of impairment write-downs, of which against:	20 382	7 329
– receivables (note 17)	*14 524*	*4 796*
– inventories (note 18)	*4 067*	*2 533*
– property, plant and equipment (note 9)	*1 791*	-
Creation of provisions, of which for:	10 654	12 067
– litigation (note 26)	*236*	*855*
– penalties and sanctions (note 26)	*10 418*	*11 212*
Compensations and liquidated damages paid	23 934	14 900
Court charges and executions, costs of legal proceedings	1 807	990
Loss on derivative financial instruments (note 15)	2 600	-
Other	1 795	1 592
Total	**61 172**	**36 878**

34. Finance income and finance costs

Finance income

	2016	2015
Interest earned on financial instruments, of which:	29 014	29 818
– on bank deposits and cash at bank	*28 645*	*27 970*
– on loans granted (note 15)	*369*	*1 848*
Other interest income, of which:	9 023	5 812
– interest on discount and penalty interest	*9 023*	*5 812*
Dividends and shares in profits	7	35
Receivables from service concession arrangement (note 16)	2 907	2 956
Reversal of long-term receivables discount	355	510
Gains on derivative financial instruments (note 15)	1 230	349
Foreign exchange gains	690	-
Other	1	65
Total	**43 227**	**39 545**

(all amounts are expressed in PLN thousand, unless stated otherwise)

Finance costs

	2016	**2015**
Interest expense in respect of financial instruments, of which:	2 031	1 957
– interest on borrowings and loans taken out and on other external sources of finance	*1 162*	*1 233*
– interest on lease contracts	*869*	*724*
Other interest expense, of which:	1 617	2 229
– penalty interest paid to suppliers and interest on discounts	*789*	*1 252*
– other interest	*828*	*977*
Foreign exchange losses	-	216
Discount on retentions for construction contracts (note 29)	6 362	5 346
Cost of bank commissions and guarantees	23 960	20 766
Loss on derivative financial instruments (note 15)	652	627
Loss on transformation of jointly controlled entity	23	-
Other	12	394
Total	**34 657**	**31 535**

35. Earnings/ (loss) per share

Basic

Basic earnings (loss) per share are calculated as the quotient of profit/ (loss) attributable to the shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year (note 20).

	2016	**2015**
Earnings / (loss) attributable to the shareholders of the Parent Company	409 851	235 846
Weighted average number of ordinary shares	25 530 098	25 530 098
Basic earnings / (loss) per share (in PLN per share)	**16.05**	**9.24**

Diluted

Diluted earnings / (loss) per share equated to basic earnings per share for both periods.

36. Dividend per share

On 24 May 2016, Budimex SA paid out a dividend in the amount of PLN 207 815 thousand, for which separate net profit for the period from 1 January 2015 to 31 December 2015 was appropriated, i.e. the gross amount of PLN 8.14 per one share.

Until the date of the preparation of these consolidated financial statements for the year ended 31 December 2016, the Management Board of Budimex SA has not adopted a resolution on recommended appropriation of profit for 2016.

37. Statement of Cash Flows

Other adjustments to the operating activities section of the consolidated statement of cash flows cover the following items:

	2016	**2015**
Foreign exchange differences on translation of foreign operations	100	99
Share-based payments – part recognised in equity (note 39)	(178)	637
Other	(343)	(72)
Total	**(421)**	**664**

Non-monetary transactions

In 2016, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows related solely to the acquisition of property, plant and equipment with a value of PLN 30 695 thousand under finance lease agreements.

(all amounts are expressed in PLN thousand, unless stated otherwise)

In 2015, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows related solely to the acquisition of property, plant and equipment with a value of PLN 9 194 thousand under finance lease agreements.

38. Liabilities secured on the Group's assets

The following assets were pledged as collaterals/ securities for bank loans and guarantees:

	31 December 2016		31 December 2015	
	Assets pledged as security/ collateral	Security/ collateral contractual value	Assets pledged as security/ collateral	Security/ collateral contractual value
Property, plant and equipment	6 492*	49 504*	6 704*	6 000*
Investment property	19 468*	39 750*	19 386*	39 750*
Inventories	40 563	2 550	30 480	5 100
Cash and cash equivalents (note 19)	115	115	3 408	13 413
Total	**66 638**	**91 919**	**59 978**	**64 263**

** the collateral was established jointly on property, plant and equipment and investment property*

The collaterals established on cash and cash equivalents refer to blocked deposits for the received guarantee for advance payment return, performance bond and warranty. The collaterals were released in January 2017.

39. Share-based payments

In 2010, Ferrovial SA established an incentive scheme, which is classified as a share-based payment transaction settled in equity.

According to this scheme, each year Management Board members and senior management of Budimex SA are granted shares in Ferrovial SA. Final settlement of such shares takes place three years after the grant date, subject to the following conditions:

- beneficiaries must be in employment at the company for the 3-year period after program institution date, except for certain unusual situations,
- achievement in said period of certain set covenants as regards cash-flow and relation between gross operating profit and net production assets,
- the required level of covenants to become eligible for the total or proportionate number of shares is set every year.

As at 31 December 2016, the total fair value of services recorded under other reserves was PLN 7 171 thousand, while as at 31 December 2015 - PLN 7 349 thousand. As at 31 December 2016, the total fair value of services recorded under liabilities amounted to PLN 5 582 thousand, while as at 31 December 2015 – PLN 3 112 thousand.

Pursuant to an agreement concluded with the Ferrovial Group in 2014, Budimex SA undertook to cover scheme costs with respect to the tranche of the instruments granted in 2014 and in the subsequent years. Therefore, the fair value of employee services related to the instruments granted in the years 2014-2016 was classified as liabilities (with a corresponding expense item).

Detailed information on the shares vested since the launch of the plan is presented in the table below:

	Number of initially granted shares	Grant date	Fair value of 1 share at grant date	Financial covenants realization	Discount rate	Cost of shares granted*
2016	44 020	15-02-2016	79.22	100%	5%	2 292
2015	47 843	15-02-2015	76.93	100%	5%	2 897
2014	50 200	11-02-2014	59.94	100%	5%	2 194
2013	48 464*****	15-02-2013	51.84	100%	5%	2 665
2012	55 650****	12-02-2012	38.84	100%	5%	1 422
2011	50 900***	28-02-2011	33.98	100%	5%	1 027
2010	41 800**	31-03-2010	24.47	100%	5%	256
Total	**338 877**	**-**	**-**	**-**	**-**	**12 753**

* cost for the specific financial years was calculated as follows:

- 2010 - 9/36th of the cost of shares granted in 2010,
- 2011 - 12/36th of the cost of shares granted in 2010 and 10/36th of the cost of shares granted in 2011,
- 2012 - 12/36th of the cost of shares granted in 2010, 12/36th of the cost of shares granted in 2011 and 10/36th of the cost of shares granted in 2012,

(all amounts are expressed in PLN thousand, unless stated otherwise)

- 2013 - 3/36th of the cost of shares granted in 2010, 12/36th of the cost of shares granted in 2011, 12/36th of the cost of shares granted in 2012 and 10/36th of the cost of shares granted in 2013,
- 2014 - 2/36th of the cost of shares granted in 2011, 12/36th of the cost of shares granted in 2012, 12/36th of the cost of shares granted in 2013 and 10/36th of the cost of shares granted in 2014,
- 2015 - 2/36th of the cost of shares granted in 2012, 12/36th of the cost of shares granted in 2013, 12/36th of the cost of shares granted in 2014 and 10/36th of the cost of shares granted in 2015,
- 2016 - 2/36th of the cost of shares granted in 2013, 12/36th of the cost of shares granted in 2014, 12/36th of the cost of shares granted in 2015 and 10/36th of the cost of shares granted in 2016.

** The three-year vesting period for shares granted in 2010 ended in March 2013. As the conditions of the incentive program were satisfied, 59 800 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
*** The three-year vesting period for shares granted in 2011 ended in March 2014. As the conditions of the incentive program were satisfied, 59 800 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
**** The three-year vesting period for shares granted in 2012 ended in March 2015. As the conditions of the incentive program were satisfied, 49 650 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
***** The three-year vesting period for shares granted in 2013 ended in March 2016. As the conditions of the incentive program were satisfied, 33 436 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.

40. Related party transactions

Transactions with related parties made in 2016 and 2015 and the resultant unsettled balances of receivables and liabilities as at 31 December 2016 and 31 December 2015 are presented below.

	Receivables		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Parent and its related parties (the Ferrovial Group)	20 472	22 111	95 843	100 925
Jointly controlled entities	8 890	1 321	665	882
Associates	357	212	1 537	1 236
Other related entities – non-consolidated subsidiaries*	-	20	623	746
Other related entities – other*	7	3	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	**29 726**	**23 667**	**98 668**	**103 789**

	Revenue from sale of finished goods and services and other operating income		Purchase of finished goods and services	
	2016	2015	2016	2015
Parent and its related parties (the Ferrovial Group)	7 462	71 554	39 275	103 674
Jointly controlled entities	6 462	294	4	106
Associates	860	653	7 296	7 397
Other related entities – non-consolidated subsidiaries*	266	335	(78)	(1 911)
Other related entities – other*	-	4	-	-
Other related entities – through key personnel*	-	-	15	40
Total settlements with related parties	**15 050**	**72 840**	**46 512**	**109 306**

	Loans granted / (taken out); debt securities acquired / (issued)		Finance income / (costs)	
	31 December 2016	31 December 2015	2016	2015
Parent and its related parties (the Ferrovial Group)	(9 165)	(8 760)	(71)	(90)
Jointly controlled entities	-	-	-	-
Associates	9 163	1 549	369	1 848
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	**(2)**	**(7 211)**	**298**	**1 758**

(all amounts are expressed in PLN thousand, unless stated otherwise)

*) Other related parties represent controlled non-consolidated, jointly controlled entities or entities on which the key management person of the Parent Company or of the subsidiary of the Budimex Group or his close relative exercises significant influence, or has a significant number of votes at the shareholders' meeting of this company.

Included under "Parent and its related parties (the Ferrovial Group)" are the numerical data relating to transactions with Ferrovial Group companies: Ferrovial Agroman SA, including Ferrovial Agroman SA Oddział w Polsce [Branch in Poland] and other Ferrovial Group companies: Cintra Infraestructuras SA, Ferrovial Agroman (UK) Limited, Ferrovial Corporación SA, Ferrovial Servicios SA, Cadagua SA and Cadagua SA Oddział w Polsce. [Branch in Poland].

Sales revenue / purchase of finished goods and services

Revenue from the sale of goods and services includes mainly revenue from construction contracts carried out in consortia with the Ferrovial Group companies.

In 2010, Budimex SA signed two agreements with Ferrovial Agroman SA under which Ferrovial renders to the Company services relating to IT maintenance and development, and staff secondment. The costs of these agreements incurred by Budimex SA in 2016 were PLN 3 743 thousand and PLN 5 586 thousand, respectively, while in 2015: PLN 2 236 thousand and PLN 5 416 thousand, respectively.

On 29 October 2012, Budimex SA concluded with Ferrovial Agroman SA a conditional agreement for operational know-how support, streamlining of processes and procedures in the key areas of construction, investment and management activity. The consideration under this contract was set at 0.5% of the value of annual sales revenue of the Budimex Group, less sales revenue of Budimex Nieruchomości Sp. z o.o., with the proviso that until the correctness of the transaction price is authorized by the Polish and Spanish tax authorities, Budimex SA will be remitting to Ferrovial Agroman SA a fee reduced by 25%. The contract covers the period from 1 January 2012 to 31 December 2016. In connection with the performance of those contracts, in 2016 Budimex SA incurred costs in the total amount of PLN 26 115 thousand and in 2015 - PLN 24 140 thousand.

Loans

Based on the agreement dated 1 December 2004, Budimex SA received from Ferrovial Infraestructuras SA (currently Cintra Infraestructuras SA) a loan in the amount of EUR 1 500 thousand. Under the loan contract, the loan was granted for the period of 12 months from contract date, with an option to extend. If the shares in Inversora de Autopistas del Levante, S.L. are sold, the loan will become immediately due and payable. After the maturity date, the loan will be repaid together with interest calculated based on 1Y EURIBOR+0.75%. On 1 December 2016, loan repayment date was extended for another year and the amount of the loan was increased by the amount of interest accrued as at that date.

Transactions with related parties are made on an arm's length basis.

40.1 Remuneration of key members of management

Management Board

In 2016, the total value of remuneration, bonuses and awards for the members of the Management Board of Budimex SA amounted to PLN 11 843 thousand (of which, PLN 3 768 thousand represented performance bonus for completing the tasks performed in 2015), of which PLN 10 505 thousand was recognised as costs of Budimex SA. The remaining balance was recognised as costs of its subsidiaries.

In 2015, the total value of remuneration, bonuses and awards for the members of the Management Board of Budimex SA amounted to PLN 8 641 thousand (of which, PLN 2 888 thousand represented performance bonus for completing the tasks performed in 2014), of which PLN 7 345 thousand was recognised as costs of Budimex SA. The remaining balance was recognised as costs of its subsidiaries.

In 2016, remuneration of Management Board members was as follows:

Dariusz Blocher	PLN 2 190 thousand
Henryk Urbański	PLN 1 338 thousand
Marcin Węgłowski	PLN 1 203 thousand
Jacek Daniewski	PLN 1 199 thousand
Fernando Pascual Larragoiti	PLN 1 912 thousand
Cezary Mączka	PLN 704 thousand
Radosław Górski	PLN 1 230 thousand**
Artur Popko	PLN 1 943 thousand**
Andrzej Artur Czynczyk	PLN 124 thousand*

** as remuneration under non-competition clause valid to the end of 2016*
***incl. of remuneration for performing the duties of Company's proxy (from 1 January to 13 March 2016)*

(all amounts are expressed in PLN thousand, unless stated otherwise)

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2016, the estimated costs of share-based payment under Ferrovial SA incentive programs allocated to the Company's Management Board amounted to PLN 1 965 thousand (of which PLN 1 714 thousand was charged to the costs of Budimex SA, and the remaining – to the costs of subsidiary companies) thousand and were distributed as follows:

Dariusz Blocher	PLN 713 thousand
Henryk Urbański	PLN 251 thousand
Marcin Węgłowski	PLN 182 thousand
Jacek Daniewski	PLN 182 thousand
Fernando Pascual Larragoiti	PLN 220 thousand
Cezary Mączka	PLN 72 thousand
Radosław Górski	PLN 161 thousand
Artur Popko	PLN 184 thousand

The above costs consist of: 2/36th of the cost of shares granted in 2013, 12/36th of the cost of shares granted in 2014, 12/36th of the cost of shares granted in 2015 and 10/36th of the cost of shares granted in 2016.

The three-year vesting period for the shares granted in 2013 ended in March 2016. As the conditions of the incentive program were satisfied, the shares in Ferrovial SA were formally handed over. The number of shares actually granted to the members of the Company's Management Board was as follows:

Dariusz Blocher	10 920 shares
Henryk Urbański	4 940 shares
Marcin Węgłowski	3 224 shares
Jacek Daniewski	3 224 shares
Radosław Górski	3 120 shares
Artur Popko	3 120 shares

The market value of Ferrovial SA share at the actual grant date was PLN 79.04.

Proxies

The total value of remuneration paid to proxies of Budimex SA in 2016 was PLN 350 thousand, while in 2015 - PLN 3 858 thousand.

Individual remuneration of proxies in 2016 was as follows:

Piotr Świecki	PLN 350 thousand (from 11 May to 31 December 2016)

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2016, the estimated costs of share-based payment under Ferrovial SA incentive programs allocated to the Company's proxy, Piotr Świecki, amounted to PLN 56 thousand.

Supervisory Board

The total value of remuneration paid in 2016 to the members of Supervisory Board of Budimex SA amounted to PLN 1 225 thousand (PLN 1 122 thousand in 2015).

In 2016, remuneration of Supervisory Board members of Budimex SA was as follows:

Marek Michałowski	PLN 194 thousand
Igor Chalupec	PLN 133 thousand
Javier Galindo Hernandez	PLN 133 thousand
Jose Carlos Garrido-Lestache Rodriguez	PLN 122 thousand
Marzenna Anna Weresa	PLN 153 thousand
Piotr Kamiński	PLN 133 thousand
Alejandro de la Joya Ruiz de Velasco	PLN 133 thousand
Janusz Dedo	PLN 112 thousand
Ignacio Clopes Estela	PLN 112 thousand.

(all amounts are expressed in PLN thousand, unless stated otherwise)

40.2 Advance payments, loans, guarantees and sureties and other agreements with Members of the Management or Supervisory Boards

As at 31 December 2016 and 31 December 2015, members of the Management or Supervisory Boards of the Parent Company, their spouses, close relatives, in-laws, adopted persons and adoptive parents, and other persons who are related to them in person did not have any unpaid loans or borrowings or guarantees issued by Budimex SA or its subsidiaries, jointly controlled entities or associates.

As at 31 December 2016 and 31 December 2015, members of the Management or Supervisory Boards of the subsidiary companies of the Group did not have any unpaid loans or borrowings or guarantees issued by those companies and were not parties to any agreements obligating them to provide services to Group companies.

41. Capital expenditure incurred and planned

Capital expenditure (for non-financial long-term assets) incurred in 2016 amounted to PLN 70 898 thousand. In 2015, capital expenditure amounted to PLN 67 915 thousand.

Capital expenditure planned to be incurred in 2017 for non-financial long-term assets amount to approx. PLN 100 000 thousand.

In 2016 and in 2015, Group companies did not incur any environmental protection expenditure and have no plans to incur any such expenditure in the 12-month period after the reporting date.

42. (Off-balance sheet) investment expenditure

As at 31 December 2016, the committed investment expenditure amounted to PLN 98 028 thousand.
As at 31 December 2015, the committed investment expenditure did not occur.

43. Future liabilities under hire, rental or operating lease agreements

Liabilities under hire, rental or operating lease agreements relate mainly to car or office space rental agreements.

Total minimum lease payments under irrevocable operating lease agreements amount to the following:

	31 December 2016	31 December 2015
– up to 1 year	32 273	31 335
– 1-5 years	42 481	44 937
– above 5 years	90	196
Total	**74 844**	**76 468**

	2016	2015
Lease payments taken to costs	41 852	36 244

In addition, the Group uses land under perpetual usufruct which it received based on an administrative decision. Estimated future payments for the perpetual usufruct right to land are as follows:

	31 December 2016	31 December 2015
– up to 1 year	3 748	1 035
– 1-5 years	7 656	2 419
– above 5 years	44 123	38 976
Total	**55 527**	**42 430**

	2016	2015
Fee for perpetual usufruct right to land taken to costs	1 181	1 221

(all amounts are expressed in PLN thousand, unless stated otherwise)

44. Financial instruments

44.1 Carrying amounts

The tables below present the carrying amounts of all financial instruments of the Group presented in the statement of financial position, divided into classes and categories of assets and liabilities:

Balance as at 31 December 2016

Classes of financial instruments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Available-for-sale financial assets	9 396	-	-	-	-	**9 396**
Retentions for construction contracts	-	-	54 151	-	(392 391)	**(338 240)**
Trade and other receivables*	-	-	473 983	-	-	**473 983**
Receivables from service concession arrangement	-	-	46 096	-	-	**46 096**
Amounts due and receivable from customers under construction contracts	-	-	288 456	-	-	**288 456**
Other financial assets/(liabilities)	-	2 630	9 163	(3 002)	-	**8 791**
Cash and cash equivalents	-	2 715 134	-	-	-	**2 715 134**
Loans, borrowings and other external sources of finance	-	-	-	-	(82 609)	**(82 609)**
Amounts due and payable to customers under construction contracts	-	-	-	-	(1 352 639)	**(1 352 639)**
Trade liabilities and other financial liabilities (note 23)	-	-	-	-	(1 338 767)	**(1 338 767)**
Total	**9 396**	**2 717 764**	**871 849**	**(3 002)**	**(3 166 406)**	**429 601**

Balance as at 31 December 2015

Classes of financial instruments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Available-for-sale financial assets	9 247	-	-	-	-	**9 247**
Retentions for construction contracts	-	-	36 664	-	(375 272)	**(338 608)**
Trade and other receivables*	-	-	384 669	-	-	**384 669**
Receivables from service concession arrangement	-	-	45 688	-	-	**45 688**
Amounts due and receivable from customers under construction contracts	-	-	171 763	-	-	**171 763**
Other financial assets/(liabilities)	-	1 279	1 549	(4 514)	-	**(1 686)**
Cash and cash equivalents	-	2 413 126	-	-	-	**2 413 126**
Loans, borrowings and other external sources of finance	-	-	-	-	(64 341)	**(64 341)**
Amounts due and payable to customers under construction contracts	-	-	-	-	(1 239 940)	**(1 239 940)**
Trade liabilities and other financial liabilities (note 23)	-	-	-	-	(1 046 457)	**(1 046 457)**
Total	**9 247**	**2 414 405**	**640 333**	**(4 514)**	**(2 726 010)**	**333 461**

*) except for prepayments and accruals, current tax assets, subsidies, customs duty, social security, health insurance and advance payments made.

(all amounts are expressed in PLN thousand, unless stated otherwise)

44.2 Income, costs, gains and losses recognised in the profit and loss account, by classes of financial instruments

For the period from 1 January 2016 to 31 December 2016

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Interest income/ (expense)	-	28 645	5 413	-	1 159	**35 217**
Foreign exchange gains / (losses)	-	(473)	2 315	-	(1 152)	**690**
Reversal / (creation) of impairment write-downs	-	-	(10 267)	-	2 545	**(7 722)**
Dividends received	7	-	-	-	-	**7**
Valuation gains / (losses)	-	2 393	2 670	1 110	3 795	**9 968**
Gains / (losses) on disposal / realisation of financial instruments	(23)	(3 340)	-	88	-	**(3 275)**
Total	**(16)**	**27 225**	**131**	**1 198**	**6 347**	**34 885**

For the period from 1 January 2015 to 31 December 2015

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Interest income/ (expense)	-	27 968	3 130	-	1 323	**32 421**
Foreign exchange gains / (losses)	-	700	(1 194)	-	278	**(216)**
Reversal / (creation) of impairment write-downs	-	-	4 923	-	3 698	**8 621**
Dividends received	35	-	-	-	-	**35**
Valuation gains / (losses)	-	(217)	3 511	2 339	4 088	**9 721**
Gains / (losses) on disposal / realisation of financial instruments	-	(527)	-	781	-	**254**
Total	**35**	**27 924**	**10 370**	**3 120**	**9 387**	**50 836**

(all amounts are expressed in PLN thousand, unless stated otherwise)

44.3 Financial assets and financial liabilities measured at fair value

The following tables show an analysis of the Group's financial assets and financial liabilities that after initial recognition are measured at fair value, grouped into Levels 1 to 3 of fair value hierarchy, based on the degree to which the inputs of fair value determination are observable (see note 2.1).

	31 December 2016			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Other financial assets	-	2 630	-	**2 630**
Cash and cash equivalents	-	2 715 134	-	**2 715 134**
Financial assets measured at fair value through profit or loss, total	**-**	**2 717 764**	**-**	**2 717 764**
Other financial liabilities	-	3 002	-	**3 002**
Financial liabilities measured at fair value through profit or loss, total	**-**	**3 002**	**-**	**3 002**

	31 December 2015			
	Fair value measurement			
	Level 1	Level 2	Level 3	Total
Other financial assets	-	1 279	-	**1 279**
Cash and cash equivalents	-	2 413 126	-	**2 413 126**
Financial assets measured at fair value through profit or loss, total	**-**	**2 414 405**	**-**	**2 414 405**
Other financial liabilities	-	4 514	-	**4 514**
Financial liabilities measured at fair value through profit or loss, total	**-**	**4 514**	**-**	**4 514**

During the 12-month periods ended 31 December 2016 and 31 December 2015, there was no transfer between Level 1 and Level 2 of fair value hierarchy, and no transfer into and out of Level 3 of fair value hierarchy.

45. Legal proceedings pending as at 31 December 2016

Based on the information held, the total value of legal proceedings in progress in respect of liabilities of Budimex SA and its subsidiaries amounted as at 31 December 2016 to PLN 885 991 thousand. The proceedings involving Budimex SA and its subsidiaries concern operating activity of Group companies.

The proceedings in the highest value case concern a lawsuit filed on 7 December 2016 by the General Directorate for National Roads and Motorways („GDDKiA") against a consortium involving Budimex – Dromex SA (in 2009, this company merged with Budimex SA) (the „Consortium"). The GDDKiA seeks an order from the District Court in Warsaw to pay its claims jointly and severally by the three defendants – members of the Consortium. The lawsuit relates to the public tender procedure, completed in 2009, for the construction of the S8 route, section Piotrków Trybunalski – Rawa Mazowiecka, in which the Consortium did not succeed. The GDDKiA claims that the Consortium used the prohibited „concerted practice" „by replacing autonomous economic decisions with the arrangements between competitors who participated in one public tender". The GDDKiA claims that as a result of this offense the public order under said tender was realised at a price considerably higher than that could hypothetically be paid, had no concerted practice restricting competition occurred. The value of the claim is PLN 539 957 thousand, increased by interest accrued from 17 July 2009.

The analysis of the GDDKiA's claim shows that the main evidence in this civil lawsuit are the evidence used in previous criminal proceedings, to which Budimex SA was not a party or participant. The acquittal in said criminal proceedings was granted in two court instances. The courts of two instances admitted that witness evidence and defendants explanations did not confirm entering into an arrangement and distorting competition to the detriment of the institution, the GDDKiA, for which the tender procedure was carried out. In the criminal procedure, a cassation appeal was filed with the Supreme Court. On 18 January 2017, the Supreme Court considered the cassation appeal as unfounded in its entirety, and ruled, in particular, that there was no price collusion or bid rigging involving representatives of Budimex Dromex SA.

On 31 January 2017 Budimex SA filed an answer to the lawsuit, but on 15 March 2017 it was informed that the proceedings would be discontinued because GDDKiA withdrew the lawsuit. The decision on discontinuance of the proceedings is not legally valid and can be appealed within 7 days. It will become final and valid upon ineffective lapse of the aforementioned time limit.

The proceedings in the second highest value case are pending before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, which involve the consortium members: Ferrovial Agroman SA, Budimex SA and Estudio Lamela S.L. (the FBL Consortium) and Przedsiębiorstwo Państwowe "Porty Lotnicze" (PPL). The litigation is the result of PPL serving a notice rescinding the contract for the development and modernization of Terminal 2 of the Warsaw Chopin Airport.

Initially, the proceedings related solely to the claim filed on 24 January 2008 by the FBL Consortium, in relation to bank guarantees realised by PPL groundlessly, which were given as a performance bond for a total amount of PLN 54 382 thousand. That case was finally resolved by a judgment of the Court of Appeal in Warsaw of 23 August 2012. The total value of the awarded claim and the amount of statutory interest for late payment was PLN 87 920 thousand (the amount attributable to Budimex SA was PLN 35 168 thousand, of which PLN 21 612 thousand as reimbursement of the performance bond). The court enforcement officer transferred that amount to the bank account of Budimex SA on 28 September 2012. After the cassation appeal of PPL was dismissed by the Supreme Court, the enforcement proceedings became final and PPL cannot submit now any further claims against the FBL Consortium regarding reimbursement of the amounts adjudicated in the partial judgment.

In the course of the proceedings before the Court of Arbitration, PPL filed a counter-claim of a total amount of PLN 135 719 thousand, covering claims for the redress of damage, including lost benefits, return of unjust enrichment and liquidated damages. On 31 July and 26 October 2009, PPL filed to the Court of Arbitration further written statements of claim including extension of the counter-claim, changing the original amount of counter-claim from PLN 135 719 thousand to PLN 280 894 thousand. As a result of subsequent procedural steps, in August 2012, the PPL's claim was raised to PLN 298 892 thousand. According to the value of the shares set forth in the consortium agreement, the risk allocated to Budimex SA does not exceed the total of PLN 119 556 thousand.

According to Budimex SA, all claims under the PPL's counter-suit are groundless. Consequently, on 21 October 2008, the FBL Consortium filed a response to the counter-claim, which contained a motion to dismiss the action in its entirety, and hence the statement on the groundlessness of PPL's claims. Until now, during several hearings, the court has examined all witnesses for the claimant and the counter-claimant with respect to the circumstances included in PPL's counter-claim. The evidence from an expert opinion is the last to be considered with respect to this part of the dispute. This, however, may be done only after the Court has completed the hearing of evidence concerning filed claims. The findings presented in the expert opinion on the claims of the FBL Consortium will affect the scope of claims of PPL and, consequently, the scope of evidence taken in order to prove them.

Regardless of the PPL's counter-claim and in accordance with former announcements, on 27 February 2009 the FBL Consortium submitted a statement of claim including an extension of the main claim by the amount of PLN 216 458 thousand, covering: remuneration for the works performed, but not paid by the Investor, remuneration for additional works, and reimbursement for the retained amounts and interest on late payments. Under the consortium contract, the share of Budimex SA in this claim amounts to PLN 86 583 thousand.

On 27 May 2010, the Court of Arbitration issued a decision under which the evidence from the expert's opinion evaluating reasonableness of the PPL claims was accepted (except for any amounts sought at that stage). The expert appointed by the Court of Arbitration, the BS Consulting Group, started to work at the end of 2010. To date, there have been several meetings with proxies of parties and the expert and there was an inspection of the airport objects with the participation of the aforementioned expert in March 2011. Technical opinion prepared by the expert, that was delivered to proxies of both parties on 29 July 2011, represented the result of his work. The parties submitted comments, remarks and detailed questions to the opinion prepared by the expert. Upon taking these into consideration, the expert prepared his final supplementary opinion at the end of March 2012. The assessment presented in the opinion was favourable to the FBL Consortium as it, among other things, confirmed that the FBL Consortium was entitled to postpone the work completion deadline.

Due to completion by the expert of work on the validity of PPL's claims, the Court ordered both parties to present final calculations of their claims, while taking into account the expert's views expressed in the opinion. As a result, PPL extended the claim as stated above to PLN 298 892 thousand, and the value of the FBL Consortium's claim remained unchanged.

Pursuant to a decision of the Court of Arbitration dated 28 January 2013 and based on a site inspection performed in July 2013, the expert, i.e. the BS Consulting Group, was to draft an opinion – an assessment of the value of claims submitted by the FBL Consortium in the extended claim by the end of October 2013. Due to the fact that the expert did not prepare this opinion to a set deadline, the Court of Arbitration, during the hearing on 20 December 2013, decided to appoint another court expert. In 2015, the final scope of the opinion was determined as well as the composition of a new team of experts. Consequently, only in October 2016, the parties received an opinion on the Consortium's claims prepared by the new team of experts. This opinion proves that the experts considered, in principle, all claims of the Consortium, which account for the majority of the amount of the claim. Nevertheless, in the opinion of the Consortium, the amount of claim recognised by experts is still underestimated because it does not account for all claims that were filed. During recent court hearings, the parties asked questions to the experts to determine whether it would be necessary to apply for a supplementary opinion.

The Management Board is of the opinion that the final judgement of the Court of Arbitration will be favourable to the FBL Consortium.

On 16 December 2010, Tomasz Ryskalok and Rafał Ryskalok, conducting business activity as a civil law partnership under the name Cerrys S.C., with its registered office in Wykroty, filed a lawsuit against Budimex SA for payment of a contractual penalty for delay in the removal of defects identified during the warranty period. The lawsuit concerns the construction of a concrete plant in line with the agreement concluded on 19 May 2003 with the value of the agreement amounting to PLN 4 189 thousand. The value of the subject matter of litigation is PLN 90 000 thousand including statutory interest calculated from 19 October 2006 until the day of payment. In the opinion of Budimex SA, the claim constituting the subject matter of litigation is unfounded as there is no basis, either formal or factual, for considering it (the deadline for submitting the claims in question expired, the limit concerning contractual penalties - i.e. up to 15 per cent of the value of the agreement - has not been taken into account, and the defect is not material). To date, several court hearings took place during which witnesses for the claimant and defendant were examined. Having heard the parties, on 19 December 2013, the Court issued a decision under which the evidence from the expert's opinion was accepted in order to determine reasonableness and the amount of the PPL's claim. The inspection of the facility was carried out in June 2014. In October 2014, the court delivered the opinion of the construction expert. At the request of Budimex, the court ordered preparation of a supplementary opinion, to which the parties submitted their objections. Despite oral explanations provided by expert during the course of court hearing in November 2015, a request was filed for another supplementary opinion. In July 2016, the Court obligated the expert to draft another supplementary opinion, and the opinion was duly delivered to the parties in October 2016. On 17 November 2016, the claim was extended by the amount of PLN 57 266 thousand i.e. to the total amount of PLN 147 266 thousand. A response of Budimex SA was filed to the extended claim with the request for claim dismissal on the grounds of claim extension inadmissibility, unjustified claim demand and the expiry of the statute of limitations for the claim. During the court hearing on 7 December 2016, due to the non-submission of missing cost analyses by experts, the Court postponed the hearing to 31 March 2017.

Another material in value legal proceedings relate to the claim filed on 5 March 2008 by Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. requesting that the amount of PLN 25 252 thousand be awarded jointly and severally against the consortium to which the Budimex SA and Budimex Dromex SA belonged. The claim relates to the replacement of contractor costs incurred by the investor when the consortium rescinded the contract. The share of the companies in the consortium was 90%, therefore the value of the claim for which Budimex SA is presently liable is PLN 22 727 thousand. The court ended examination of witnesses of both parties, then heard the parties, and on 6 February 2014 accepted the evidence from the construction expert opinion with regard, inter alia, to the assessment of quality and value of works completed by the defendant, the scope and completeness of works to be performed as well as the value of corrections. The expert drafted an opinion which the defendant considers to be in its favour. This assessment is confirmed by the actions of the claimant who submitted a request for appointment of a new expert. The court did not consider the request of the claimant in this matter and allowed to include in the court protocol only oral supplementary opinion of the expert, which was duly provided during the court hearing on 21 April 2015. The claimant filed another request for appointment of a new expert; this request was rejected by the court during the hearing in December 2015. At the same time, the court allowed preparation of a supplementary opinion, which was delivered to the parties in June 2016. With respect to the contents of this new supplementary opinion, the defendant upheld his current standpoint presented for the main opinion, which he assessed as favourable. Instead, the claimant requested yet another expert opinion which was to be prepared by the end of March 2017.

(all amounts are expressed in PLN thousand, unless stated otherwise)

As at the date of the preparation of these consolidated financial statements, the final outcome of the remaining proceedings is not known.

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 152 057 thousand as at 31 December 2016. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. Apart from the case brought to court by the FBL Consortium against PPL, the value of no other proceedings concerning claims exceeds 10% of the shareholders' equity of Budimex SA. As at the date of these consolidated financial statements, the final outcome of the proceedings is not known.

46. Events after the reporting date

On **1 February 2017,** the General Shareholders' Meeting of Budimex Autostrada SA (the subsidiary of Budimex SA) resolved to liquidate the company.

On **15 February 2017,** Budimex SA began shares acquisition process of Elektromontaż Poznań SA (the subsidiary) from minority interests shareholders. During the period from 15 February 2017 till 7 March 2017 Budimex SA concluded 140 share purchase agreements and based on them acquired 66 929 ordinary registered shares of "A" series (constituting in total 1.24 per cent share in issued capital of Elektromontaż Poznań SA). The total purchase price for above mentioned shares amounted to PLN 590 thousand. The share acquisition process has not been finalized yet and will continue during forthcoming weeks.

Apart from that, until the date of the publication of these consolidated financial statements, there were no other significant events that should be disclosed in the attached consolidated financial statements.

47. Contingent assets and contingent liabilities

	31 December 2016	31 December 2015
Contingent assets		
From related entities		
– guarantees and sureties received	-	-
– bills of exchange received as security	-	-
From related entities, total	**-**	**-**
From other entities		
– guarantees and sureties received	475 101	348 558
– bills of exchange received as security	12 373	5 478
From other entities, total	**487 474**	**354 036**
Other contingent assets	16 117	1 350
Total contingent assets	**503 591**	**355 386**
Contingent liabilities		
To related entities		
– guarantees and sureties issued	5 037	5 286
– promissory notes issued as security	-	-
To related entities, total	**5 037**	**5 286**
To other entities		
– guarantees and sureties issued	3 028 156	2 722 682
– promissory notes issued as security	2 695	2 610
To other entities, total	**3 030 851**	**2 725 292**
Other contingent liabilities	**133 554**	**133 554**
Total contingent liabilities	**3 169 442**	**2 864 132**
Total contingent items	**(2 665 851)**	**(2 508 746)**

Contingent assets arising from guarantees and sureties represent guarantees issued by banks or other entities in favour of Budimex Group companies serving as security for the Group's claims against business partners in connection with executed construction contracts.

Contingent liabilities arising from guarantees and sureties comprise mainly guarantees issued by banks to business partners of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees. Guarantees issued to the investors of the Group represent an alternative, to the retentions held, method of securing potential investor claims relating to construction contracts. At the same time, the risk relating to warranty repairs assessed by the Management Board of the Group as probable was appropriately reflected in the warranty repair provision, as described in note 26 to these consolidated financial statements.

(all amounts are expressed in PLN thousand, unless stated otherwise)

The promissory notes issued represent security for the settlement of liabilities towards strategic suppliers of the Group companies, while the bills of exchange received and recognised under contingent assets represent security for the payment of the receivables due to the Group companies by its customers.

In addition, the Group has contingent liabilities resulting from collateral established on its assets, as described in note 38.

Other contingent liabilities include, among others, voluntary submission to enforcement which secures the payment in the amount of up to PLN 133 554 thousand payable in the case of improper performance by Budimex SA of its obligations under the agreement of acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

48. Employment structure

Employee group	Number of employees as at 31 December	
	2016	2015
Blue collar employees	2 249	2 168
White collar employees	3 459	3 017
Total	**5 708**	**5 185**

49. Significant events with an impact on the Group's financial position

On 23 January 2010, the Management Board of Budimex SA learned that the condition determining the construction and operation of the A1 highway between Stryków and Pyrzowice in the concession system in accordance with the agreement signed on 22 January 2009 between Autostrada Południe SA and the State Treasury did not materialise. Due to the above, Phase II (referring to construction work) of the agreement concluded on 19 January 2010 by and between Budimex SA Ferrovial Agroman SA Sp. J. (formerly: Budimex Dromex SA Ferrovial Agroman SA Sp. J.) and Autostrada Południe SA for the design and construction of the section of the A1 highway between Stryków and Pyrzowice did not become effective. Phase I covered the design work with a value of PLN 180 000 thousand, which commenced in 2009 pursuant to the preliminary agreement concluded by Autostrada Południe SA, Budimex Dromex SA and Ferrovial Agroman SA on 30 May 2008.

In March 2010, the Management Board of Budimex SA learned that the project design documentation prepared by Spółka Jawna on behalf of Autostrada Południe SA had not been accepted by the Ministry of Infrastructure. Due to the above, there is a risk that the full amount of contract costs incurred by that company (in which Budimex SA holds 50% of shares) will not be recovered from Autostrada Południe SA unless it is proved that the lack of payments in favour of Autostrada Południe SA from the State Treasury does not result from the defect of the design project delivered by Spółka Jawna or the defects are the consequence of the requirements of Autostrada Południe SA, different from the requirements of the State Treasury as an investor.

On 21 December 2011, Autostrada Południe SA instituted a claim against the State Treasury represented by the Ministry of Transportation, Construction and Naval Economy, calling for payment of PLN 176 855 thousand regarding design works performed by Spółka Jawna. In 2012 and 2013, partial hearing of evidence and witness interrogation took place, and an expert opinion was drafted. Autostrada Południe SA submitted a request for a supplementary opinion which was prepared and delivered to the parties in October 2014. As follows from the opinion, all stages of design works with respect to which the claimant demands payment were performed, and thus the comments of the former expert were not justified. In October 2015, the court concurred with the defendant's request to examine another witness, as a result of which the necessity arose to draft another supplementary expert opinion. In 2016, the scope of that another supplementary opinion was determined. Before the court ordered opinion preparation, in November 2016 the judicial documents were requested to be returned. The judicial documents were returned to the court at the beginning of December 2016. Currently, the parties await further court's decisions.

Total revenue recognised by Spółka Jawna in prior years in connection with the design works performed (including the anticipated risks) corresponding to the share of Budimex SA amounted to PLN 72 505 thousand. Spółka Jawna made an impairment write-down against receivables due from Autostrada Południe SA, of which PLN 39 850 thousand was attributable to Budimex SA, and recognised a provision representing a liability regarding compensations in favour of Autostrada Południe SA, of which PLN 12 655 thousand was attributable to Budimex SA.

In reference to the court proceedings described in note 45 concerning the Contract for the development project at the Warsaw Chopin Airport - Terminal 2 Construction, according to the Management Board's best estimates as at the date of drafting these consolidated financial statements, the total loss incurred by Budimex on this contract (proportionate to the share of Budimex in the Consortium), taking into account other operating expenses/income and finance costs/income (including the result on forward contracts entered into to minimize the FX risk) was PLN 89 957 thousand as at 31 December 2016 (as at 31 December 2015: PLN 91 865 thousand). The loss of Budimex on the entire contract, without taking into account the result of other operating and financial activities, was PLN 132 182 thousand as at 31 December 2016 (as at 31 December 2015: PLN 134 090 thousand). In view of the legal proceedings pending and the fact that the Consortium has not completed its financial settlements with Przedsiębiorstwo Państwowe Porty Lotnicze and with its subcontractors, the final result of the contract performance may change.

(all amounts are expressed in PLN thousand, unless stated otherwise)

Dariusz Blocher	President of the Management Board	....	Henryk Urbański	Member of the Management Board	....
name and surname	position	signature	name and surname	position	signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	....	Marcin Węgłowski	Member of the Management Board	....
name and surname	position	signature	name and surname	position	signature
Jacek Daniewski	Member of the Management Board	....	Artur Popko	Member of the Management Board	....
name and surname	position	signature	name and surname	position	signature
Cezary Mączka	Member of the Management Board	....	Grzegorz Fąfara	Chief Accountant	....
name and surname	position	signature	name and surname	position	signature
Radosław Górski	Member of the Management Board	....			
name and surname	position	signature		Warsaw, 16 March 2017	