THE BUDIMEX GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

prepared in accordance with
International Financial Reporting Standards
endorsed by the European Union

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(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	Note	31 December 2018	31 December 2017
Non-current (long-term) assets			
Property, plant and equipment	9	258 123	162 422
Investment property	10	28 365	24 623
Intangible assets	11	28 389	30 163
Goodwill of subordinated entities	12	73 237	73 237
Investments in equity accounted entities	13	37 427	39 228
Investments in equity instruments	14.3	9 778	9 501
Retentions for construction contracts	28	49 103	30 138
Trade and other receivables	16	21 807	39 341
Receivables from service concession arrangement	15	46 416	46 440
Other financial assets	14	74 145	67 033
Deferred tax assets	23	361 851	405 208
Total non-current (long-term) assets		**988 641**	**927 334**
Current (short-term) assets			
Inventories	17	1 611 813	1 425 100
Trade and other receivables	16	819 300	689 939
Retentions for construction contracts	28	28 311	27 812
Valuation of construction contracts	26	561 537	483 501
Current tax assets		33 102	30 298
Other financial assets	14	4 495	286 533
Cash and cash equivalents	18	1 409 152	2 126 839
Total current (short-term) assets		**4 467 710**	**5 070 022**
TOTAL ASSETS		**5 456 351**	**5 997 356**

(all amounts are expressed in PLN thousand)

Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	Note	31 December 2018	31 December 2017
EQUITY			
Issued capital	19	145 848	145 848
Share premium	19	87 163	87 163
Other reserves	24, 39	1 600	2 557
Cumulative translation differences		6 947	5 342
Retained earnings		501 783	640 533
Shareholders' equity attributable to the shareholders of the Parent		**743 341**	**881 443**
Equity attributable to non-controlling interests	20	**7 136**	**685**
Total equity		**750 477**	**882 128**
LIABILITIES			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	21	184 110	92 086
Retentions for construction contracts	28	222 751	203 643
Provisions for long-term liabilities and other charges	25	367 306	305 858
Retirement benefits and similar obligations	24	12 639	11 086
Other financial liabilities	14	2 015	2 250
Total non-current (long-term) liabilities		**788 821**	**614 923**
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	21	54 823	30 324
Trade and other payables	22	1 720 438	1 697 984
Retentions for construction contracts	28	214 866	217 193
Provisions for losses on construction contracts	26	158 035	243 829
Valuation of construction contracts	26	575 183	783 209
Deferred income	27	996 224	1 345 267
Provisions for short-term liabilities and other charges	25	187 938	170 762
Current tax liability		6 846	3 404
Retirement benefits and similar obligations	24	1 412	1 537
Other financial liabilities	14	1 288	6 796
Total current (short-term) liabilities		**3 917 053**	**4 500 305**
Total liabilities		**4 705 874**	**5 115 228**
TOTAL EQUITY AND LIABILITIES		**5 456 351**	**5 997 356**

(all amounts are expressed in PLN thousand)

Consolidated profit and loss account

		Year ended 31 December	
	Note	**2018**	**2017**
Continuing operations			
Net sales of finished goods, services, goods for resale and raw materials	29	7 387 137	6 369 309
Cost of finished goods, services, goods for resale and raw materials sold	30	(6 758 048)	(5 559 485)
Gross profit on sales		**629 089**	**809 824**
Selling expenses	30	(30 650)	(34 016)
Administrative expenses	30	(229 593)	(216 627)
Other operating income	32	67 977	61 070
Other operating expenses	32	(63 824)	(31 933)
Gains on disposal of subsidiary companies	33	44 011	-
Operating profit		**417 010**	**588 318**
Finance income	34	28 291	37 084
Finance costs	34	(40 118)	(40 771)
Shares in net (losses) of equity accounted subordinates	13	(1 795)	(4 199)
Gross profit		**403 388**	**580 432**
Income tax	23	(97 904)	(115 838)
Net profit from continuing operations		**305 484**	**464 594**
Net profit for the period		**305 484**	**464 594**
of which:			
Attributable to the shareholders of the Parent		***305 424***	***464 408***
Attributable to non-controlling interests	*20*	*60*	*186*

Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)	*35*	*11.96*	*18.19*

(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

		Year ended 31 December	
		2018	**2017**
Net profit for the period		**305 484**	**464 594**
Other comprehensive income which:			
Items to be reclassified to profit or loss upon satisfaction of certain conditions:			
Cumulative translation differences	37	1 605	(183)
Deferred tax related to components of other comprehensive income		-	-
Items not to be reclassified to profit or loss:			
Actuarial gains/ (losses)	24	(1 181)	(2 675)
Deferred tax related to components of other comprehensive income	23	224	508
Other comprehensive income, net		**648**	**(2 350)**
Total comprehensive income for the period		**306 132**	**462 244**
of which:			
Attributable to the shareholders of the Parent		***306 072***	***462 057***
Attributable to non-controlling interests	*20*	*60*	*187*

(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)	Cumulative translation differences	Retained earnings	Total		
Balance as at 1 January 2018	**145 848**	**87 163**	**7 171**	**(4 614)**	**5 342**	**640 533**	**881 443**	**685**	**882 128**
Profit for the period	-	-	-	-	-	305 424	305 424	60	**305 484**
Other comprehensive income	-	-	-	(957)	1 605	-	648	-	**648**
Total comprehensive income for the period	-	-	-	**(957)**	**1 605**	**305 424**	**306 072**	**60**	**306 132**
Sale of a non-controlling interest of subsidiary (note 20)	-	-	-	-	-	5 411	5 411	7 189	**12 600**
Disposal of subsidiary companies (note 33)	-	-	-	-	-	-	-	(664)	**(664)**
Payment of dividend by Budimex SA (note 36)	-	-	-	-	-	(449 585)	(449 585)	-	**(449 585)**
Payment of dividend to non-controlling shareholders (note 20)	-	-	-	-	-	-	-	(134)	**(134)**
Balance as at 31 December 2018	**145 848**	**87 163**	**7 171**	**(5 571)**	**6 947**	**501 783**	**743 341**	**7 136**	**750 477**

(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		Cumulative translation differences				
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)		Retained earnings	Total		
Balance as at 1 January 2017	**145 848**	**87 163**	**7 171**	**(2 446)**	**5 525**	**558 116**	**801 377**	**4 443**	**805 820**
Profit for the period	-	-	-	-	-	464 408	464 408	186	**464 594**
Other comprehensive income	-	-	-	(2 168)	(183)	-	(2 351)	1	**(2 350)**
Total comprehensive income for the period	-	-	-	**(2 168)**	**(183)**	**464 408**	**462 057**	**187**	**462 244**
Dividends	-	-	-	-	-	(382 696)	(382 696)	-	**(382 696)**
Increase in the interest in subsidiary company	-	-	-	-	-	705	705	(3 945)	**(3 240)**
Balance as at 31 December 2017	**145 848**	**87 163**	**7 171**	**(4 614)**	**5 342**	**640 533**	**881 443**	**685**	**882 128**

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	Note	Year ended 31 December 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax		**403 388**	**580 432**
Adjustments for:			
Depreciation/ amortisation	30	52 111	37 478
Shares in net losses of equity accounted subordinates	13	1 795	4 199
Foreign exchange (gains)/ losses		(637)	792
Interest and shares in profits (dividends)		(1 675)	(2 863)
(Profit)/ loss on investing activities		(44 279)	(2 659)
Change in valuation of derivative financial instruments	14.2	3 022	(5 461)
Change in provisions and liabilities arising from retirement benefits and similar obligations		84 579	60 184
Other adjustments	37	1 629	639
Operating profit/ (loss) before changes in working capital		**499 933**	**672 741**
Change in receivables and retentions for construction contracts		(156 862)	(179 752)
Change in inventories		(187 201)	(241 451)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings		95 966	250 121
Change in deferred income		(348 074)	343 207
Change in the balance of valuation of construction contracts and provision for losses on construction contracts		(395 899)	(520 646)
Change in cash and cash equivalents of restricted use	18	23 866	26 111
Cash flow from operating activities		**(468 271)**	**350 331**
Income tax paid		(55 104)	(154 535)
NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITIES		**(523 375)**	**195 796**

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows (cont.)

	Note	Year ended 31 December 2018	2017
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of intangible assets and property, plant and equipment		11 726	1 048
Proceeds from sale of investment properties		-	4 619
Purchase of intangible assets and property, plant and equipment		(21 522)	(32 263)
Disposal of subsidiary companies	20, 33	47 111	-
Purchase of shares in subsidiaries		-	(3 240)
Increase in equity of/ acquisition of shares in non-consolidated entities	14.3	(1 060)	(105)
Purchase of bonds issued by banks	14.4	(238 868)	(665 619)
Proceeds from bonds issued by banks	14.4	516 877	387 610
Loans granted	14.1	(10 780)	(51 153)
Dividends received	13	5	-
Interest received	14.1, 14.4	6 195	2 520
NET CASH FLOW FROM/ (USED IN) INVESTING ACTIVITIES		**309 684**	**(356 583)**
CASH FLOW FROM FINANCING ACTIVITIES			
Loans and borrowing taken out		1 611	-
Repayment of loans and borrowings		(968)	(1 025)
Dividends paid to the shareholders of the Parent	36	(449 585)	(382 696)
Dividends paid to non-controlling shareholders	20	(134)	-
Payments of liabilities under finance lease		(26 862)	(12 989)
Interest paid		(4 445)	(2 727)
Other financial expenditure		(654)	(643)
NET CASH (USED) IN FINANCING ACTIVITIES		**(481 037)**	**(400 080)**
TOTAL NET CASH FLOW		**(694 728)**	**(560 867)**
Foreign exchange differences on cash and cash equivalents, net		907	(1 317)
CASH AND CASH EQUIVALENTS - OPENING BALANCE	**18**	**1 961 849**	**2 524 033**
CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**18**	**1 268 028**	**1 961 849**
Cash and cash equivalents of disposable groups		-	-
TOTAL CASH AND CASH EQUIVALENTS OF THE GROUP		**1 268 028**	**1 961 849**

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 entry 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.

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 ultimate parent company.

These consolidated financial statements were authorized by the Management Board of the Parent Company on 21 March 2019.

1.1 Going concern assumption

The consolidated financial statements of the Group for the year 2018 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, except for the application of new or amended standards and interpretations effective for annual periods beginning on 1 January 2018 and later.

2.1 Basis of preparing consolidated financial statements and statement of compliance

These consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with International Financial Reporting Standards ("IFRSs") endorsed by the European Union and prevailing as at the reporting date.

Standards, Amendments to Standards and IFRIC Interpretation applied for the first time in 2018

During the period covered by these consolidated financial statements, the Budimex Group applied for the first time the requirements of IFRS 9 „Financial instruments". The Group decided to apply this standard without restating the comparative data and with any effect of first-time application being recognised in the opening balance of Accumulated profits/ (losses) from previous years.

According to the Group, first-time application of IFRS 9 did not have any significant impact on the consolidated financial statements prepared in prior years, and, therefore, as at 31 December 2018 no adjustment was made that could have been recognised in prior year profits. Details of the new accounting policy regarding financial instruments have been described in note 2.15.

Accounting policy regarding financial instruments (in accordance with IAS 39), applied in the financial year ended 31 December 2017, was described in detail in the consolidated financial statements for the previous year, published on 22 March 2018.

Apart from that, in the financial year ended 31 December 2018, the Group applied for the first time the following amendments to IFRSs and the following IFRIC Interpretation:

- Amendments to IFRS 2 „Share-based Payment" – *Classification and Measurement of Share-based Payment Transactions,*

- Amendments to IAS 40 „Investment property” – *Transfers of investment property*,
- Annual Improvements to IFRSs (Cycle 2014-2016) – annual improvements to IFRS 1 and IAS 28, mainly with a view to removing inconsistencies and ensuring wording clarification.
- IFRIC Interpretation 22 „Foreign Currency Transactions and Advance Consideration”.

The above amendments and interpretation did not have any material impact on the consolidated financial statements.

Standards, Amendments to Standards and IFRIC Interpretation that were issued, but have not yet become effective

In authorizing these consolidated financial statements, the Group did not apply the following standard, amendments to other standards and the IFRIC Interpretation that were issued and endorsed for use in the EU, but which have not yet become effective:

- IFRS 16 „Leases” (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 „Financial instruments” – *Prepayment Features with Negative Compensation* (effective for annual periods beginning on or after 1 January 2019),
- Annual Improvements to IFRSs (Cycle 2015-2017)**,** effective for annual periods beginning on or after 1 January 2019,
- Amendments to IAS 19 „Employee benefits” – *Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 „Investments in Associates and Joint Ventures” - *Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 „Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

The Group decided *not* to apply IFRS 16 before its effective date. According to the current preliminary estimates of the Group, had IFRS 16 been applied as at 31 December 2018, the Group’s assets and liabilities would increase by PLN 162 650 thousand. The identified operating lease contracts relate mainly to cars, office space, land and machinery. The Group has decided to apply IFRS 16 as at 1 January 2019 retrospectively, with the total effect of the first application recognized on the first application day.

Standards and Amendments to Standards adopted by the 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 and amendments to Standards, which as at the date of the preparation of these consolidated financial statements were not yet adopted for use:

- IFRS 14 „Regulatory deferral accounts” – according to the European Commission’s decision the endorsement process of the standard will not be initiated until the final version of the standard has been published (effective for annual periods beginning on or after 1 January 2016),
- IFRS 17 „Insurance contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 „Business Combinations” (effective for annual periods beginning on or after 1 January 2020),
- 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 endorsement process has been postponed by the EU indefinitely – the effective date has been postponed by the IASB indefinitely,
- Amendments to IAS 1 „Presentation of Financial Statements” and IAS 8 *„Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Materiality* (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The above Standards and Amendments to Standards would not have any material impact on the consolidated financial statements, had they been applied by the Group at the reporting date.

The consolidated financial statements were prepared under the historical cost convention, except for the hyperinflation adjustment described in note 19, 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 amounts, 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 allocated 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 Group's 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 net identifiable 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 fair value of net identifiable 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

The Group's share in joint arrangements depends on joint arrangement classification. Where a joint arrangement is classified as:

- joint operation - (registered partnerships, civil law partnerships – where the partners have right to their share in the assets and obligations for the liabilities relating to the arrangement) – the Group recognises its assets and liabilities (including share in the assets and liabilities held/incurred jointly) and its part of revenues and costs of a joint operation,
- joint venture (companies – where shareholders have right to company's net assets) – the Group recognises its share 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 recognised as the excess between the aggregate of the consideration transferred, any non-controlling interests in the acquired entity (acquiree) and the acquisition-date fair value of the acquirer's previously held equity interest (shares) in the acquiree, and the net identifiable assets acquired and liabilities assumed. If after another testing, the acquisition-date net value of identifiable assets and liabilities exceeds the aggregate of the consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the surplus is recognised directly in profit or loss as gain from a bargain purchase.

Non-controlling interests (NCIs) 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 the NCI's proportionate share of net identifiable assets of the acquiree. Measurement method is selected by the Group on a transaction by transaction basis.

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 a contingent consideration representing measurement period adjustments are recognised retrospectively in correspondence with appropriate goodwill adjustments. Measurement period adjustments are the adjustments that arise from obtaining additional information on the measurement period (which cannot be longer than one year from the acquisition date) about the facts and circumstances that existed at the acquisition date.

Changes in the fair value of contingent consideration which do not qualify as measurement period adjustments are accounted for depending on whether the additional contingent consideration is classified as an equity instrument or an asset or liability. If the contingent consideration is classified as an equity instrument, the original amount is not re-measured and its subsequent settlement is accounted for within equity. If the additional contingent consideration is classified as an asset or liability that is a financial instrument, the contingent consideration is measured at fair value and any resultant gains or losses are recognised in profit or loss.

In case of a business combination achieved in stages, the Group re-measures its previously held equity interest in the acquiree to the acquisition-date fair value and recognises the resulting gain or loss in profit or loss. Any amounts arising from equity interest in the acquiree in prior reporting periods and recognised in other comprehensive income are taken to profit or loss, if such treatment would be correct upon equity 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 (expenses) in the period, in which they were incurred.

Loss of control

Where the Group loses control of a subsidiary, assets or liabilities of a former subsidiary are de-recognised from the statement of financial position and 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. 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 IFRS 9 "Financial Instruments", 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 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 "Cumulative translation differences".

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, using the straight-line method, 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 78 years
- buildings and constructions 2 – 67 years
- plant and machinery 2 – 17 years
- means of transport 2 – 17 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 (using the straight-line method) 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 – 40 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 (using the straight line method) over their estimated useful lives. The expected useful lives of the Group’s intangible assets are as follows:

- patents and licenses 2 – 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 comprise interest calculated using the effective interest rate method, finance charge under finance lease agreements and FX differences arising from external financing to the amount matching interest expense adjustment.

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 Budimex Group as Lessee

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.

The Budimex Group companies are not lessors.

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 (cash generating units) occur. 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 the items stored on construction sites which are to be used specifically for a given construction project or processed either internally or externally by a subcontractor, and whose disposal or straightforward use for other contracts performance is not certain. 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 (with a maturity date of up to 12 months).

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

- security for bank guarantees,
- funds gathered at open housing escrow accounts,
- funds gathered on split payment accounts,
- cash at escrow accounts and current accounts in the part due to the contractors realizing construction contracts 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

Classification and valuation

A financial asset is any asset that belongs to the following categories:

- cash and cash equivalents,
- equity instruments of another entity,
- contractual right:
  - to receive cash or other financial assets from another entity, or
  - to exchange financial assets or financial liabilities with other entity under conditions that are potentially favourable to the Budimex Group entities,
- a contract that will or may be settled in the entity's own instruments and is:
  - a non-derivative instrument for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity' own equity instruments.

A financial liability is any liability that is:

- a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which a Budimex Group entity is or may be obliged to deliver a variable number of the own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Budimex Group entity's own equity instruments. .

Financial assets and financial liabilities are recognised when a Budimex Group entity becomes a party to a binding contract.

Initially financial assets are measured at fair value (the initial cost of the financial assets and financial liabilities subsequently measured at amortized cost is adjusted for the transaction costs).

Trade receivables which do not contain any significant financing component (within the meaning of IFRS 15) are initially stated at their transaction price.

The classification of financial assets is based on the business model of the Budimex Group companies for managing the financial assets and based on the characteristics of contractual cash flows for a given financial asset.

In the periods following the initial recognition, financial assets are measured at:

- amortized cost,
- fair value through other comprehensive income (FVOCI),
- fair value through profit or loss (FVPL).

A financial asset is recognised at amortized cost, if:

- it is held in accordance with the business model whose objective is to collect contractual cash flows and

- the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income (FVOCI), if:

- it is held in accordance with the business model whose objective is both to collect contractual cash flows and to sell the financial asset, and
- the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

In addition, the Budimex Group entity is entitled to irrevocably determine a non-tradable investment in equity instruments, which, upon initial recognition, was measured at fair value through other comprehensive income (FVOCI) (otherwise, such investment would be measured at fair value through profit or loss (FVPL)). The amounts accumulated in other comprehensive income shall not be reclassified to the profit or loss, even upon de-recognition from the statement of financial position. Such investment is a non-monetary item. If the investment is denominated in a foreign currency, the exchange differences and received dividends are also recognized in other comprehensive income.

In all other cases, a financial asset is measured at fair value through profit or loss (FVPL).

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 liabilities arising from retentions for construction contracts are discounted to the present value using the effective interest rate.

Assets are derecognised when the contractual rights to the underlying cash flow expired or were transferred, and substantially all of the risks and rewards of the ownership of the assets were transferred.

Revenue from interest on financial assets (measured, as appropriate, at amortized cost, FVPL or FVOCI) are recognised under finance income.

After initial recognition, all financial liabilities which are measured at amortized cost, except for financial liabilities that are classified as at fair through profit or loss (meeting definition of held for trading), are measured at fair value.

The special sub-category of financial assets and financial liabilities held for trading are derivative financial instruments. Transactions involving derivative financial instruments are also made to hedge cash flows against FX and interest rate risks.

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 derivatives hedging foreign currency construction contracts against the risk of FX fluctuations as well as gains and losses determined at their settlement date are reported in the profit and loss account under "Other operating income (expenses)" as part of operating activity.

The effects of periodic valuation of derivatives hedging the items of financing activities against the risk of interest rate or FX fluctuations as well as gains and losses determined at their settlement date are reported in the profit and loss account under "Finance income (finance costs)" as part of financing activity.

The Budimex Group companies do not apply hedge accounting.

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

Impairment of financial assets

The Budimex Group companies recognise an allowance for expected credit losses (ECL allowance). Credit losses are a difference between all cash flows due and receivable under the given contract and the cash flows that are actually expected, after considering any shortages (i.e. default payment). If the financial assets covered by the impairment write-down are long-term, then the ECL allowance is discounted using the effective interest rate (i.e. the interest rate prevailing at the time of asset recognition).

Amount of expected credit loss allowance

Where the financial assets are covered by IFRS 15 (i.e. trade receivables, retentions for construction contracts, amounts due and receivable from customers under construction contract, and receivables from service concession arrangement), the Budimex Group company measures the amount of lifetime ECL allowance of the given financial asset.

Where the financial assets are *not* covered by IFRS 15 (i.e. investments in equity instruments, loans granted and other financial assets not measured at fair value), credit losses are estimated for the entire estimated lifetime of the given financial asset, if credit risk related to the given financial asset significantly increased from the time of asset's initial recognition. If credit risk did not significantly increase from the asset's initial recognition, the ECL allowance is recognized at the amount of the 12-month expected credit losses (12-month ECL).

In the case of financial assets *not covered* by IFRS 15, if a Budimex Group entity initially recognised the lifetime ECL allowance for a financial asset and then at the following reporting date ascertained that the related credit risk was significantly higher, the entity re-measured the ECL allowance to the amount of 12-month expected credit losses.

2.16 Equity

Equity

Issued capital comprises ordinary shares and is recorded at nominal value (consistently with the provisions of the 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.

Cumulative translation differences comprise the effect of translation of the financial statements of foreign operations of the Group (foreign companies and foreign branches) 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, the ultimate parent company, 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 in the years 2010-2013 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

The Budimex 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.

The Group entities create provisions for the costs of future warranty repairs because they are required to provide warranty 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 value is assessed on an individual basis and in justified cases may be increased or decreased. The costs of future warranty repairs are recognised in the cost of goods sold.

2.20 Recognition of revenues and expenses

Sales revenue is recognised using the policies described in note 29, 2.21 and 2.22 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.

2.21 Revenue from contracts with customers

Revenue from contracts with customers is recognised only if all of the below conditions have been fulfilled:

- the parties to the contract have approved the contract and are committed to perform their respective obligations,
- Group company can identify each party's rights regarding the goods or services to be transferred,
- Group company can identify the payment terms for the goods or services to be transferred,
- the contract has commercial substance,
- it is probable that the Group company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The Group companies combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

- the contracts are negotiated as a package with a single commercial objective;
- the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

The Budimex Group companies account for a contract modification as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct and if the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services.

The Group companies recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Revenue is recognised as the amounts equating the transaction price which was allocated to individual performance obligation in the contract,

At contract inception, Group company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer a good or service (or a bundle of goods or services) that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The Group company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the company's performance as the company performs,
- the company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or
- the company's performance does not create an asset with an alternative use to Group entity and the entity has an enforceable right to payment for performance completed to date.

It is assumed that in rendering by Group companies of construction services, principally one performance obligation arises. Thus the issue of allocation of transaction price to each performance obligation (or good or service) identified in the contract does not require estimation.

IFRS 15 requires that a uniform method is applied to recognise revenue from contracts and obligations which show similar characteristics. The method selected by the Group as the preferred method to measure the value of goods and services transferred the customer as the respective performance obligations are satisfied over time is the surveys of work performed method or the work progress measurement method *(metoda obmiaru wykonanych prac),* which is the results-based method, as long as during the course of contract performance measurement is possible of the progress towards complete satisfaction of that performance obligation.

Given the above, the method of the proportion that the costs incurred to the date of revenue determining bear in the total cost of goods or services (the expenditure-based method) is applied only where the progress of works may not be reliably measured using the work progress measurement (results-based) method *(metoda obmiaru wykonanych prac).*

In the contracts for services, under which goods and services are principally the same and under which goods and services have the same consumption pattern in such way that the customer consumes the goods and services as it receives them, the revenue recognition method selected by the Group is based on the time that has passed, while the costs are recognised in accordance with the accruals concept.

If the outcome of a performance obligation may not be measured in a reliable manner, revenue is recognised only to the extent of the costs incurred that the Group expects to recover.

If contract performance obligation is not satisfied over time, it is assumed that the Group entity satisfies it at a point in time.

Revenue from sale of developer production (services) is recognised when the control, 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 components 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.

Where it is possible that the total contract costs will exceed total contract revenue, then in accordance with IAS 37 the expected loss (excess of cost over revenue) is recognised as an operating expense with a corresponding entry being recognition of a provision for onerous contracts (provision for contracts losses).

The incremental costs of obtaining a contract are recognized as an expense for the period due to the lack of certainty as to their recovery.

Contracts concluded by Group companies do not include a significant financing component. In case of construction contracts, investor advance payments are consumed by the expenditure incurred at construction initial stages, and so no long-term financing of executed construction with received advance payment exists.

The Budimex Group companies do not have any contracts with variable consideration.

Included in assets is “Valuation of construction contracts” referring 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 is “Valuation of construction contracts” referring 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”.

Consideration received in respect of undelivered goods or uncompleted services (advance payments) is recognised in the statement of financial position as deferred income.

In accordance with the accruals concept, the Group recognises in the profit and loss account all costs relating to the given period, irrespective of the period, in which they were actually settled. The incurred costs that do not relate to the given period are recognised under assets as prepayments (in the line item „Trade and other receivables”), while the non-incurred costs that relate to the given period – under liabilities from un-invoiced costs (in the line item: „Trade and other payables”).

2.22 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 a consideration over the term of the 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, and the revenues and costs of management/maintenance services in accordance with IFRS 15.

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 service concession arrangement may cover consideration for construction services expressed at fair value.

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

In the financial year ended 31 December 2018, the Budimex Group companies were party to only one concession arrangement, for which the relevant test disclosed that the value of guaranteed consideration for the entire 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 in accordance with IFRS 9 assets are held in accordance with the business model whose objective is to collect contractual cash flows, and the contractual cash flows of the assets give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding. 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 infrastructure 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 were expensed to the profit or loss under "finance costs".

2.23 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 development of finished goods and services sold and the purchase cost of goods for resale and raw materials sold.

2.24 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.

2.25 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 the items recorded in other comprehensive income or directly in equity. In such situation, current tax and deferred tax are also 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.

Recognition of uncertain tax position

If according to a Group company assessment it is probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group company determines taxable income (tax loss), tax base, unused tax losses and unused tax credits and tax rates, after considering in its tax return the applied or planned approach to taxation.

If a Group company ascertains that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group company reflects the impact of this uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits or tax rates by determining the most probable scenario, which is a single amount from among possible results.

Value added tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.26 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 the 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.

Interest (shares) in equity accounted entities has 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, and 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,
- short-term debt securities (bonds) issued by high-rated issuers acquired as an alternative to bank deposits,
- 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 their core business activities, Group companies enter into foreign currency construction contracts and agreements with subcontractors and suppliers. 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.

In accordance with the Group policy, foreign currency exposure is systematically measured for both individual construction contracts (by way of analysis of foreign currency inflows and outflows for the contracts concluded in foreign currency and by way of foreign currency outflows for the 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 2018, the Group had approx. 95% 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 2018, the Group had approx. 89% of its foreign exchange risk hedged.

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

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, the „feasibly possible" fluctuations in exchange rates were assessed at -10% / +10% as at 31 December 2018 and as at 31 December 2017.

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 2018	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts			
– EUR	38 019	(7 496)	7 496
– USD	335	125	(125)
– CZK	114 300	1 898	(1 898)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	10 661	4 584	(4 584)
– USD	(181)	(68)	68
– GBP	(4)	(2)	2
– CZK	7	-	-
Gross effect on the result for the period and net assets		**(959)**	**959**
Deferred tax		182	(182)
Total		**(777)**	**777**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2017	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts			
– EUR	70 397	(4 830)	4 830
– USD	977	308	(308)
– CZK	191 859	3 120	(3 120)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	15 989	6 669	(6 669)
– USD	(389)	(135)	135
– CZK	22 560	368	(368)
Gross effect on the result for the period and net assets		**5 500**	**(5 500)**
Deferred tax		(1 045)	1 045
Total		**4 455**	**(4 455)**

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 interest rate 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 -0.25 p.p./ +0.25 p.p. as at 31 December 2018 (at -0.5 p.p./ +0.5 p.p. as at as at 31 December 2017) for PLN, at -0.25 p.p./ +0.25 p.p. as at 31 December 2018 (at -0.25 p.p./ +0.25 p.p. as at as at 31 December 2017) for EUR, and at -0.5 p.p./ +0.5 p.p. as at 31 December 2018 (at -0.75 p.p./ +0.75 p.p. as at as at 31 December 2017) for USD. The "reasonably possible" fluctuations of CZK as at 31 December 2018 and 31 December 2017 were assessed at -0.5 / +0.5 p.p. At the same time, a parallel shift was assumed of interest rate curve to calculate discount sensitivity to interest rates fluctuations.

Presented below is the effect on the net result and on net assets as at 31 December 2018 and 31 December 2017 :

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2018	
		+25 bp (PLN, EUR) +50 bp (CZK, USD)	-25 bp (PLN, EUR) -50 bp (CZK, USD)
Cash at bank (fair value)	1 409 137	3 523	(3 523)
Derivative financial instruments – interest rate swap			
– recognised in liabilities (fair value)	(2 623)	467	(478)
Loans granted	74 145	185	(185)
Bank loans and borrowings (principal)	(40 514)	(101)	101
Finance lease liabilities (present value)	(198 411)	(496)	496
Gross effect on net result for the period and on net assets		**3 578**	**(3 589)**
Deferred tax		(680)	682
Total		**2 898**	**(2 907)**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2017	
		+50 bp (PLN, CZK) +25 bp (EUR) +0,75 bp (USD)	-50 bp (PLN, CZK) -25 bp (EUR) -0,75 bp (USD)
Cash at bank (fair value)	2 126 809	10 449	(10 449)
Derivative financial instruments – interest rate swap			
– recognised in assets (fair value)	32	651	(32)
– recognised in liabilities (fair value)	(2 172)	777	(1 487)
Loans granted	62 451	312	(312)
Bank loans and borrowings (principal)	(39 551)	(176)	176
Finance lease liabilities (present value)	(82 855)	(414)	414
Gross effect on net result for the period and on net assets		**11 599**	**(11 690)**
Deferred tax		(2 204)	2 221
Total		**9 395**	**(9 469)**

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

Valuation of forward contracts 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 relatively long 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 Group operates the policy of assessment and verification of credit risk based on the quantitative-qualitative models using the publically available information and ratings of external rating agencies, with particular emphasis placed on the assessment of credit risk of private investors both at the stage of tender proceedings and regularly, on a monthly basis, during contracts execution, based on the analysis of contractor terms and conditions and current receivables servicing.

Prior to contract signing, each business partner is assessed for the capacity to discharge his financial liabilities, after considering the specific character of each contract. Signing contracts with parties with negative payment capacity assessment depends on establishing adequate financial or property collateral/ security. In addition, clauses are included in investor contracts that provide for the right to discontinue any work and/or rescind the contract if payments for the services already performed are defaulted. In addition, pursuant to the provisions of article 649 of the Civil Code, the contractor is entitled, at each stage of contract works, to demand guarantee for the payment for both the work already performed and for the work remaining to contract completion.

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 45, the value of financial assets recognised in the statement of financial position, before losses, reflects the maximum credit risk exposure of the Group, without accounting for the 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 liquidity forecasts reporting by Group companies.

The maturity structure of liabilities under loans, borrowings and other external sources of finance is presented in note 21. The maturity structure of other financial liabilities is presented in the respective notes.

Good 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.

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

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 2018 and 2017, 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, valuation of construction contracts, provision for losses on construction contracts, deferred income (except for other accrued income) and current tax liabilities decreased by cash and cash equivalents and by short-term securities held to maturity.

	31 December 2018	**31 December 2017**
Interest-bearing loans and borrowings and other external sources of finance	238 933	122 410
Trade and other payables	3 627 709	4 243 361
Less: Cash and cash equivalents	(1 409 152)	(2 126 839)
Less: Short-term securities	-	(278 972)
Net debt	2 457 490	1 959 960
Equity	750 477	882 128
Equity and net debt	3 207 967	2 842 088
Gearing ratio	**76.61%**	**68.96%**

5. Key estimates and assumptions

Estimates and assumptions are verified on an ongoing 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 25.

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 project works is recorded. In accordance with the accruals concept, these are recognised by Group companies as contract costs. The value of the 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 the tax liabilities of the Group.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to above may be treated as a hint of factitious activities subject to GAAR. The new regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as group restructuring or group reorganization.

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 and losses

In accordance with the description presented in note 2.21, the preferred method of measurement of goods and services transferred to the customers over time is the survey of work performed method or the work progress measurement method *(metoda obmiaru wykonanych prac),* which is the results-based method. This method requires making physical measurements of construction works and allocation of unit selling prices and unit costs to individual goods developed under construction contracts.

The method of the proportion that the costs incurred to the date of revenue determining bear to the total costs of goods or services (the expenditure-based method) is applied only where measuring the progress of works may not be reliably measured using the work progress measurement (results–based) method. In the case of this method, revenue from construction contracts during the period from contract inception 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 proportion that contract costs incurred for work performed to the date of revenue determining bear to the estimated total contract costs.

Irrespective of the applied method to measure progress in the complete satisfaction of a performance obligation to transfer goods or services to the customer, the key element that facilitates sales revenue measurement are the budgets of individual contracts. Twice a year, the budgets of individual contracts are subject to the update (revision) procedure, based on the current information, and are approved by the Management Board. Where any "in-between" events are identified that materially affect contract result, total contract revenue or total contract costs may be updated earlier, i.e. prior to scheduled contract revision date.

Where total contract costs may exceed total contract revenue, then in accordance with IAS 37 the expected loss (excess of cost over revenue) is recognised as an operating expense with a corresponding entry being recognition of a provision for onerous contracts (provision for contracts losses). The amount of the expected contract loss is also updated during budget revisions and is the best estimate of the costs that the Group entities will have to incur to complete a given construction contract.

6. Discontinued operations

In 2018 and 2017, no operations were discontinued within the meaning of IFRS 5.

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

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 2018	31 December 2017	31 December 2018	31 December 2017
Parent company					
Budimex S.A.	Warsaw/ Poland			full	full
Consolidated					
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	full	full
Mostostal Kraków Energetyka Sp. z o.o.	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-PIM1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Biuro Inwestycji „Grunwald" SA [1]	Warsaw / Poland	-	100.00%	full	non-consolidated
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o. [2]	Warsaw / Poland	51.00%	100.00%	full	full
Elektromontaż Poznań SA[3]	Poznań / Poland	-	98.95%	-	full
Elektromontaż Import Sp. z o.o. [3]	Warsaw / Poland	-	98.95%	-	full
Instal Polska Sp. z o.o. [3]	Poznań / Poland	-	98.95%	-	full
Elektromontaż Warszawa SA[3]	Warsaw / Poland	-	98.95%	-	full
Non-consolidated					
Budimex Autostrada SA (in liquidation) [4]	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 A1 SA (in liquidation) [5]	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 J Sp. z o.o. [5]	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex K Sp. z o.o. [6]	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex L Sp. z o.o. [7]	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	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]) Budimex Inwestycje „Grunwald" SA was consolidated using the full method as of 1 February 2018. On 21 June 2018, it changed its name to Biuro Inwestycji „Grunwald" SA. On 17 September 2018, an agreement was concluded for the sale of held shares. Sales details were presented in note 33.

[2]) On 29 October 2018, 49% of shares in Budimex Parking Wrocław Sp. z o.o. was sold to the minority shareholder. Transaction details were presented in note 20.

[3]) Shares in Elektromontaż Poznań SA were sold on 17 September 2018. At the same time, excluded from consolidation were its direct subsidiaries: Elektromontaż Import Sp. z o.o., Instal Polska Sp. z o.o. and Elektromontaż Warszawa SA (in addition, on 24 April 2018, winding-up procedures of the three companies commenced).

[4]) On 24 October 2018, the General Shareholders' Meeting of Budimex Autostrada SA resolved to terminate company liquidation. As at 31 December 2018, the company was not yet removed from the National Court Register.

[5]) On 31 July 2018, the General Shareholders' Meeting of Budimex Autostrada A1 SA resolved to terminate company liquidation. As at 31 December 2018, the company was not yet removed from the National Court Register.

[6]) Budimex K Sp. z o.o. was registered in the National Court Register on 25 April 2018.

[7]) Budimex L Sp. z o.o. was registered in the National Court Register on 26 April 2018.

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

The list of **jointly controlled entities** 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 2018	31 Dec2017	31 Dec 2018	31 Dec2017
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.	Warsaw / Poland	95.00%	95.00%		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA II s.c. *	Warsaw / Poland	99.90%	50.00%		
Budimex SA – Cadagua SA III s.c. *	Warsaw / Poland	99.90%	60.00%		
Budimex SA – Cadagua SA IV s.c. *	Warsaw / Poland	99.90%	60.00%		
Budimex SA – Cadagua SA V s.c. *	Warsaw / Poland	99.90%	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 Energetyka 2 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		

* on 3 September 2018, the shareholder agreement came into effect, which changed equity interest of the Budimex Group in the issued capital and the number of votes in this entity to 99.90%.

The above-mentioned entities are under joint control (including the entities, where Budimex Group companies hold more than 50% of shares), as unanimity of all partners is required in matters concerning their activities.

The main scope of business activities of the entities jointly controlled by the Budimex Group is construction.

In 2018, **the following changes occurred in the structure of the Budimex Group**:

On **25 April 2018,** Budimex K Sp. z o.o. was registered in the National Court Register. Budimex SA holds 100% shares in this company.

On **26 April 2018,** Budimex L Sp. z o.o. was registered in the National Court Register. Budimex SA holds 100% shares in this company.

On **21 June 2018,** Budimex Inwestycje „Grunwald" SA changed its name to Biuro Inwestycji „Grunwald" SA. This change was registered in the National Court Register on 2 August 2018.

On **12 July 2018,** Budimex PPP SA, direct subsidiary of Budimex SA, sold to Budimex SA shares in Budimex D Sp. z o.o. for PLN 225 thousand.

On **7 August 2018,** Budimex PPP SA, direct subsidiary of Budimex SA, sold to Budimex SA shares in the following companies: Budimex C Sp. z o.o., Budimex F Sp. z o.o., Budimex H Sp. z o.o., Budimex I Sp. z o.o. and Budimex J Sp. z o.o. for the total amount of PLN 725 thousand.

On **3 September 2018,** an agreement came into effect between Budimex SA and Cadagua SA covering, among others, the arrangements relating to a decrease in the interest of Cadagua SA in joint operations *(wspólne działania)* i.e. Budimex SA Cadagua SA II s.c., Budimex SA Cadagua SA III s.c., Budimex SA Cadagua SA IV s.c. and Budimex SA Cadagua SA V s.c. to an 0.1% interest in each said company. The final settlement with Cadagua SA under the above title was made in October 2018.

On **17 September 2018,** Budimex SA concluded a contract for the sale of shares in Elektromontaż Poznań SA and Biuro Inwestycji „Grunwald" SA (details are presented in note 33).

On **29 October 2018,** 49% shares in Budimex Parking Wrocław Sp. z o.o. was sold to a new minority shareholder (details are presented in note 20).

In the period covered by these consolidated financial statements, no other significant activity was 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
- Mostostal Kraków Energetyka Sp. z o.o.
- 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-PIM1 Sp. z o.o.
- Biuro Inwestycji „Grunwald" SA (for the period from 1 February – 17 September 208),
- 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 these Group entities that, among others, conduct production, service or trading activities, or operate as public-private partnership.

The comparative data for 2017 were restated due to the division of Elektromontaż Poznań SA by way of a spin-off of a part relating to property management to Budimex Inwestycje „Grunwald" SA – in the 2017 consolidated financial statements, the financial data of the company that was spun off were presented under „other activities", and since 2018 – due to acquirer consolidation – in the segment „Property management and development business".

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

Segment results for the **year ended 31 December 2018** are presented in the table below:

	Construction business	Property management and development business	Other business	Consolidation adjustments	Consolidated value
Revenue from external sales	6 754 015	547 035	86 087	-	**7 387 137**
Inter-segment sales	293 628	1 034	14 567	(309 229)	**-**
Total sales revenue	**7 047 643**	**548 069**	**100 654**	**(309 229)**	**7 387 137**
Cost of finished goods, goods for resale and raw materials sold externally	(6 265 775)	(419 817)	(72 456)	-	**(6 758 048)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(274 589)	(5 098)	(14 002)	293 689	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(6 540 364)**	**(424 915)**	**(86 458)**	**293 689**	**(6 758 048)**
Gross profit on sales	**507 279**	**123 154**	**14 196**	**(15 540)**	**629 089**
Selling expenses	(10 738)	(16 158)	(3 754)	-	**(30 650)**
Administrative expenses	(214 628)	(24 233)	(4 096)	13 364	**(229 593)**
Other operating income/ (expenses), net	(5 254)	9 426	(44)	25	**4 153**
Gains/ (losses) on disposal of subsidiary companies	-	(70)	44 081	-	**44 011**
Operating profit	**276 659**	**92 119**	**50 383**	**(2 151)**	**417 010**
Finance income / (finance costs), net, of which:	(14 890)	2 813	659	(409)	**(11 827)**
- interest income	*22 271*	*2 717*	*313*	*(572)*	***24 729***
- interest expense	*(4 845)*	*(627)*	*(1 196)*	*156*	***(6 512)***
Shares in losses of equity accounted entities	-	-	(1 795)	-	**(1 795)**
Income tax	(65 744)	(18 720)	(13 927)	487	**(97 904)**
Net profit	**196 025**	**76 212**	**35 320**	**(2 073)**	**305 484**

In 2018, sales revenue from one customer amounted to PLN 1 916 370 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 2017** are presented in the table below:

	Construction business	Property management and development business (restated)	Other business (restated)	Consolidation adjustments	Consolidated value
Revenue from external sales	5 756 124	503 270	109 915	-	**6 369 309**
Inter-segment sales	313 553	639	38 698	(352 890)	**-**
Total sales revenue	**6 069 677**	**503 909**	**148 613**	**(352 890)**	**6 369 309**
Cost of finished goods, goods for resale and raw materials sold externally	(5 086 755)	(381 830)	(90 900)	-	**(5 559 485)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(293 887)	(18 157)	(38 370)	350 414	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(5 380 642)**	**(399 987)**	**(129 270)**	**350 414**	**(5 559 485)**
Gross profit on sales	**689 035**	**103 922**	**19 343**	**(2 476)**	**809 824**
Selling expenses	(10 551)	(18 147)	(5 333)	15	**(34 016)**
Administrative expenses	(200 453)	(22 822)	(5 699)	12 347	**(216 627)**
Other operating income, net	28 401	3 564	1 905	(4 733)	**29 137**
Operating profit	**506 432**	**66 517**	**10 216**	**5 153**	**588 318**
Finance income, net, of which:	(8 355)	3 356	1 582	(270)	**(3 687)**
- interest income	*29 467*	*3 180*	*756*	*(538)*	***32 865***
- interest expense	*(3 883)*	*(617)*	*(1 326)*	*259*	***(5 567)***
Shares in losses of equity accounted entities	-	-	(4 199)	-	**(4 199)**
Income tax	(98 874)	(13 599)	(2 440)	(925)	**(115 838)**
Net profit	**399 203**	**56 274**	**5 159**	**3 958**	**464 594**

In 2017, sales revenue from one customer amounted to PLN 2 471 324 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 2018** are as follows:

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 30)	(49 915)	(1 781)	(415)	**(52 111)**
(Recognition)/ reversal of impairment write-downs against receivables (note 16)	(14 627)	(2 632)	(138)	**(17 397)**
(Recognition)/ reversal of impairment write-downs against inventories (note 17)	(862)	11 853	-	**10 991**
(Recognition)/ reversal of impairment write-downs against non-financial long-term assets (note 9)	(187)	-	-	**(187)**
(Recognition)/ reversal of other impairment write- (note 14.3)	(682)	-	-	**(682)**
Other non-monetary income/ (costs)*	5 714	(13 183)	2 571	**(4 898)**
Capital expenditure	160 850	1 241	389	**162 480**

Other segment-related items recognised in the profit and loss account **for the year ended 31 December 2017** are as follows:

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 30)	(35 863)	(915)	(700)	**(37 478)**
(Recognition)/ reversal of impairment write-downs against receivables (note 16)	1 478	(15)	72	**1 535**
(Recognition)/ reversal of impairment write-downs against inventories (note 17)	68	94	19	**181**
Other non-monetary income/ (costs)*	93 138	(9 361)	505	**84 282**
Capital expenditure	84 025	1 058	669	**85 752**

*) 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.

Geographical information

The Budimex Group conducts business in Poland and abroad. Other markets include other countries of the EU, Ukraine, Russia, Switzerland and Norway.

Geographical information on sales revenue was presented in note 29.

Non-current assets

	31 December 2018	31 December 2017
Domestic market	409 055	307 999
German market	738	618
Other markets	128	94
Total	**409 921**	**308 711**

Capital expenditure

	2018	2017
Domestic market	162 034	85 335
German market	357	323
Other markets	89	94
Total	**162 480**	**85 752**

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	Construction in progress	Total
Gross value as at 1 January 2018	**3 181**	**29 675**	**273 091**	**47 465**	**39 429**	**9 806**	**402 647**
Increases:	**82**	**779**	**133 186**	**19 353**	**7 114**	**(255)**	**160 259**
– purchase (incl. acceptance for use under lease contracts)	-	582	132 379	19 338	5 848	-	**158 147**
– transfer from construction in progress	-	174	804	15	231	(1 224)	**-**
– increase in construction in progress	-	-	-	-	-	969	**969**
– foreign exchange differences	-	-	3	-	35	-	**38**
– other increases	82	23	-	-	1 000	-	**1 105**
Decreases:	**(82)**	**(9 482)**	**(25 353)**	**(5 249)**	**(1 789)**	**(8 535)**	**(50 490)**
– sale	-	-	(5 380)	(1 729)	(10)	(8 481)	**(15 600)**
– transfer to investment properties (note 10)	-	(6 196)	(880)	-	(7)	-	**(7 083)**
– liquidation, scrapping	-	(76)	(14 482)	(2 507)	(693)	(54)	**(17 812)**
– change in Group composition (note 33)	(82)	(3 210)	(4 611)	(1 013)	(1 079)	-	**(9 995)**
Gross value as at 31 December 2018	**3 181**	**20 972**	**380 924**	**61 569**	**44 754**	**1 016**	**512 416**
Accumulated depreciation as at 1 January 2018	**(100)**	**(12 422)**	**(180 906)**	**(19 528)**	**(24 101)**	**-**	**(237 057)**
Movements for the period:	**(63)**	**(226)**	**(7 914)**	**(1 511)**	**(5 658)**	**-**	**(15 372)**
– charge for the period (note 30)	(70)	(1 857)	(32 547)	(5 369)	(6 343)	-	**(46 186)**
– sale	7	-	5 371	1 671	10	-	**7 059**
– transfer to investment property (note 10)	-	1 772	869	-	7	-	**2 648**
– liquidation, scrapping	-	76	14 482	1 331	670	-	**16 559**
– foreign exchange differences	-	(1)	(2)	-	(26)	-	**(29)**
– change in Group composition (note 33)	14	1 156	3 823	855	1 048	-	**6 896**
– other	(14)	(1 372)	90	1	(1 024)	-	**(2 319)**
Accumulated depreciation as at 31 December 2018	**(163)**	**(12 648)**	**(188 820)**	**(21 039)**	**(29 759)**	**-**	**(252 429)**
Impairment write-downs as at 1 January 2018	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
– (increases)/ decreases (note 32)	-	-	(187)	-	-	-	**(187)**
– change in Group composition (note 33)	-	-	114	-	-	-	**114**
– other	-	1 377	-	-	-	-	**1 377**
Impairment write-downs as at 31 December 2018	**(1 677)**	**-**	**(187)**	**-**	**-**	**-**	**(1 864)**
Net value as at 1 January 2018	**1 404**	**15 876**	**92 071**	**27 937**	**15 328**	**9 806**	**162 422**
Net value as at 31 December 2018	**1 341**	**8 324**	**191 917**	**40 530**	**14 995**	**1 016**	**258 123**

(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	Construction in progress	Total
Gross value as at 1 January 2017	**3 027**	**30 754**	**230 964**	**25 679**	**33 974**	**8 540**	**332 938**
Increases:	**250**	**1 631**	**50 034**	**22 718**	**6 230**	**1 266**	**82 129**
– purchase (incl. acceptance for use under lease contracts)	9	1 435	43 450	21 083	6 109	-	**72 086**
– transfer from construction in progress	-	17	6 582	1 635	121	(8 355)	**-**
– increase in construction in progress	-	-	-	-	-	9 621	**9 621**
– transfer from investment property (note 10)	241	22	-	-	-	-	**263**
– other increases	-	157	2	-	-	-	**159**
Decreases:	**(96)**	**(2 710)**	**(7 907)**	**(932)**	**(775)**	**-**	**(12 420)**
– sale	(51)	(1 712)	(4 538)	(890)	(254)	-	**(7 445)**
– transfer to inventories	-	(20)	-	-	-	-	**(20)**
– liquidation, scrapping	-	(972)	(3 351)	(41)	(451)	-	**(4 815)**
– foreign exchange differences	-	-	(17)	(1)	(70)	-	**(88)**
– other	(45)	(6)	(1)	-	-	-	**(52)**
Gross value as at 31 December 2017	**3 181**	**29 675**	**273 091**	**47 465**	**39 429**	**9 806**	**402 647**
Accumulated depreciation as at 1 January 2017	**(41)**	**(11 593)**	**(165 869)**	**(18 237)**	**(19 356)**	**-**	**(215 096)**
Movements for the period:	**(59)**	**(829)**	**(15 037)**	**(1 291)**	**(4 745)**	**-**	**(21 961)**
– charge for the period (note 30)	(44)	(1 666)	(22 881)	(2 219)	(5 383)	-	**(32 193)**
– sale	12	531	4 526	885	169	-	**6 123**
– transfer from investment property (note 10)	(33)	(14)	-	-	-	-	**(47)**
– transfer to inventories	-	9	-	-	-	-	**9**
– liquidation, scrapping	-	331	3 309	41	419	-	**4 100**
– foreign exchange differences	-	-	12	2	50	-	**64**
– other	6	(20)	(3)	-	-	-	**(17)**
Accumulated depreciation as at 31 December 2017	**(100)**	**(12 422)**	**(180 906)**	**(19 528)**	**(24 101)**	**-**	**(237 057)**
Impairment write-downs as at 1 January 2017	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
– (increases)/ decreases (note 32)	-	-	-	-	-	-	**-**
Impairment write-downs as at 31 December 2017	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
Net value as at 1 January 2017	**1 309**	**17 784**	**64 981**	**7 442**	**14 618**	**8 540**	**114 674**
Net value as at 31 December 2017	**1 404**	**15 876**	**92 071**	**27 937**	**15 328**	**9 806**	**162 422**

(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:

	2018	2017
Cost of finished goods and services sold	41 421	30 185
Administrative expenses	3 859	1 391
Other costs	906	617
Total (note 30)	**46 186**	**32 193**

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

	31 December 2018		31 December 2017	
	Initial cost – capitalised finance lease	Net carrying amount	Initial cost – capitalised finance lease	Net carrying amount
Plant and machinery	218 600	171 888	95 770	70 506
Means of transport	40 141	34 890	22 003	20 537
Other tangible fixed assets	1 425	1 052	461	336
Total	**260 166**	**207 830**	**118 234**	**91 379**

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 2018 is PLN 0 thousand (2017 – PLN 134 thousand).

10. Investment property

	31 December 2018	31 December 2017
Perpetual usufruct right to land	19 987	460
Buildings and constructions	8 373	24 057
Other	5	106
Total investment property	**28 365**	**24 623**
Fair value of investment property	*38 730*	*25 105*

In February 2018, division was effected of Elektromontaż Poznań SA through the spin-off of a part relating to property management to Budimex Inwestycje „Grunwald” SA (later: Biuro Inwestycji „Grunwald” SA). At the same time, in the same year, disposal was made of an organized part of Biuro Inwestycji „Grunwald” SA to Budimex Nieruchomości Sp. z o.o. Both these transactions resulted in the transfer of assets between individual categories of the investment property.

Movements in the balance of investment property during 2018 and 2017 were as follows:

	2018	2017
Opening balance		
Gross value	27 898	29 074
Depreciation (incl. accumulated impairment losses)	(3 275)	(3 493)
Net value - opening balance	**24 623**	**25 581**
Movements for the period:	**3 742**	**(958)**
Disposal	-	(533)
Transfer to property, plant and equipment (note 9)	-	(216)
Transfer from property, plant and equipment (note 9)	4 435	-
Depreciation (note 30)	(698)	(118)
Other	5	(91)
Closing balance		
Gross value	30 520	27 898
Depreciation (incl. accumulated impairment losses)	(2 155)	(3 275)
Net value	**28 365**	**24 623**

As at 31 December 2018 and 31 December 2017, no collaterals were established on investment property.

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

Depreciation of investment property for the years 2018 and 2017 was recognised in the profit and loss account under cost of finished goods and services sold.

As at 31 December 2018, the Group held 2 investment properties located in Cracow and Poznań. Due to the transaction of sale of an organized part of enterprise (OPE) which was effected between Group companies in August 2018, an independent appraiser valued the investment property in Poznań at PLN 34 080 thousand (the carrying amount of the investment property covered by valuation, after the margin on intra-Group transaction was eliminated, amounted to PLN 25 540 thousand as at 31 December 2018). The appraisal confirmed that this part of the investment property held by the Group was not impaired. Fair value measurement of this property was classified as Level 2 of the fair value hierarchy under IFRS 13. In 2018, no movements were noted between fair value hierarchy levels. The investment property was valued using the income method, based on the rental rates observable on local property markets for the properties similar to those appraised.

As regards the investment property in Cracow, the Group assessed on its own the fair value of this item, after considering the prices of similar properties in sale transactions. The thus estimated fair value amounted to PLN 4 650 thousand, while property's carrying amount as at 31 December 2018 amounted to PLN 2 825 thousand.

Thereby as at 31 December 2018, no risk of investment property impairment was identified.

Appraisals of certain items of investment property for the amount of PLN 22 392 thousand were performed as at 31 December 2017 (the carrying amount of investment property covered by the appraisal was PLN 21 693 thousand). 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 2017, there were no movements between fair value hierarchy levels. Investment property items were valued using the income method based on the rental rates observable on local property markets for the properties similar to those appraised. Due to the fact that in 2017 the Group concluded several transactions of sale of investment property on which it realised gains, thus confirming that the impairment of other investment property was rather unlikely, appraisal of those investment property items was abandoned.

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

	2018	2017
Rental charge income	4 266	5 594
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that generated rental income	1 159	3 743
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 2018	**58 364**	**989**	**804**	**60 157**
Increases:	**3 583**	**64**	**-**	**3 647**
– purchase	3 300	64	-	**3 364**
– settlement of advance payments	275	-	-	**275**
– foreign exchange differences	8	-	-	**8**
Decreases:	**(3 269)**	**(375)**	**(768)**	**(4 412)**
– change in Group composition	(3 174)	(375)	(768)	**(4 317)**
– liquidation	(95)	-	-	**(95)**
Gross value as at 31 December 2018	**58 678**	**678**	**36**	**59 392**
Accumulated amortization as at 1 January 2018	**(28 292)**	**(918)**	**(784)**	**(29 994)**
Movements for the period:	(2 101)	331	761	**(1 009)**
– charge for the period (note 30)	(5 197)	(23)	(7)	**(5 227)**
– change in Group composition	3 006	354	768	**4 128**
– liquidation	95	-	-	**95**
– foreign exchange differences	(5)	-	-	**(5)**
Accumulated amortisation as at 31 December 2018	**(30 393)**	**(587)**	**(23)**	**(31 003)**
Net value as at 1 January 2018	**30 072**	**71**	**20**	**30 163**
Net value as at 31 December 2018	**28 285**	**91**	**13**	**28 389**

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

	Computer software	Licenses and patents acquired	Other	Total
Gross value as at 1January 2017	**56 890**	**953**	**2 049**	**59 892**
Increases:	**5 378**	**39**	**-**	**5 417**
– purchase	4 006	39	-	**4 045**
– settlement of advance payments	1 372	-	-	**1 372**
Decreases:	**(3 904)**	**(3)**	**(1 245)**	**(5 152)**
– liquidation	(3 892)	(3)	(1 127)	**(5 022)**
– foreign exchange differences	(12)	-	-	**(12)**
– other	-	-	(118)	**(118)**
Gross value as at 31 December 2017	**58 364**	**989**	**804**	**60 157**
Accumulated amortisation as at 1January 2017	**(27 054)**	**(891)**	**(2 021)**	**(29 966)**
Movements for the period:	(1 238)	(27)	1 237	**(28)**
– charge for the period (note 30)	(5 129)	(30)	(8)	**(5 167)**
– liquidation	3 881	3	1 127	**5 011**
– foreign exchange differences	9	-	-	**9**
– other	1	-	118	**119**
Accumulated amortisation as at 31 December 2017	**(28 292)**	**(918)**	**(784)**	**(29 994)**
Net value as at 1January 2017	**29 836**	**62**	**28**	**29 926**
Net value as at 31 December 2017	**30 072**	**71**	**20**	**30 163**

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

	2018	2017
Cost of finished goods and services sold	563	4 401
Administrative expenses	4 624	737
Other costs	40	29
Total	**5 227**	**5 167**

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

As at 31 December 2018 and 31 December 2017, Group companies reported no material liens or encumbrances *(obciążenia o charakterze prawnorzeczowym)* or encumbrances obligating to perform a legal act *(obciążenia obligacyjne)* established on their intangible assets.

No impairment write-downs against intangible assets were made in the year 2018 or 2017.

12. Goodwill of subordinated entities

Goodwill recognised in the consolidated statement of financial position as at 31 December 2018 and as at 31 December 2017 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 the 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 6.0% to 8.5% 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. No reasonable change in test assumptions would cause goodwill impairment.

Based on the impairment test performed as at 31 December 2018, 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

	2018	2017
Opening balance	**39 228**	**43 427**
– of which goodwill	-	-
Share in profits / (losses)*	(1 795)	(4 199)
Dividend paid by associates	(5)	-
Other	(1)	-
Closing balance	**37 427**	**39 228**
– 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 for a given financial year, and the financial statements of these entities changed after publication by the Group of its consolidated financial statements. In 2018, the Group's share in the results of equity accounted entities was adjusted by PLN 205 thousand. In 2017, the share in the results of equity accounted entities was adjusted by PLN 362 thousand.

The list of associates as at 31 December 2018 and 31 December 2017:

Entity name	Type	Registered office	Share in the issued capital and in the number of votes (%)	
			31 December 2018	31 December 2017
PPHU Promos Sp. z o.o.	associate	Cracow / Poland	26.31%	26.31%
FBSerwis SA	associate	Warsaw / Poland	49.00%	49.00%

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

The FBSerwis SA Group	2018	2017
Non-current assets	322 981	325 760
Current assets	118 881	91 700
Non-controlling interests	(10 639)	(9 313)
Non-current liabilities	(274 033)	(223 968)
Current liabilities	(85 059)	(108 144)
Revenue	371 416	261 241
Profit (loss) on continuing operations	(4 333)	(9 402)
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	-
Comprehensive income for the period	(4 333)	(9 402)
Dividend received from the associate		-

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

The FBSerwis SA Group	31 December 2018	31 December 2017
Net assets	72 131	76 035
The Group's equity interest in the associate	49.00%	49.00%
Other adjustments	-	-
Carrying amount of the Group's equity interest in the associate	**35 344**	**37 257**

(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.	2018	2017
Non-current assets	9 419	10 183
Current assets	3 344	2 567
Non-current liabilities	(2 509)	(2 512)
Current liabilities	(2 346)	(2 709)
Revenue	11 477	10 418
Profit (loss) on continuing operations	469	174
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	-
Comprehensive income for the period	469	174
Dividend received from the associate	5	-

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

PPHU Promos Sp. z o.o.	31 December 2018	31 December 2017
Net assets	7 908	7 529
The Group's equity interest in the associate	26.31%	26.31%
Other adjustments	2	(10)
Carrying amount of the Group's equity interest in the associate	**2 083**	**1 971**

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

	2018	2017
Share in profits of associates	118	21
Share in losses of associates	(1 913)	(4 220)
Total	**(1 795)**	**(4 199)**

In 2018, the Group's share in other comprehensive income of associates amounted to PLN 0.00 (in 2017 also PLN 0.00).

Due to the intent announced by the Budimex Group to acquire the remaining 51% shares of FBSerwis SA and due to independent appraisal of the property of the FBSerwis Group, no risk of loss of value was identified for the equity accounted investment in this company.

As at 31 December 2018 and 31 December 2017, the Budimex Group had no share in the contingent liabilities of associates. As at 31 December 2018, the share of the Budimex Group in the contingent assets of associates was PLN 1 537 thousand (as at 31 December 2017 – PLN 2 814 thousand).

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

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

14. Financial assets and financial liabilities

The Budimex Group has the following financial instruments – presented below is their classification:

		Note	31 December 2018	31 December 2017
FINANCIAL ASSETS				
Financial assets measured at amortized cost (IFRS 9)/ Loans and receivables (IAS 39)				
Retentions for construction contracts		28	77 414	57 950
Receivables from service concession arrangements		15	46 416	46 440
Valuation of construction contracts		26	561 537	483 501
Trade and other receivables*		16	738 911	647 457
Other financial assets (loans granted)		14.1	74 145	62 451
Financial assets at fair value through profit or loss (FVPL) (IFRS 9)				
Cash and cash equivalents	*level 2 of the fair value hierarchy according to IFRS 13*	18	1 409 152	2 126 839
Other financial assets (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	14.2	4 495	12 100
Investments in equity instruments	*level 3 of the fair value hierarchy according to IFRS 13*	14.3	9 778	-
Other *(energy performance certificates)*	*level 2 of the fair value hierarchy according to IFRS 13*		-	43
Available-for-sale financial assets (IAS 39)		14.3	-	9 501
Financial assets held to maturity (IAS 39) – Other financial assets (bonds)		14.4	-	278 972
Balance at the end of the period			**2 921 848**	**3 725 254**

FINANCIAL LIABILITIES				
Financial liabilities measured at amortised cost (IFRS 9/ IAS 39)				
Trade and other payables**		22	1 446 389	1 432 385
Retentions for construction contracts		28	437 617	420 836
Loans and borrowings and other external sources of finance		21	238 933	122 410
Liabilities measured at fair value through profit or loss (FVPL) (IFRS 9/ IAS 39)				
Other financial liabilities (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	14.2	3 303	9 046
Balance at the end of the period			**2 126 242**	**1 984 677**

*except for the amounts of accrued income, taxation, subsidy, social security and insurance debtors, and except for the prepayments
**financial liabilities according to note 22

In the 12-month periods ended 31 December 2018 and 31 December 2017, there were no movements between Level 1 and Level 2 of the fair value hierarchy, and there were no movements from/ to Level 3 of this hierarchy.

Investments in equity instruments classified to Level 3 are *de facto* measured at historical cost, because there is no active market for these assets (see note 14.3).

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

Revenues, costs, gains and losses recognised in the profit and loss account, by financial instrument category

For the period from 1 January 2018 to 31 December 2018 (according to IFRS 9):

	Financial assets measured at fair value through profit or loss (FVPL) from initial recognition	Financial assets measured at amortized cost	Financial liabilities measured at fair value through profit or loss (FVPL) from initial recognition	Financial liabilities measured at amortized cost	Total
Interest income /(expense)	13 422	6 437	-	(721)	**19 138**
Foreign exchange gains /(losses)	1 997	643	-	(2 438)	**202**
Reversal/ (recognition) of impairment write-downs	-	(17 397)	-	-	**(17 397)**
Statute-barred liabilities written-off	-	-	-	2 778	**2 778**
Valuation gains/(losses)	(5 567)	1 352	2 545	2 480	**810**
Gains /(losses) on disposal/ realization of financial instruments	5 784	-	(3 622)	-	**2 162**
Total	**15 636**	**(8 965)**	**(1 077)**	**2 099**	**7 693**

For the period from 1 January 2017 to 31 December 2017 (according to IAS 39):

	Available-for-sale financial assets	Financial assets held to maturity	Financial assets measured at fair value through profit or loss	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Interest income /(expense)	-	3 354	21 967	1 702	-	1 089	**28 112**
Foreign exchange gains /(losses)	-	-	(2 776)	(603)	-	2 582	**(797)**
Reversal/ (recognition) of impairment write-downs	-	-	-	1 535	-	-	**1 535**
Statute-barred liabilities written-off	-	-	-	-	-	2 656	**2 656**
Valuation gains/(losses)	-	-	11 207	1 752	(5 746)	3 306	**10 519**
Gains /(losses) on disposal/ realization of financial instruments	-	-	1 221	-	(3 033)	-	**(1 812)**
Total	**-**	**3 354**	**31 619**	**4 386**	**(8 779)**	**9 633**	**40 213**

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

14.1 Loans granted

In the years 2015 – 2018, the Group made available to its associate company, FB Serwis SA, the following 3 loan facilities:

1. Loan based on the loan agreement dated 24 March 2015 to the amount of PLN 3 969 thousand. The value of issued loan tranches as at 31 December 2018 amounted to PLN 307 thousand (PLN 302 thousand as at 31 December 2017). Loan effective interest rate in 2018 was 5.72% (2017: 5.73%). Loan maturity date was set at 24 March 2020.

2. Loan based on the loan agreement dated 4 January 2016 to the amount of PLN 13 720 thousand. The value of issued loan tranches as at 31 December 2018 amounted to PLN 12 721 thousand (PLN 11 081 thousand as at 31 December 2017). Loan effective interest rate in 2018 was 5.72% (2017: 5.73%). Loan maturity date was set at 4 January 2021.

3. Loan based on the loan agreement dated 30 May 2017 to the amount of PLN 78 400 thousand. The value of issued loan tranches as at 31 December 2018 amounted to PLN 61 117 thousand (PLN 51 068 thousand as at 31 December 2017). Loan effective interest rate in 2018 was 5.72% (2017: 5.73%). Loan maturity date was set at 26 May 2020.

The fair value of the loans granted approximates their carrying amount.

	2018	2017
Opening balance	**62 451**	**9 163**
– loan granted	10 780	51 153
– accrued interest (note 34)	3 987**	2 264*
– interest repayment	(3 072)	(129)
– other	(1)	-
Closing balance	**74 145**	**62 451**
of which:		
– long-term	*74 145*	*62 451*
– short-term	-	-

*interest unpaid as at 31 December 2017 in the amount of PLN 2 135 thousand was capitalised.
**interest unpaid as at 31 December 2018 in the amount of PLN 915 thousand was capitalised.

Due to the planned acquisition by the Budimex Group of the remaining 51% shares of FBSerwis SA and due to independent appraisal of the property of the FBSerwis Group performed by an independent appraiser, no risk of loss of value was identified for the loans granted to this company. Thereby, it is estimated that the fair value of the loans granted approximates their carrying amount.

As at 31 December 2017, loans granted were classified to the category of „Loans and receivables" (in accordance with IAS 39). Due to the first-time application of IFRS 9, as of 1 January 2018, loans granted have been classified as financial assets measured at amortised cost. The very method of valuation of these assets did not change.

14.2 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.

	2018	2017
Gains/ (losses) on valuation of FX forward contracts	(2 538)	5 060
Gains / (losses) on realisation of FX forward contracts	2 816	(1 169)
Total gains / (losses) on derivative financial instruments recognised as part of operating activities (note 32)	**278**	**3 891**
Gains/ (losses) on valuation of IRS contracts	(484)	401
Gains/ (losses) on realisation of IRS contracts	(654)	(643)
Total gains / (losses) on derivative financial instruments recognised as part of financing activities (note 34)	**(1 138)**	**(242)**

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

The fair value of the transactions concluded by Group companies and open as at 31 December 2018 and 31 December 2017 is presented in the table below:

	Financial assets arising from derivatives valuation		Financial liabilities arising from derivatives valuation	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
FX forward contracts	**4 495**	**12 068**	**680**	**6 874**
– up to 1 year	*4 495*	*7 518*	*680*	*6 161*
– 1 – 2 years	-	*4 550*	-	*713*
Interest rate swap	**-**	**32**	**2 623**	**2 172**
– up to 1 year	-	-	*608*	*635*
– 1 – 2 years	-	-	*479*	*479*
– 2 – 5 years	-	-	*1 081*	*751*
– above 5 years	-	*32*	*455*	*307*

The total nominal value of FX forward contracts as at 31 December 2018 was EUR 38 019 thousand, USD 335 thousand and CZK 114 300 thousand, while as at 31 December 2017 – EUR 70 397 thousand, USD 977 thousand and CZK 191 859 thousand,

Forward selling/ buying rate for Euro-based transactions open as at 31 December 2018 ranged EUR/ PLN 4.2552 – 4.7035 (as at 31 December 2017 – EUR/ PLN 4.2105 – 4.7035). Euro-based forward transactions open as at 31 December 2018 are to be settled within 31 - 346 days (as at 31 December 2017, transaction settlement date was 25 - 711 days).

Forward selling/ buying rate for USD-based transactions open as at 31 December 2018 ranged USD/ PLN 3.7712 – 3.7880 (as at 31 December 2017 – USD/ PLN 3.5349 – 4.0927). USD-based forward transactions open as at 31 December 2018 are to be settled within 31 - 150 days (as at 31 December 2017, transaction settlement date was 25 - 270 days).

Forward selling/ buying rate for CZK-based transactions open as at 31 December 2018 ranged CZK/ PLN 0.1661 – 0.1732 (as at 31 December 2017 – CZK/ PLN 0.1667 – 0.1732). CZK-based forward transactions open as at 31 December 2018 are to be settled within 31 – 241 days (as at 31 December 2017 - 25 - 606 days).

As at 31 December 2018 and as at 31 December 2017, 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.

As at 31 December 2017, derivative financial instruments were classified to the category of „assets/ liabilities measured at fair value through profit or loss" (FVPL) (in accordance with IAS 39). First-time application of IFRS 9 did not cause any change in the classification of assets and liabilities or their measurement.

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

14.3 Investments in equity instruments

Investments in equity instruments comprise solely shares in the companies.

	2018	2017
Opening balance	**9 501**	**9 396**
Increases:	**1 060**	**105**
– increase in the issued capital of non-consolidated entity	-	105
– share contribution to the newly incorporated, non-consolidated companies	100	-
– purchases	960	-
Decreases	**(783)**	**-**
– change in Group composition	(1)	-
– including in consolidation (Budimex Inwestycje Grunwald SA)	(100)	-
– impairment write-downs (note 34)	(682)	-
Closing balance	**9 778**	**9 501**
of which:		
– long-term	***9 778***	***9 501***
– short-term	-	-

Budimex SA re-purchased in 2018 from its direct subsidiary, Budimex PPP SA, shares in the indirect subsidiary companies for the amount of PLN 960 thousand. Thereby, the companies: Budimex C Sp. z o.o., Budimex D Sp. z o.o., Budimex F Sp. z o.o., Budimex H Sp. z o.o., Budimex I Sp. z o.o. and Budimex J Sp. z o.o. became direct subsidiaries of the Parent Company.

Budimex SA established in 2018 two new companies: Budimex K Sp. z o.o. and Budimex L Sp. z o.o.

In 2018, an impairment write-down was recognised against shares in the subsidiary company, Budimex Autostrada SA w likwidacji [in liquidation] in the amount of PLN 682 thousand (in its company liquidation report, the company did not report any assets). Formal company liquidation was completed on 24 October 2018 when the General Shareholders' Meeting resolved to complete the winding-up procedure. This fact was not registered in the National Court Register as at 31 December 2018 and for this reason Budimex SA recognised an impairment write-down against its investment in this company at full amount.

During the next 12 months, the Group does not intend to sell any of its investments in equity instruments.

As at 31 December 2017, investments in equity instruments were classified to the category of „available-for-sale financial assets" (in accordance with IAS 39). Due to first-time application of IFRS 9, starting from 1 January 2018 investments in equity instruments were classified as financial assets measured at fair value through profit or loss (FVPL). Due to the fact that the fair value of these assets cannot be determined in a reliable manner (as these are not listed), it was assumed that the most reliable recognition would be at their carrying amount. Thus the method of valuation of these assets did not change.

14.4 Investments in debt instruments

During 2017, the Group acquired short-term unlisted bonds of Polish mortgage banks (holding long-term investment rating) with a total value of PLN 665 619 thousand. At the same time, by 31 December 2017, bonds with a value of PLN 387 610 thousand were redeemed and interest of PLN 2 391 thousand was paid to the Group companies. The value of bonds held by the Group as at 31 December 2017 amounted to PLN 278 972 thousand (of which: PLN 963 thousand related to accrued interest). The average yield to maturity of these debt securities was 2.05% p.a. Average maturity date as at 31 December 2017 was 119 days.

As at 31 December 2017 the bonds were classified as financial assets held to maturity (as per IAS 39). Due to first-time application of IFRS 9, as of 1 January 2018 the bonds issued by banks have been classified as financial assets carried at amortized cost. The very method of valuation of these assets did not change.

As at 31 December 2017, the fair value of bonds approximated the value presented in the consolidated statement of financial position as these were the short-term instruments.

In 2018, the Group acquired another tranche of short-term unlisted bonds of Polish mortgage banks (with long-term investment rating) with a total value of PLN 238 868 thousand. At maturity date, the banks re-acquired (redeemed) bonds with a value of PLN 516 877 thousand and paid interest thereon of PLN 3 123 thousand.

As at 31 December 2018, the Group did not hold any bonds issued by banks.

15. 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 was granted the right 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 tickets 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.

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

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

	2018	2017
Opening balance	**46 440**	**46 096**
Increases:	**2 519**	**2 931**
– valuation of financial asset at amortised cost (note 34)	2 519	2 931
Decreases	**(2 543)**	**(2 587)**
– repayments	(2 543)	(2 587)
Closing balance	**46 416**	**46 440**
of which:		
– long-term	***46 416***	***46 440***
– short-term	-	-

In 2018 and 2017, 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.

As at 31 December 2017, receivables from service concession arrangements were classified as loans and receivables (according to IAS 39). Due to first-time application of IFRS 9, starting from 1 January 2018 receivables from service concession arrangements have been classified as financial assets measured at amortized cost. The very valuation method of these assets did not change.

16. Trade and other receivables

	31 December 2018	31 December 2017
Long-term trade and other receivables		
Prepayments and accruals	21 807	18 266
Other receivables	-	21 075
Long-term trade and other receivables, net	**21 807**	**39 341**
Impairment write-down against long-term receivables	103	96
Long-term trade and other receivables, gross	**21 910**	**39 437**
Short-term trade and other receivables		
Trade receivables	725 810	596 648
Advances made	42 729	36 814
Taxation, subsidy, customs duty, social security, health insurance and other debtors	10 033	2 100
Prepayments and accruals	27 627	24 643
Other receivables	13 101	29 734
Short-term trade and other receivables, net	**819 300**	**689 939**
Impairment write-down against receivables	135 108	132 566
Short-term trade and other receivables, gross	**954 408**	**822 505**
Total trade and other receivables, net	**841 107**	**729 280**

No 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.
The fair value of trade and other receivables approximates their carrying amount.

As at 31 December 2018 and 31 December 2017, no securities or collaterals were established on these assets.

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

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

	2018	2017
Impairment write-downs against receivables - opening balance according to IAS 39	**-**	**137 279**
Impairment write-downs against receivables - opening balance according to IFRS 9	**132 662**	**-**
Charged to other operating expenses (note 32)	18 942	2 870
Reversed to other operating income (note 32)	(1 545)	(4 405)
Utilised	(14 954)	(2 454)
Foreign exchange differences	399	(628)
Change in Group composition	(220)	-
Other	(73)	-
Impairment write-downs against receivables – closing balance according to IAS 39	**-**	**132 662**
Impairment write-downs against receivables – closing balance according to IFRS 9	**135 211**	**-**

Starting from 2018, after first-time application of IFRS 9, impairment write-downs against trade and other receivables have been measured at the amount of lifetime expected credit losses of the given financial asset.

Until 31 December 2017, impairment write-downs against trade and other receivables were measured based on the model of incurred losses.

Methodology to calculate impairment write-downs in the amount of expected credit losses

The Budimex Group analyses credit risk for trade receivables, by the following groups of amounts receivable:
1. public investor receivables from main sales
2. private investor receivables from main sales
3. other receivables from other contractors from re-invoiced raw materials, re-invoiced costs and re-invoiced owner's representation *(wykonawstwo zastępcze)* expenses etc.

For the above groups of receivables, a portfolio analysis was performed and a simplified matrix was used for the impairment write-downs in individual receivable ageing categories, based on the receivables' lifetime expected credit losses calculated using the indexes of impairment write-downs in the individual categories determined using the 2014-2018 historical data.

1. In the analysed period, on average 75% of sales was realised to the public sector companies, including in a significant part to the state treasury companies, or – in case of sales in the development business – the transfer of the subject of sale (flat) took place after all receivables have been settled. Given the fact that the Group does not assume any significant change in the realized sales structure, and the level of impairment write-downs against past due receivables from these entities was approx. 0.1%, the credit risk for this portfolio was assessed as insignificant. The impairment write-down equating to the lifetime expected credit losses of these assets amounted as at 31 December 2018 to PLN 30 thousand.

The remaining part of the portfolio relates to receivables from private investors and from other contractors:

2. Receivables from private contractors incur the highest credit risk. However, the Budimex Group's proactive policy of credit risk control minimizes the level of doubtful receivables also in this part of the portfolio. The average for the last 5 years shows that the level of impairment write-downs approximated 0.2% of portfolio receivables.

3. Receivables from other contractors incur higher credit risk, but due to the their marginal share in total receivables (of approx. 5%, and approx. 1% share in total sales) and the adopted policy for their valuation and update at the time of origination based on expected cash flows and held securities (warranties and retentions to be set-off against), they also do not have any significant impact on risk assessments in the future. The impairment write-down in the amount of lifetime expected credit losses of these assets amounted as at 31 December 2018 to PLN 604 thousand.

The total value of impairment write-down in the amount of expected credit losses amounted as at 31 December 2018 to PLN 798 thousand.

Methodology to calculate impairment write-downs against receivables for which credit risk materially increased

Given the specific character of construction contracts and the amount of written-off receivables, covered earlier by impairment write downs, the receivables considered by the Budimex Group as doubtful debts are the receivables which are past due for more than 180 days or receivables from the contractors facing bankruptcy. If this is the case, then, irrespective of the maturity date or future risk estimate, a 100% write-down is recognized based on the monthly analysis of overdue receivables obtained from individual contractors.

The cost of receivables impairment write-down is analyzed over the entire lifetime of these assets, while accounting for the fact that the update of value does not mean taking decision to discontinue debt recovery, but merely proves prudency in the approach to financial assets valuation.

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

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

Ageing of trade receivables

	31.12.2018	31.12.2017
Trade receivables, due:		
- within 1 month after year end	395 704	345 419
- within 1 to 3 months after year end	162 736	108 894
- within 3 to 6 months after year end	4 811	7 064
- within 6 to 12 months after year end	14 406	8 322
- within over 1 year after year end	305	13 922
- past due receivables	245 701	208 807
Trade receivables, gross	**823 663**	**692 428**
Impairment write-downs against receivables	97 853	95 780
Trade receivables, net	**725 810**	**596 648**

17. Inventories

	31 December 2018	31 December 2017
Raw materials	299 000	238 877
Semi-finished goods and work in progress	512 707	516 087
Finished goods	218 885	137 279
Goods for resale	581 221	532 857
Inventories net value - closing balance	**1 611 813**	**1 425 100**
Inventory impairment write-downs	29 745	54 461
Inventories gross value - closing balance	**1 641 558**	**1 479 561**

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Inventory impairment write-downs

	2018	2017
Inventory impairment write-downs - opening balance	**54 461**	**69 012**
Charged to other operating expenses (note 32)	7 735	3 070
Reversed to other operating income (note 32)	(18 726)	(3 251)
Change in Group composition	(495)	-
Utilised	(13 230)	(14 370)
Inventory impairment write-downs – closing balance	**29 745**	**54 461**

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

	2018	2017
Inventory disposal	-	68
Increase in recoverable amount	18 726	3 164
Scrapping	-	19
Total	**18 726**	**3 251**

As at 31 December 2018 or 31 December 2017, no security was established on the Group's inventories.

In the years 2017 – 2018, inventories were not financed by non-Group loans and therefore, at the consolidated level, the Group companies did not capitalise to inventories any interest in those years. The total value of interest capitalised to Group inventories was PLN 0 thousand as at 31 December 2017 and as at 31 December 2018.

As at 31 December 2018, the value of inventories to be utilised or sold in the period of more than 12 months is PLN 933 689 thousand, while as at 31 December 2017 – PLN 768 126 thousand.

Inventories with a value of PLN 1 300 313 thousand relate to the 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 these 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 appraiser, Savills Sp. z o.o. to perform valuation of certain inventory items. Inventory market value as at 31 December 2018 determined based on appraiser 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 appraiser for impairment test purposes, and that further write-downs or reversals of such write-downs may be necessary.

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

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

18. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	15	30
Cash at bank	1 409 137	2 126 809
Total cash and cash equivalents	**1 409 152**	**2 126 839**
Cash and cash equivalents of restricted use	(141 124)	(164 990)
Cash recognised in the statement of cash flows	**1 268 028**	**1 961 849**

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

	31 December 2018	31 December 2017
Cash of the consortia in the portion attributable to other consortium members	12 815	42 412
Escrow accounts of development companies	46 704	62 083
Blocked development project bank accounts	69 554	58 643
Cash on the split payment accounts	9 808	-
Cash and cash equivalents serving as loan collateral (note 38)	1 215	1 021
Other	1 028	831
Total cash and cash equivalents of restricted use	**141 124**	**164 990**

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 2018 of 1.37% per annum for PLN-based deposits (as at 31 December 2017: 1.51% p.a. for PLN-based deposits). The average maturity period for these deposits is 37 days (31 December 2017: 45 days).

19. Equity

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 2018 and 31 December 2017 to the balances recognised in the financial statements are presented in the table below.

	31 December 2018		31 December 2017	
	Ordinary shares	Share premium	Ordinary shares	Share premium
Equity as per books of account	**127 650**	**85 083**	**127 650**	**85 083**
Translation of equity due to hyperinflation	18 198	2 080	18 198	2 080
Equity 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”.

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

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 2018 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	2 250	11
A	ordinary/bearer	None	None	2 997 750	14 989
B	ordinary/bearer	None	None	2 000 000	10 000
C	ordinary/bearer	None	None	1 900 285	9 502
D	ordinary/bearer	None	None	1 725 072	8 625
E	ordinary/bearer	None	None	2 000 000	10 000
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 issuance 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.

20. Equity attributable to non-controlling interests

	2018	2017
Balance at the beginning of the period	**685**	**4 443**
– change in the percentage of shares attributable to non-controlling interests	-	(3 945)
– share in profit/(loss) during the year	43	269
– share in consolidation adjustments	17	(82)
– disposal of subsidiary companies (note 33)	(664)	-
– sale of a non-controlling interest	7 189	-
– dividend to non-controlling interests	(134)	-
Balance at the end of the period	**7 136**	**685**

As at 31 December 2017, the non-controlling interests accounted for 1.05% of the issued capital and the number of votes at the General Shareholders' Meeting of Elektromontaż Poznań SA.

On 1 February 2018, registered in the court of registration was a division of Elektromontaż Poznań SA by way of a spin-off of a part relating to property management to Budimex Inwestycje „Grunwald" SA (later: Biuro Inwestycji „Grunwald" SA). Following company division, reduced was the issued capital of Elektromontaż Poznań SA from PLN 54 082 thousand to PLN 18 388 thousand (through the reduction of share nominal value from PLN 10.00 to PLN 3.40). On the other hand, the issued capital of Budimex Inwestycje „Grunwald" SA was increased from PLN 100 thousand to PLN 35 794 thousand (through issuance of new shares with a nominal value of PLN 0.10). At the same time, as of 1 February 2018 included in consolidated financial statements was Budimex Inwestycje „Grunwald" SA, which to that date did not have any assets and was treated as insignificant entity from the point of view of the Budimex Group. As a result of said company division and consolidation of the acquirer, the issued capital allocated to non-controlling interests was partially re-allocated to the development segment. As a result of the above transaction, its value did not change.

On 17 September 2018, Budimex SA concluded a contract for the sale of shares in Elektromontaż Poznań SA and shares in Biuro Inwestycji „Grunwald" SA. Thereby, the issued capital allocated to non-controlling interests and relating to the above companies amounted as at 31 December 2018 to PLN 0 thousand. Details of this share sale transactions were described in note 33.

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

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

The Elektromontaż Poznań SA Group	2018	2017
Statement of financial position*		
Non-current assets	-	34 269
Current assets	-	97 824
Non-current liabilities	-	(8 414)
Current liabilities	-	(57 154)
Statement of comprehensive income (from 1 February 2018 – 17 September 2018)		
Revenue	96 440	153 980
Profit (loss) on continuing operations	2 528	9 052
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	87
Comprehensive income for the period	2 528	9 139
Dividends received from the Elektromontaż Poznań SA Group	12 845	-

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

The selected financial data of Biuro Inwestycji "Grunwald" SA were as follows:

Biuro Inwestycji „Grunwald" SA	2018	2017
Statement of financial position*		
Non-current assets	-	-
Current assets	-	-
Non-current liabilities	-	-
Current liabilities	-	-
Statement of comprehensive income (from 1 February 2018 – 17 September 2018)		
Revenue	9 943	-
Profit (loss) on continuing operations	6 909	-
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	-	-
Comprehensive income for the period	6 909	-
Dividends received from Biuro Inwestycji "Grunwald" SA	-	-

**the company was included in consolidation as of 1 February 2018, and was disposed of on 17 September 2018*

On 29 October 2018, an agreement became effective concluded by Budimex SA for the sale of 49% shares in Budimex Parking Wrocław Sp. z o.o., representing 49% of the issued capital and giving right to 49% votes at the shareholders' meeting. Shares selling price was PLN 12 600 thousand. At the transaction date, the value of net assets of Budimex Parking Wrocław Sp. z o.o. attributable to non-controlling interests was PLN 7 189 thousand. Gain on the transaction which did not result in the loss of control was recognized in the accumulated profits from previous years and amounted to PLN 5 411 thousand.

The selected financial data of Budimex Parking Wrocław Sp. z o.o. were as follows:

Budimex Parking Wrocław Sp. z o.o.	2018
Statement of financial position*	
Non-current assets	47 069
Current assets	4 379
Non-current liabilities	34 691
Current liabilities	2 193
Statement of comprehensive income (from 29 October 2018 – 31 December 2018)	
Revenue	957
Profit (loss) on continuing operations	(117)
Profit (loss) on discontinued operations, after tax	-
Other comprehensive income	-
Comprehensive income for the period	(117)
Dividends received from Budimex Parking Wrocław Sp. z o.o.	-

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

21. Loans and borrowings and other external sources of finance

	31 December 2018	31 December 2017
	Carrying amount	
Non-current		
Bank loans and borrowings	30 410	29 888
Finance lease liabilities	153 697	62 198
Interest accrued on long-term loans and borrowings	3	-
	184 110	**92 086**
Current		
Bank loans and borrowings	10 104	9 663
Finance lease liabilities	44 714	20 657
Interest accrued on short-term loans and borrowings	5	4
	54 823	**30 324**
Total	**238 933**	**122 410**

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

	31 December 2018		31 December 2017	
	Carrying amount	Undiscounted contractual cash flows*	Carrying amount	Undiscounted contractual cash flows*
– up to 1 year	10 109	11 019	9 667	10 659
– 1-3 years	2 696	4 307	2 341	4 130
– 3-5 years	3 125	4 567	2 918	4 526
– above 5 years	24 592	28 204	24 629	28 339
	40 522	**48 097**	**39 555**	**47 654**

*) comprise both principal and interest payments; as at 31 December 2018 and 31 December 2017, the amounts expressed in foreign currency were translated into Polish zloty 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 2018 and 31 December 2017.

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 the authorization of these 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 and by interest rate (translated into PLN):

	31 December 2018		31 December 2017	
	Outstanding amount	Amount as per agreement	Outstanding amount	Amount as per agreement
Long-term portion	30 413	34 088	29 888	32 598
PLN (WIBOR)	*30 413*	*34 088*	*29 888*	*32 598*
Short-term portion	10 109	10 104	9 667	9 663
PLN (WIBOR)	*1 090*	*1 090*	*969*	*969*
EUR (EURIBOR)	*9 019*	*9 014*	*8 698*	*8 694*
	40 522	**44 192**	**39 555**	**42 261**

Risk of interest rate fluctuations

The effective interest rate as at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018		31 December 2017	
	PLN	EUR	PLN	EUR
Bank loans and borrowings	2.87% - 3.92%	0.60%	3.38%	0.56%
Finance lease liabilities	3.07%	-	3.12%	-

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

Finance lease liabilities

The Budimex Group companies signed finance lease agreements for financing mainly plant and machinery, and means of transport. Leased assets were made available for the period of 36 - 96 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 promissory note issued by Group companies 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 2018 are as follows:

31.12.2018	Minimum lease payments	Present value of minimum lease payments
– less than 1 year	50 223	44 714
– 1-5 years	144 590	134 950
– above 5 years	19 355	18 747
Total finance lease liabilities	**214 168**	**198 411**
of which: future finance costs under finance leases	(15 757)	-
Present value	**198 411**	**198 411**

Future minimum lease payments under the lease agreements and the present value of net minimum lease payments as at 31 December 2017 were as follows:

31.12.2017	Minimum lease payments	Present value of minimum lease payments
– less than 1 year	23 025	20 657
– 1-5 years	62 777	58 888
– above 5 years	3 444	3 310
Total finance lease liabilities	**89 246**	**82 855**
of which: future finance costs under finance leases	(6 391)	-
Present value	**82 855**	**82 855**

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

22. Trade and other payables

	31 December 2018	31 December 2017
Short-term trade and other payables		
Financial liabilities		
Trade liabilities	520 073	513 916
Un-invoiced costs	684 523	685 863
Payroll	9 346	9 237
Accrued expenses, of which:	229 936	221 662
- unused annual leave	*47 635*	*43 005*
- employee bonus	*182 301*	*178 657*
Liabilities relating to consortia settlement	2 511	1 707
Non-financial liabilities		
Taxation and social security creditors	241 449	228 674
Accrued expenses	28 691	23 492
- costs of construction contracts completion	*26 998*	*21 579*
- other	*1 693*	*1 913*
Other liabilities	3 909	13 433
Total short-term trade and other payables	**1 720 438**	**1 697 984**
Total trade and other payables	**1 720 438**	**1 697 984**

All trade and other payables as at 31 December 2018 and 31 December 2017 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)

23. Income tax

	31 December 2018	31 December 2017
Deferred tax assets		
– to be realised after 12 months	130 579	123 211
– to be realised within 12 months	394 083	411 091
Total	**524 662**	**534 302**
Offsetting	(162 811)	(129 094)
Deferred tax assets, after set-off	**361 851**	**405 208**
Deferred tax liabilities		
– to be settled after 12 months	24 429	19 767
– to be settled within 12 months	138 382	109 327
Total	**162 811**	**129 094**
Offsetting	(162 811)	(129 094)
Deferred tax liabilities, after set-off	-	-

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

	2018	2017
Balance at the beginning of the year	**405 208**	**444 975**
Credit/ (charge) to financial result	(38 818)	(40 289)
Credit/ (charge) to other comprehensive income	224	508
Change in Group composition	(4 764)	-
Other	1	14
Balance at the end of the year	**361 851**	**405 208**

	2018	2017
Current tax	59 234	74 552
Deferred tax	38 818	40 289
Adjustments to prior periods current income tax	(148)	997
Tax expense/ (tax income)	**97 904**	**115 838**

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:

	2018	2017
Gross profit/ (loss)	**403 388**	**580 432**
Shares in (profits)/ losses of equity accounted entities	1 795	4 199
Pre-tax profit/ (loss)	**405 183**	**584 631**
Tax calculated using domestic tax rates	76 985	111 080
Differences in taxation of revenues of foreign operations	(629)	(671)
Adjustments to prior periods current income tax	(148)	997
Tax effects of permanent differences between gross profit and taxable income	16 416	1 640
Utilisation of carry-forward of unused tax losses or prior period deductible temporary differences	-	(7)
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	2 620	222
Tax expense/ (tax income) calculated with respect to industrial and commercial business operations in Germany	3 319	2 651
Other	(659)	(74)
Tax expense/ (tax income)	**97 904**	**115 838**
Effective tax rate	*24.16%*	*19.81%*

(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 assets as at 1 January 2017	Recognition/ (utilisation) of deferred tax asset through profit or loss	Recognition/ (utilisation) of deferred tax asset through other comprehensive income	Other movements	Deferred tax assets as at 31 December 2017	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 assets as at 31 December 2018
Valuation of construction contracts and provision for contract losses	257 001	(61 864)	-	-	195 137	(55 387)	-	(439)	-	139 311
Contract costs related to accrued income	44 531	38 172	-	-	82 703	17 983	-	-	-	100 686
Liabilities – un-invoiced costs	50 893	17 912	-	-	68 805	(11 172)	-	(2 453)	-	55 180
Tax loss	9	68	-	-	77	1 782	-	(909)	-	950
Provisions for warranty repairs	51 508	9 894	-	-	61 402	11 077	-	(804)	-	71 675
Other provisions for liabilities	17 752	5 427	-	-	23 179	2 924	-	-	-	26 103
Receivables - impairment write-downs	25 312	(3 003)	-	-	22 309	(4 425)	-	-	-	17 884
Employee bonus	29 787	3 500	-	-	33 287	1 497	-	(971)	-	33 813
Unused annual leave	7 142	658	-	-	7 800	953	-	(215)	-	8 538
Discount of retentions for construction contracts	285	284	-	-	569	222	-	-	-	791
Forward contracts valuation	570	1 149	-	-	1 719	(1 091)	-	-	-	628
Retirement benefits and similar obligations	1 778	112	508	-	2 398	261	224	(213)	-	2 670
Impairment write-down against long-term financial assets	2 599	(1)	-	-	2 598	(184)	-	(20)	-	2 394
Other	37 935	(5 630)	-	14	32 319	31 972	-	(248)	(4)	64 039
Total	**527 102**	**6 678**	**508**	**14**	**534 302**	**(3 588)**	**224**	**(6 272)**	**(4)**	**524 662**
Offsetting	(82 127)				(129 094)					(162 811)
After set-off (recognised in the statement of financial position)	**444 975**				**405 208**					**361 851**

(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 liabilities as at 1 January 2017	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 liabilities as at 31 December 2017	Recognition / (utilisation) of deferred tax liability through profit or loss	Recognition / (utilisation) of deferred tax liability through other comprehensive income	Change in Group composition	Other movements	Deferred tax liabilities as at 31 December 2018
Valuation of construction contracts	54 807	37 058	-	-	91 865	16 233	-	(1 406)	-	106 692
Forward transactions valuation	500	1 807	-	-	2 307	(1 448)	-	(5)	-	854
Discount of retentions for construction contracts	3 925	532	-	-	4 457	471	-	(46)	-	4 882
Receivables – accrued interest	576	246	-	-	822	(778)	-	(9)	-	35
Provision for tax on German market	421	(329)	-	-	92	-	-	-	-	92
Lease	9 046	8 251	-	-	17 297	20 626	-	(32)	-	37 891
Other	12 852	(598)	-	-	12 254	126	-	(10)	(5)	12 365
Total	**82 127**	**46 967**	**-**	**-**	**129 094**	**35 230**	**-**	**(1 508)**	**(5)**	**162 811**
Offsetting	(82 127)				(129 094)					(162 811)
After set-off (recognised in the statement of financial position)	-				-					-

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 2018, 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 12 792 thousand (as at 31 December 2017: PLN 69 thousand) and expired 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)

24. Retirement benefits and similar obligations

As at 31 December 2018, all employees of the Budimex Group benefited from the retirement-pension benefits only.

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).

Usually, the obligation to pay the retirement and pension 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 and similar obligations.

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.

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.

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

	31 December 2018	31 December 2017
Retirement/ pension benefits, of which:	**14 051**	**12 130**
– present value of the obligation at the reporting date	14 051	12 130
Posthumous benefits, of which:	**-**	**493**
– present value of the obligation at the reporting date	-	493
Total retirement benefits and similar obligations	**14 051**	**12 623**
of which:		
– long-term portion	*12 639*	*11 086*
– short-term portion	*1 412*	*1 537*

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

	31 December 2018	31 December 2017
Discount rate	1.80% – 2.65%	1.81% – 2.98%
Forecast inflation rate	2.9% – 3.2%	(0.9%) – 2.5%
Forecast salary growth rate	3.3% – 6.7%	5.0% – 6.5%

Assumptions regarding mortality are based on 2016 Life Expectancy Tables for Poland published by the Statistics Poland (Central Statistical Office of Poland).

The last valuation of employee benefits was made by an independent actuary as at 31 December 2018.

Retirement and pension benefits

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

	2018	2017
Present value of liability at the beginning of the period	**12 130**	**8 826**
Interest expense	298	214
Service costs	1 433	871
Benefits paid	(499)	(548)
Actuarial (gains)/losses, of which arising from:	1 181	2 767
- change in assumptions	*259*	*2 527*
- historical experience relating to program obligations	*922*	*240*
Change in Group composition	(492)	-
Present value of liability at the end of the period	**14 051**	**12 130**

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

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

	2018	2017
Service costs	1 433	871
Interest expense	298	214
Costs recognised in the profit and loss account (note 31)	**1 731**	**1 085**
Actuarial losses to be recognised in the period	1 181	2 767
Costs recognised in other comprehensive income	**1 181**	**2 767**
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	*305*	*886*
- selling expenses	*34*	*22*
- administrative expenses	*1 392*	*177*

Posthumous benefits

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). Liability under posthumous benefits was recognised only in Elektromontaż Poznań SA, because in other Budimex Group companies employees were covered by life insurance policy. On 17 September 2018, Budimex SA sold all shares held in Elektromontaż Poznań SA, and thus as at 31 December 2018 the Budimex Group had no liabilities under posthumous benefits.

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

	2018	2017
Present value of liability at the beginning of the period	**493**	**533**
Interest expense	-	14
Current service costs	-	38
Change in Group composition	(493)	-
Actuarial (gains)/losses, of which:	-	(92)
- change in assumptions	-	*(31)*
- historical experience relating to program obligations	-	*(61)*
Present value of liability at the end of the period	**-**	**493**

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

	2018	2017
Current service costs	-	38
Interest expense	-	14
Costs recognised in the profit and loss account (note 31)	**-**	**52**
Actuarial losses to be recognised in the current period	-	(92)
Costs recognised in other comprehensive income	**-**	**(92)**
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	-	*42*
- selling expenses	-	*5*
- administrative expenses	-	*5*

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 1 508 thousand, while a decrease in the assumed discount rate by 1 percentage point would bring about an increase in said liability by PLN 1 846 thousand.

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

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 1 750 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 1 469 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 1 654 thousand, while a decrease in the assumed staff turnover by 1 percentage point would bring about an increase in said liability by PLN 2 022 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.

25. Provisions for liabilities and other charges

	Litigation proceedings	Penalties and other sanctions	Warranty repairs	Restructuring	Other	Total
Balance as at 1 January 2017	**25 413**	**65 537**	**296 028**	**162**	**29 885**	**417 025**
Creation of additional provisions	2 617	2 371[1]	91 898	-	23 042[2]	119 928
Reversal of unused provisions	(3 391)	(12 387)[3]	(11 554)	(29)	(114)[4]	(27 475)
Provisions utilisation	-	-	(21 654)	(133)	(10 971)	(32 758)
Other movements	(5)	-	(95)	-	-	(100)
Balance as at 31 December 2017	**24 634**	**55 521**	**354 623**	**-**	**41 842**	**476 620**
Balance as at 1 January 2018	**24 634**	**55 521**	**354 623**	**-**	**41 842**	**476 620**
Creation of additional provisions	469	21 588[5]	111 978	-	26 388[6]	160 423
Reversal of unused provisions	(1 095)	(8 909)[7]	(21 513)	-	(13 348)[8]	(44 865)
Provisions utilisation	-	-	(23 139)	-	(9 241)	(32 380)
Other movements	3	-	44	-	122	169
Change in Group composition	(141)		(4 135)		(447)	(4 723)
Balance as at 31 December 2018	**23 870**	**68 200**	**417 858**	**-**	**45 316**	**555 244**

1) of which PLN 565 thousand was recognised under finance costs
2) of which PLN 22 642 thousand was recognised under cost of finished goods and services, and goods for resale and raw materials sold
3) of which PLN 24 thousand was recognised as a decrease in finance costs
4) of which PLN 114 thousand was recognised as a decrease in the cost of finished goods and services, and goods for resale and raw materials sold
5) of which PLN 567 thousand was recognised under finance costs and under cost of finished goods and services, and goods for resale and raw materials sold
6) of which PLN 26 319 thousand was recognised under cost of finished goods and services, and goods for resale and raw materials sold, PLN 47 thousand - under administrative expenses, and PLN 22 thousand - under finance costs
7) of which PLN 49 thousand was recognised as a decrease in finance costs, and PLN 797 thousand was recognised under finance income
8) of which PLN 13 348 thousand was recognised as a decrease in the cost of finished goods and services, and goods for resale and raw materials sold

The creation/(reversal) of provisions for litigation, penalties and other sanctions and restructuring provision was recognised under other operating expenses (note 32), while creation / (reversal) of provisions for warranty repair – under other operating expenses.

The most significant legal cases, of which the Group companies are a party, are described in point 5.7 of the Directors' report for 2018.

The structure of total provisions is as follows:

	31 December 2018	31 December 2017
Non-current	367 306	305 858
Current	187 938	170 762
	555 244	**476 620**

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

26. 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 2018	31 December 2017
Assets		
Valuation of construction contracts	561 537	483 501
Liabilities		
Valuation of construction contracts	575 183	783 209
Provision for construction contract losses	158 035	243 829
Advance payments for construction contracts in progress (note 27)	373 389	677 391

The fair value of valuation of construction contracts approximates contracts carrying amount.

27. Deferred income

Deferred income comprises:

	31 December 2018	31 December 2017
Advance payments for construction contracts in progress (note 26)	373 389	677 391
Advance payments for flats in developer companies	614 828	661 862
Other accrued income	8 007	6 014
Total	**996 224**	**1 345 267**

All advance payments received and other accrued income as at 31 December 2018 and 31 December 2017 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

28. Retentions for construction contracts

	31 December 2018	31 December 2017
Retained by customers – to be returned after 12 months	49 103	30 138
Retained by customers – to be returned within 12 months	28 311	27 812
Total retentions for construction contracts retained by customers	**77 414**	**57 950**
Received from suppliers – to be returned after 12 months	222 751	203 643
Received from suppliers – to be returned within 12 months	214 866	217 193
Total retentions for construction contracts received from suppliers	**437 617**	**420 836**

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 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 2018	31 December 2017
Discount of long-term retentions for construction contracts retained by customers	4 163	2 996
Discount of long-term retentions for construction contracts received from suppliers	25 943	23 463

Amount of discount recognised in the profit and loss account:

	2018	2017
Decrease in sales revenue	(2 432)	(2 018)
Reduction in the cost of services sold	11 955	11 905
Total adjustment to gross margin	**9 523**	**9 887**
Adjustment to finance income / (finance costs) (note 34)	(8 210)	(8 580)
Deferred tax on the above adjustments	(249)	(248)
Net effect on the profit and loss account	**1 064**	**1 059**

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

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

29. Revenue from contracts with customers

29.1 Revenue from sale of goods and services, and goods for resale and raw materials, by category

29.1.1 Sales revenue, by type of good or service

In 2018, net sales of finished goods and services, and goods for resale and raw materials, by type of good or service, were as follows:

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Sales of construction-assembly work	6 974 837	-	93 192	(295 274)	**6 772 755**
Sales of other services	38 205	8 161	3 715	(13 955)	**36 126**
Sales of finished goods	26 115	538 051	3 651	-	**567 817**
Sales of goods for resale and raw materials	8 486	1 857	96	-	**10 439**
Total sales of finished goods, goods for resale and raw materials	**7 047 643**	**548 069**	**100 654**	**(309 229)**	**7 387 137**

In 2017, net sales of finished goods and services, and goods for resale and raw materials, by type of good or service, were as follows:

Segment	Construction business	Development activities and property management (restated)	Other business (restated)	Exclusions	Consolidated financial data
Sales of construction-assembly work	5 982 645	346	143 028	(340 490)	**5 785 529**
Sales of other services	34 258	9 312	2 862	(12 400)	**34 032**
Sales of finished goods	48 943	494 251	2 608	-	**545 802**
Sales of goods for resale and raw materials	3 831	-	115	-	**3 946**
Total sales of finished goods, goods for resale and raw materials	**6 069 677**	**503 909**	**148 613**	**(352 890)**	**6 369 309**

29.1.2 Sales revenue, by geographical area

In 2018, net sales of finished goods and services, and goods for resale and raw materials, by geographical area, were as follows:

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Poland	6 760 951	548 069	94 436	(309 229)	**7 094 227**
Germany	202 425	-	163	-	**202 588**
Other EU countries	83 734	-	-	-	**83 734**
Other countries*	533	-	6 055	-	**6 588**
Total sales of finished goods, goods for resale and raw materials	**7 047 643**	**548 069**	**100 654**	**(309 229)**	**7 387 137**

**other countries are Norway, Switzerland, Ukraine and Russia*

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

In 2017, net sales of finished goods and services, and goods for resale and raw materials, by geographical area, were as follows:

Segment	Construction business	Development activities and property management (restated)	Other business (restated)	Exclusions	Consolidated financial data
Poland	5 843 713	503 909	145 902	(352 890)	**6 140 634**
Germany	201 171	-	370	-	**201 541**
Other EU countries	23 889	-	-	-	**23 889**
Other countries*	904	-	2 341	-	**3 245**
Total sales of finished goods, goods for resale and raw materials	**6 069 677**	**503 909**	**148 613**	**(352 890)**	**6 369 309**

**other countries are Ukraine and Russia*

Geographical area of sales revenue matches customer location and is consistent with Group internal organizational structure.

29.1.3 Sales of the Construction business segment, by type of good or service

Net sales of finished goods and services, and goods for resale and raw materials of the "Construction business" as the most significant Budimex Group operating segment were additionally analysed by type of constructed objects. Data for the years 2018 and 2018 are as follows:

Type of construction works	Sales revenue for the 12-month period ended:	
	31 December 2018	**31 December 2017**
Land-engineering	3 163 230	2 966 701
Railway	634 112	237 210
Cubic objects, of which:	3 250 301	2 865 766
- non-housing	2 537 318	*2 057 748*
- housing	712 983	*808 018*
Sales of finished goods, goods for resale and raw materials – Construction business segment	**7 047 643**	**6 069 677**

29.2 Assets and liabilities arising from contracts with customers

Deadline to satisfy contract performance obligations vs applied payment deadlines

Construction contracts are settled with investors in the following manner:

- During contract performance – partially, as the work progresses, most often in monthly periods based on settlement documents confirming completion of certain types of work and satisfaction of other contract performance obligations (interim certificate of payment, interim technical acceptance (OT) protocols, progress billings), and
- After contract work completion – based on final documents (final technical acceptance (OT) protocol, final invoice), confirming completion of contract work and complete satisfaction of performance obligations necessary for final contract settlement.

Deadlines for the payment for construction works performed by Group companies are usually set at 30 days, with the proviso that for certain construction contracts Group companies obtain financing prior to the commencement of contract work in the form of advance payments which are successively settled under progress billings and under final invoice.

As regards revenues realised by development companies, customers make payments towards constructed housing apartments in accordance with payment schedules included in each preliminary agreement. The final settlement with customer is made prior to signing a notarial deed, at which time sales revenue is recognised.

During 2018 and 2017, no revenues from contracts with customers occurred that were recognised in the given financial year, under which performance obligation to deliver a good or service was satisfied in the prior financial year.

During 2018 and 2017, no revenue adjustments were recognised that could have impact on the assets or liabilities arising from contracts with customers, and which would result from a change in contract progress measurement or contract change.

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

	31 Dec 2017	Change in contracts valuation	Revenue recognised in 2018 and included in contract liabilities balance as at 31 Dec 2017	Change of the period, in which right to contract consideration becomes unconditional	Received advance payments for flats	Other	31 Dec 2018
Receivables from service concession arrangement	46 440	-	-	-	-	(24)	46 416
Valuation of construction contracts	483 501	561 537	-	(483 501)	-	-	561 537
Assets from contracts with customers	**529 941**	**561 537**	**-**	**(483 501)**	**-**	**(24)**	**607 953**
Deferred income – advance payments for flats at developer companies	661 862	-	(454 511)	-	407 477	-	614 828
Valuation of construction contracts	783 209	(22 733)	(185 293)	-	-	-	575 183
Liabilities from contracts with customers	**1 445 071**	**(22 733)**	**(639 804)**	**-**	**407 477**	**-**	**1 190 011**

	31 Dec 2016	Change in contracts valuation	Revenue recognised in 2017 and included in contract liabilities balance as at 31 Dec 2016	Change of the period, in which right to contract consideration becomes unconditional	Received advance payments for flats	Other	31 Dec 2017
Receivables from service concession arrangement	46 096	-	-	-	-	344	46 440
Valuation of construction contracts	288 456	483 501	-	(288 456)	-	-	483 501
Assets from contracts with customers	**334 552**	**483 501**	**-**	**(288 456)**	**-**	**344**	**529 941**
Deferred income – advance payments for flats at developer companies	587 089	-	(393 355)	-	468 128	-	661 862
Valuation of construction contracts	944 184	139 437	(300 412)	-	-	-	783 209
Liabilities from contracts with customers	**1 531 273**	**139 437**	**(693 767)**	**-**	**468 128**	**-**	**1 445 071**

29.3 Outstanding performance obligations under contracts with customers

	31 December 2018	31 December 2017
Total transaction price allocated to construction contract performance obligation (to deliver goods or services) outstanding at year-end, to be realized in:	10 743 510	11 071 866
- less than 1 year	*6 606 068*	*6 987 593*
- over 1 year	*4 137 442*	*4 084 273*
Total	**10 743 510**	**11 071 866**

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

30. Costs by type

	2018	2017
Depreciation/ amortization of which:	52 111	37 478
– property, plant and equipment (note 9)	*46 186*	*32 193*
– investment property (note 10)	*698*	*118*
– intangible assets (note 11)	*5 227*	*5 167*
Employee benefits (note 31)	977 854	869 193
Materials and energy	2 418 714	1 939 688
External services	3 792 466	3 024 344
Taxes and charges	18 965	15 501
Advertising and representation	11 119	10 285
Non-life (property) and life insurance	18 161	12 185
Change in the balance of provision for contract losses (note 26)	(85 567)	(164 626)
Other costs by type	(89 850)	134 425
Selling expenses (negative value)	(30 650)	(34 016)
Administrative expenses (negative value)	(229 593)	(216 627)
Change in the balance of finished goods and work in progress	(99 741)	(69 876)
Cost of goods produced for the entity's own needs (negative value)	-	-
Cost of finished goods and services sold	**6 753 989**	**5 557 954**
Cost of goods for resale and raw materials sold	4 059	1 531
Cost of finished goods, services, goods for resale and raw materials sold	**6 758 048**	**5 559 485**

*the balance sheet change in 2018 includes the amount of PLN 227 thousand relating to change in Group composition

31. Cost of employee benefits

	2018	2017
Cost of salaries and wages, of which:	**810 785**	**724 600**
– retirement and pension benefits (note 24)	*1 731*	*1 137*
– share-based payments (note 39)	*3 287*	*3 105*
– termination benefits	*4 769*	*3 451*
Cost of social security surcharges and other allowances, of which:	**167 069**	**144 593**
– social security	*112 207*	*111 418*
– termination benefits	*644*	*511*
Total cost of employee benefits recognised in the costs by type (note 30)	**977 854**	**869 193**

32. Other operating income and other operating expenses

Other operating income

	2018	2017
Gains on the sale of non-financial long-term assets and investment property	1 874	3 301
Reversal of impairment write-downs, of which:	20 271	7 656
– receivables (note 16)	*1 545*	*4 405*
– inventories (note 17)	*18 726*	*3 251*
Reversal of provisions, of which for:	9 158	15 783
– litigation and compensations (note 25)	*1 095*	*3 391*
– penalties and sanctions (note 25)	*8 063*	*12 363*
– restructuring (note 25)	-	*29*
Penalties/ compensations awarded	30 065	24 828
Subsidies	147	-
Statute-barred liabilities written-off	2 778	2 656
Gains on derivative financial instruments (note 14.2)	2 816	5 060
Other	868	1 786
Total	**67 977**	**61 070**

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

Other operating expenses

	2018	2017
Recognition of impairment write-downs, of which against:	26 864	5 940
– receivables (note 16)	*18 942*	*2 870*
– inventories (note 17)	*7 735*	*3 070*
– property, plant and equipment (note 9)	*187*	*-*
Creation of provisions, of which for:	21 490	4 823
– litigation (note 25)	*469*	*2 617*
– penalties and sanctions (note 25)	*21 021*	*1 806*
– other (note 25)	*-*	*400*
Compensations and liquidated damages paid	8 074	13 311
Court charges and executions, costs of legal proceedings	1 214	717
Loss on derivative financial instruments (note 14.2)	2 538	1 169
Other	3 644	5 973
Total	**63 824**	**31 933**

33. Disposal of subsidiary companies

Sale of shares in Elektromontaż Poznań SA

On 17 September 2018, Budimex SA concluded a contract with PG Energetyka Sp. z o.o. for the sale of 5 351 890 shares in Elektromontaż Poznań SA with a total nominal value of PLN 18 196 thousand, representing 98.95% of the issued capital and giving right to 98.95% votes at the shareholders' meeting of this company. The acquirer paid for the sold shares the amount of PLN 64 990 thousand. The entire amount of the consideration was paid in cash and cash equivalents. At the same time, excluded from consolidation were the financial data of the direct subsidiaries of Elektromontaż Poznań SA i.e. Elektromontaż Warszawa SA w likwidacji [in liquidation], Elektromontaż Import Sp. z o.o. w likwidacji [in liquidation] and Instal Polska Sp. z o.o. w likwidacji [in liquidation]. Sale of shares in Elektromontaż Poznań SA was carried out along with the sale of shares in Biuro Inwestycji „Grunwald" SA.

Analysis of assets and liabilities of the Elektromontaż Poznań SA Group, over which the control was lost

	17.09.2018
Non-current assets	
Property, plant and equipment	2 985
Deferred tax assets	4 782
Other non-current assets	1 083
Current assets	
Trade and other receivables	22 746
Valuation of construction contracts	26 350
Cash and cash equivalents	25 924
Other current assets	2 079
Long-term liabilities	
Retentions for construction contracts	(3 748)
Provision for long-term liabilities and other charges	(4 723)
Other long-term liabilities	(947)
Short-term liabilities	
Trade and other payables	(48 767)
Retentions for construction contracts	(3 226)
Valuation of construction contracts	(2 080)
Other short-term liabilities	(1 343)
Assets disposed of, net	**21 115**

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

Gain on disposal of subsidiary company

	2018
Consideration received	64 990
Net assets	(21 115)
Non-controlling interests	206
Gain on disposal of subsidiary company (operating result)	**44 081**
Income tax – current (paid as a one-off item)	(12 763)
Income tax – deferred (consolidation adjustment)	(184)
Gain on disposal of subsidiary company (net result)	**31 134**

Net cash inflow from subsidiary disposal

	2018
Consideration received in the form of cash and cash equivalents	64 990
Cash and cash equivalents at Elektromontaż Poznań SA	(25 924)
Net cash inflow from subsidiary disposal	**39 066**

Sale of shares in Biuro Inwestycji „Grunwald" SA

On 17 September 2018, Budimex SA concluded a contract with Raven 9 Sp. z o.o. for the sale of 354 224 740 shares in Biuro Inwestycji „Grunwald" SA with a total nominal value of PLN 35 422 thousand, representing 98.95% of the issued capital and giving right to 98.95% votes at the shareholders' meeting of this company. The acquirer paid for the sold shares the amount of PLN 43 078 thousand. The entire amount of the consideration was paid in cash and cash equivalents. Sale of shares in Biuro Inwestycji „Grunwald" SA was carried out along with the sale of shares in Elektromontaż Poznań SA.

Analysis of assets and liabilities of Biuro Inwestycji „Grunwald" SA, over which the control was lost

	17.09.2018
Current assets	
Cash and cash equivalents	47 633
Other current assets	9
Long-term liabilities	
Other long-term liabilities	(5)
Short-term liabilities	
Trade and other payables	(94)
Current tax liability	(3 937)
Assets disposed of, net	**43 606**

Loss on disposal of subsidiary company

	2018
Consideration received	43 078
Net assets	(43 606)
Non-controlling interests	458
Loss on disposal of subsidiary company (operating and net result)	**(70)**

Net cash outflow from subsidiary disposal

	2018
Consideration received in the form of cash and cash equivalents	43 078
Cash and cash equivalents at Biuro Inwestycji „Grunwald" SA	(47 633)
Net cash outflow from subsidiary disposal	**(4 555)**

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

34. Finance income and finance costs

Finance income

	2018	2017
Interest earned on financial instruments, of which:	19 569	27 585
– on bank deposits and cash at bank	*13 422*	*21 967*
– on loans granted (note 14.1)	*3 987*	*2 264*
– on bonds issued by banks (note 14.4)	*2 160*	*3 354*
Other interest income, of which:	5 160	5 280
– interest on discount and penalty interest	*5 160*	*5 279*
– other	-	*1*
Receivables from service concession arrangement (note 15)	2 519	2 931
Reversal of long-term receivables discount	-	820
Gains on derivative financial instruments (note 14.2)	-	401
Foreign exchange gains	202	-
Other	841	67
Total	**28 291**	**37 084**

Finance costs

	2018	2017
Interest expense in respect of financial instruments, of which:	4 795	2 865
– interest on borrowings and loans taken out and on other external sources of finance	*1 083*	*1 116*
– interest on lease contracts	*3 712*	*1 749*
Other interest expense, of which:	1 717	2 702
– penalty interest paid to suppliers and interest on discounts	*796*	*1 887*
– other interest	*921*	*815*
Foreign exchange losses	-	797
Impairment of shares in non-consolidated entities (note 14.3)	682	-
Discount on retentions for construction contracts (note 28)	8 210	8 580
Cost of bank commissions and guarantees	23 390	24 234
Loss on derivative financial instruments (note 14.2)	1 138	643
Other	186	950
Total	**40 118**	**40 771**

35. Earnings/ (loss) per share

Basic earnings/ (loss) per share

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 19).

	2018	2017
Earnings / (loss) attributable to the shareholders of the Parent Company	305 424	464 408
Weighted average number of ordinary shares	25 530 098	25 530 098
Basic earnings / (loss) per share (in PLN per share)	**11.96**	**18.19**

Diluted earnings/ (loss) per share

Diluted earnings / (loss) per share equated to basic earnings per share for both periods because no dilutive instruments occurred.

36. Dividend per share

On 7 June 2018, Budimex SA paid out a dividend in the amount of PLN 449 585 thousand i.e. the gross amount of PLN 17.61 per one share, for which separate net profit for the period from 1 January 2017 to 31 December 2017 was appropriated. The remaining amount of separate net profit for 2017 of PLN 250 thousand was appropriated to reserve capital increase.

Until the date of the preparation of these consolidated financial statements for the year ended 31 December 2018, the Management Board of Budimex SA has not adopted a resolution on recommended appropriation of profit for 2018.

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

37. Statement of Cash Flows

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

	2018	2017
Cumulative translation differences	1 605	(183)
Settlement of option premium	-	759
Other	24	63
Total	**1 629**	**639**

Non-monetary transactions

In 2018, 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 142 569 thousand under finance lease agreements.

In 2017, 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 54 245 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 2018		31 December 2017	
	Assets pledged as security/ collateral	Security/ collateral contractual value	Assets pledged as security/ collateral	Security/ collateral contractual value
Property, plant and equipment	1	1	2 078	49 503
Cash and cash equivalents (note 18)	1 215*	1 215*	1 021*	1 021*
Total	**1 216**	**1 216**	**3 099**	**50 524**

** as at 31 December 2018 and 31 December 2017, the collaterals established on cash and cash equivalents equate the amount of 2 nearest principal-interest instalments of the investment loan repaid by Budimex Parking Wrocław Sp. z o.o.*

39. Share-based payments

Ferrovial SA, the ultimate parent company, established an incentive scheme of free-of-charge share award, 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 annually.

As at 31 December 2018 and as at 31 December 2017, the total fair value of services recorded under other reserves was PLN 7 171 thousand. As at 31 December 2018, the total fair value of services recorded under liabilities amounted to PLN 11 974 thousand, while as at 31 December 2017 – PLN 8 687 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 2014-2018 was classified as liabilities (with a corresponding expense item).

Detailed information on plan's vested shares is presented in the table below:

Year	Number of initially granted shares	Grant date	Fair value of 1 share at grant date	Financial covenants realization	Cost of shares granted
2018	44 650	15-02-2018	71,72	100%	3 287
2017	45 750	15-02-2017	74,00	100%	3 105

The cost of the shares granted in 2018 was calculated as 2/36th of the cost of shares granted in 2015, 12/36th of the cost of shares granted in 2016, 12/36th of the cost of shares granted in 2017 and 10/36th of the cost of shares granted in 2018.

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

The cost of the shares granted in 2017 was calculated as 2/36th of the cost of shares granted in 2014, 12/36th of the cost of shares granted in 2015, 12/36th of the cost of shares granted in 2016 and 10/36th of the cost of shares granted in 2017.

The three-year vesting period for the shares granted in 2015 ended in February 2018. As the conditions of the incentive program were satisfied, 41 743 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 2018 and 2017 and the resultant unsettled balances of receivables and liabilities as at 31 December 2018 and 31 December 2017 are presented below.

	Receivables		Liabilities	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Parent and its related parties (the Ferrovial Group)	1 490	20 679	32 952	73 553
Jointly controlled entities	12 065	13 820	911	744
Associates	298	304	425	1 635
Other related entities – non-consolidated subsidiaries*	233	26	24	387
Other related entities – other*	14	11	-	-
Other related entities – through key personnel*	-	-	5 575	5 091
Total settlements with related parties	**14 100**	**34 840**	**39 887**	**81 410**

	Revenue from sale of finished goods and services and other operating income		Purchase of finished goods and services	
	2018	2017	2018	2017
Parent and its related parties (the Ferrovial Group)	158	856	42 931	45 522
Jointly controlled entities	65 471	58 116	414	234
Associates	2 027	1 090	6 065	7 728
Other related entities – non-consolidated subsidiaries*	198	266	104	(235)
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	2 203	-	3	7
Total settlements with related parties	**70 057**	**60 328**	**49 517**	**53 256**

	Loans granted / (taken out); debt securities acquired / (issued)		Finance income / (costs)	
	31 December 2018	31 December 2017	2018	2017
Parent and its related parties (the Ferrovial Group)	(9 019)	(8 698)	(50)	(58)
Jointly controlled entities	-	-	2	-
Associates	74 145	62 451	3 985	2 264
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	**65 126**	**53 753**	**3 937**	**2 206**

*) 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 SA, Cadagua SA and Cadagua SA Oddział w Polsce. [Branch in Poland].

<u>Sales revenue / purchase of finished goods and services</u>

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

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

2018 were PLN 5 709 thousand and PLN 5 220 thousand, respectively, while in 2017: PLN 4 183 thousand and PLN 5 601 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 in the form of an authorized BAPA agreement, Budimex SA will be remitting to Ferrovial Agroman SA a fee reduced by 25%.

On 28 March 2017, Budimex SA signed a new agreement which was valid from 1 January 2017 for the next 5 years. The principles of consideration determining has remained unchanged, the consideration is paid in the full amount despite non-authorization of the BAPA agreement. Due to the execution of these agreements, Budimex SA incurred in 2018 and 2017 costs in the total amount of PLN 34 210 thousand and PLN 29 357 thousand, respectively.

Loans

Based on the agreement dated 1 December 2004, Budimex SA received from Ferrovial Infraestructuras SA (currently, the lender is Ferrovial SA, the ultimate parent company) 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 2018, 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. Based on the decision of both the lender and the borrower of 19 March 2019 the loan shall be repaid by Budimex SA on 22 March 2019.

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

40.1 Remuneration of key members of management

Management Board

In 2018 the total value of remuneration, bonuses and awards for the members of the Management Board of Budimex SA amounted to PLN 12 423 thousand (of which, PLN 4 278 thousand represented performance bonus for completing the tasks scheduled for 2017), of which PLN 11 052 thousand was recognised as costs of Budimex SA. The remaining balance was recognised as costs of its subsidiaries.

In 2017 the total value of remuneration, bonuses and awards for the members of the Management Board of Budimex SA amounted to PLN 12 092 thousand (of which, PLN 4 066 thousand represented performance bonus for completing the tasks scheduled for 2016), of which PLN 10 781 thousand was recognised as costs of Budimex SA. The remaining balance was recognised as costs of its subsidiaries.

In 2018, remuneration of Management Board members was as follows:

Dariusz Blocher	PLN 2 523 thousand
Henryk Urbański	PLN 1 371 thousand
Marcin Węgłowski	PLN 1 283 thousand
Jacek Daniewski	PLN 1 259 thousand
Fernando Pascual Larragoiti	PLN 1 867 thousand
Cezary Mączka	PLN 1 289 thousand
Radosław Górski	PLN 1 137 thousand
Artur Popko	PLN 1 694 thousand

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2018, the estimated costs of share-based payment under Ferrovial SA incentive programs allocated to the Company's Management Board amounted to PLN 2 071 thousand (of which PLN 1 842 thousand was charged to the costs of Budimex SA, and the remaining – to the costs of subsidiary companies) and were distributed as follows:

Dariusz Blocher	PLN 793 thousand
Henryk Urbański	PLN 229 thousand
Marcin Węgłowski	PLN 156 thousand
Jacek Daniewski	PLN 156 thousand
Fernando Pascual Larragoiti	PLN 225 thousand
Cezary Mączka	PLN 148 thousand
Radosław Górski	PLN 163 thousand
Artur Popko	PLN 201 thousand

The above costs consist of: 2/36th of the cost of shares granted in 2015, 12/36th of the cost of shares granted in 2016, 12/36th of the cost of shares granted in 2017 and 10/36th of the cost of shares granted in 2018.

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

The three-year vesting period for the shares granted in 2015 ended in March 2018. As the conditions of the incentive program were satisfied, the shares in Ferrovial SA were formally handed over. The number of shares actually handed to the members of the Company's Management Board was as follows:

Dariusz Blocher	9 000 shares
Henryk Urbański	3 300 shares
Marcin Węgłowski	2 250 shares
Jacek Daniewski	2 250 shares
Fernando Pascual Larragoiti	3 000 shares
Cezary Mączka	1 143 shares
Radosław Górski	2 100 shares
Artur Popko	2 500 shares

The market value of the Ferrovial SA share at the actual handover date was PLN 72.77.

Proxies

The total value of remuneration paid to proxies of Budimex SA in 2018 was PLN 888 thousand, while in 2017 - PLN 816 thousand.

Individual remuneration of proxies in 2018 was as follows:

Piotr Świecki	PLN 888 thousand.

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2018, the estimated cost of share-based payment under Ferrovial SA incentive programs allocated to the Company's proxy, Piotr Świecki, amounted to PLN 114 thousand.

Due to satisfying the incentive program conditions after the three-year vesting period for the shares granted in 2015 has lapsed, Ferrovial SA formally handed over 850 shares to the proxy of Budimex SA, Piotr Świecki. The market value of the Ferrovial SA share at the actual handover date was PLN 72.77.

Supervisory Board

The total value of remuneration paid in 2018 to the members of Supervisory Board of Budimex SA amounted to PLN 1 377 thousand (PLN 1 284 thousand in 2017).

In 2018, remuneration of Supervisory Board members of Budimex SA was as follows:

Marek Michałowski	PLN 219 thousand
Igor Chalupec	PLN 149 thousand
Javier Galindo Hernandez	PLN 149 thousand
Jose Carlos Garrido-Lestache Rodriguez	PLN 138 thousand
Marzenna Anna Weresa	PLN 172 thousand
Piotr Kamiński	PLN 149 thousand
Alejandro de la Joya Ruiz de Velasco	PLN 149 thousand
Janusz Dedo	PLN 126 thousand
Ignacio Clopes Estela	PLN 126 thousand.

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

As at 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017, 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.

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

41. Capital expenditure incurred and planned

Capital expenditure (for non-financial long-term assets) incurred in 2018 amounted to PLN 162 480 thousand. In 2017, capital expenditure amounted to PLN 85 752 thousand.

Capital expenditure planned to be incurred in 2019 for non-financial long-term assets amount to approx. PLN 50 000 thousand.

In 2018 and In 2017, 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 2018, the committed investment expenditure amounted to PLN 784 thousand and related to the purchase of road equipment.

As at 31 December 2017, the committed investment expenditure amounted to PLN 51 385 thousand and related to the purchase of railway machines.

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 2018	31 December 2017
– up to 1 year	39 505	41 069
– 1-5 years	31 161	32 791
– above 5 years	2 394	125
Total	**73 060**	**73 985**

	2018	2017
Lease payments taken to costs	53 541	48 765

In addition, the has used 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 2018	31 December 2017
– up to 1 year	122	607
– 1-5 years	488	2 428
– above 5 years	8 077	41 116
Total	**8 687**	**44 151**

	2018	2017
Fee for perpetual usufruct right to land taken to costs	438	641

44. Events after the reporting date

On 2 January 2019, Budimex A Sp. z o.o. and Budimex PPP SA signed an agreement on the disposal of all rights and obligations arising from participation in Budimex SA Energetyka 2 s.j. and Budimex SA Energetyka 3 s.j., respectively, in favour of Budimex Budownictwo Sp. z o.o.

On 19 March 2019 Budimex SA (borrower) and Ferrovial SA (lender) decided that the loan of 1 December 2004 granted by Ferrovial SA to Budimex SA shall be repaid on 22 Match 2019.

Until the date of the authorization for issue of these consolidated financial statements there were no other significant events that should be subject to disclosure.

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

45. Contingent assets and contingent liabilities

	31 December 2018	31 December 2017
Contingent assets		
From other entities		
– guarantees and sureties received	583 363	589 062
– bills of exchange received as security	6 083	3 628
From other entities, total	**589 446**	**592 690**
Other contingent assets	**12 000**	**14 768**
Total contingent assets	**601 446**	**607 458**
Contingent liabilities		
To related entities		
– guarantees and sureties issued	1 537	2 814
To related entities, total	**1 537**	**2 814**
To other entities		
– guarantees and sureties issued	3 540 626	3 821 829
– promissory notes issued as security	21 520	16 141
To other entities, total	**3 562 146**	**3 837 970**
Other contingent liabilities	**-**	**134 381**
Total contingent liabilities	**3 563 683**	**3 975 165**
Total contingent items	**(2 962 237)**	**(3 367 707)**

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 5.1 and 25 to these consolidated financial statements.

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

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

At Budimex SA, customs and tax audit is currently carried out with regard to the reliability of the declared tax bases and the correctness of calculating and paying corporate income tax for 2012. The subject of the audit are, in particular, intangible services acquired by the Company, as well as the acquisition of PNI Sp. z o.o., consequences of the bankruptcy of the company and the sale of its shares to Budimex Kolejnictwo SA. In the opinion of the Management Board of Budimex SA, the transactions were settled correctly. At the time of preparing these financial statements, the result of the audit has not been issued.

As at 31 December 2017, other contingent liabilities included, among others, voluntary submission to enforcement procedure which secured making payment to the amount of PLN 134 381 thousand due in the event of improper performance by Budimex SA of its obligations under the agreement of acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. All these contingent liabilities expired as at 31 December 2018.

46. Employment structure

Employee group	Number of employees as at 31 December	
	2018	2017
Blue collar employees	2 964	2 660
White collar employees	3 942	3 879
Total	**6 906**	**6 539**

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

47. 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 a 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. After that, 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. The supplementary opinion was filed with the court in October 2018 and is favourable to Autostrada Południe SA. The Parties then presented their positions regarding the supplementary opinion and are currently awaiting the court to set the date of the hearing with the participation of the expert, at which he will respond to the positions presented and issues raised. The hearing is expected to be set in the second quarter of 2019.

Total revenue recognised by Spółka Jawna in prior years in connection with performed design works (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 the attached Directors' report on activities concerning the Contract for the development project at the Warsaw Chopin Airport - Terminal 2 Construction, following reaching an agreement in the Court of Arbitration of the National Chamber of Commerce *(Krajowa Izba Gospodarcza),* on 8 August 2018 the parties mutually surrendered any remaining disputable claims in the Court of Arbitration and mutually waived any costs of the proceedings, and the payment by PPL in favour of the Consortium covered solely receivables from delivered work and services, inclusive of retentions-related receivables. Settlement by the Consortium Leader, Ferrovial Agroman SA, of the concluded court agreement caused that the gross profit on sales of the Budimex Group increased by PLN 29 506 thousand.

Warsaw, 21 March 2019

Dariusz Blocher	President of the Management Board
Jacek Daniewski	Member of the Management Board
Radosław Górski	Member of the Management Board
Cezary Mączka	Member of the Management Board

Artur Popko	Member of the Management Board
Henryk Urbański	Member of the Management Board
Marcin Węgłowski	Member of the Management Board
Grzegorz Fąfara	Chief Accountant