BUDIMEX SA

FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

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(all amounts are expressed in PLN thousand)

Statement of financial position

ASSETS	Note	31 December 2018	31 December 2017
Non-current (long-term) assets			
Property, plant and equipment	9	169 160	115 521
Investment properties	10	3 178	3 306
Intangible assets	12	28 103	29 937
Investments in subsidiaries	14	690 544	727 827
Investments in associates	14	61 246	61 246
Investments in other entities	14	6 417	6 417
Other financial assets	15	75 869	70 384
Trade and other receivables	16	21 807	18 124
Retentions for construction contracts	27	79 665	54 685
Deferred tax assets	22	322 025	360 149
Total non-current (long-term) assets		**1 458 014**	**1 447 596**
Current (short-term) assets			
Inventories	17	308 385	242 103
Trade and other receivables	16	802 012	638 335
Retentions for construction contracts	27	47 191	46 306
Valuation of construction contracts	25	552 306	472 740
Current tax assets		33 081	29 995
Other financial assets	15	17 055	295 836
Cash and cash equivalents	18	1 159 595	1 680 371
Total current (short-term) assets		**2 919 625**	**3 405 686**
TOTAL ASSETS		**4 377 639**	**4 853 282**

(all amounts are expressed in PLN thousand)

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	80 199	80 199
Other reserves	19	51 356	52 452
Cumulative translation differences		7 159	5 682
Retained earnings	19	322 012	449 995
Total shareholders' equity		**606 574**	**734 176**
LIABILITIES			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	20	88 171	45 885
Retentions for construction contracts	27	213 836	192 314
Provisions for long -term liabilities and other charges	24	271 771	219 909
Retirement benefits and similar obligations	23	10 108	7 857
Other financial liabilities	15	-	713
Total non-current (long-term) liabilities		**583 886**	**466 678**
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	20	42 082	26 381
Trade and other payables	21	1 641 899	1 579 248
Retentions for construction contracts	27	205 048	207 272
Provisions for construction contract losses	25	159 036	234 876
Valuation of construction contracts	25	583 918	767 855
Deferred income	26	378 465	671 844
Provisions for short-term liabilities and other charges	24	174 929	157 814
Retirement benefits and similar obligations	23	1 122	985
Other financial liabilities	15	680	6 153
Total current (short-term) liabilities		**3 187 179**	**3 652 428**
Total liabilities		**3 771 065**	**4 119 106**
TOTAL EQUITY AND LIABILITIES		**4 377 639**	**4 853 282**

(all amounts are expressed in PLN thousand)

Profit and loss account

	Note	Year ended 31 December	
		2018	**2017**
Continuing operations			
Net sales of finished goods and services, goods for resale and raw materials	28	6 796 868	5 824 859
Cost of finished goods, services, goods for resale and raw materials sold	30	(6 313 733)	(5 148 144)
Gross profit on sales		**483 135**	**676 715**
Selling expenses	30	(11 098)	(10 722)
Administrative expenses	30	(206 328)	(194 220)
Other operating income	32	45 168	55 684
Other operating expenses	32	(49 758)	(23 495)
Operating profit		**261 119**	**503 962**
Finance income	33	171 457	80 311
Finance costs	33	(35 812)	(36 563)
Gross profit		**396 764**	**547 710**
Income tax	22	(75 162)	(97 875)
Net profit from continuing operations		**321 602**	**449 835**
Net profit for the period		**321 602**	**449 835**

Basic and diluted earnings per share attributable to the shareholders (in PLN)	34	*12,60*	*17,62*

Statement of comprehensive income

	Note	Year ended 31 December	
		2018	**2017**
Net profit for the period		**321 602**	**449 835**
Other comprehensive income which:			
Items to be reclassified to profit or loss upon satisfaction of certain conditions:			
Cumulative translation differences		1 477	12
Deferred tax related to components of other comprehensive income		-	-
Items not be reclassified to profit or loss:			
Actuarial gains/(losses)	23	(1 353)	(1 912)
Deferred tax related to components of other comprehensive income	22	257	363
Other comprehensive income, net		**381**	**(1 537)**
Total comprehensive income for the period		**321 983**	**448 298**

(all amounts are expressed in PLN thousand)

Statement of changes in equity

	Issued capital	Share premium	Other reserves	Cumulative translation differences	Retained earnings	Total
Balance as at 01.01.2018	**145 848**	**80 199**	**52 452**	**5 682**	**449 995**	**734 176**
Profit for the period	-	-	-	-	321 602	**321 602**
Other comprehensive income	-	-	(1 096)	1 477	-	**381**
Total comprehensive income for the period	**-**	**-**	**(1 096)**	**1 477**	**321 602**	**321 983**
Payment of dividend (note 35)	-	-	-	-	(449 585)	**(449 585)**
Balance as at 31.12.2018	**145 848**	**80 199**	**51 356**	**7 159**	**322 012**	**606 574**

(all amounts are expressed in PLN thousand)

Statement of changes in equity (cont.)

	Issued capital	Share premium	Other reserves	Cumulative translation differences	Retained earnings	Total
Balance as at 01.01.2017	**145 848**	**80 199**	**54 001**	**5 670**	**382 856**	**668 574**
Profit for the period	-	-	-	-	449 835	**449 835**
Other comprehensive income	-	-	(1 549)	12	-	**(1 537)**
Total comprehensive income for the period	**-**	**-**	**(1 549)**	**12**	**449 835**	**448 298**
Payment of dividend	-	-	-	-	(382 696)	**(382 696)**
Balance as at 31.12.2017	**145 848**	**80 199**	**52 452**	**5 682**	**449 995**	**734 176**

(all amounts are expressed in PLN thousand)

Statement of cash flows

	Note	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before tax		**396 764**	**547 710**
Adjustments for:			
Depreciation/amortisation	30	45 499	34 269
Foreign exchange (gains)/losses		(576)	553
Interest and shares in profits (dividends)		(76 632)	(56 515)
(Profit)/loss from investing activities		(79 076)	(6 046)
Change in valuation of derivative financial instruments	15.1	2 123	(4 437)
Change in provisions and liabilities arising from retirement benefits and similar obligations		70 012	39 975
Other adjustments	36	1 495	798
Operating profit/(loss) before changes in working capital		**359 609**	**556 307**
Change in receivables and retentions for construction contracts		(193 931)	(194 910)
Change in inventories		(66 282)	(82 605)
Change in retentions for construction contracts and in liabilities, except for borrowings and loans		82 755	212 115
Change in construction contracts valuation and provision for construction contract losses	25	(339 343)	(517 773)
Change in deferred revenue		(293 379)	263 103
Change in cash and cash equivalents of restricted use	18	17 293	(8 033)
Cash flow from operating activities		**(433 278)**	**228 204**
Income tax paid		(39 867)	(132 881)
NET CASH FROM OPERATING ACTIVITIES		**(473 145)**	**95 323**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of intangible assets and property, plant and equipment		3 163	986
Purchase of intangible assets and property, plant and equipment		(18 791)	(20 253)
Proceeds from sale of investment properties		-	5 364
Acquisition of shares in related parties	14	(7 060)	(3 354)
Sale of shares in related parties	14	120 668	-
Purchase of bonds issued by banks	15.3	(238 868)	(665 619)
Proceeds from bonds issued by banks	15.3	516 877	387 610
Loans granted	15.2	(34 080)	(104 253)
Repayment of loans granted	15.2	21 911	46 636
Dividends received	33	72 839	51 686
Interest received	15.2; 15.3	7 083	3 112
NET CASH FROM / USED IN INVESTING ACTIVITIES		**443 742**	**(298 085)**

(all amounts are expressed in PLN thousand)

Statement of cash flows (cont.)

	Note	Year ended 31 December 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(449 585)	(382 696)
Payments of liabilities under finance lease		(22 431)	(11 705)
Interest paid		(2 909)	(1 531)
NET CASH USED IN FINANCING ACTIVITIES		**(474 925)**	**(395 932)**
TOTAL NET CASH FLOWS		**(504 328)**	**(598 694)**
Foreign exchange differences, net (on cash and cash equivalents)		845	(1 078)
CASH AND CASH EQUIVALENTS – OPENING BALANCE	**18**	**1 639 774**	**2 239 546**
CASH AND CASH EQUIVALENTS – CLOSING BALANCE	**18**	**1 136 291**	**1 639 774**

Notes to the financial statements

1. General information

Budimex SA (the "Company", the "Issuer") with its registered office in Warsaw, ul. Stawki 40, is a joint-stock company entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, Division XII Commercial of the National Court Register under KRS No. 0000001764.

Budimex SA is the parent company of the Budimex Group and serves as an advisory, management and financial centre.

The duration of the Company is unlimited.

The main areas of the Company's business activities are broadly understood construction and assembly services rendered under the system of general contracting at home and abroad and a limited scope of developer activities, property management, trading and production.

In accordance with the Polish Classification of Activities ("PKD" 2007), on 31 December 2018, the main area of business activity of the Company consisted in construction of civil and water engineering facilities (PKD no. 42.11.Z). The branch of industry in which the Company operates was classified by the Warsaw Stock Exchange as general construction and civil engineering business.

As at 31 December 2018, the Company had the following branches:

- General Construction North Branch in Poznań, ul. Wołowska 92A,
- General Construction South Branch in Kraków, ul. Ujastek 7,
- General Construction East Branch in Warsaw, ul. Stawki 40,
- Infrastructure North Branch in Warsaw, ul. Stawki 40,
- Infrastructure South Branch in Kraków, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Mokronoska 2,
- Industrial and Railway Branch in Warsaw, ul. Stawki 40,
- Equipment Services Branch in Pruszków, ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex SA Zweigniederlassung Köln, Pferdmengesstr. 5, Cologne.

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

These financial statements were approved by the Company Management Board on 21 March 2019.

The Company prepared consolidated financial statements for the year ended 31 December 2018, which was approved for publication on 21 March 2019.

Changes in the composition of the Management Board of the Company were disclosed in the Directors' report of Budimex SA for 2018.

2. Going concern assumption

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

As at 31 December 2018, the value of the Company's current liabilities exceeds the value of its current assets by PLN 267 554 thousand. Taking into account the good liquidity of the Budimex Group, whose consolidated statement of financial position as at 31 December 2018 provides for a positive difference between the current assets and the current liabilities in the amount of PLN 550 657 thousand, the Management Board of the Company is not aware, as at the date of signing the financial statements, of any facts or circumstances that would indicate threats to the Company's continued activities in the foreseeable future.

3. Basis for preparation of the financial statements and statement of compliance

These financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"), prevailing as at the reporting date of these financial statements.

Standards, amendments to standards and interpretations applied for the first time in 2018

During the period covered by these financial statements, the Company applied for the first time the requirements of IFRS 9 „Financial instruments". The Company 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 Company first-time application of IFRS 9 did not have any significant impact on the 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 4.12.

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 financial statements for the previous year, published on 22 March 2018.

Apart from that, in the financial year ended 31 December 2018, the Company 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 did not have any material impact on the financial statements.

Standards, amendments to standards and interpretation that have been issued but are not yet effective

In authorizing these financial statements, the Company 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 Company decided *not* to apply IFRS 16 before its effective date. According to the current preliminary estimates of the Company, had IFRS 16 been applied as at 31 December 2018, the Company's assets and liabilities would increase by PLN 31 100 thousand. Thereby, earlier application of IFRS 16 would not have any material impact on the financial statements. Identified operating lease contracts relate mainly to cars, office space, land and machinery. The Company 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 issued 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 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 financial statements, had they been applied by the Company at the reporting date.

The financial statements were prepared under the historical cost convention, except for hyperinflation adjustments described in 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 Company 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 financial statements of the Company, 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 Company 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 Company 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).Key accounting policies.

4. Key accounting policies

The key accounting policies applied during the preparation of these 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.

4.1 Transactions and valuation of foreign currency items

Functional and reporting currency

Items recognised in the financial statements of the Company are valued using the currency of the main economic environment in which the business operations are conducted ("functional currency"). Financial data is presented in Polish zloty, which is the functional and presentation currency of the Company. Figures are rounded up to PLN thousands, 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 in foreign currencies are translated using the closing rate,
- non-monetary items stated at historical purchase price or cost of production expressed in foreign currencies are translated using the exchange rate prevailing on the transaction date,
- non-monetary items stated at fair value expressed in foreign currencies 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 arose on the date of assets and liabilities valuation and on settlement of foreign currency receivables and liabilities as well as on the sale of currencies are included under finance income or finance costs, as appropriate. In the event of non-monetary items stated at fair value, if gains or losses due to estimation to fair value are recognised in the equity, then exchange rate differences are also recognised in the equity. If gains or losses from revaluation to fair value are included in the profit and loss account, exchange rate differences are recognised in the same way.

Foreign operations

The financial result, assets, equity and liabilities of a foreign operation of the Company expressed in a different functional currency (EUR) are translated into the Polish zloty as follows:

- assets and liabilities are translated using the closing rate prevailing at the reporting date,
- revenues and costs are translated using the average rate,
- 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".

4.2 Property, plant and equipment

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

Property, plant and equipment, except for land, are depreciated in a way reflecting the patterns of consumption of economic benefits of the specific items in order to spread their initial value reduced by the residual value, over the period of their estimated useful lives. The Company depreciates its property, plant and equipment using the straight-line method. Depreciation starts when a given item of property, plant and equipment is available for use.

The useful lives of the items of the Company's property, plant and equipment are as follows:

- buildings and constructions 2-40 years
- plant and machinery 2-14 years
- motor vehicles 3-14 years
- other 2-10 years

Any subsequent expenditure is included in the carrying value of a given item of property, plant and equipment or as a separate item provided that it is probable that an inflow of economic benefits will flow to the Company and the cost of the given item may be reliably measured. Other costs incurred since the initial recognition, e.g. costs of repair, maintenance 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 value of the appropriate item of property, plant and equipment.

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

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

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 finance costs, less any impairment losses. Construction-in-progress is not depreciated until completed and brought into use.

4.3 Investment properties

Investment properties are initially valued at purchase or production price, account being taken of transaction costs. After initial recognition, investment properties, except for land and properties meeting the criteria of classification as held for sale, are depreciated on a straight-line basis and adjusted for impairment losses.

In the case of the Company, the useful lives of investment properties are as follows:

- perpetual usufruct 40 years
- buildings and constructions 10-40 years
- other investment properties 2-10 years

4.4 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 purchase price or cost of development of an intangible asset can be reliably measured.

Initially, intangible assets are valued at purchase price or cost of production. Following initial recognition, intangible assets are valued at purchase price or cost of production less accumulated amortisation and total value of impairment write-downs.

Intangible assets are amortised on a straight-line basis over their estimated useful lives.

The expected useful lives of the Company's intangible assets are as follows:

- patents and licences 5-10 years
- software 2-5 years

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

4.5 Non-current assets (disposal groups) classified as held for sale

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

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

4.6 Borrowing costs

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

Borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases, and foreign exchange differences related to borrowings up to the amount of interest expense adjustment.

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

In the Company, the qualifying assets are mainly property, plant and equipment, investment properties and intangible assets.

4.7 Lease

The Company is party to lease agreements under which it uses or obtains rewards from third-party non-current assets over an agreed period of time in return for payments.

In the case of finance lease agreements, which transfer substantially all of the risks and rewards of ownership of assets, the leased assets are recorded under non-current assets or investments at fair value or at the current value of the minimum lease payments established at the inception of the lease term, if the present value is lower than the asset 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.

Property, plant and equipment are depreciated on a straight-line basis over the shorter of the two periods: the asset's expected period of use or the lease term, if it is not certain that the lessee obtains the ownership right to the asset prior to the end of the lease term.

Lease payments made under lease agreements which do not meet the criteria of finance lease are recognised on a straight line basis as an expense in the profit and loss account over the lease term.

Finance costs are recognised directly in the profit and loss account in accordance with the policies described in section 4.6.

The Company does not act as a lessor in lease agreements.

4.8 Impairment of non-financial assets

An assessment is made by the Company at each reporting date to determine whether there is any objective evidence that a non-financial asset or a group of non-financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment write-down recognised for the difference between the recoverable amount and the carrying value. The recoverable amount is the higher of the two values: the 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 at the discount rate before taxation, which includes the current market time value of money and risk specific for a given asset item.

In order to assess the impairment, assets are grouped at the lowest possible level with respect to which separate cash flows may be identified (cash-generating units). A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognised in the profit and loss account.

If impairment loss is subsequently reversed, the net value of an asset (or cash generating unit) is increased to the new recoverable value, however not exceeding the carrying value of that element of assets that would have been determined if impairment had not been recognised in the previous years. Reversal of impairment loss is immediately recognised in the profit or loss account.

4.9 Advances for purchases of non-financial assets

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

4.10 Inventories

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

- 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 general purpose and lowly 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 in order to be resold,
- Finished goods – internally developed goods for which the process of development was completed.

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

Inventories are valued at the lower of purchase price or cost of production and net realisable value. Net realisable value is the selling price achievable at the reporting date, net of VAT and excise taxes, less any rebates, discounts, costs to complete and costs to sell.

Disbursement of materials is valued based on the purchase price determined as the weighted average price of materials; disbursement of goods is valued based on the purchase price determined on a "first in – first out" basis, while the disbursement of work in progress and finished goods is valued at the cost of direct materials and labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

4.11 Cash and cash equivalents

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

"Cash and cash equivalents" included in the Statement of Cash Flows comprise cash in hand, demand deposits, and bank deposits with maturities up to 12 months which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

- security for bank guarantees,
- funds on split payment accounts,
- cash in escrow accounts and current accounts in the part due to construction contract partners.

The Company 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 financial year is reduced by cash of restricted use, and the change is recognised under cash flow from operating activities.

4.12 Financial instruments

<u>Classification and valuation</u>

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 Company,
- 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 the Company 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 Company's own equity instruments. .

Financial assets and financial liabilities are recognised when the Company 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 Company 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 Company 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.

Assets are derecognised when the contractual rights to the underlying cash flow expired or were transferred, and substantially Transactions involving derivative financial instruments are also made to hedge cash flows against FX and interest rate risks.

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.

Budimex does not apply hedge accounting.

As regards transactions on the money, equity or derivatives markets, the Company cooperates with the banks of good financial standing and thus does not contribute to significant credit risk concentration.

Impairment of financial assets

The Company recognises 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 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 the Company 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.

4.13 Equity

Issued capital comprises ordinary shares and is recorded at nominal value (as presented in the Articles of Association and recorded in the National Court Register) adjusted by the effects of hyperinflation for the period in which the Polish economy was hyperinflationary.

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

Other reserves cover the capital established in compliance with Polish statutory requirements, capital established in accordance with the Company's articles of association above the statutory requirement, costs of the Ferrovial SA (note 39) share-based payment plan, actuarial gains/(losses) on retirement benefits and similar obligations, and other items.

Cumulative translation differences comprise the effect of the translation of the financial statement items of a foreign operation of the Company from foreign currencies to PLN.

4.14 Employee benefits

The Company operates retirement severance payment plans and creates provisions for the present value of the underlying liabilities. Payments under these programs are expensed to the profit and loss account so as to ensure the spread of the costs of those benefits over employees' entire working lives at the Company. The value of the provision is determined by an independent actuary using the projected unit credit method. Actuarial gains and losses are recognised in other comprehensive income and not transferred to the profit and loss account.

The Company does not establish a separate fund for future benefits and allowances.

4.15 Share-based payments

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

Pursuant to an agreement executed with Ferrovial SA in 2014, Budimex SA undertook to cover the programme costs with respect to the tranche of instruments granted in 2014 and later on. Therefore, the fair value of the employee services, related to the instruments granted in 2014 and following years, was classified as liabilities (correspondingly as an expense). The fair value of instruments granted in 2010-2013 was recognised under other reserves.

4.16 Provisions

The Company creates provisions for future liabilities of uncertain maturities or amounts. A provision is recognised when:

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

The Company is required to provide guarantees for its construction services. The level of provisions for warranty repairs depends on the specific construction industry segment and may equal from 0.3 per cent to 1.4 per cent of revenues under a given contract. This value is assessed on an individual basis and may be increased or decreased as appropriate. Costs of future warranty repairs are recognised in the costs of products sold.

4.17 Recognition of revenues and expenses

Revenues from contracts with customers are recognised only when all of the following conditions are met:

- the parties have approved the contract and are committed to perform their respective obligations;
- the Company can identify each party's rights regarding the goods or services to be transferred;
- the Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance;
- it is probable that the 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 Company combines 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:

- 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 are a single performance obligation.

The Company accounts 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 stand-alone selling prices of the additional promised goods or services.

The Company recognises revenues when (or as) the Company satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Revenues are recognised as the amounts of the transaction price that is allocated to that performance obligation.

At contract inception, the 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 either 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 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 performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- the performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

It is considered that in the case of construction services provided by the Company, in principle, a single performance obligation arises. Consequently, the issue of allocating the transaction price to a performance obligation 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 Company as the preferred method to measure the value of goods and services transferred to the customers over time is the method of the surveys of work performed or the work progress measurement method (output method), as long as the progress or work can be measured in the course of contract performance.

Therefore, the method of share of costs incurred up to the date of determining revenues in total performance costs (the input method) is applied only where progress cannot be measured reliably using the output method.

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 Company is based on the time that has passed, while the costs are recognised on an accrual basis.

If it is not possible to reasonably measure the outcome of a performance obligation, revenues are recognised only to the extent of the costs incurred that the Company expects to recover.

If a performance obligation is not satisfied over time, it is considered that the Company satisfies the performance obligation at a point in time.

Where it is possible that total contract costs may exceed total contract revenues, in accordance with IAS 37, expected loss (excess of cost over revenues) is recognised as an operating expense and, simultaneously, a provision for onerous contracts (provision for contract losses) is recognised.

Included in assets, under “Valuation of construction contracts”, is the valuation of all construction work in progress, for which revenues recognised exceed progress billings. 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, under “Valuation of construction contracts”, is the valuation of all construction work in progress, for which progress billings exceed recognised revenues. Provisions for contract losses are presented under “Provisions for construction contract losses”. Outstanding amounts due and payable to suppliers, in respect of which the Company received invoices are recognised under “Trade and other payables”, while the amounts kept for suppliers – under “Retentions for construction contracts”.

Incremental costs of obtaining a contract with a customer are recognised as an expense in the reporting period as there is no certainty that they will be recovered.

Contracts concluded with the customer 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 Company is not party to any agreements providing for variable remuneration.

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

Interest income is recorded with respect to the principal amount due, using the effective interest rate method.

Dividend income is recognised upon determining the right of the shareholders to receive the payment.

In accordance with the accruals principle, the Company recognises in the profit and loss account all costs relating to a given reporting period, irrespective of the period in which they were actually settled. Incurred costs that do not relate to a given reporting period are recognised under assets as prepayments (under “trade and other receivables”), while the costs not incurred and relating to a given period are reported as liabilities on account of un-invoiced costs (under “trade and other liabilities”).

4.18 Gross profit/(loss) on sales

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

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

4.19 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 gains and cost of bank commissions and guarantees.

4.20 Taxation (including deferred income 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 of a foreign operation are subject to local tax regulations, account being taken of 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 the carry-forward of unused tax losses, the Company recognises its deferred tax liability and deferred tax assets. 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 taxable profit / tax loss in the future. Deferred tax assets are determined in the amount that is anticipated to be deducted from the income tax in connection with deductible temporary differences, which in the future will cause a decrease in taxable profit / tax losses, and in the amount of carry-forward of unused tax losses. The carrying value of deferred tax assets is reviewed at each reporting date and is appropriately reduced if it is no longer probable that sufficient taxable profit will be available 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. Deferred tax assets and deferred tax liabilities are netted off.

Current tax and deferred tax are included in the profit and loss account, except for items recorded in other comprehensive income or directly in equity. In such situation, current tax and deferred tax are included, as appropriate, in other comprehensive income or directly in equity.

4.21 Value added tax

Revenue, expenses, assets and liabilities are recognised net of the value added tax, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case, it is recognised in the cost of a given asset or as part of the cost item, and
- in the case of receivables and payables, which are recognised inclusive of the VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

4.22 Assessment of tax uncertainties

If in the opinion of the Company it is probable that the tax authority will accept the Company’s approach to a tax matter or a group of tax matters, the Company determines taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into consideration the Company’s taxation approach planned for or used in the Company’s tax return.

If in the opinion of the Company it is improbable that the tax authority will accept the Company’s approach to a tax matter or a group of tax matters, the Company reflects the effect of uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits and tax rates. The Company accounts for this effect determining the most probable scenario – that is a single amount from among possible results.

4.23 Joint arrangements

The Company recognises its interest in joint arrangements depending on their classification. In case of:

- a joint operation – (general partnerships, civil law partnerships – where the partners have rights to their portions of the partnership’s assets and liabilities) – the Company recognises its assets and liabilities (including the share in jointly held/contracted assets and liabilities) and its portion of revenues and costs in its books of account;
- a joint venture – (incorporated companies – where shareholders have rights to the company’s net assets) – the Company recognises its share using the equity method.

5. Key estimates and assumptions

Estimates and assumptions are verified on a continuous basis. These result from previous experience and other factors, including forecast of future events, which are reasonable in the given circumstances.

5.1 Key accounting estimates

The estimates and assumptions regarding the future made by the Management Board are reflected in these financial statements. The actual results may differ from these estimates. The estimates relate, among others, to provisions recognised, valuation of construction contracts, asset impairment write-downs, accruals and deferred income or adopted depreciation and amortisation rates. Significant assumptions made to estimate the above values, other than those described below, are presented in note 4 "Key accounting policies".

Un-invoiced services

The Company performs the majority of construction contracts as the general contractor with extensive support from various subcontractors. Performed construction works are approved by the investor in the process of technical approval and acceptance on the basis of a technical acceptance report and an invoice. At each reporting date, a material part of completed, yet not accepted and un-invoiced by subcontractors, construction projects is recorded. In accordance with the accruals principle, these are recognised by the Company as costs of contracts. The value of costs of completed and un-invoiced projects is determined by technical surveyors on the basis of quantity surveys 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, which are all subject to frequent changes. Regulations regarding these taxes are subject to frequent changes which cause these regulations to be unclear and inconsistent. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and taxpayers. 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 a view on certain matters different to that adopted by the Company as regards interpretations of binding regulations. This, in turn, could have a significant impact on tax liabilities.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR is intended to prevent the creation and use of abusive arrangements to avoid paying taxes in Poland. GAAR defines tax evasion as measures taken primarily for the purpose of achieving a tax benefit which in the given circumstances is contrary to the object and purpose of tax laws. In accordance with GAAR, no tax advantage can be obtained through an arrangement if the arrangement was artificial. Any arrangements involving (i) separation of transactions or operations without a sufficient rationale, (ii) engaging intermediaries where no business or economic rationale exists, (iii) any offsetting elements, and (iv) any arrangements operating in a similar way, may be viewed as an indication of the existence of an abusive arrangement subject to GAAR. The new regulations require considerably more judgement in assessing the tax effects of transactions.

GAAR applies to transactions made after its effective date as well as to transactions executed before the effective date of GAAR but in respect of which benefits were or continue to be derived after that date. Implementation of the above regulations will provide Polish tax inspection authorities with grounds to challenge certain legal arrangements made by taxpayers, including restructuring or reorganisation of corporate groups.

Provisions for costs of future warranty repairs

The Company is required to provide guarantees for its construction services. The level of provisions for warranty repairs depends on the specific construction industry segment and may equal from 0.3 per cent to 1.4 per cent of revenues under a given contract. This value is assessed on an individual basis and may be increased or decreased as appropriate.

Provision for legal proceedings

The Company is a party to litigation proceedings. The Company's Management Board prepares detailed analyses of potential risks relating to the legal cases pending and, based on these, makes decisions concerning the necessity to account for the effects of such proceedings in accounting books, or the amount of the provision.

5.2 Professional judgement in applying accounting policies

Recognition of sales revenues and losses on construction contracts

As described in section 4.17, the Company's preferred method of measuring the value of goods and services that are transferred to customers over time is the output method (method of measurement of completed works). This method requires physical measurements of the construction work performed and allocation of sales prices and unit costs to individual components produced under the contract.

The input method (method of share of costs incurred up to the date of determining revenues in total performance costs) is applied only where progress cannot be measured reliably using the output method. For this method, revenues from construction contracts during the period from the contract date to the reporting date, after deducting revenues that affected the financial result in the previous accounting periods, are determined in proportion to the percentage of construction contract completion, which is measured as the share of the costs incurred from the contract date to the date of determining contract revenue in total contract costs.

Irrespective of the applied method for measuring progress towards complete satisfaction of a performance obligation, the key element enabling valuation of sales revenues are budgets of individual contracts. Twice a year, budgets are subject to regular updates (revisions) based on the current information and are approved by the Management Board. Where budget events are identified that materially affect the contract result, total contract revenues or costs may be updated earlier, i.e. prior to scheduled contract revision date.

Where it is possible that total construction contract costs may exceed total contract revenues, in accordance with IAS 37, expected loss (excess of cost over revenues) is recognised as an operating expense and, simultaneously, a provision for onerous contracts (provision for contract losses) is recognised. The amount of the expected loss is also updated upon revision of the budgets and is the best estimate of the costs that the Company will have to incur in order to complete the given construction contract.

6. Discontinued operations

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

7. Financial risk management

The main financial instruments used by the Company are as follows:

- finance lease, borrowings the objective of which is to obtain funds to finance the operations of the Company,
- trade receivables and trade liabilities as well as other receivables and liabilities, and cash and short-term deposits that arise during the course of normal business activities of the Company,
- derivative instruments such as foreign currency forward contracts and FX options, the purpose of which is to manage currency risk arising from foreign currency construction contracts.

During the course of its business activities, the Company is exposed to various types of financial risk: currency risk, interest rate risk, price risk, credit risk and loss of liquidity risk. The Management Board reviews and determines risk management policies for each of the risk types identified.

Currency risk

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

In accordance with the Company policy, exposure to FX risk is systematically measured both for individual construction contracts (analysis of foreign currency inflows and outflows for the purposes of contracts concluded in foreign currency and foreign currency outflows for the purposes of contracts concluded in domestic currency) and for all contracts in aggregate. It is the Management Board's policy to hedge the net foreign currency exposure on individual contracts. As at 31 December 2018, approx. 93 per cent of the Company's foreign currency exposure from construction contracts was hedged. The Company is also exposed to currency risk from planned future payments in foreign currencies, resulting from concluded agreements for the purchase of fixed assets, where such payments were not hedged against currency risk. Taking these additional planned future payments in foreign currencies, 87 per cent of the Company's foreign currency exposure is hedged.

The Company does not apply hedge accounting.

Currency risk – sensitivity to fluctuations

In order to conduct analysis of sensitivity to fluctuations in exchange rates, on the basis of historical changes in values and the Company's knowledge of and experience in the financial markets, "feasible and possible" fluctuations in exchange rates were assessed at -10 per cent / +10 per cent as at 31 December 2018 and as at 31 December 2017.

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

(all amounts are expressed in PLN thousand)

	Nominal value as at reporting date	Sensitivity to fluctuations as at 31.12.2018	
		Depreciation	Appreciation
		of the Polish zloty against other currencies	
		+10%	-10%
Forward contracts:			
– EUR	36 430	(7 201)	7 201
– USD	335	125	(125)
– CZK	114 300	1 898	(1 898)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	9 857	4 239	(4 239)
– USD	(181)	(68)	68
– GBP	(4)	-	-
– CZK	7	-	-
Gross effect on the result for the period and net assets		**(1 007)**	**1 007**
Deferred tax		191	(191)
Total		**(816)**	**816**

	Nominal value as at reporting date	Sensitivity to fluctuations as at 31.12.2017	
		Depreciation	Appreciation
		of the Polish zloty against other currencies	
		+10%	-10%
Forward contracts:			
– EUR	63 417	(2 076)	2 076
– USD	977	308	(308)
– CZK	191 859	3 120	(3 120)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	12 324	5 140	(5 140)
– USD	(389)	(135)	135
– CZK	22 560	368	(368)
Gross effect on the result for the period and net assets		**6 725**	**(6 725)**
Deferred tax		(1 278)	1 278
Total		**5 447**	**(5 447)**

Interest rate risk

Interest rate risk occurs mainly due to use by the Company of borrowings and finance leases. The above financial instruments are based on floating interest rates and expose the Company to a risk of fluctuations in cash flows. The interest rate risk related to the existing debt was assessed as relatively low from the point of view of its impact on the Company's results. At present, the interest risk management covers both ongoing monitoring of the market situation and debt levels, as well as possible hedging against the risk of fluctuations of market interest rates by way of entering into FX swap transactions (floating rates to fixed rates).

Interest rate risk – sensitivity to fluctuations

In order to conduct an analysis of sensitivity to fluctuations in interest rates, on the basis of historical changes in values and the Company's knowledge of and experience in the financial markets, "feasible and possible" fluctuations in interest rates were assessed at -0.25 pp / +0.25 pp as at 31 December 2018 (as at 31 December 2017 – at -0.5 pp / +0.5 pp) for PLN, at -0.25 pp / +0.25 pp for EUR (as at 31 December 2017 – at the same level), at -0.5 pp / +0.5 pp for USD (as at 31 December 2017 – at -0.75 pp / +0.75 pp) and at -0.5 pp/+0.5 pp for CZK (as at 31 December 2017 – at the same level).

At the same time, a parallel shift of the interest rate curve was assumed for the purpose of the calculation of sensitivity of discount to fluctuations in interest rates.

Presented below is the effect of interest rate fluctuations on the net result and net assets as at 31 December 2018 and 31 December 2017.

(all amounts are expressed in PLN thousand)

	Value as at the reporting date	Sensitivity to fluctuations as at 31.12.2018	
		+25 bp (PLN)/(EUR) +50 bp (USD)/(CZK)	-25 bp (PLN)(EUR) -50 bp (USD)/(CZK)
Borrowings granted (principal)	88 465	221	(221)
Cash at bank (fair value)	1 159 580	2 899	(2 899)
Bank loans and borrowings (principal)	(9 015)	(23)	23
Finance lease liabilities (present value)	(121 234)	(303)	303
Gross effect on the result for the period and net assets		**2 794**	**(2 794)**
Deferred tax		(531)	531
Total		**2 263**	**(2 263)**

	Value as at the reporting date	Sensitivity to fluctuations as at 31.12.2017	
		+50 bp (PLN)/ (CZK) +25 bp (EUR) +75 bp (USD)	-50 bp (PLN)/(CZK) -25 bp (EUR) -75 bp (USD)
Borrowings granted (principal)	75 381	377	(377)
Bonds acquired (value at acquisition price)	278 009	1 390	(1 390)
Cash at bank (fair value)	1 680 359	8 248	(8 248)
Bank loans and borrowings (principal)	(8 694)	(22)	22
Finance lease liabilities (present value)	(63 568)	(318)	318
Gross effect on the result for the period and net assets		**9 675**	**(9 675)**
Deferred tax		(1 838)	1 838
Total		**7 837**	**(7 837)**

In the calculation of sensitivity to interest rates, cash on hand was omitted.

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

Price risk

The Company is exposed to price risk relating to increases in prices of the most popular construction materials such as steel products, including reinforcing bars, rails and other steel goods, aggregates and concrete as well as crude oil derivatives such as petrol, diesel oil, asphalts and 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 products is assessed as high. Increases in prices of construction materials and labour costs may result in higher prices of services rendered to the Company by its subcontractors. Prices set forth in contracts with investors remain fixed over the entire period of contract realisation i.e. most often for a period of 6-36 months, while contracts with subcontractors are made at a later date, as work on an individual contract progresses. The highest risk of raw material price volatility (increases) exists in the case of public procurements because of the lengthy process to select a general contractor. This pertains to the period from placing a bid until the time when the Company is selected and the contract is signed off, as the Company is not always able to undertake other obligations or secure the prices.

In order to limit the price risk, the Company monitors prices of the most needed construction materials on an ongoing basis, while the construction contracts signed include parameters which are appropriately matched and relate, among others, to contract duration and value. The Central Purchase Bureau operating within the Company negotiates master agreements with suppliers of basic construction materials based on the plans of construction works.

Credit risk

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

The trade receivables of the Company are exposed to an increased credit risk.

The Company 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

(all amounts are expressed in PLN thousand)

Prior to contract signing, each business partner is assessed for the capacity to discharge their financial liabilities, taking into account the specificity of each contract. Signing a contract with a party whose payment abilities were assessed negatively depends on establishing adequate financial and property collateral. In addition, in the event of late payments, clauses are included in investor contracts that provide for the right to suspend any work and/or withdraw from the contract. Additionally, in accordance with Article 649 of the Civil Code, at each stage of work the contractor may demand a guarantee of payment for both the work performed and the work remaining to be performed until the end of the contract performance.

No significant credit risk concentration has been identified, as the main customer of the Company is a government agency. The Company is not exposed to significant credit risk to an individual business partner or a group of business partners of similar features. The credit risk relating to liquid assets and derivative financial instruments is limited as the Company cooperates with banks with high credit ratings awarded by reputable international rating agencies.

Except for the data presented in note 45, the carrying amount of financial assets recognised in the financial statements without accounting for losses reflects the maximum exposure of the Company to credit risk, no account being taken of the value of collateral established.

Liquidity risk

In order to mitigate the risk of loss of liquidity, the Company holds appropriate amounts of cash and marketable securities, and enters into agreements on credit facilities which provide additional safeguards against loss of liquidity. To finance its investment purchases, the Company uses own funds or long-term finance lease agreements that ensure the appropriate stability of the financing structure for these types of assets. Liquidity management is supported by the obligatory system by which the Company reports liquidity forecasts.

The maturity structure of liabilities under borrowings and other external sources of finance is presented in note 20. The maturity structure of other financial liabilities is presented in the respective notes.

The current favourable financial situation of the Company as regards its liquidity and availability of external sources of financing does not entail any threats to the further financing of the Company's operations.

8. Capital management

The main objective of the Company's capital management is to maintain good credit rating and safe levels of financial ratios that would support the Company's business operations and increase its value for the shareholders.

The Company manages its capital structure and modifies it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Company may return equity to the shareholders, issue new shares or pay out dividend. In 2018 and 2017, no changes were made to objectives or policies of processes applicable in this area.

The Company monitors the level of equity using a gearing ratio which is calculated as a relation of net debt to total equity increased by net debt. The Company includes in its net debt interest-bearing loans and borrowings and other external sources of finance, trade liabilities, as well as other liabilities (excluding accrued expenses), retentions for construction contracts, valuation of construction contracts, and provisions for construction contract losses, deferred income (except other deferred income) and current tax liabilities less cash and cash equivalents.

	31.12.2018	**31.12.2017**
Interest-bearing borrowings and other external sources of finance	130 253	72 266
Trade and other payables	2 928 998	3 423 776
Less cash and cash equivalents	(1 159 595)	(1 680 371)
Net debt	**1 899 656**	**1 815 671**
Shareholders' equity	606 574	734 176
Equity and net debt	**2 506 230**	**2 549 847**
Gearing ratio	**75.80%**	**71.21%**

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

9. Property, plant and equipment

	- land (including right of perpetual usufruct)	- buildings and constructions	- plant and machinery	- motor vehicles	- other property, plant and equipment	- construction-in-progress	Total
Gross value as at 01.01.2018	**2 876**	**12 019**	**227 264**	**24 875**	**37 232**	**448**	**304 714**
Increases:	**-**	**59**	**69 007**	**19 294**	**5 423**	**372**	**94 155**
– purchase (including acceptance for use under lease contracts)	-	59	68 912	19 279	5 159	704	94 113
– transfer from construction-in-progress	-	-	90	15	227	(332)	-
- other	-	-	5	-	37	-	42
Decreases:	**-**	**(8)**	**(6 938)**	**(1 759)**	**(698)**	**-**	**(9 403)**
– sale	-	-	(5 322)	(1 729)	(10)	-	(7 061)
- liquidation	-	(8)	(1 616)	(30)	(688)	-	(2 342)
Gross value as at 31.12.2018	**2 876**	**12 070**	**289 333**	**42 410**	**41 957**	**820**	**389 466**
Accumulated depreciation as at 01.01.2018	**-**	**(7 391)**	**(142 729)**	**(14 939)**	**(22 457)**	**-**	**(187 516)**
Changes for the period:	**-**	**(994)**	**(22 613)**	**(1 902)**	**(5 417)**	**-**	**(30 926)**
– current depreciation	-	(1 002)	(29 507)	(3 662)	(6 067)	-	(40 238)
– sale	-	-	5 304	1 729	10	-	7 043
- liquidation	-	8	1 594	30	666	-	2 298
– other	-	-	(4)	1	(26)	-	(29)
Accumulated depreciation as at 31.12.2018	**-**	**(8 385)**	**(165 342)**	**(16 841)**	**(27 874)**	**-**	**(218 442)**
Impairment write-downs as at 01.01.2018	**(1 677)**	**-**	**-**	**-**	**-**	**-**	**(1 677)**
– increase	-	-	-	(187)	-	-	(187)
– decrease	-	-	-	-	-	-	-
Impairment write-downs as at 31.12.2018	**(1 677)**	**-**	**-**	**(187)**	**-**	**-**	**(1 864)**
Net value as at 01.01.2018	**1 199**	**4 628**	**84 535**	**9 936**	**14 775**	**448**	**115 521**
Net value as at 31.12.2018	**1 199**	**3 685**	**123 991**	**25 382**	**14 083**	**820**	**169 160**

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

	- land (including right of perpetual usufruct)	- buildings and constructions	- plant and machinery	- motor vehicles	- other property, plant and equipment	- construction-in-progress	Total
Gross value as at 01.01.2017	**2 876**	**11 464**	**186 523**	**20 053**	**31 838**	**8 429**	**261 183**
Increases:	**-**	**691**	**47 877**	**5 663**	**5 887**	**(7 981)**	**52 137**
– purchase (including acceptance for use under lease contracts)	-	691	41 295	4 028	5 771	352	52 137
– transfer from construction-in-progress	-	-	6 582	1 635	116	(8 333)	-
Decreases:	**-**	**(136)**	**(7 136)**	**(841)**	**(493)**	**-**	**(8 606)**
– sale	-	(130)	(4 500)	(809)	(50)	-	(5 489)
- liquidation	-	-	(2 618)	(32)	(377)	-	(3 027)
- other	-	(6)	(18)	-	(66)	-	(90)
Gross value as at 31.12.2017	**2 876**	**12 019**	**227 264**	**24 875**	**37 232**	**448**	**304 714**
Accumulated depreciation as at 01.01.2017	**-**	**(6 576)**	**(128 476)**	**(14 012)**	**(17 774)**	**-**	**(166 838)**
Changes for the period:	**-**	**(815)**	**(14 253)**	**(927)**	**(4 683)**	**-**	**(20 678)**
– current depreciation	-	(852)	(21 335)	(1 768)	(5 134)	-	(29 089)
– sale	-	31	4 493	809	50	-	5 383
- liquidation	-	-	2 577	32	354	-	2 963
– other	-	6	12	-	47	-	65
Accumulated depreciation as at 31.12.2017	**-**	**(7 391)**	**(142 729)**	**(14 939)**	**(22 457)**	**-**	**(187 516)**
Impairment write-downs as at 01.01.2017	**(1 677)**	**-**	**-**	**-**	**-**	**-**	**(1 677)**
– increase	-	-	-	-	-	-	-
– decrease	-	-	-	-	-	-	-
Impairment write-downs as at 31.12.2017	**(1 677)**	**-**	**-**	**-**	**-**	**-**	**(1 677)**
Net value as at 01.01.2017	**1 199**	**4 888**	**58 047**	**6 041**	**14 064**	**8 429**	**92 668**
Net value as at 31.12.2017	**1 199**	**4 628**	**84 535**	**9 936**	**14 775**	**448**	**115 521**

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

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

	2018	2017
Cost of finished goods and services sold	38 709	27 844
Administrative expenses	1 450	1 164
Other costs	79	81
Total	**40 238**	**29 089**

As at 31 December 2018 and 31 December 2017, there was no collateral established on items of property, plant and equipment.

In 2018, the Company did not receive any compensations in respect of fixed assets that were impaired or lost in (in 2017: PLN 134 thousand).

The Company as lessee uses the following items of property, plant and equipment under finance lease agreements:

	31.12.2018		31.12.2017	
	Initial value – capitalised finance lease	Carrying value, net	Initial value – capitalised finance lease	Carrying value, net
Plant and machinery	152 510	108 490	91 147	66 926
Motor vehicles	23 382	20 149	4 987	3 996
Other fixed assets	271	154	271	245
Total	**176 163**	**128 793**	**96 405**	**71 167**

10. Investment properties

	Buildings and constructions	Other	Total
Value as at 01.01.2018	**3 159**	**147**	**3 306**
Increases:	**-**	**-**	**-**
Decreases:	**(123)**	**(5)**	**(128)**
– current depreciation	(123)	(5)	**(128)**
Value as at 31.12.2018	**3 036**	**142**	**3 178**

	Buildings and constructions	Other	Total
Value as at 01.01.2017	**3 283**	**479**	**3 762**
Increases:	**-**	**-**	**-**
Decreases:	**(124)**	**(332)**	**(456)**
– current depreciation	(123)	(11)	**(134)**
– sale	(1)	(321)	**(322)**
Value as at 31.12.2017	**3 159**	**147**	**3 306**

As at 31 December 2018 and 31 December 2017, the Company did not report any significant legal or obligatory charges established on its investment properties.

Depreciation of investment properties 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 and 31 December 2017, the Company did not commission appraisals of investment properties by independent experts in connection with negligible price fluctuations on the market and thus a very low level of probability of impairment of value of the investment properties held. In addition, in 2017 the Company sold investment properties with profit, which indicates that the likelihood of impairment of other properties is low. The fair value measurement of investment properties was classified as level 2 according to IFRS 13.

In 2018, there were no movements between the fair value levels.

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

The Company recognised in the profit and loss accounts the following amounts of income and expenses related with investment properties:

	2018	2017
Rental charge income	756	844
Direct operating expenses (including costs of repair and maintenance) relating to investment properties that generated income on rentals	128	671
Direct operating expenses (including costs of repair and maintenance) relating to investment properties that did not generate income on rentals.	-	-

11. Non-current assets held for sale

As at 31 December 2018 and 31 December 2017, there were no material non-current assets which the Company would intend to sell within the next 12 months.

12. Intangible assets

	Computer software	Total
Gross value as at 01.01.2018	**54 635**	**54 635**
Increases	**3 304**	**3 304**
- purchase	3 021	3 021
- settlement of advance payments	275	275
- foreign exchange differences	8	8
Decreases	**(95)**	**(95)**
- liquidation	(95)	(95)
Gross value as at 31.12.2018	**57 844**	**57 844**
Accumulated depreciation as at 01.01.2018	**(24 698)**	**(24 698)**
Changes for the period:	(5 043)	(5 043)
– current depreciation	(5 133)	(5 133)
- liquidation	95	95
- other	(5)	(5)
Accumulated amortisation as at 31.12.2018	**(29 741)**	**(29 741)**
Net value as at 01.01.2018	**29 937**	**29 937**
Net value as at 31.12.2018	**28 103**	**28 103**

	Computer software	Total
Gross value as at 01.01.2017	**53 249**	**53 249**
Increases	**5 290**	**5 290**
- purchase	3 918	3 918
- settlement of advance payments	1 372	1 372
Decreases	**(3 904)**	**(3 904)**
- liquidation	(3 892)	(3 892)
– other	(12)	(12)
Gross value as at 31.12.2017	**54 635**	**54 635**
Accumulated amortisation as at 01.01.2017	**(23 542)**	**(23 542)**
Changes for the period:	(1 156)	(1 156)
– current depreciation	(5 046)	(5 046)
- liquidation	3 881	3 881
- other	9	9
Accumulated amortisation as at 31.12.2017	**(24 698)**	**(24 698)**
Net value as at 01.01.2017	**29 707**	**29 707**
Net value as at 31.12.2017	**29 937**	**29 937**

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

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	546	658
Administrative expenses	4 547	4 359
Other costs	40	29
Total	**5 133**	**5 046**

The Company does not hold any internally developed intangible assets.

As at 31 December 2018 and 31 December 2017, the Company did not report any significant legal or obligatory charges established on its intangible assets. No impairment write-downs against intangible assets were made in the years 2018 and 2017.

13. Joint arrangements

13.1. Jointly controlled entities

The financial data of Budimex SA as at 31 December 2018 and 31 December 2017 contain values attributable to the Company in connection with the shares in the following jointly controlled entities which in accordance with IFRS 11 are treated as joint operation (the Company's share in joint arrangements is recognised as joint operation where the Company has rights to its portion of assets and liabilities):

- "Development of the landing area in the Frederic Chopin Airport – conversion and development of PSS 2, PPS 4, PPS 6 (including DK D1), reconstruction of the runway strip and development of the taxiway" performed by the partnership Budimex SA – Budimex Budownictwo Sp. z o.o. s.c.; the share of Budimex SA in this partnership is 99.98 per cent (contract completed in 2015),
- "Construction and modernisation of a sewage treatment plant in Gorzów Wielkopolski" performed by the partnership Budimex SA – Cadagua SA s.c.; the share of Budimex SA in this partnership was 99.99 per cent as at 31 December 2018 and 50 per cent as at 31 December 2017 (contract completed in 2015),
- "Modernisation of the DS.-1 runway, taxi roads, patrol and safety-exit roads in the Warsaw Chopin Airport" performed by the partnership Budimex SA – Ferrovial Agroman SA s.c.; the share of Budimex SA in this partnership was 99.98 per cent (contract completed in 2011),
- "Construction of premises for Transmission System Operator" performed by the partnership Budimex SA Sygnity SA Sp.j.; the share of Budimex SA in the partnership was 67 per cent (contract completed in 2009),
- Phase I of the contract "Design and construction of A-1 Motorway Stryków-Pyrzowice" performed by the partnership Budimex SA Ferrovial Agroman SA Sp. j.; the share of Budimex SA in the partnership was 50 per cent,
- "Construction of a new power unit at Turów Power Plant" performed by the partnership Budimex SA – Técnicas Reunidas SA – Turów s.c.; the share of Budimex SA in the partnership was 50 per cent,
- "Modernisation of an initial ozonation system at the Northern Plant of the Municipal Water and Sewerage Company" performed by the partnership Budimex SA – Cadagua SA III s.c.; the share of Budimex SA in the partnership was 99.99 per cent as at 31 December 2018 and 60 per cent as at 31 December 2017 (contract competed in 2018),
- "Modernisation of the Northern Plant — stage II. "Modernisation of the Northern Plant — stage II. Modernisation of rapid sand filters" performed by the partnership Budimex SA – Cadagua SA IV s.c.; the share of Budimex SA in the partnership was 99.99 per cent as at 31 December 2018 and 60 per cent as at 31 December 2017,
- "Modernisation of the Northern Plant — stage II. "Modernisation of the pumping station" performed by the partnership Budimex SA – Cadagua SA V s.c.; the share of Budimex SA in the partnership was 99.99 per cent as at 31 December 2018 and 60 per cent as at 31 December 2017.

The above listed entities are under joint control, as unanimity of all partners is required in matters concerning their activities.

On 3 September 2018 the agreement between Budimex and Cadagua SA entered into force, including arrangements for reducing the share of Cadagua SA in jointly controlled entities, i.e. Budimex SA Cadagua SA II S.C., Budimex SA Cadagua SA III S.C., Budimex SA Cadagua SA IV, Budimex SA Cadagua SA V S.C. up to the level of 0.1 per cent share in each partnership.

No future investment commitments relating to these contracts were recorded.

Furthermore, the Company holds a 50 per cent share in the following partnerships: Budimex SA Energetyka 1 Sp.j., Budimex SA Energetyka 2 Sp.j., Budimex SA Energetyka 3 Sp.j. and a 95 per cent share in Budimex SA Ferrovial Agroman SA 2 s.c., which were established for the purpose of preparing bids, and concluding and implementing construction contracts, but none of these companies was implementing a construction contract as at the date of drafting these financial statements of the Company.

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

Presented below is selected financial data recognised in the books of account of the Company as at 31 December 2018 and 31 December 2017 relating to the contracts realised by special purpose companies:

Statement of Financial Position data:	**31.12.2018**	**31.12.2017**
Non-current assets	4 780	7 273
Current assets	244 287	222 347
Liabilities and provisions for liabilities	206 320	166 192
Contingent liabilities	158 416	175 503

Profit and Loss Account:	**2018**	**2017**
Revenues	266 693	273 413
Costs	346 570	270 790

13.2. Jointly controlled business

As at 31 December 2018 and 31 December 2017, the Company was a party to consortium agreements on the performance of construction contracts. Revenues and expenses, assets and liabilities relating to the performance of these contracts in the part allocated to Budimex SA were appropriately accounted for in the Company's books. The contingent liabilities underlying these projects included performance bonds and guarantees to return contract prepayments received, and were recorded in the total balance of contingent liabilities reported in the financial statements. No future investment commitments relating to these contracts were recorded.

List of consortia with Budimex SA's share as at 31.12.2018:

Contract name	**Company share in the consortium**
Further construction of the A4 motorway: Rzeszów - Jarosław	52%
West Ring Road of Łódź S14	50%
Expressway S5 Korzeńsko – Widawa	49%
Construction of Siedlce Oncology Center	34%
Redevelopment of a barracks building – change	33%
Works on the ring road in Warsaw	31%
Redevelopment of the "Start Lublin" Stadium	25%
Modernisation of a Railway Station in Olszamowice	15%

Presented below is selected financial data recognised in the books of account of the Company as at 31 December 2018 and 2017 relating to the contracts realised by consortia:

Statement of Financial Position data:	**31.12.2018**	**31.12.2017**
Non-current assets	1 238	809
Current assets	143 719	277 890
Liabilities and provisions for liabilities	51 924	160 300
Contingent liabilities	**59 493**	**91 495**

Profit and Loss Account:	**2018**	**2017**
Revenues	53 190	122 916
Costs	56 148	63 908

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

14. Investments in subsidiaries, associates and other entities

	31.12.2018	31.12.2017
Investments in subsidiaries	**690 544**	**727 827**
- shares or equities	690 544	727 827
Investments in associates	**61 246**	**61 246**
- shares or equities	61 246	61 246
Investments in other entities	**6 417**	**6 417**
- shares or equities in other related parties	4 292	4 292
- shares or equities in other entities	2 125	2 125
Total	**758 207**	**795 490**

Shares and equities in subsidiaries, associates and other entities are measured at historical cost less impairment losses, except for investments in shares or equities in other non-related entities.

As at 31 December 2017, shares or equities in other non-related entities were classified as available-for-sale financial assets in accordance with IAS 39. Following the initial application of IFRS 9, as of 1 January 2018 these investments were classified as financial assets measured at fair value through profit or loss. Due to the fact that it is not possible to determine the fair value of these assets (they are not listed), it was assumed that the most reliable recognition is the book value. Thus, the method of measurement of these assets has not changed.

As at 31 December 2018 and 31 December 2017, there were no legal or obligatory charges established on investments in subsidiaries, associates and other entities.

Change in balance of investments in subsidiaries, associates and other entities

Shares or equities	**31.12.2018**	**31.12.2017**
Opening balance	**795 490**	**792 136**
Increases:	**7 060**	**3 354**
- purchase / capital increase / contribution to newly established companies	7 060	3 354
Decreases:	**(44 343)**	**-**
- disposal of shares	(43 661)	-
- write-down (impairment of investments)	(682)	-
Total	**758 207**	**795 490**

During 2018, an impairment write-down on shares in the subsidiary Budimex Autostrada SA in liquidation was recognised in the amount of PLN 682 thousand (the company did not disclose any assets in the liquidation report). The formal liquidation of the company closed on 24 October 2018, when the General Shareholders' Meeting of the company adopted a resolution to complete the liquidation of the company. This fact was not entered in the National Court Register as at 31 December 2018, therefore Budimex SA recognised a write-down on the full amount of the investment in this entity. In 2017, the Company did not recognise impairment write-downs on investments in subsidiaries, associates and other entities.

Due to the announced intention of Budimex SA to purchase the remaining 51 per cent of shares in FBSerwis SA and the independent valuation of assets of the FBSerwis Group carried out by an independent expert, no risk of impairment of the equity-accounted investment in this company has been identified.

The balance of such write-downs amounted to PLN 77 058 thousand as at 31 December 2018 and PLN 76 376 as at 31 December 2017.

Purchase of shares in indirect subsidiaries / capital increase / newly established companies

In April 2018, 2 newly established companies were entered in the National Court Register: Budimex K Sp. z o.o. and Budimex L Sp. z o.o. These companies are direct subsidiaries of Budimex SA. The total share capital contributed to these companies amounted to PLN 100 thousand.

In July and August 2018, Budimex PPP SA, a direct subsidiary of Budimex SA, sold to Budimex SA shares in 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. for a total of PLN 950 thousand. The tax on transactions under civil law amounted to PLN 10 thousand.

As at 31 December 2018, *Investments in subsidiaries* included payments to increase equity in a subsidiary, Budimex Kolejnictwo SA, in the amount of PLN 6 thousand. These payments were not registered in the National Court Register as at 31 December 2018.

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

Sale of shares in subsidiaries

On 17 September 2018, Budimex SA concluded with PG Energetyka Sp. z o.o. a contract for the sale of 5 351 890 shares in Elektromontaż Poznań SA, representing 98.95 per cent of the share capital and carrying 98.95 per cent of votes at the general meeting of the company. The buyer paid PLN 64 990 thousand for the shares sold. On the same day, Budimex SA concluded with Raven 9 Sp. z o.o. a contract for the sale of 354 224 740 shares in Biuro Inwestycji "Grunwald" SA, representing 98.95 per cent of the share capital and carrying 98.95 per cent of votes at the general meeting of the company. The buyer paid PLN 43 078 thousand for the shares sold. The total carrying amount of the shares of both companies sold amounted to PLN 40 892 thousand and the gain on the transaction amounted to PLN 67 176 thousand.

On 29 October 2018, the agreement concluded by Budimex SA for the sale of 55 370 shares in Budimex Parking Wrocław Sp. z o.o., representing 49 per cent of the share capital and carrying 49 per cent of votes at the meeting of shareholders, entered into force. The sale price of the shares was PLN 12 600 thousand. The carrying amount of the shares sold amounted to PLN 2 769 thousand and the gain on the transaction amounted to PLN 9 831 thousand. The Company incurred costs of 16 thousand PLN. These costs were deducted from the gain on the sale of shares.

Shares in other non-related parties

Company name	registered office	area of business activities	carrying value of shares/equities
Autostrada Wielkopolska SA	Poznań	construction and management of motorways	2 033
Drogowa Trasa Średnicowa SA	Katowice	construction	52
Agencja Rozwoju Regionu Krakowskiego SA	Kraków	services	30
Agencja Rozwoju Regionalnego SA	Bielsko-Biała	services	6
Megagaz SA	Warsaw	construction	1
Górnicza Spółdzielnia Mieszkaniowa	Cieszyn	property management	-
Other	-	-	3
Total			**2 125**

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

SHARES OR EQUITIES IN RELATED PARTIES as at 31.12.2018

Company name	Registered office	Area of business activities	Nature of relationship	Purchase price of shares/equities	Revaluation adjustments (total)	Carrying value of shares/equities	Percentage of issued capital held	Share in the total number of votes at GM
Budimex Nieruchomości Sp. z o.o.	Warsaw	development activities	subsidiary	717 519	(54 913)	662 606	100.00%	100.00%
Budimex Kolejnictwo SA	Warsaw	construction	subsidiary	14 001	(5 054)	8 947	100.00%	100.00%
Mostostal Kraków SA	Kraków	production and assembly of steel structures	subsidiary	11 156	-	11 156	100.00%	100.00%
Budimex PPP SA	Warsaw	construction	subsidiary	1 395	-	1 395	100.00%	100.00%
Budimex Budownictwo Sp. z o.o.	Warsaw	construction	subsidiary	1 810	-	1 810	100.00%	100.00%
Budimex Autostrada SA (w likwidacji)	Warsaw	construction	subsidiary	682	(682)	-	100.00%	100.00%
Budimex Most Wschodni SA	Warsaw	construction	subsidiary	342	-	342	100.00%	100.00%
Budimex A Sp. z o.o.	Warsaw	construction	subsidiary	225	-	225	100.00%	100.00%
Budimex C Sp. z o.o.	Warsaw	construction	subsidiary	228	-	228	100.00%	100.00%
Budimex D Sp. z o.o	Warsaw	construction	subsidiary	227	-	227	100.00%	100.00%
Budimex F Sp. z o.o	Warsaw	construction	subsidiary	177	-	177	100.00%	100.00%
Budimex H Sp. z o.o	Warsaw	construction	subsidiary	126	-	126	100.00%	100.00%
Budimex I Sp. z o.o.	Warsaw	construction	subsidiary	126	-	126	100.00%	100.00%
Budimex J Sp. z o.o.	Warsaw	construction	subsidiary	76	-	76	100.00%	100.00%
Budimex K Sp. z o.o	Warsaw	construction	subsidiary	50	-	50	100.00%	100.00%
Budimex L Sp. z o.o.	Warsaw	construction	subsidiary	50	-	50	100.00%	100.00%
Budimex Bau GmbH	Cologne / Germany	construction	subsidiary	120	-	120	100.00%	100.00%
MK Logistic Sp. z o.o. (w likwidacji)	Zabrze	transportation services	subsidiary	26	(26)	-	100.00%	100.00%
Dromex Oil Sp. z o.o. (w likwidacji)	Warsaw	construction	subsidiary	2 175	(2 175)	-	98.00%	98.00%
Budimex Parking Wrocław Sp. z o.o.	Warsaw	car park management	subsidiary	2 883	-	2 883	51.00%	51.00%
Subsidiaries in total				**753 394**	**(62 850)**	**690 544**		
FB Serwis SA	Warsaw	urban waste management	associate	61 055	-	61 055	49.00%	49.00%
Promos Sp. z o.o.	Kraków	industrial services	associate	191	-	191	26.31%	26.31%
Associates in total				**61 246**	**-**	**61 246**		
Budimex SA Ferrovial Agroman SA s.c.	Warsaw	construction	jointly controlled	-	-	-	99.98%	99.98%
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	Warsaw	construction	jointly controlled	-	-	-	99.98%	99.98%
Budimex SA Cadagua SA II s.c.	Warsaw	construction	jointly controlled	-	-	-	99.90%	99.90%
Budimex SA Cadagua SA III s.c.	Warsaw	construction	jointly controlled	-	-	-	99.90%	99.90%
Budimex SA Cadagua SA IV s.c.	Warsaw	construction	jointly controlled	-	-	-	99.90%	99.90%
Budimex SA Cadagua SA V s.c.	Warsaw	construction	jointly controlled	-	-	-	99.90%	99.90%
Budimex SA Ferrovial Agroman SA 2 s.c.	Warsaw	construction	jointly controlled	-	-	-	95.00%	95.00%
Budimex SA Sygnity SA Sp.j.	Warsaw	construction	jointly controlled	-	-	-	67.00%	67.00%
PKZ Budimex GmbH	Cologne / Germany	construction	jointly controlled	50	(50)	-	50.00%	50.00%
Budimex SA Ferrovial Agroman S.A. Sp.j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex S.A. Tecnicas Reunidas S.A. - Turów s.c.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 1 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 2 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 3 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Jointly controlled entities in total				**50**	**(50)**	**0**		
Autostrada Południe SA	Warsaw	construction and exploitation of motorways	other related party	4 292	-	4 292	5.05%	5.05%
Inversora de Autopistas del Levante S.L.	Madrid	construction and exploitation of motorways	other related party	12 404	(12 404)	-	3.16%	3.16%
Other related parties in total				**16 696**	**(12 404)**	**4 292**		
Total				**831 386**	**(75 304)**	**756 082**		

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

SHARES OR EQUITIES IN RELATED PARTIES as at 31.12.2017

Company name	Registered office	Area of business activities	Nature of relationship	Purchase price of shares/equities	Revaluation adjustments (total)	Carrying value of shares/equities	Percentage of issued capital held	Share in the total number of votes at GM
Budimex Nieruchomości Sp. z o.o.	Warsaw	development activities	subsidiary	717 519	(54 913)	662 606	100.00%	100.00%
Budimex Kolejnictwo SA	Warsaw	construction	subsidiary	8 001	(5 054)	2 947	100.00%	100.00%
Mostostal Kraków SA	Kraków	production and assembly of steel structures	subsidiary	11 156	-	11 156	100.00%	100.00%
Budimex Parking Wrocław Sp. z o.o.	Warsaw	car park management	subsidiary	5 652	-	5 652	100.00%	100.00%
Budimex PPP SA	Warsaw	construction	subsidiary	1 395	-	1 395	100.00%	100.00%
Budimex Budownictwo Sp. z o.o.	Warsaw	construction	subsidiary	1 810	-	1 810	100.00%	100.00%
Budimex Autostrada SA (w likwidacji)	Warsaw	construction	subsidiary	682	-	682	100.00%	100.00%
Budimex Most Wschodni SA	Warsaw	construction	subsidiary	342	-	342	100.00%	100.00%
Budimex A Sp. z o.o.	Warsaw	construction	subsidiary	225	-	225	100.00%	100.00%
Budimex Bau GmbH	Cologne / Germany	construction	subsidiary	120	-	120	100.00%	100.00%
MK Logistic Sp. z o.o. (w likwidacji)	Zabrze	transportation services	subsidiary	26	(26)	-	100.00%	100.00%
Budimex Inwestycje „Grunwald” SA	Poznań	development activities	subsidiary	100	-	100	100.00%	100.00%
Dromex Oil Sp. z o.o. (w likwidacji)	Warsaw	construction	subsidiary	2 175	(2 175)	-	98.00%	98.00%
Elektromontaż Poznań SA	Poznań	wiring services	subsidiary	40 792	-	40 792	98.95%	98.95%
Subsidiaries in total				**789 995**	**(62 168)**	**727 827**		
FB Serwis SA	Warsaw	urban waste management	associate	61 055	-	61 055	49.00%	49.00%
Promos Sp. z o.o.	Kraków	industrial services	associate	191	-	191	26.31%	26.31%
Associates in total				**61 246**	**-**	**61 246**		
Budimex SA Ferrovial Agroman SA s.c.	Warsaw	construction	jointly controlled	-	-	-	99.98%	99.98%
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	Warsaw	construction	jointly controlled	-	-	-	99.98%	99.98%
Budimex SA Ferrovial Agroman SA 2 s.c.	Warsaw	construction	jointly controlled	-	-	-	95.00%	95.00%
Budimex SA Sygnity SA Sp. j.	Warsaw	construction	jointly controlled	-	-	-	67.00%	67.00%
Budimex SA Cadagua SA III s.c.	Warsaw	construction	jointly controlled	-	-	-	60.00%	60.00%
Budimex SA Cadagua SA IV s.c.	Warsaw	construction	jointly controlled	-	-	-	60.00%	60.00%
Budimex SA Cadagua SA V s.c.	Warsaw	construction	jointly controlled	-	-	-	60.00%	60.00%
PKZ Budimex GmbH	Cologne / Germany	construction	jointly controlled	50	(50)	-	50.00%	50.00%
Budimex SA Ferrovial Agroman S.A. Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Cadagua SA II s.c.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex S.A. Tecnicas Reunidas S.A. - Turów s.c.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 1 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 2 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Budimex SA Energetyka 3 Sp. j.	Warsaw	construction	jointly controlled	-	-	-	50.00%	50.00%
Jointly controlled entities in total				**50**	**(50)**	**0**		
Autostrada Południe SA	Warsaw	construction and exploitation of motorways	other related party	4 292	-	4 292	5.05%	5.05%
Inversora de Autopistas del Levante S.L.	Madrid	construction and exploitation of motorways	other related party	12 404	(12 404)	-	3.16%	3.16%
Other related parties in total				**16 696**	**(12 404)**	**4 292**		
Total				**867 987**	**(74 622)**	**793 365**		

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

15. Other financial assets/liabilities

		Note	31.12.2018	31.12.2017
FINANCIAL ASSETS				
Financial assets measured at amortised cost (IFRS 9) / Loans and receivables (IAS 39)				
Retentions for construction contracts		27	126 856	100 991
Valuation of construction contracts		25	552 306	472 740
Trade and other receivables*		16	733 306	575 271
Other financial assets (loans granted)		15.2	88 469	75 668
Financial assets measured at fair value through profit or loss (IFRS 9)/ (IAS 39)				
Cash and cash equivalents	*level 2 of the fair value hierarchy according to IFRS 13*	18	1 159 595	1 680 371
Other financial assets (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	15.1	4 455	11 580
Investments in other entities *(shares in other non-related entities)*	*level 3 of the fair value hierarchy according to IFRS 13*	14	2 125	-
Available-for-sale financial assets (IAS 39) *(shares in other entities)*		14	-	2 125
Financial assets held to maturity (IAS 39) – Other financial assets (bonds)		15.3	-	278 972
Closing balance			**2 667 112**	**3 197 718**

		Note	31.12.2018	31.12.2017
FINANCIAL LIABILITIES				
Financial liabilities measured at amortised cost (IFRS 9 / IAS 39)				
Trade and other payables**		21	1 384 995	1 340 108
Retentions for construction contracts		27	418 884	399 586
Loans, borrowings and other sources of finance		20	130 253	72 266
Financial liabilities measured at fair value through profit or loss (IFRS 9/ IAS 39)				
Other financial liabilities (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	15.1	680	6 866
Closing balance			**1 934 812**	**1 818 826**

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

** the amount includes trade liabilities, un-invoiced costs, payroll, consortia settlements as well as accruals and prepayments related to unused holidays and employee bonuses.

During the 12 months ended 31 December 2018 and 31 December 2017, there was no transfer between Level 1 and Level 2 of the fair value hierarchy, and no transfer into and out of Level 3 of the fair value hierarchy.

Investments in other entities measured at Level 3 are in fact measured at historical cost because there is no active market for these assets (see note 14).

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

Income, costs, gains and losses recognised in the profit and loss account classified into financial instrument categories

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

	Financial assets at fair value through profit or loss since initial recognition	Financial assets at amortised cost	Financial liabilities at fair value through profit or loss since initial recognition	Financial liabilities at amortised cost	Total
Interest income / (expense)	10 103	7 038	-	878	**18 019**
Foreign exchange gains / (losses)	1 688	398	-	(2 234)	**(148)**
Reversal / (creation) of impairment write-downs	-	(14 649)	-	-	**(14 649)**
Write-off of time-barred liabilities	-	-	-	2 759	**2 759**
Valuation gains / (losses)	(5 152)	(1 166)	3 029	2 335	**(954)**
Gains / (losses) from disposal / realisation of financial instruments	5 640	-	(2 968)	-	**2 672**
Total	**12 279**	**(8 379)**	**61**	**3 738**	**7 699**

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

	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Interest income / (expense)	-	17 344	3 353	2 482	-	2 025	**25 204**
Foreign exchange gains / (losses)	-	(2 537)	-	(211)	-	2 706	**(42)**
Reversal / (creation) of impairment write-downs	-	-	-	1 390	-	-	**1 390**
Valuation gains / (losses)	-	9 818	-	(2 018)	(5 381)	3 360	**5 779**
Gains / (losses) from disposal / realisation of financial instruments	-	(1 312)	-	-	(438)	-	**(1 750)**
Total	**-**	**23 313**	**3 353**	**1 643**	**(5 819)**	**8 091**	**30 581**

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

15.1. Derivative instruments

The Company enters into derivative transactions in order to hedge against FX risk. Policies relating to the use of derivative instruments are presented in the risk management policy approved by the Management Board as described in detail in note 7.

Derivative instruments are measured as at the balance sheet date at a reliably determined fair value. The fair value of derivative instruments is estimated using a model based, among others, on currency exchange rates (average NBP rates) prevailing on the reporting date and on differences in interest rates of the quotations and base currencies.

The effects of the periodic valuation of derivative instruments as well as gains and losses determined as at the settlement date are taken to other income or operating expenses of the reporting period, as appropriate.

The fair value and changes in valuation of transactions concluded by the Company and open as at 31 December 2018 and 31 December 2017 are presented in the tables below:

	Financial assets arising from valuation of derivative instruments		Financial liabilities arising from valuation of derivative instruments	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
FX forward contracts, of which:	4 455	11 580	680	6 866
- up to 1 year	*4 455*	*7 030*	*680*	*6 153*
- 1-2 years	-	*4 550*	-	*713*
Total	**4 455**	**11 580**	**680**	**6 866**

As at 31 December 2018, the total nominal value of FX forward contracts amounted to EUR 36 430 thousand, USD 335 thousand and CZK 114 300 thousand. As at 31 December 2018, the Company had no FX options concluded.

As at 31 December 2017, the total nominal value of FX forward contracts amounted to EUR 63 417 thousand and USD 977 thousand and CZK 191 859 thousand. As at 31 December 2017, the Company had no FX options concluded.

Forward selling/buying rates for transactions open as at 31 December 2018 were in the EUR/PLN 4.2552-4.7035, USD/PLN 3.7712-3.7880 and CZK/PLN 0.1661-0.1732 range (as at 31 December 2017: EUR/PLN 4.2105-4.7035, USD/PLN 3.5349-4.0927 and CZK/PLN 0.1667-0.1732).

Forward contracts open as at 31 December 2018, concluded in EUR, are to be settled within 31-346 days, while as at 31 December 2017 it was 25-711 days.

Forward transactions open as at 31 December 2018, concluded in USD, are to be settled within 31-150 days, while as at 31 December 2017 it was 25-270 days.

Forward transactions open as at 31 December 2018, concluded in CZK, are to be settled within 31-241 days, while as at 31 December 2017 it was 25-606 days.

As at 31 December 2018 and 31 December 2017, the Company did not apply hedge accounting.

As at 31 December 2017, derivative instruments were classified as “assets/liabilities at fair value through profit or loss” (in accordance with IAS 39). The initial application of IFRS 9 did not change either the classification of assets/liabilities or their measurement.

Profit / (loss) on derivative financial instruments

The effects of the periodic valuation and settlement of FX forward contracts and FX options are reported in the profit and loss account as part of operating business.

	2018	**2017**
Gains / (losses) on valuation of FX forward derivative financial instruments and FX options	(2 123)	4 437
Gains / (losses) on realisation of FX forward derivative financial instruments and FX options	2 672	(1 750)
Total gains / (losses) on derivative instruments recognised as part of operating business (note 32)	**549**	**2 687**

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

15.2. Loans granted

Loans granted – long-term	31.12.2018	31.12.2017
Opening balance	**65 834**	**15 733**
Increases:	15 836	**61 586**
- loans granted	10 780	56 953
- accrued interest	4 141	2 498
- capitalisation of interest	915	2 135
Decreases:	**(5 801)**	**(11 485)**
- repayment of loans	-	-
- payment of interest on loans	(3 070)	(157)
- reclassification to short-term loans	(1 816)	(9 193)
- other	(915)	(2 135)
Total	**75 869**	**65 834**

Loans granted – short-term	31.12.2018	31.12.2017
Opening balance	**9 834**	**-**
Increases:	**25 567**	**57 034**
- loans granted	23 300	47 300
- accrued interest	451	541
- reclassification from long-term loans	1 816	9 193
Decreases:	**(22 801)**	**(47 200)**
- repayment of loans	(21 911)	(46 636)
- payment of interest on loans	(890)	(564)
Total	**12 600**	**9 834**

As at 31 December 2018, the balance of long-term loans granted comprises:

- a loan granted to Budimex Parking Wrocław Sp. z o.o. (a subsidiary of Budimex SA) under an agreement dated 19 December 2012. As at 31 December 2018, the value of tranches disbursed under the loan agreement was PLN 889 thousand, capitalised interest amounted to PLN 788 thousand and interest accrued amounted to PLN 4 thousand. The effective interest rate was 4.87 per cent in 2018 and 4.85 per cent in 2017. The loan repayment date is 19 December 2032,
- a loan in the amount of PLN 43 thousand granted to a subsidiary, Budimex Bau GmbH, under an agreement dated 15 January 2015. In 2018 and 2017, the effective interest rate of the loan denominated in EUR was 3.00 per cent. The loan repayment date is 18 January 2020,
- a loan granted to FBSerwis SA (an associate of Budimex SA) under an agreement dated 4 January 2016, up to the amount of PLN 13 720 thousand. As at 31 December 2018, the value of tranches disbursed under the loan agreement was PLN 12 103 thousand and capitalised interest amounted to PLN 618 thousand. The effective interest rate was 5.72 per cent in 2018 (5.73 per cent in 2017). The loan repayment date is 4 January 2021.
- a loan granted to FBSerwis SA (an associate of Budimex SA) under an agreement dated 24 March 2015, up to the amount of PLN 3 969 thousand. As at 31 December 2018, the value of tranches disbursed under the loan agreement was PLN 294 thousand and capitalised interest amounted to PLN 13 thousand. The effective interest rate was 5.72 per cent in 2018 (5.73 per cent in 2017). The loan repayment date is 24 March 2020.
- a loan granted to FBSerwis SA (an associate of Budimex SA) under an agreement dated 30 May 2017, up to the amount of PLN 78 400 thousand. As at 31 December 2018, the value of tranches disbursed under the loan agreement was PLN 58 699 thousand and capitalised interest amounted to PLN 2 418 thousand. The effective interest rate was 5.72 per cent in 2018 (5.73 per cent in 2017). The loan repayment date is 26 May 2020.

As at 31 December 2018, the balance of short-term loans granted comprises:

- a loan granted to a subsidiary, Budimex Nieruchomości SA, under an agreement dated 18 April 2017, up to the amount of PLN 100 000 thousand. As at 31 December 2018, the value of tranches disbursed under the loan agreement was PLN 12 600 thousand. The effective interest rate was 3.84 per cent in 2018 (3.86 per cent in 2017). The loan repayment date is 29 June 2019.

The fair value of the loans granted is approximately the same as their carrying value.

As at 31 December 2017, loans granted were classified as "loans and receivables" (in accordance with IAS 39). Following the initial application of IFRS 9, as of 1 January 2018 loans granted were classified as financial assets measured at amortised cost. The method of measurement of these assets has not changed.

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

15.3. Investments in debt instruments

During 2017, the Company 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 Company. The value of bonds held by the Company 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 per cent 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 (in accordance with IAS 39). Following the initial application of IFRS 9, as of 1 January 2018 bonds issued by banks were classified as financial assets measured at amortised cost. The method of measurement of these assets has not changed.

Since they are short-term financial instruments, as at 31 December 2017 their fair value approximated the carrying amount presented in the statement of financial position.

In 2018, the Company acquired further tranches of short-term unlisted bonds of Polish mortgage banks (holding long-term investment rating) with a total value of PLN 238 868 thousand. At maturity, the banks redeemed the bonds for PLN 516 877 thousand, paying PLN 3 123 thousand in interest.

As at 31 December 2018, the Company held no bonds issued by banks.

16. Trade and other receivables

Long-term trade and other receivables	31.12.2018	31.12.2017
Prepayments and accruals	21 807	18 124
Total receivables, net	**21 807**	**18 124**
impairment write-down against receivables	-	-
Total receivables, gross	**21 807**	**18 124**

Short-term trade and other receivables	31.12.2018	31.12.2017
Trade receivables	721 011	549 318
Advances made	43 242	41 041
Prepayments and accruals	25 464	22 023
Other receivables	12 295	25 953
Total receivables, net	**802 012**	**638 335**
impairment write-down against receivables	127 917	124 503
Total receivables, gross	**929 929**	**762 838**

Prepayments and accruals	31.12.2018	31.12.2017
Insurance	6 266	5 063
Costs of contracts to be settled over time	15 418	12 267
Other	123	794
Long-term in total	**21 807**	**18 124**
Insurance	13 372	10 872
Costs of contracts to be settled over time	6 957	7 244
Other	5 135	3 907
Short-term in total	**25 464**	**22 023**

There is no credit risk concentration in respect of trade receivables as the Company's main customer is a government agency.

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

As at 31 December 2018 and 31 December 2017, no collateral was established on these assets.

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

Change in balance of impairment write-downs against receivables	31.12.2018	31.12.2017
Opening balance of impairment write-downs against receivables according to IAS 39	**-**	**127 594**
Opening balance of impairment write-downs against receivables according to IFRS 9	**124 503**	**-**
Increases:	**16 463**	**2 413**
- doubtful and overdue receivables (note 32)	16 078	2 388
- write-offs of receivables not covered by impairment write-downs (note 32)	73	25
- valuation of impairment write-downs in foreign operations	312	-
Decreases:	**(13 049)**	**(5 504)**
- repayment of debts by debtors (note 32)	(900)	(2 952)
- write-offs of receivables covered by impairment write-downs	(12 076)	(2 077)
- receivables written off with no write-downs	(73)	(25)
- valuation of impairment write-downs in a foreign operation	-	(450)
Closing balance of impairment write-downs against receivables according to IAS 39	**-**	**124 503**
Closing balance of impairment write-downs against receivables according to IFRS 9	**127 917**	**-**

Starting from 2018, following the initial application of IFRS 9, impairment losses on trade and other receivables are measured at the amount of the lifetime expected credit losses of a financial asset.

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

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

Budimex SA 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 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 Company does not 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'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 Budimex SA 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.

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

The cost of receivables impairment write-down is analysed 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.

Ageing of trade receivables

	31.12.2018	31.12.2017
Trade receivables, due:		
- within 1 month after year end	420 623	344 720
- within 1 to 3 months after year end	146 932	83 838
- within 3 to 6 months after year end	2 210	366
- within 6 to 12 months after year end	13 177	7 128
- within over 1 year after year end	-	13 922
- past due receivables	232 193	190 718
Trade receivables, gross	**815 135**	**640 692**
Impairment write-downs against receivables	94 124	91 374
Trade receivables, net	**721 011**	**549 318**

17. Inventories

	31.12.2018	31.12.2017
- raw materials	295 885	234 441
- semi-finished goods and work in progress	12 500	7 662
Net book value of inventories – closing balance	**308 385**	**242 103**
Inventory impairment write-downs – closing balance	3 287	2 425
Gross book value of inventories – closing balance	**311 672**	**244 528**

Impairment write-downs against inventories

	2018	2017
Inventory impairment write-downs – opening balance	**2 425**	**2 493**
Charged to other operating expenses (note 32)	862	-
Reversed to other operating income (note 32)	-	(68)
Inventory impairment write-downs – closing balance	**3 287**	**2 425**

As at 31 December 2018 and 31 December 2017, there were no legal or obligatory charges established on inventories. The Company did not hold interest capitalised in inventories.

The expected time for consumption of the entire inventories as at 31 December 2018 and 31 December 2017 is no longer than 12 months.

18. Cash and cash equivalents

	31.12.2018	31.12.2017
Cash on hand	15	12
Cash at bank	1 159 330	1 679 296
- current accounts	67 157	77 080
- overnight (one-day) deposits	288 023	88 325
- other deposits	804 150	1 513 891
Other cash	250	1 063
Total cash and cash equivalents	**1 159 595**	**1 680 371**
Cash and cash equivalents of restricted use	(23 304)	(40 597)
Cash recognised in the statement of cash flows	**1 136 291**	**1 639 774**

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

The balance of cash and cash equivalents of restricted use consists mainly of cash of the consortia in the portion attributable to other consortium members, cash held in VAT accounts as part of the split payment mechanism.

Short-term bank deposits and investments of high liquidity included in cash and cash equivalents consist mainly of “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 1.39 per cent per annum for deposits in PLN (as at 31 December 2017: 1.55 per cent p.a. for deposits in PLN). The average maturity period for these deposits is 25 days (31 December 2017: 49 days).

In 2018, the Company obtained cash in the amount of PLN 4 014 thousand following the execution of guarantees (in 2017: PLN 8 395 thousand).

19. Equity

Issued capital of the Company consists of 25 530 098 shares of a total value of PLN 127 650 thousand. The structure of the Company’s issued capital as at 31 December 2018 is as follows:

Series / issue	Type of shares	Type of preference	Type of limitations of rights to shares	Number of shares	Value of series / issue at 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 the approved issued capital equates to the number of the shares issued. The nominal value of one share is PLN 5. The Company does not hold treasury shares. No shares were retained in connection with the share issue for the exercise of options and agreements on sale.

At the date of transition to IFRS, the Company adjusted the issued capital and share premium for the period in which the Polish economy was hyperinflationary. The effects of translation and reconciliation of values shown in the books of account and corporate documents of the Company as at 31 December 2018 and 31 December 2017 with values reported in the financial statements are presented in the table below:

	31.12.2018	31.12.2017
Issued capital	**127 650**	**127 650**
Translation of capital due to hyperinflation	18 198	18 198
Value disclosed in the financial statements	**145 848**	**145 848**

Share premium	31.12.2018	31.12.2017
Capital as per books of account	**78 119**	**78 119**
Translation of capital due to hyperinflation	2 080	2 080
Value disclosed in the financial statements	**80 199**	**80 199**

The value by which the issued capital and share premium were adjusted above their nominal value in connection with hyperinflation was recognised in equity under “retained profit (loss) from prior years”.

Other reserves	31.12.2018	31.12.2017
Statutory	42 550	42 550
Established according to statute/articles of association, above the statutory (minimum) value of revaluation	4 241	4 244
Actuarial gains (losses)	(4 135)	(3 039)
Share-based payments	7 171	7 171
Other	1 529	1 526
Total	**51 356**	**52 452**

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

Retained earnings (losses)	**31.12.2018**	**31.12.2017**
Retained earnings recognised in reserve capital	410	160
Current year result	321 602	449 835
Total	**322 012**	**449 995**

20. Loans, borrowings and other external sources of finance

	31.12.2018	**31.12.2017**
Non-current		
Finance lease liabilities	88 171	45 885
	88 171	**45 885**
Current		
Bank loans and borrowings	9 015	8 694
Interest accrued on short-term loans and borrowings	4	4
Finance lease liabilities	33 063	17 683
	42 082	**26 381**
Total	**130 253**	**72 266**

20.1 Bank loans and borrowings

Based on an agreement dated 1 December 2004, Budimex SA received from Ferrovial Infraestructuras SA (currently Ferrovial SA) a loan in the amount of EUR 1 500 thousand; the purpose of the loan was to cover the increase in the issued capital of Inversora de Autopistas del Levante S.L. The company Inversora de Autopistas del Levante, S.L. was incorporated on 23 June 2004 as the sole shareholder of Autopista Madrid Levante Concesionaria Española, SA. The main area of business activities of this company is highway building, maintenance and operating a paid motorway Ocaña – La Roda and a free of charge carriageway A-42, section N301, Atalaya del Cañavate. In accordance with the provisions of the agreement, the loan was granted for a period of 12 months from the agreement date with the possibility to extend the term. In the case of sale of the shares in Inversora de Autopistas del Levante S.L., 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 per cent. On 1 December 2018, the repayment date was extended for one more 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.

The carrying value of the loan is approximately the same as its fair value.

At the same time, as at 31 December 2018 and 31 December 2017, the Company had overdraft facility agreements with the banks which were not used as at the reporting date.

In the period covered by the financial statements there were no cases of default connected with the obligations of repayment of the principal amount or interest or compliance with terms and conditions of the loan referred to above. The Company did not breach or renegotiate the terms of the loan before the date of approval of these financial statements.

20.2 Finance lease liabilities

The Company signed finance lease agreements for the use of construction equipment and machines and motor vehicles. As at 31 December 2018, the net value of machines used under finance lease was PLN 108 490 thousand, of motor vehicles: PLN 20 149 thousand and of other fixed assets: PLN 154 tangible assets (note 9). Leased assets were made available for a period of 48-60 months. After the end of the above lease terms and after covering its liabilities, the Company will have the right to acquire some of the leased assets for a price equivalent to their residual value. The contractual liabilities are partly secured with a blank bill of exchange issued by the Company together with a written authorisation for its drawing. Future minimum lease payments under the above lease agreements and the present value of minimum net lease payments as at 31 December 2018 are as follows:

	Minimum lease payments	**Present value of minimum lease payments**
- less than 1 year	36 321	33 063
- 1-5 years	92 509	88 171
Finance lease liabilities, total	**128 830**	**121 234**
of which: future finance costs under finance lease	7 596	-
Present value	**121 234**	**121 234**

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

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

	Minimum lease payments	Present value of minimum lease payments
- less than 1 year	19 465	17 683
- 1-5 years	48 232	45 885
Finance lease liabilities, total	**67 697**	**63 568**
of which: future finance costs under finance lease	4 129	-
Present value	**63 568**	**63 568**

The Company has the right to early repayment of the remaining amounts of finance lease liabilities. Lease contracts do not provide for penalties for early repayment of lease liabilities.

Risk of interest rate fluctuations

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

	31.12.2018		31.12.2017	
	PLN	EUR	PLN	EUR
Bank loans and borrowings	-	0.60%	-	0.56%
Finance lease liabilities	3.03%	-	3.08%	-

20.3 Changes in (monetary and non-monetary) financial liabilities

	01.01.2018	Cash flows	Non-monetary changes				31.12.2018
			Value of non-current assets acquired under finance lease agreements	Accrual and capitalisation of interest	Exchange rate fluctuations	Other	
Long-term and short-term finance lease liabilities	63 568	(25 340)	80 108	2 909	-	(11)	121 234
Short-term liabilities on account of loans	8 698	-	-	50	271	-	9 019
Total financing commitments	**72 266**	**(25 340)**	**80 108**	**2 959**	**271**	**(11)**	**130 253**

	01.01.2017	Cash flows	Non-monetary changes				31.12.2017
			Value of non-current assets acquired under finance lease agreements	Accrual and capitalisation of interest	Exchange rate fluctuations	Other	
Long-term and short-term finance lease liabilities	38 672	(13 236)	36 631	1 531	-	(30)	63 568
Short-term liabilities on account of loans	9 165	-	-	58	(525)	-	8 698
Total financing commitments	**47 837**	**(13 236)**	**36 631**	**1 589**	**(525)**	**(30)**	**72 266**

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

21. Trade and other payables

	31.12.2018	31.12.2017
Trade liabilities	481 305	462 276
Un-invoiced costs	678 508	664 046
Taxation and social security liabilities	226 054	211 897
Liabilities relating to settlement of consortia	2 511	6 933
Payroll	5 892	5 953
Accrued expenses	245 213	223 676
Other liabilities	2 416	4 467
Total liabilities	**1 641 899**	**1 579 248**

Accrued expenses	31.12.2018	31.12.2017
Bonuses	171 647	161 501
Holiday pay	45 132	39 399
Costs of contract completion	26 934	21 426
Other	1 500	1 350
Total	**245 213**	**223 676**

All trade payables and other liabilities as at 31 December 2018 and 31 December 2017 were recognised under current liabilities as they will be settled in the course of the normal operating cycle of the Company.

The financial liabilities comprise trade liabilities, un-invoiced costs, payroll, liabilities relating to settlement of consortia as well as accruals related to unused holidays and employee bonuses.

The non-financial liabilities include taxation and social security liabilities, accruals connected with costs of contract completion as well as other liabilities.

22. Income tax

Deferred tax assets	31.12.2018	31.12.2017
- to be realised after 12 months	103 567	92 699
- to be realised within 12 months	363 189	387 223
Total	**466 756**	**479 922**
Amount to be netted off	(144 731)	(119 773)
Deferred tax assets, after set-off	**322 025**	**360 149**

Deferred tax liabilities	31.12.2018	31.12.2017
– to be settled after 12 months	21 211	13 671
– to be settled within 12 months	123 520	106 102
Total	**144 731**	**119 773**
Amount to be netted off	(144 731)	(119 773)
Deferred tax liability, after set-off	**-**	**-**

Changes in net balance of deferred tax are as follows:

	2018	2017
Opening balance	**360 149**	**400 046**
Credited / (charged) to financial result	(38 381)	(40 260)
Credited / (charged) to other comprehensive income	257	363
Closing balance	**322 025**	**360 149**

Deferred tax assets and deferred tax liabilities are recognised in respect of taxable and deductible temporary differences relating to local items of assets and liabilities using the 19 per cent tax rate, while in respect of temporary differences relating to the assets or liabilities of foreign operations – using the local tax rates of the country representing the main economic environment in which the given entity conducts operations and pays corporate income tax.

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

As at 31 December 2018, deductible temporary differences for which no deferred tax assets were recognised in the statement of financial position amounted to PLN 12 699 thousand (respectively, the deferred tax asset amounted to PLN 2 413 thousand) and were connected with receivables impairment write-downs.

As at 31 December 2017, deductible temporary differences for which no deferred tax assets were recognised in the statement of financial position amounted to PLN 28 thousand (respectively, the deferred tax asset amounted to PLN 5 thousand) and were connected with receivables impairment write-downs.

	2018	**2017**
Current income tax	36 781	57 615
Deferred tax	38 381	40 260
Charge on / (credit to) profit or loss	**75 162**	**97 875**

Current income tax	**2018**	**2017**
Gross profit (loss)	396 764	547 710
Differences between gross profit (loss) and income tax base (by type):	(228 648)	(273 223)
- permanent differences between gross profit and taxable income	*(23 254)*	*(45 265)*
- temporary differences between gross profit and taxable income	*(189 436)*	*(212 151)*
- other differences	*(15 958)*	*(15 807)*
Income tax base	168 116	274 487
Income tax according to enacted tax rate of 19 per cent	31 942	52 153
Income tax on profits generated abroad	2 821	2 721
Tax increases, abandonments, exemptions, deductions and reductions	2 017	1 744
Adjustments to prior periods' income tax	1	997
Current income tax	**36 781**	**57 615**

Movements in the balance of deferred tax liabilities (by title) are presented in the table below:

	valuation of construction contracts	**lease**	**discount of retentions**	**valuation of derivative instruments**	**other**	**Total**
Balance of deferred tax liabilities as at 01.01.2017	**54 817**	**8 862**	**3 799**	**479**	**9 736**	**77 693**
Increases:	**33 429**	**5 133**	**542**	**1 963**	**1 034**	**42 101**
charged to financial result in connection with change in balance of temporary differences	33 429	5 133	542	1 963	1 034	42 101
Decreases:	**-**	**-**	**-**	**-**	**(21)**	**(21)**
recognised in financial result in connection with change in balance of temporary differences	-	-	-	-	(21)	(21)
Balance of deferred tax liabilities as at 31.12.2017	**88 246**	**13 995**	**4 341**	**2 442**	**10 749**	**119 773**
Increases:	**16 406**	**10 644**	**444**	**-**	**-**	**27 494**
charged to financial result in connection with change in balance of temporary differences	16 406	10 644	444	-	-	27 494
Decreases:	**-**	**-**	**-**	**(1 596)**	**(940)**	**(2 536)**
recognised in financial result in connection with change in balance of temporary differences	-	-	-	(1 596)	(940)	(2 536)
Balance of deferred tax liabilities as at 31.12.2018	**104 652**	**24 639**	**4 785**	**846**	**9 809**	**144 731**

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

Movements in the balance of deferred tax assets (by title) are presented in the table below:

	valuation of construction contracts	provision for contract losses	contract costs connected with deferred revenues	provision for un-invoiced costs of services	provision for warranty repairs	other provisions for liabilities	provision for bonuses	receivables impairment write-downs	provision for unused holidays	provision for retirement severance payments for employees	other	Total
Balance of deferred tax assets as at 01.01.2017	**177 938**	**76 026**	**44 531**	**40 242**	**49 236**	**36 575**	**26 695**	**12 616**	**6 593**	**1 211**	**6 076**	**477 739**
Increases:	**-**	**-**	**38 172**	**13 614**	**9 427**	**-**	**3 240**	**-**	**510**	**469**	**1 565**	**66 997**
recognised in profit or loss in connection with change in temporary differences	-	-	38 172	13 614	9 427	-	3 240	-	510	106	1 565	**66 634**
temporary differences recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	363	-	**363**
Decreases:	**(32 332)**	**(31 401)**	**-**	**-**	**-**	**(786)**	**-**	**(253)**	**-**	**-**	**(42)**	**(64 814)**
charged to financial result in connection with change in balance of temporary differences	(32 332)	(31 401)	-	-	-	(786)	-	(253)	-	-	(42)	(64 814)
Balance of deferred tax assets as at 31.12.2017	**145 606**	**44 625**	**82 703**	**53 856**	**58 663**	**35 789**	**29 935**	**12 363**	**7 103**	**1 680**	**7 599**	**479 922**
Increases:	**-**	**-**	**17 983**	**-**	**10 548**	**13 838**	**1 724**	**209**	**953**	**454**	**358**	**46 067**
recognised in profit or loss in connection with change in temporary differences	-	-	17 983	-	10 548	13 838	1 724	209	953	197	358	**45 810**
temporary differences recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	257	-	**257**
Decreases:	**(42 360)**	**(14 408)**	**-**	**(585)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1 880)**	**(59 233)**
charged to financial result in connection with change in balance of temporary differences	(42 360)	(14 408)	-	(585)	-	-	-	-	-	-	(1 880)	(59 233)
Balance of deferred tax assets as at 31.12.2018	**103 246**	**30 217**	**100 686**	**53 271**	**69 211**	**49 627**	**31 659**	**12 572**	**8 056**	**2 134**	**6 077**	**466 756**

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

The Company's income tax on profit before taxation differed from the theoretical amount that would be recognised in the case of the application of the weighted average tax rate in the following manner:

	2018	2017
Pre-tax profit / (loss)	**396 764**	**547 710**
Tax calculated using national tax rates	75 385	104 065
Differences in taxation of income of foreign operations	(492)	(554)
Adjustments to prior periods' income tax	1	997
Tax effects of permanent differences between gross profit and taxable income	(4 418)	(8 600)
Utilisation of tax losses or deductible temporary differences not recognised previously	-	(76)
Deductible temporary differences, unused tax losses and unused tax reliefs for which no deferred tax assets were recognised in the statement of financial position	2 413	5
Charge on / (credit to) the profit or loss on account of tax on industrial and commercial business operations in Germany	2 928	2 038
Other	(655)	-
Income tax charge on / (credit to) profit or loss	**75 162**	**97 875**
Effective tax rate	*18.94%*	*17.87%*

23. Liabilities arising from retirement benefits and similar obligations

As at 31 December 2018 and 31 December 2017, the Company's employees took advantage of the retirement severance payment. Retirement severance payments are provided to the employees on a one-off basis, upon retirement. The amount of the severance benefit due is the product of the base of benefit calculation at the date of entitlement and the appropriate cumulative ratio (progressing in proportion to years of service).

Usually, the Company's obligation to pay the retirement severance payment entails the actuarial risk consisting of:

Interest rate risk – the present value of liabilities under the 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 liquid commercial bonds with a low level of risk. In the case of a decrease in the interest rates of the bonds, the liabilities under the retirement benefits and similar obligations increase.

Remuneration risk – the present value of liabilities under retirement benefits and similar obligations is calculated by reference to the future level of remunerations of the Company employees. Thus, an increase in employee remuneration will result in an increase in liabilities under the retirement benefits.

Risk of longevity – the present value of liabilities under retirement benefits and similar obligations is calculated by reference to the best estimates of employee mortality during employment. Lengthening of the expected employee life will result in an increase in liabilities under the retirement benefits.

Risk of changes to retirement age – the present value of liabilities under retirement benefits and similar obligations is calculated on the basis of the retirement age as applicable in Poland. In the event of postponement of the retirement age, the present value of liabilities under retirement benefits will decrease.

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

	31.12.2018	31.12.2017
Retirement severance payments, of which:	**11 230**	**8 842**
– present value of the obligation as at the reporting date	11 230	8 842
Total liabilities arising under retirement benefits and similar obligations	**11 230**	**8 842**
of which:		
- long-term portion	*10 108*	*7 857*
- short-term portion	*1 122*	*985*

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

Main actuarial assumptions (the table below shows the ranges of rates adopted by the actuary):

	31.12.2018	31.12.2017
Discount rate	1.80% – 2.65%	1.81% – 2.98%
Forecast inflation rate	2.9% – 3.2%	(0.9%) – 2.5%
Forecast remuneration increase rate	3.30% – 6.70%	6.00% – 6.50%

Assumptions regarding mortality are based on the Life Length Charts for Poland for 2016 as published by the Central Statistical Office.

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

Changes in the balance of liabilities under retirement severance payments are presented in the table below:

	2018	2017
Present value of the obligation – opening balance	**8 842**	**6 373**
Interest costs	227	153
Employment costs	1 148	719
Benefits paid	(340)	(315)
Actuarial (gains) / losses, of which:	**1 353**	**1 912**
- change in assumptions	*416*	*2 033*
- other	*937*	*(121)*
Present value of the obligation at the end of the period	**11 230**	**8 842**

Costs of future employee benefits charged to the profit and loss account are as follows:

	2018	2017
Employment costs	1 148	719
Interest costs	227	153
Costs recognised in the profit and loss account – administrative expenses (note 31)	**1 375**	**872**
Actuarial (gains) / losses to be recognised in the period	1 353	1 912
(Gains) / loses recognised in other comprehensive income	**1 353**	**1 912**

Sensitivity analysis

Significant actuarial assumptions applied to calculate the liabilities under retirement benefits include the discount rate, expected remuneration 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 retirement benefits and similar obligations by PLN 1 265 thousand, while a decrease in the assumed discount rate by 1 percentage point would bring about an increase in retirement benefits and similar obligations by PLN 1 559 thousand.

Analysis of sensitivity to fluctuations in remuneration growth rates

An increase in the assumed remuneration growth rate by 1 percentage point would result in an increase in retirement benefits and similar obligations by PLN 1 478 thousand, while a decrease in the assumed remuneration growth rate by 1 percentage point would bring about a decrease in retirement benefits and similar obligations by PLN 1 232 thousand.

Analysis of sensitivity to staff turnover

An increase in the assumed staff turnover by 1 percentage point would result in a decrease in retirement benefits and similar obligations by PLN 1 388 thousand, while a decrease in the assumed staff turnover by 1 percentage point would bring about an increase in retirement benefits and similar obligations by PLN 1 710 thousand.

The above analysis does not need to be a representative presentation of the actual movements in the level of the retirement benefits and similar obligations. It is not very likely that the changes of certain assumptions occur separately, as some of the assumptions may be correlated.

Methods and assumptions used to perform the sensitivity analysis did not change significantly as compared to the previous year.

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

24. Provisions for liabilities and other charges

Non-current provisions for liabilities and other charges	**31.12.2018**	**31.12.2017**
Warranty repairs		
opening balance	**219 909**	**180 765**
creation	94 386	80 263
reversal:	(42 524)	(41 119)
- revision of value	(17 996)	(9 746)
- transfer to current provisions	(24 528)	(31 373)
Total other non-current provisions	**271 771**	**219 909**

Current provisions for liabilities and other charges	**31.12.2018**	**31.12.2017**
Legal proceedings		
opening balance	**23 550**	**23 565**
creation	411	2 502
reversal	(980)	(2 512)
other	3	(5)
closing balance	**22 984**	**23 550**
Warranty repairs		
opening balance	**95 237**	**84 191**
transfer from non-current provisions	24 528	31 373
utilisation	(20 782)	(20 327)
closing balance	**98 983**	**95 237**
Provisions for penalties / compensations		
opening balance	**39 027**	**49 784**
creation	21 021	1 575
reversal	(7 086)	(12 332)
closing balance	**52 962**	**39 027**
Total other current provisions	**174 929**	**157 814**

Creation / (reversal) of provisions for litigation, compensations and of restructuring provisions was recognised under other operating expenses (note 32), while creation / (reversal) of provisions for warranty repairs – under 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.

25. Construction contracts

The below data relate to construction contracts valued by the Company in accordance with the percentage of completion method.

Selected financial data:

	31.12.2018	**31.12.2017**
Assets		
- valuation of construction contracts (note 29)	552 306	472 740
Liabilities		
- valuation of construction contracts (note 29)	583 918	767 855
- provision for construction contract losses	159 036	234 876
- advances received for construction contracts in progress (note 26)	370 474	665 887

The fair value of construction contracts approximates their carrying amount.

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

26. Deferred income

Deferred income comprises:

	31.12.2018	31.12.2017
Advances for construction contracts in progress (note 25)	370 474	665 887
Other	7 991	5 957
Total	**378 465**	**671 844**

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

27. Retentions for construction contracts

	31.12.2018	31.12.2017
Retained by customers – to be returned after 12 months	79 665	54 685
Retained by customers – to be returned within 12 months	47 191	46 306
Total retentions for construction contracts retained by customers	**126 856**	**100 991**
Received from suppliers – to be returned after 12 months	213 836	192 314
Received from suppliers – to be returned within 12 months	205 048	207 272
Total retentions for construction contracts kept for suppliers	**418 884**	**399 586**

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 Company in specific periods. The amounts of discount appropriately reduce the nominal value of receivables and liabilities under retentions for construction contracts. In addition, a deferred tax asset is recognised in the statements of financial position on the amounts stated calculated using the tax rate prevailing in Poland, i.e. 19 per cent, and on the effect of change in the value of discount in the profit and loss account.

	31.12.2018	31.12.2017
Discount of long-term retentions for construction contracts held by customers	4 164	2 997
Discount of long-term retentions for construction contracts received from suppliers	25 187	22 851

Amount of discount recognised in the profit and loss account:

	2018	2017
Decrease in sales revenues	(2 432)	(2 018)
Reduction in the cost of services sold	11 551	11 565
Total adjustment to gross margin	**9 119**	**9 547**
Adjustment to finance income / (costs) (note 33)	(7 950)	(8 205)
Deferred tax on above adjustments	(222)	(255)
Net effect on the profit and loss account	**947**	**1 087**

The fair value of retentions held by the customers and received from suppliers approximates to their respective carrying values.

Change in balance of impairment write-downs of retentions kept by customers	31.12.2018	31.12.2017
opening balance	**3 429**	**4 445**
Increases	-	270
Decreases:	(880)	(1 286)
- repayment of debts by debtors	(602)	(1 121)
- receivables written-off	(278)	(165)
Impairment write-downs of retentions – closing balance	**2 549**	**3 429**

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

28. Revenue from contracts with customers

The Company operates only in one segment – construction.

Revenues from sales of finished goods and services, goods for resale and raw materials by category

Revenues from sales of finished goods and services, goods for resale and raw materials by category were as follows:

Type of services	**2018**	**2017**
Revenues from sales of construction and assembly services	6 745 484	5 786 248
Revenues from sales of other services	43 052	34 824
Revenues from sales of goods for resale and raw materials	8 332	3 787
Net sales of finished goods and services, goods for resale and raw materials	**6 796 868**	**5 824 859**

Revenues from sales of finished goods and services, goods for resale and raw materials by geographical area were as follows:

Country	**2018**	**2017**
Poland	6 546 150	5 640 511
Germany	175 880	175 491
Other EU countries	74 838	8 857
Net sales of finished goods and services, goods for resale and raw materials	**6 796 868**	**5 824 859**

Revenues from sales of finished goods and services, goods for resale and raw materials by construction type were as follows:

Type of construction	**2018**	**2017**
Civil engineering	3 150 060	2 957 807
Rail	615 452	222 320
General construction, of which:	2 979 972	2 606 121
- non-residential buildings	2 266 989	*1 798 103*
- residential buildings	712 983	*808 018*
Other	51 384	38 611
Net sales of finished goods and services, goods for resale and raw materials	**6 796 868**	**5 824 859**

29. Assets and liabilities from contracts with customers

Deadline to satisfy contract 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 obligations (interim certificate of payment, interim technical acceptance reports, progress billings), and
- after work completion – based on final documents (final technical acceptance report, final invoice), confirming completion of contract work and confirming satisfying of contract obligations necessary for final contract settlement.

Deadlines for payment for construction works performed by the Company are usually set at 30 days. However, for certain construction contracts the Company obtains financing prior to commencement of contract work in the form of advance payments which are successively settled under progress billings and final invoices.

In 2018, no revenues from contracts with customers, for which performance obligations were satisfied in previous reporting periods, were recognised.

During 2018, there were no adjustments to revenues which would affect the assets or liability from contracts with customers and which would result from a change in the manner of measuring progress towards complete satisfaction of the obligation or from a contract modification.

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

	01.01.2018	Change in contract valuation	Revenues recognised in 2018, included in the balance of liabilities as at 31 December 2017	Change in the time frame for a right to consideration to become unconditional	31.12.2018
Valuation of construction contracts	472 740	552 306	-	(472 740)	552 306
Assets from contracts with customers	**472 740**	**552 306**	**-**	**(472 740)**	**552 306**
Valuation of construction contracts	767 855	(19 623)	(164 314)	-	583 918
Liabilities from contracts with customers	**767 855**	**(19 623)**	**(164 314)**	**-**	**583 918**

	01.01.2017	Change in contract valuation	Revenues recognised in 2017, included in the balance of liabilities as at 31 December 2016	Change in the time frame for a right to consideration to become unconditional	31.12.2017
Valuation of construction contracts	290 016	472 740	-	(290 016)	472 740
Assets from contracts with customers	**290 016**	**472 740**	**-**	**(290 016)**	**472 740**
Valuation of construction contracts	937 634	109 716	(279 495)	-	767 855
Liabilities from contracts with customers	**937 634**	**109 716**	**(279 495)**	**-**	**767 855**

Outstanding performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, to be satisfied:	31.12.2018	31.12.2017
– up to 1 year	6 226 180	6 482 348
– above 1 year	3 844 857	3 658 291
Total	**10 071 037**	**10 140 639**

30. Costs by type

	2018	2017
Depreciation / Amortisation, of which:	45 499	34 269
– depreciation of property, plant and equipment (note 9)	*40 238*	*29 089*
– depreciation of investment properties (note 10)	*128*	*134*
– amortisation of intangible assets (note 12)	*5 133*	*5 046*
Employee benefit costs (note 31)	854 728	754 423
Consumption of materials and energy	2 127 865	1 640 270
External services	3 661 785	2 942 508
Taxes and charges	6 380	5 972
Advertising and representation expenses	6 408	4 659
Life and non-life (property) insurance	17 284	11 409
Change in the balance of the provision for construction contract losses (note 25)	(75 840)	(165 270)
Other costs by type	(114 999)	123 469
Selling expenses (negative value)	(11 098)	(10 722)
Administrative expenses (negative value)	(206 328)	(194 220)
Change in the balance of finished goods and work in progress	-	-
Cost of goods produced for the entity's own use (negative value)	-	-
Cost of finished goods and services sold	**6 311 684**	**5 146 767**
Value of goods for resale and raw materials sold	2 049	1 377
Cost of finished goods, services, goods for resale and raw materials sold	**6 313 733**	**5 148 144**

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

31. Employee benefit costs

	2018	2017
Costs of remuneration, of which:	**707 852**	**628 802**
- costs of retirement benefits (note 23)	*1 375*	*872*
- costs of share-based payments (note 37)	*2 735*	*2 560*
- severance payments	*4 657*	*3 297*
Costs of social security benefits and other allowances, of which:	**146 876**	**125 621**
- social security	*96 612*	*96 612*
- severance payments	*644*	*511*
Total costs of employee benefits recognised in costs by type (note 30)	**854 728**	**754 423**

32. Other operating income and expenses

Other operating income	2018	2017
Profit on disposal of non-financial non-current assets	2 973	6 054
Reversal of impairment write-downs, of which:	1 502	4 141
– receivables (following repayment of amounts due by debtors) (note 16, 27)	*1 502*	*4 073*
– inventories (following the sale) (note 17)	*-*	*68*
Reversal of provisions, of which:	8 066	14 844
– for legal proceedings (note 24)	*980*	*2 512*
– for penalties and sanctions (note 24)	*7 086*	*12 332*
Penalties / compensations received	28 972	24 533
Write-off of time-barred liabilities	2 759	2 656
Gain on derivative financial instruments (note 15.1)	549	2 687
Other	347	769
Total	**45 168**	**55 684**

Other operating expenses	2018	2017
Impairment write-downs, of which:	17 200	2 683
– receivables (note 16, 27)	16 151	*2 683*
– inventories (note 17)	862	-
– property, plant and equipment (note 9)	187	-
Creation of provisions, of which:	21 432	4 077
– for legal proceedings (note 24)	411	*2 502*
– for penalties and sanctions (note 24)	21 021	*1 575*
Compensations and liquidated damages paid	7 655	13,216
Court charges and executions, costs of litigation	1 182	702
Donations given	1 844	1 012
Other	445	1 805
Total	**49 758**	**23 495**

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

33. Finance income and finance costs

Finance income	**2018**	**2017**
Interest earned on financial instruments, of which:	16 855	23 737
– on bank deposits and cash on bank accounts	*10 103*	*17 344*
– on loans granted (note 15.2)	*4 592*	*3 040*
– on bonds acquired (note 15.3)	*2 160*	*3 353*
Other interest income, of which:	4 771	4 863
– interest income on discounts received and penalty interest	*4 771*	*4 861*
– other	-	*2*
Gain on disposal of shares in subsidiaries (note 14)	76 991	-
Dividends and shares in profits	72 839	51 686
Other	1	25
Total	**171 457**	**80 311**

Finance costs	**2018**	**2017**
Interest expense in respect of financial instruments, of which:	2 959	1 589
– interest on borrowings, loans and other external sources of finance taken out	*50*	*58*
– interest on lease contracts	*2 909*	*1 531*
Other interest expense, of which:	1 042	2 080
– penalty interest paid to suppliers and interest on discounts	*648*	*1 806*
– other interest	*394*	*274*
Revaluation of shares in subsidiaries (note 14)	682	-
Discount of retentions for construction contracts (note 27)	7 950	8 205
Cost of bank commissions and guarantees	22 943	23 754
Foreign exchange losses	148	42
Other	88	893
Total	**35 812**	**36 563**

34. Earnings / (loss) per share

Basic

Basic earnings / (loss) per share are calculated as the quotient of net profit/(loss) and weighted average number of ordinary shares during the year (note 19).

	2018	**2017**
Net profit / (loss)	321 602	449 835
Weighted average number of ordinary shares	25 530 098	25 530 098
Basic earnings / (loss) per share (in PLN per share)	**12.60**	**17.62**

Diluted

Diluted earnings / (loss) per share equated to basic earnings per share in both periods, as there were no dilutive instruments.

35. Dividend per share

On 7 June 2018, the Company paid a dividend in the amount of PLN 449 585 thousand. To pay the dividend, the Company used the individual net profit for the period from 1 January 2017 to 31 December 2017, i.e. PLN 17.61 gross per share.

Until the date of preparation of these financial statements for the year ended 31 December 2018, the Management Board of Budimex SA has not made a resolution in respect of profit appropriation for the year 2018.

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

36. Statement of Cash Flows

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

	2018	2017
Cumulative translation differences	1 477	12
Option premium costs	-	759
Other	18	27
Total	**1 495**	**798**

Non-monetary transactions

In 2018, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows comprised increases in property, plant and equipment by PLN 80 108 thousand, used under finance lease agreements.

In 2017, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows comprised increases in property, plant and equipment by PLN 36 631 thousand, used under finance lease agreements.

37. Share-based payments

Ferrovial SA, the ultimate parent company, operates a performance share plan, which is classified as a share-based payment transaction settled under equity instruments.

According to the plan, each year the members of the Management Board and senior management of Budimex SA are granted shares in Ferrovial SA. Such shares will be finally settled three years after the grant date, subject to the following conditions:

- beneficiaries must be contractually employed by company for a 3-year period after the vesting date, except for the special situations given,
- achievement of specified cash-flow ratios and relation between gross operating profit and net production assets,
- the level of ratios required for being granted the total or a proportionate number of shares is set every year.

As at 31 December 2018 and 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 9 995 thousand, and as at 31 December 2017 – PLN 7 260 thousand.

Pursuant to an agreement executed with the Ferrovial Group in 2014, Budimex SA undertook to cover the programme costs with respect to the tranche of instruments granted in 2014 and later on. Therefore, the fair value of the employee services, related to the instruments granted in 2014-2018, was classified as liabilities (correspondingly as an expense).

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

Year	Number of initially granted shares	Grant date	Fair value of 1 share at grant date (PLN)	Achievement of specific financial results	Cost of shares granted
2018	37 300	15-02-2018	71.72	100%	2 735
2017	38 150	15-02-2017	74.00	100%	2 560

The cost of shares granted for 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.

The cost of shares granted for 2017 was: 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 shares granted in 2015 ended in February 2018. As the conditions were satisfied, 34 243 shares in Ferrovial SA were formally handed over to the employees entitled to obtain such shares in this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.

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

38. Related party transactions

Transactions with related parties concluded in 2018 and 2017 and the amount of outstanding balances of receivables and liabilities with these parties as at 31 December 2018 and 31 December 2017 are presented below.

	Receivables		Liabilities	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
The parent company and related entities of the parent (the Ferrovial Group)	1 490	20 679	33 333	73 553
Subsidiary companies	145 865	105 478	20 689	106 756
Associates	289	289	121	175
Jointly controlled entities	4 891	3 754	696	682
Other related parties*	14	11	-	-
Total	**152 549**	**130 211**	**54 839**	**181 166**

	Loans granted		Loans received	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
The parent company and related entities of the parent (the Ferrovial Group)	-	-	9 019	8 698
Subsidiary companies	14 324	13 217	-	-
Associates	74 145	62 451	-	-
Total	**88 469**	**75 668**	**9 019**	**8 698**

	Revenues from sale of finished goods and services and other operating income		Purchase of finished goods and services	
	2018	2017	2018	2017
The parent company and related entities of the parent (the Ferrovial Group)	158	856	43 312	45 522
Subsidiary companies	713 728	388 335	114 395	111 757
Associates	2 004	1 068	354	599
Jointly controlled entities	2 200	1 232	-	2
Other related parties*	-	-	-	-
Total transactions with related parties	**718 090**	**391 491**	**158 061**	**157 880**

	Finance income		Finance costs	
	2018	2017	2018	2017
The parent company and related entities of the parent (the Ferrovial Group)	-	-	50	58
Subsidiary companies	73 439	52 462	-	-
Associates	3 991	2 264	-	-
Jointly controlled entities	2	-	-	-
Total transactions with related parties	**77 432**	**54 726**	**50**	**58**

*) Other related parties comprise also entities on which the key management person of the Company or his/her close relative exercises significant influence, or has a significant number of votes at the shareholders' meeting of this company.

Transactions with related parties were concluded on an arm's length basis.

In the table above, included under "Parent company and related entities of the parent (the Ferrovial Group)" is financial data relating to transactions with Ferrovial Agroman SA, including with Ferrovial Agroman SA Oddział w Polsce [Branch in Poland] and other Ferrovial Group companies: Cintra Infraestructuras SA, Cadagua SA and Cadagua SA Oddział w Polsce [Branch in Poland].

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

On 29 October 2012 Budimex SA concluded, with Ferrovial Agroman SA, a conditional agreement for operational know-how support, streamlining processes and procedures in key areas of construction, investment and management activity. The remuneration under the contract was established as 0.5 per cent of the value of the annual sales revenues of the Budimex Group, less sales revenues of Budimex Nieruchomości Sp. z o.o., with the stipulation that until the correctness of the transaction price is approved by the Polish and Spanish tax authorities by approving the BAPA agreement, Budimex SA will be remitting to Ferrovial Agroman SA payments reduced by 25 per cent.

In 2017, under Annex No 1 to the agreement of 29 October 2012, the outstanding 25 per cent of remuneration for the period from 1 January 2012 to 31 December 2016, amounting to PLN 28 796 thousand, was repaid, despite the failure to obtain approval of the BAPA agreement.

On 28 March 2017 a new agreement was signed, effective from 1 January 2017 for the next 5 years. The rules for determining the remuneration remained unchanged; the remuneration is paid in full despite the lack of approval of the BAPA agreement. In connection with the performance of those contracts, in 2018 Budimex SA incurred costs of PLN 34 210 thousand and in 2017 total costs of PLN 29 357 thousand.

Moreover, Budimex SA signed agreements with Ferrovial Agroman SA under which Ferrovial renders to the Company services relating to maintenance and development of IT and staff secondment. In connection with the performance of those agreements, in 2018 Budimex SA incurred costs of PLN 5 709 thousand and PLN 5 220 thousand, while in 2017: PLN 4 183 thousand and PLN 5 601 thousand, respectively.

39. Remuneration of key members of management

The 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 bonuses for completing the tasks performed in 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 bonuses for completing the tasks performed in 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 the members of the Management Board was as follows:

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

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

Dariusz Blocher	PLN 793 thousand
Henryk Urbański	PLN 229 thousand
Fernando Pascual Larragoiti	PLN 225 thousand
Artur Popko	PLN 201 thousand
Radosław Górski	PLN 163 thousand
Jacek Daniewski	PLN 156 thousand
Marcin Węgłowski	PLN 156 thousand
Cezary Mączka	PLN 148 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 shares granted in 2015 ended in February 2018. As the conditions were satisfied, the shares in Ferrovial SA were formally handed over. The number of shares actually granted to the members of the Management Board of the Company was as follows:

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

The market value of Ferrovial SA shares as at the date of actual grant amounted to PLN 72.77.

Proxies

The total value of remuneration paid to proxies of Budimex SA in 2018 was PLN 888 thousand, while in 2017 it was 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 costs of share-based payments under Ferrovial SA incentive programmes allocated to the Company's proxy — Piotr Świecki — amounted to PLN 114 thousand.

Due to the fulfilment of conditions, after the lapse of the three-year vesting for shares granted in 2015, Ferrovial SA effectively transferred 850 shares to the proxy of Budimex SA, Piotr Świecki. The market value of Ferrovial SA shares as at the date of actual grant amounted to PLN 72.77.

The Supervisory Board

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

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

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

40. Advances, loans, borrowings, guarantees and sureties provided to Members of the Management or Supervisory Boards

As at 31 December 2018 and 31 December 2017, the Members of the Management and Supervisory Boards of the Company, their spouses, direct and second degree relatives or persons who are connected by a guardianship or wardship relationship 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 and were not parties to other agreements obligating them to provide benefits to Budimex SA or its subsidiaries, jointly controlled entities or associates.

41. Capital expenditure incurred and planned

Capital expenditure incurred in the year 2018 amounted to PLN 104 194 thousand, of which PLN 97 134 thousand was allocated to the acquisition of non-financial non-current assets. In 2017, capital expenditure amounted to PLN 59 409 thousand, of which PLN 56 055 thousand was allocated to the acquisition of non-financial non-current assets. In both periods, the capital expenditure incurred did not relate to investments into environmental protection.

The Company intends to incur in 2019 capital expenditure of approx. PLN 26 000 thousand and this amount will be allocated in full to non-financial non-current assets. The Company does not plan to incur capital expenditure for natural environment protection.

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

42. (Off-balance sheet) investment expenditure

As at 31 December 2018, the amount of committed investment expenditure was PLN 784 thousand and related to the purchase of road construction machinery.

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

43. Future liabilities under rental or operating lease agreements

Liabilities under rental or operating lease agreements relate mainly to car or office space rental agreements and to rental/lease of real property.

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

	31.12.2018	**31.12.2017**
- up to 1 year	33 957	36 057
- 1-5 years	22 835	25 245
- above 5 years	109	125
Total	**56 901**	**61 427**

Lease payments taken to costs	48 185	43 134

The Company also uses land under perpetual usufruct which it received based on an administrative decision. Estimated future payments for the perpetual usufruct will as follows:

	31.12.2018	**31.12.2017**
- up to 1 year	103	129
- 1-5 years	412	516
- above 5 years	6 823	8 663
Total	**7 338**	**9 308**

Fees for perpetual usufruct taken to costs	103	140

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 related to the participation, respectively, in the partnerships Budimex SA Energetyka 2 s.j. and Budimex SA Energetyka 3 s.j. to 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 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 liabilities and contingent receivables

	31.12.2018	31.12.2017
1. Contingent receivables	**570 435**	**587 855**
1.1. From related parties	1 693	15 066
- guarantees and suretyships received	-	2 518
- bills of exchange received as security	1 693	2 548
- other contingent receivables	-	10 000
1.2. From other entities	556 742	558 021
- guarantees and suretyships received	552 442	557 169
- bills of exchange received as security	4 300	852
1.3. Other	12 000	14 768
- other contingent receivables	12 000	14 768
2. Contingent liabilities	**3 622 927**	**3 966 135**
2.1. To related parties	326 116	347 754
- guarantees and suretyships issued	326 116	347 754
2.2. To other entities	3 296 811	3 484 000
- guarantees and suretyships issued	3 284 159	3 470 248
- bills of exchange issued as security	12 652	13 752
2.3. Other	-	134 381
- other contingent liabilities	-	134 381
Total contingent liabilities and contingent receivables	**(3 052 492)**	**(3 378 280)**

Contingent receivables arising from guarantees and sureties comprise guarantees issued by banks or other entities in favour of the Company securing the Company's claims against its 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 Company to secure their claims against the Company that may arise on the grounds of executed construction contracts. The banks have the right to recourse against the Company on that account. Guarantees issued to the investors of the Company 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 Company Management Board as probable was appropriately reflected in the warranty repair provision, as described in note 5 to these statements.

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

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 which secures the payment in the amount of up to PLN 134 381 thousand payable in the case of improper performance by the Company of its obligations under the agreement of acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. As at 31 December 2018, these contingent liabilities have expired.

46. Employment structure

The employment structure at Budimex SA as at 31 December 2018 and 31 December 2017 was as follows:

Employee group	31.12.2018	31.12.2017
White collar employees	3 584	3 368
Blue collar employees	2 414	2 001
Total employment	**5 998**	**5 369**

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

47. Significant events with an impact on the Company's financial situation

On 23 January 2010, the Management Board of Budimex SA learned that the condition concerning the construction and operation of the A1 motorway 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 had not been fulfilled. Due to the above, Phase II (referring to construction work) of the agreement concluded on 19 January 2010 by and between Budimex SA Ferrovial Agroman SA Sp. J. (formerly: Budimex Dromex SA Ferrovial Agroman SA Sp. J.) and Autostrada Południe SA for the design and construction of the section of the A1 motorway section between Stryków and Pyrzowice did not become effective. Phase I covered design work with a value of PLN 180 000, 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 design works realised 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 per cent 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 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 filed a claim to court 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 evidence proceedings and witness interrogation took place, and an expert opinion was drafted. Autostrada Południe SA submitted a request for the drafting of 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. Subsequently, in October 2015 the court accepted the defendant's motion to examine another witness, which resulted in the need to draft an additional 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 revenues recognised by Spółka Jawna in prior years in connection with the design works performed (including the anticipated risks) corresponding to the share of Budimex SA amounted to PLN 72 505 thousand. Spółka Jawna made an impairment write-down against receivables due from Autostrada Południe SA, of which PLN 39 850 thousand was attributable to Budimex SA, and recognised a provision representing a liability regarding compensations in favour of Autostrada Południe SA, of which PLN 12 655 thousand was attributable to Budimex SA.

With reference to the court proceedings described in the accompanying Directors' Report and related to the Contract for the Development of Terminal 2 of the Warsaw Frederic Chopin International Airport, after entering into a court settlement before the Court of Arbitration at the Polish Chamber of Commerce, on 8 August 2018 the parties waived each other's claims before the Court of Arbitration and cancelled each other's costs. The payment by PPL to the Consortium included only receivables for the works and deliveries performed, including amounts retained. As a result of the settlement of the settlement agreement made by the Consortium Leader, Ferrovial Agroman SA, the Company's gross profit on sales 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