THE BUDIMEX GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

prepared in accordance with
International Financial Reporting Standards

Table of contents

(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	Note	31 December 2017	31 December 2016
Non-current (long-term) assets			
Property, plant and equipment	10	162 422	114 674
Investment property	11	24 623	25 581
Intangible assets	12	30 163	29 926
Goodwill of subordinated entities	13	73 237	73 237
Investments in equity accounted entities	14	39 228	43 427
Available-for-sale financial assets	15	9 501	9 396
Retentions for construction contracts	30	30 138	23 333
Trade and other receivables	18	39 341	36 256
Receivables from service concession arrangement	17	46 440	46 096
Other financial assets	16	67 033	10 035
Deferred tax assets	25	405 208	444 975
Total non-current (long-term) assets		**927 334**	**856 936**
Current (short-term) assets			
Inventories	19	1 425 100	1 183 649
Trade and other receivables	18	689 939	516 720
Retentions for construction contracts	30	27 812	30 818
Valuation of long-term construction contracts	28	483 501	288 456
Current tax assets		30 298	194
Other financial assets	16	286 533	1 758
Cash and cash equivalents	20	2 126 839	2 715 134
Total current (short-term) assets		**5 070 022**	**4 736 729**
TOTAL ASSETS		**5 997 356**	**5 593 665**

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	**Note**	**31 December 2017**	**31 December 2016**
EQUITY			
Issued capital	21	145 848	145 848
Share premium	21	87 163	87 163
Other reserves	26, 40	2 557	4 725
Foreign exchange differences on translation of foreign operations		5 342	5 525
Retained earnings		640 533	558 116
Shareholders' equity attributable to the shareholders of the Parent		**881 443**	**801 377**
Equity attributable to non-controlling interests	22	**685**	**4 443**
Total equity		**882 128**	**805 820**
LIABILITIES			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	23	92 086	62 333
Retentions for construction contracts	30	203 643	206 147
Provisions for long-term liabilities and other charges	27	305 858	247 481
Retirement benefits and similar obligations	26	11 086	7 937
Other financial liabilities	16	2 250	1 984
Total non-current (long-term) liabilities		**614 923**	**525 882**
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	23	30 324	20 276
Trade and other payables	24	1 697 984	1 475 983
Retentions for construction contracts	30	217 193	186 244
Provisions for construction contract losses	28	243 829	408 455
Valuation of long-term construction contracts	28	783 209	944 184
Deferred income	29	1 345 267	1 002 017
Provisions for short-term liabilities and other charges	27	170 762	169 544
Current tax liability		3 404	52 820
Retirement benefits and similar obligations	26	1 537	1 422
Other financial liabilities	16	6 796	1 018
Total current (short-term) liabilities		**4 500 305**	**4 261 963**
Total liabilities		**5 115 228**	**4 787 845**
TOTAL EQUITY AND LIABILITIES		**5 997 356**	**5 593 665**

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated profit and loss account

	Note	Year ended 31 December 2017	2016
Continuing operations			
Net sales of finished goods, services, goods for resale and raw materials	31	6 369 309	5 572 290
Cost of finished goods, services, goods for resale and raw materials sold	32	(5 559 485)	(4 821 025)
Gross profit on sales		**809 824**	**751 265**
Selling expenses	32	(34 016)	(32 671)
Administrative expenses	32	(216 627)	(198 766)
Other operating income	34	61 070	46 451
Other operating expenses	34	(31 933)	(61 172)
Operating profit		**588 318**	**505 107**
Finance income	35	37 084	43 227
Finance costs	35	(40 771)	(34 657)
Shares in net (losses) of equity accounted subordinates	14	(4 199)	(2 272)
Gross profit		**580 432**	**511 405**
Income tax	25	(115 838)	(100 929)
Net profit from continuing operations		**464 594**	**410 476**
Net profit for the period		**464 594**	**410 476**
of which:			
Attributable to the shareholders of the Parent		***464 408***	***409 851***
Attributable to non-controlling interests	*22*	*186*	*625*

Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)	*36*	*18.19*	*16.05*

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

		Year ended 31 December	
		2017	**2016**
Net profit for the period		**464 594**	**410 476**
Other comprehensive income which:			
Items to be reclassified to profit or loss upon satisfaction of certain conditions:			
Foreign exchange differences on translation of foreign operations	38	(183)	100
Deferred tax related to components of other comprehensive income		-	-
Items not to be reclassified to profit or loss:			
Actuarial gains/ (losses)	26	(2 675)	139
Deferred tax related to components of other comprehensive income	25	508	(26)
Other comprehensive income, net		**(2 350)**	**213**
Total comprehensive income for the period		**462 244**	**410 689**
of which:			
Attributable to the shareholders of the Parent		***462 057***	***410 053***
Attributable to non-controlling interests	*22*	*187*	*636*

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity

	Equity attributable to the shareholders of the Parent							Non-controlling interests	Total equity
			Other reserves						
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)	Foreign exchange differences on translation of foreign operations	Retained earnings	Total		
Balance as at 1 January 2017	**145 848**	**87 163**	**7 171**	**(2 446)**	**5 525**	**558 116**	**801 377**	**4 443**	**805 820**
Profit for the period	-	-	-	-	-	464 408	464 408	186	**464 594**
Other comprehensive income	-	-	-	(2 168)	(183)	-	(2 351)	1	**(2 350)**
Total comprehensive income for the period	-	-	-	**(2 168)**	**(183)**	**464 408**	**462 057**	**187**	**462 244**
Dividends (note 37)	-	-	-	-	-	(382 696)	(382 696)	-	**(382 696)**
Increase in interest in subsidiary company (note 22)	-	-	-	-	-	705	705	(3 945)	**(3 240)**
Balance as at 31 December 2017	**145 848**	**87 163**	**7 171**	**(4 614)**	**5 342**	**640 533**	**881 443**	**685**	**882 128**

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity (cont.)

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

Warsaw, 19 March 2018

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	Note	Year ended 31 December 2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax		**580 432**	**511 405**
Adjustments for:			
Depreciation/ amortisation	32	37 478	25 923
Shares in net (profits)/ losses of equity accounted subordinates	14	4 199	2 272
Foreign exchange (gains)/ losses		792	(149)
Interest and shares in profits (dividends)		(2 863)	1 620
(Profit)/ loss on investing activities		(2 659)	1 682
Change in valuation of derivative financial instruments	16	(5 461)	(3 503)
Change in provisions and liabilities arising from retirement benefits and similar obligations		60 184	71 062
Other adjustments	38	639	(421)
Operating profit/ (loss) before changes in working capital		**672 741**	**609 891**
Change in receivables and retentions for construction contracts		(179 752)	(128 038)
Change in inventories		(241 451)	(277 665)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings		250 121	387 800
Change in deferred income		343 207	105 569
Change in valuation of construction contracts and in provisions for losses		(520 646)	(3 994)
Change in cash and cash equivalents of restricted use	20	26 111	37 948
Cash flow from operating activities		**350 331**	**731 511**
Income tax paid		(154 535)	(120 009)
NET CASH FLOW FROM OPERATING ACTIVITIES		**195 796**	**611 502**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of intangible assets and property, plant and equipment		1 048	1 060
Proceeds from sale of investment properties		4 619	-
Purchase of intangible assets and property, plant and equipment		(32 263)	(42 664)
Liquidation of joint-venture	14	-	47
Purchase of shares in subsidiaries and associates	22	(3 240)	-
Increase in equity of non-consolidated entities	15	(105)	(150)
Purchase of financial assets held to maturity	16	(665 619)	-
Proceeds from financial assets held to maturity	16	387 610	-
Loans granted	16	(51 153)	(9 163)
Dividends received	14, 35	-	22
Interest received	16	2 520	1 918
NET CASH FLOW USED INVESTING ACTIVITIES		**(356 583)**	**(48 930)**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of loans and borrowings		(1 025)	(900)
Dividends paid	37	(382 696)	(207 815)
Payments of liabilities under finance lease		(12 989)	(11 808)
Interest paid		(2 727)	(1 925)
Other financial expenditure		(643)	(652)
NET CASH USED IN FINANCING ACTIVITIES		**(400 080)**	**(223 100)**
TOTAL NET CASH FLOW		**(560 867)**	**339 472**
Foreign exchange differences on cash and cash equivalents, net		(1 317)	484
CASH AND CASH EQUIVALENTS - OPENING BALANCE	**20**	**2 524 033**	**2 184 077**
CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**20**	**1 961 849**	**2 524 033**
Cash and cash equivalents of disposable groups		-	-
TOTAL CASH AND CASH EQUIVALENTS OF THE GROUP		**1 961 849**	**2 524 033**

Warsaw, 19 March 2018

Notes to the consolidated financial statements

1. General information

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

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

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

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

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

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

These consolidated financial statements were authorized by the Management Board of the Parent Company on 19 March 2018.

1.1 Going concern assumption

The consolidated financial statements of the Group for the year 2017 were prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of signing these consolidated financial statements, the Management Board of the Parent Company is not aware of any facts or circumstances that would indicate any threat to the main Group companies' continued activities after the reporting date due to an intended or compulsory withdrawal from or a significant limitation in their activities.

2. Key accounting policies

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

2.1 Basis of preparing consolidated financial statements and declaration of compliance

These financial statements for the year ended 31 December 2017 were prepared in accordance with International Financial Reporting Standards ("IFRSs") endorsed by the European Union and prevailing as at the reporting date.

Standards and Amendments to Standards applied for the first time in 2017

During the period covered by these consolidated financial statements, the Budimex Group applied for the first time the requirements of IFRS 15 „Revenue from Contracts with Customers" and Amendments to IFRS 15 – "*Effective date of IFRS 15*". The Group decided to apply this Standard retrospectively with the total effect of first-time application recognised at the date of first-time application. According to the Group, earlier application of IFRS 15 did not have any significant impact on the consolidated financial statements prepared in prior years, and, therefore, as at 31 December 2017 no adjustment was made that could have been recognised in prior year profits. Details of the new accounting policy regarding revenue have been described in note 2.21.

Apart from that, in the financial year ended 31 December 2017, the Group applied for the first time the following amendments to IFRSs:

- Amendments to IAS 7 „Statement of Cash Flows" – *Disclosure Initiative*,
- Amendments to IAS 12 „Income Taxes" – *Recognition of Deferred Tax Assets for Unrealised Losses*.

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

Standards and Amendments to Standards already published, but not yet effective

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

- IFRS 9 „Financial Instruments", endorsed in the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 „Leases", endorsed in the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Explanations to IFRS 15 „Revenue from Contracts with Customers", endorsed in the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 „Share-based Payment" – *Classification and Measurement of Share-based Payment Transactions*, endorsed in the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 „Insurance Contracts" – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts,* endorsed in the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or upon first-time application of IFRS 9 "Financial Instruments"),
- Amendments to 40 "Investment Property" - *Transfers of Investment Property*, endorsed in the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- Annual Improvements to IFRSs (Cycle 2014-2016) – annual improvements to IFRS 1, IFRS 12 and IAS 28, mainly with a view to removing inconsistencies and ensuring wording clarification, endorsed in the EU on 7 February 2018 (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018).

The Group has elected not to use the opportunity of early adoption of IFRS 9. According to current, preliminary Group estimates, the impairment write-down against trade receivables that would be recognised as at 31 December 2017, had the Group decided to apply IFRS 9 before its due date, would be approx. PLN 1 000 thousand (the write-down was calculated basing on the concept of expected credit losses). Therefore, it would not have any material impact on the consolidated financial statements of the Group. The Group has not estimated the impact of the application of IFRS 9 on other items in the consolidated financial statements yet.

The Group has elected not to use the opportunity of early adoption of IFRS 16. The Group currently estimates that the application of IFRS 16 „Leases" may, to some extent, increase both its non-current assets and its financial liabilities. At the same time, positive impact on operating result and negative impact on the result from financing activities are expected. The value of future (undiscounted) payments under operating lease that would be recognised as at 31 December 2017 as financial assets/ financial liabilities in the accounting books of the Group entities in accordance with the provisions of IFRS 16 has been disclosed in note 44.

The remaining standards and standards amendments would not have any material impact on the consolidated financial statements, had these been applied by the Group at the reporting date.

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

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

- IFRS 17 „Insurance contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 9 „Financial instruments" – *Prepayment Features with Negative Compensation* (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),
- Annual Improvements to IFRSs (Cycle 2015-2017), effective for annual periods beginning on or after 1 January 2019,
- IFRIC 22 „Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 „Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The consolidated financial statements were prepared under the historical cost convention, except for the hyperinflation adjustment described in note 21, and except for certain financial instruments measured at fair value at the end of each reporting period in compliance with the accounting policies described below.

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

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

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

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

2.2 Principles of consolidation

Subsidiary companies

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

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

Consolidation procedure

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

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

The following were excluded from the consolidated financial statements:

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

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

Associates

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

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

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

Joint arrangements

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

- joint operation - (registered partnerships, civil law partnerships – where the partners have right to their share in the assets and obligations for the liabilities relating to the arrangement) – the Group recognises its assets and liabilities (including share in the assets and liabilities held/incurred jointly) and its part of revenues and costs of a joint operation,
- joint venture (companies – where shareholders have right to company's net assets) – the Group recognises its share using the equity method.

Transactions with non-controlling interests without control change effect

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

Acquisitions of entities which are not under joint control

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

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

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

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

Goodwill is valued as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired entity (acquire) and the fair value of shares in the acquired entity previously held by the acquirer over the net of the acquisition-date fair value of identifiable acquired assets and liabilities. If after another testing, the net acquisition-date value of identifiable assets and liabilities exceeds the sum total of the consideration transferred, the value of non-controlling interest in the acquired entity and the fair value of shares in the acquired entity previously held by the acquirer, the surplus is recognised directly in profit or loss as gain on a bargain purchase.

Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of entity's liquidation are initially measured at either fair value or at the present ownership instrument's proportionate share in the recognised amounts of the acquiree's identifiable net assets. Measurement method is selected by the Group individually for each acquisition.

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

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

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

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

Acquisition of jointly controlled entities

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

Loss of control

When the Group loses control over a subsidiary, the Group excludes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and any resulting gain or loss is calculated as a difference between:

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

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

2.3 Foreign currency transactions and valuation of foreign currency items

Functional and presentation currency

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

Transactions and balances

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

At each reporting date:

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

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

Foreign operations and interest in subsidiaries using other functional currencies

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

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

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

2.4 Property, plant and equipment

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

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

- perpetual usufruct right to land — 77 years
- buildings and constructions — 2 – 67 years
- plant and machinery — 2 – 17 years
- means of transport — 2 – 17 years
- other [tangible fixed assets] — 2 – 14 years

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

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

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

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

Construction in progress

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

2.5 Investment property

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

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

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

2.6 Intangible assets

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

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

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

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

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

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

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

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

2.8 Goodwill

Goodwill is the excess of the aggregate of:

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

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

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

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

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

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

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

2.9 Borrowing costs

Borrowing costs include interest calculated using the effective interest rate, finance charges under finance lease agreements and foreign exchange gains or losses arising from borrowing costs to the extent they are regarded as an adjustment to interest expense.

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

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

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

2.10 Leases – the Budimex Group as Lessee

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

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

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

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

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

The Budimex Group companies are not lessors.

2.11 Impairment of non-financial assets

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

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

Impairment losses are recognised in the profit and loss account.

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

2.12 Prepayments for non-financial assets

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

2.13 Inventories

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

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

Excluded from inventories are the items stored on construction sites which are to be used specifically for a given construction project or processed either internally or externally by a subcontractor, and whose disposal or straightforward use for other contracts performance is not certain. Such items are recognised directly in contract costs.

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

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

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

2.14 Cash and cash equivalents

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

Cash and cash equivalents presented in the cash flow statement comprise cash on hand, a-vista deposits and these bank deposits which can easily be changed into known amount of cash and which incur insignificant risk of price fluctuations (with a maturity of up to 12 months).

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

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

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

2.15 Financial instruments

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

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

The above classification is based on the criterion of the purpose of the investment acquired or the liability incurred. The Management Board determines the classification category of a given item upon item initial recognition, and subsequently verifies this initial classification at each reporting date.

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

This category covers the following two sub-categories:

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

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

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

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

Loans and receivables

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

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

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

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

Investments held to maturity

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

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of allowance account. The amount of the loss is recognised in the profit or loss.

Available for sale financial assets

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

Asset purchase or sale transactions are recognised at the transaction date i.e. at the date, on which the Group commits to purchase or sell a given asset. Assets are initially recognised at fair value increased by transaction costs. Assets are derecognised when the contractual rights to the underlying cash flow expired or were transferred, and the Group transferred substantially all of the risks and rewards of the ownership of the assets.

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

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

Trade liabilities and retentions for construction contracts

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

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

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

Loans and borrowings and other external sources of finance

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

Derivative financial instruments

Group companies enter into derivative transactions to hedge against foreign currency risk and interest rate risk. Policies on the use of derivative financial instruments have been described in the risk management policy of the Group approved by the Management Board as described in detail in note 4 "Financial risk management".

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

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

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

Group companies do not apply hedge accounting.

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

2.16 Equity

Equity

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

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

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

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

Equity attributable to non-controlling interests

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

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

2.17 Employee benefits

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

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

2.18 Share-based payments

Ferrovial SA, the ultimate parent company, operates own equity-settled, share-based compensation plan under which employees of the Group render services to the Parent Company and its subsidiaries in exchange for equity instruments of Ferrovial SA. In accordance with IFRS 2, the fair value of employee services provided in exchange for equity awards of Ferrovial SA in the years 2010-2013 is recognised in the consolidated financial statements as an expense with a corresponding increase in equity, over the period in which vesting conditions are fulfilled (vesting period). The fair value of employee services is indirectly measured by reference to the fair value of equity instruments at the grant date. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the entire transaction so that, ultimately, the cost of services received is based on the number of equity instruments that are expected to vest.

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

2.19 Provisions

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

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

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

2.20 Recognition of revenues and expenses

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

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

Dividend income is recognised upon determining shareholder right to receive payment.

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

2.21 Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contracts concluded by Group companies do not include a significant financing component. In case of construction contracts, investor advance payments are consumed by the expenditure incurred at construction initial stages, and so no long-term financing of executed construction with received advance payment exists. As regards developer companies, advance payments are made for a concrete apartment/ flat with distinct characteristics. For this reason, determining a difference is not possible.

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

Included in assets is the valuation of long-term construction contracts, with reference to all contracts in progress, for which recognised profits exceed progress billings. The outstanding invoiced amounts due and payable for the contract work performed are recognised under "Trade and other receivables", while the amounts retained by contractors - under "Retentions for construction contracts".

Included in liabilities is also the valuation of long-term construction contracts, with reference to all contracts in progress, for which progress billings exceed recognised profits. Recorded under "Provisions for construction contract losses" are also provisions for contract losses. The outstanding amounts due and payable to suppliers, for which invoices have been received are recognised under "Trade and other payables", while the amounts retained for suppliers - under "Retentions for construction contracts".

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

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

2.22 Revenue and expenses of service concession arrangements

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

The operator recognises and measures revenues and costs of construction services provided, and the revenues and costs of management/maintenance services in accordance with IFRS 15.

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

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

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

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

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

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

In the financial year ended 31 December 2017, Group companies were party to only one concession arrangement, for which the relevant test disclosed that the value of guaranteed consideration for the entire term of the arrangement calculated in present values is higher than the fair value of receivables from the construction service provided. Thus, the receivables under the construction services were recognised using the option no. 1, i.e. as a financial asset.

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

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

Such assets are tested for impairment at each reporting date.

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

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

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

2.23 Gross profit/ (loss) on sales

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

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

2.24 Operating profit/ (loss)

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

2.25 Income tax (incl. deferred tax)

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

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

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

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

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

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

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

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

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

Evaluation of uncertainty regarding tax settlements

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

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

Value-added tax

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

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

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

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

2.26 Operating segments reporting

The Budimex Group management and organisation is based on segments.

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

- construction business,
- development activities and property management.

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

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

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

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

3. Changes in the method of financial statements preparation

The consolidated statement of financial position as at 31 December 2016 and consolidated statement of cash flows for the 12-month period ended 31 December 2016 were changed due to a change in the presentation of provisions in developer business. In prior periods, provisions were presented as un-invoiced costs under trade and other payables. However, due to their character, the Group decided to re-classify them to provisions.

In addition, provisions for losses on construction contracts were separated to a separate line in the consolidated statement of financial position and the names of lines where the valuation of long-term construction contracts is presented were changed on both the assets' and liabilities' side. This reclassification did not affect the consolidated statement of cash flows.

These changes did not have any impact on earnings per share or diluted earnings per share attributable to the shareholders of the Parent Company.

The respective presentation changes are shown in the table below (the non-affected items were omitted):

Consolidated statement of financial position

	31 December 2016		
	After reclassification	**Before reclassification**	**Difference**
Current (short-term) assets			
Valuation of long-term construction contracts	288 456	-	288 456
Amounts due and receivable from customers under construction contracts	-	288 456	(288 456)
Non-current (long-term) liabilities			
Provision for long-term liabilities and other charges	247 481	210 303	37 178
Current (short-term) liabilities			
Trade and other payables	1 475 983	1 520 870	(44 887)
Provisions for construction contract losses	408 455	-	408 455
Valuation of long-term construction contracts	944 184	-	944 184
Amounts due and payable to customers under construction contracts	-	1 352 639	(1 352 639)
Provision for short-term liabilities and other charges	169 544	161 835	7 709

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

	1 January 2016		
	After reclassification	**Before reclassification**	**Difference**
Current (short-term) assets			
Valuation of long-term construction contracts	171 763	-	171 763
Amounts due and receivable from customers under construction contracts	-	171 763	(171 763)
Non-current (long-term) liabilities			
Provision for long-term liabilities and other charges	200 026	181 691	18 335
Current (short-term) liabilities			
Trade and other payables	1 106 696	1 135 894	(29 198)
Provisions for construction contract losses	629 689	-	629 689
Valuation of long-term construction contracts	610 251	-	610 251
Amounts due and payable to customers under construction contracts	-	1 239 940	(1 239 940)
Provision for short-term liabilities and other charges	146 428	135 565	10 863

Consolidated statement of cash flows

	Year ended 31 December 2016		
	After reclassification	**Before reclassification**	**Difference**
Change in provisions and liabilities arising from retirement benefits and similar obligations	71 062	55 373	15 689
Operating profit/ (loss) before changes in working capital	**609 891**	**594 202**	**15 689**
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	387 800	403 489	(15 689)
Cash and cash equivalents from operating activities	**731 511**	**731 511**	**-**
NET CASH FLOW FROM OPERATING ACTIVITIES	**611 502**	**611 502**	**-**

4. Financial risk management

The main financial instruments used by the Budimex Group are:

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

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

Currency risk

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

In accordance with the Group policy, foreign currency exposure is systematically measured both for individual construction contracts (analysis of foreign currency inflows and outflows for the purposes of investor contracts concluded in foreign currency and foreign currency outflows for the purposes of contracts concluded in domestic currency) and for all contracts in aggregate (global currency exposure). It is the Management Board's policy to hedge the net foreign currency exposure on individual contracts. As at 31 December 2017, the Group had approx. 99% of its foreign currency exposure hedged. The Budimex Group companies are also exposed to foreign exchange risk relating to planned future payments in foreign currencies that arise from concluded contracts for the purchase of tangible fixed assets, where payments were not hedged against foreign exchange risk. After considering these additional planned future payments in foreign currencies, as at 31 December 2017, the Group had approx. 87% of its foreign exchange risk hedged.

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

Foreign currency risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in exchange rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, „feasible and possible" fluctuations in exchange rates were assessed at -10% / +10% as at 31 December 2017 and as at 31 December 2016.

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

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

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

Interest rate risk

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

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

Interest rate risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in interest rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, "reasonably possible" fluctuations in interest rates were assessed at -0.5 p.p./ +0.5 p.p. as at 31 December 2017 and 31 December 2016 for PLN and at -0.25 p.p. / +0.25 p.p. for EUR, and -0.75 / +0.75 .p.p. for USD. The "reasonably possible" fluctuations of GBP as at 31 December 2016 were assessed at -0.25 / +0.25 p.p. (as at 31 December 2017, no exposure to GBP was recorded). On the other hand, the „reasonably possible" fluctuations in CZK as at 31 December 2017 were assessed at -0.5 / +0.5 p.p. (as at 31 December 2016, no exposure to CZK was recorded).

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

Presented below is the effect on the net result and on net assets as at 31 December 2017 and 31 December 2016 :

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

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

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

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

Price risk

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

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

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

Credit risk

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

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

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

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

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

Except for the data presented in note 48, the value of financial assets recognised in the statement of financial position, before losses, reflects the maximum credit risk exposure, before accounting for collaterals and securities.

Liquidity risk

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

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

The maturity structure of liabilities under loans, borrowings and other external sources of finance is presented in note 23. The maturity structure of other financial liabilities is presented in the respective notes.

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

5. Capital management

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

The Group manages its capital structure and modifies it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may return equity to the shareholders, issue new shares or pay out dividend. In 2017 and 2016, no changes were made to the objectives and policies binding in this area.

The Group monitors the level of equity using the gearing ratio which is calculated as the ratio of net debt to total shareholders' equity increased by net debt. Net debt includes interest-bearing loans and borrowings and other external sources of finance, trade and other payables (except for accrued expenses), retentions for construction contracts, valuation of long-term construction contracts (liabilities) and provisions for construction contract losses, deferred income (except for other accrued income) and current tax liabilities decreased by cash and cash equivalents and by short-term securities held to maturity.

	31 December 2017	31 December 2016
Interest-bearing loans and borrowings and other external sources of finance	122 410	82 609
Trade and other payables	4 243 361	4 046 358
Less: Cash and cash equivalents	(2 126 839)	(2 715 134)
Less: Short-term securities held to maturity	(278 972)	-
Net debt	1 959 960	1 413 833
Equity	882 128	805 820
Equity and net debt	2 842 088	2 219 653
Gearing ratio	68.96%	63.70%

6. Key estimates and assumptions

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

6.1 Key accounting estimates

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

Provisions for warranty repairs

The Budimex Group companies are required to issue warranties for their construction services rendered. The amount of warranty provision is linked to particular construction segments and ranges from 0.3% to 1.4% of total revenue from a given contract. This ratio is, however, analysed on an individual basis and in justified cases may be increased or reduced, as appropriate. The amount of warranty provision has been presented in note 27.

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

Un-invoiced services

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

Tax settlements

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

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

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

The companies of the Group measure and recognise current and deferred income tax assets and liabilities in accordance with the provisions of IAS 12 Income taxes based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses, tax credits and tax rates, while considering assessment of tax treatment uncertainty.

If there is any uncertainty as to whether or to what extent the tax authority will accept individual tax settlements of transactions, the companies of the Group recognise these settlements while considering uncertainty assessment.

Provision for litigation

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

6.2 Professional judgment in applying accounting policies

Recognition of construction contracts revenue and losses

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

The method of the proportion that the costs incurred to the date of revenue determining bear to the total costs of goods or services (the expenditure-based method) is applied only where measuring the progress of works may not be reliably measured using the work progress measurement (results –based) method. In the case of this method, revenue from construction contracts during the period from contract inception to the reporting date, after deducting revenue that affected prior periods financial result, is determined in proportion to the stage of contract completion, which is determined based on the proportion that contract costs incurred for work performed to the date of revenue determining bear to the estimated total contract costs.

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

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

7. Discontinued operations

In 2017 and 2016, no operations were discontinued within the meaning of IFRS 5.

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

8. The Budimex Group Entities

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

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Consolidated					
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	full	full
Mostostal Kraków Energetyka Sp. z o.o. [1]	Cracow / Poland	100.00%	-	full	-
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-PIM1 Sp. z o.o. [2]	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Elektromontaż Poznań SA[3]	Poznań / Poland	98.95%	92.31%	full	full
Elektromontaż Import Sp. z o.o. [3]	Warsaw / Poland	98.95%	92.31%	full	full
Instal Polska Sp. z o.o. [3]	Poznań / Poland	98.95%	92.31%	full	full
Elektromontaż Warszawa SA[3]	Warsaw / Poland	98.95%	92.31%	full	full
Non-consolidated					
Budimex Autostrada SA (in liquidation) [4]	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A-1 SA (in liquidation)	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in bankruptcy with liquidation	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex F Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex H Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex I Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex J Sp. z o.o. [5]	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Inwestycje „Grunwald" SA	Warsaw / Poland	100.00%	-	non-consolidated	-
MK Logistic Sp. z o.o. (in liquidation)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. (in liquidation)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated

[1]) Mostostal Kraków Energetyka Sp. z o.o. was entered in the National Court Register on 11 August 2017.
[2]) SPV-BN 1 Sp. z o.o. changed its name to SPV-PIM1 Sp. z o.o. on 11 December 2017.
[3]) During 2017, the Budimex Group companies acquired 6.64% shares in Elektromontaż Poznań SA from non-controlling interests.
[4]) On 1 February 2017, the General Shareholders' Meeting of Budimex Autostrada SA resolved to liquidate the company.
[5]) Budimex J Sp. z o.o. was entered in the National Court Register on 28 April 2017.

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

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

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Joint operations					
Budimex SA - Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex SA Energetyka 1 Sp.j.	Warsaw / Poland	100.00%	100.00%		
Budimex SA Ferrovial Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%	Share in assets, liabilities, revenues and costs	Share in assets, liabilities, revenues and costs
Budimex SA Ferrovial Agroman SA 2 s.c.	Warsaw / Poland	95.00%	95.00%		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA III s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA – Cadagua SA IV s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA – Cadagua SA V s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA Ferrovial Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 2 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		

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

In 2017 **the following changes occurred in the structure of the Budimex Group**:

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

In Q1 2017, Budimex SA acquired from non-controlling interests 282 484 shares (5.22%) in Elektromontaż Poznań SA. The purchase was realised in 623 transactions. The total price for purchased shares declared by Budimex SA amounted to PLN 2 418 thousand.

On 28 April 2017, Budimex J Sp. z o.o. was entered in the National Court register. Budimex PPP SA, 100% subsidiary of Budimex SA, holds 100% shares in this entity.

On 10 July 2017, Budimex Budownictwo Sp. z o.o., 100% subsidiary of Budimex SA, acquired from the State Treasury 77 043 shares in Elektromontaż Poznań SA, which in total account for 1.42% of the issued capital and the number of votes at the General Shareholders' Meeting. The total price for the acquired shares amounted to PLN 822 thousand. On 31 August 2017, Budimex SA acquired from Budimex Budownictwo Sp. z o.o. the above shares for PLN 831 thousand.

On 11 August 2017, Mostostal Kraków Energetyka Sp. z o.o. was entered in the National Court Register. Mostostal Kraków SA holds 100% shares in this entity.

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

9. Operating segments

Operating segments

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

- construction business
- development business and property management.

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

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

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

- Budimex Nieruchomości Sp. z o.o.
- SPV-PIM1 Sp. z o.o. (*formerly* SPV-BN 1 Sp. z o.o.)
- Budimex SA in the part relating to the development business, as a result of the merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

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

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

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

Segment results for the **year ended 31 December 2017** are presented in the table below:

	Construction business	Property management and development business	Other business	Exclusions	Consolidated value
Revenue from external sales	5 756 124	498 012	115 173	-	**6 369 309**
Inter-segment sales	313 553	639	38 698	(352 890)	**-**
Total sales revenue	**6 069 677**	**498 651**	**153 871**	**(352 890)**	**6 369 309**
Cost of finished goods, goods for resale and raw materials sold externally	(5 086 755)	(378 456)	(94 274)	-	**(5 559 485)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(293 887)	(18 157)	(38 370)	350 414	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(5 380 642)**	**(396 613)**	**(132 644)**	**350 414**	**(5 559 485)**
Gross profit on sales	**689 035**	**102 038**	**21 227**	**(2 476)**	**809 824**
Selling expenses	(10 551)	(18 147)	(5 333)	15	**(34 016)**
Administrative expenses	(200 453)	(22 822)	(5 699)	12 347	**(216 627)**
Other operating income, net	28 401	3 564	1 905	(4 733)	**29 137**
Operating profit	**506 432**	**64 633**	**12 100**	**5 153**	**588 318**
Finance income / (finance costs), net, of which:	(8 355)	3 356	1 582	(270)	**(3 687)**
- interest income	*29 467*	*3 180*	*756*	*(538)*	***32 865***
- interest expense	*(3 883)*	*(617)*	*(1 326)*	*259*	***(5 567)***
Shares in losses of equity accounted entities	-	-	(4 199)	-	**(4 199)**
Income tax	(98 874)	(13 599)	(2 440)	(925)	**(115 838)**
Net profit	**399 203**	**54 390**	**7 043**	**3 958**	**464 594**

In 2017, sales revenue from one customer amounted to PLN 2 471 324 thousand and related entirely to the construction segment.

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

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

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

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

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

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

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 32)	(35 863)	(915)	(700)	**(37 478)**
(Recognition)/ reversal of impairment write-downs against receivables (note 18)	1 478	(15)	72	**1 535**
(Recognition)/ reversal of impairment write-downs against inventories (note19)	68	94	19	**181**
Other non-monetary income/ (costs)*	93 138	(9 361)	505	**84 282**
Capital expenditure	84 025	1 058	669	**85 752**

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

	Construction business	Property management and development business	Other business	Consolidated value
Depreciation/ amortization (note 32)	(24 218)	(933)	(772)	**(25 923)**
(Recognition)/ reversal of impairment write-downs against receivables (note 18)	(10 506)	(3)	242	**(10 267)**
(Recognition)/ reversal of impairment write-downs against inventories (note 19)	(776)	(1 332)	(1)	**(2 109)**
(Recognition)/ reversal of impairment write-downs against property, plant and equipment (note 10)	(1 677)	-	(114)	**(1 791)**
Other non-monetary income/ (costs)*	153 817	(4 373)	(5 022)	**144 422**
Capital expenditure	69 644	889	365	**70 898**

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

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

Geographical information

The Budimex Group conducts business in Poland and abroad. Other markets include other countries of the EU, Ukraine and Russia. Geographical information on sales revenue was presented in note 31.

Non-current assets

	31 December 2017	31 December 2016
Domestic market	307 999	255 972
German market	618	461
Other markets	94	-
Total	**308 711**	**256 433**

Capital expenditure

	2017	2016
Domestic market	85 335	70 720
German market	323	178
Other markets	94	-
Total	**85 752**	**70 898**

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

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

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

10. Property, plant and equipment

	Land & perpetual usufruct right to land	Buildings and constructions	Plant and machinery	Means of transport	Other [tangible] fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2017	**3 027**	**30 754**	**230 964**	**25 679**	**33 974**	**8 540**	**332 938**
Increases:	**250**	**1 631**	**50 034**	**22 718**	**6 230**	**1 266**	**82 129**
– purchase (incl. acceptance for use under lease contracts)	9	1 435	43 450	21 083	6 109	-	**72 086**
– transfer from construction in progress	-	17	6 582	1 635	121	(8 355)	**-**
– increase in construction in progress	-	-	-	-	-	9 621	**9 621**
– transfer from investment property (note 11)	241	22	-	-	-	-	**263**
– other increases	-	157	2	-	-	-	**159**
Decreases:	**(96)**	**(2 710)**	**(7 907)**	**(932)**	**(775)**	**-**	**(12 420)**
– sale	(51)	(1 712)	(4 538)	(890)	(254)	-	**(7 445)**
– transfer to inventories	-	(20)	-	-	-	-	**(20)**
– liquidation, scrapping	-	(972)	(3 351)	(41)	(451)	-	**(4 815)**
– foreign exchange differences	-	-	(17)	(1)	(70)	-	**(88)**
– other	(45)	(6)	(1)	-	-	-	**(52)**
Gross value as at 31 December 2017	**3 181**	**29 675**	**273 091**	**47 465**	**39 429**	**9 806**	**402 647**
Accumulated depreciation as at 1 January 2017	**(41)**	**(11 593)**	**(165 869)**	**(18 237)**	**(19 356)**	**-**	**(215 096)**
Movements for the period:	**(59)**	**(829)**	**(15 037)**	**(1 291)**	**(4 745)**	**-**	**(21 961)**
– charge for the period (note 32)	(44)	(1 666)	(22 881)	(2 219)	(5 383)	-	**(32 193)**
– sale	12	531	4 526	885	169	-	**6 123**
– transfer from investment property (note 11)	(33)	(14)	-	-	-	-	**(47)**
– transfer to inventories	-	9	-	-	-	-	**9**
– liquidation, scrapping	-	331	3 309	41	419	-	**4 100**
– foreign exchange differences	-	-	12	2	50	-	**64**
– other	6	(20)	(3)	-	-	-	**(17)**
Accumulated depreciation as at 31 December 2017	**(100)**	**(12 422)**	**(180 906)**	**(19 528)**	**(24 101)**	**-**	**(237 057)**
Impairment write-downs as at 1 January 2017	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
– (increases)/ decreases (note 34)	-	-	-	-	-	-	**-**
Impairment write-downs as at 31 December 2017	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
Net value as at 1 January 2017	**1 309**	**17 784**	**64 981**	**7 442**	**14 618**	**8 540**	**114 674**
Net value as at 31 December 2017	**1 404**	**15 876**	**92 071**	**27 937**	**15 328**	**9 806**	**162 422**

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

	Land & perpetual usufruct right to land	Buildings and constructions	Plant and machinery	Means of transport	Other [tangible] fixed assets	Fixed assets under construction	Total
Gross value as at 1 January 2016	**3 026**	**29 586**	**204 575**	**22 213**	**23 674**	**1 150**	**284 224**
Increases:	**1**	**1 300**	**32 591**	**4 073**	**11 268**	**7 390**	**56 623**
– purchase (including acceptance for use under lease contracts)	-	1 259	32 044	3 957	10 898	-	**48 158**
– transfer from construction in progress	-	41	541	113	329	(1 024)	**-**
– increases in construction in progress	-	-	-	-	-	8 414	**8 414**
– other increases	1	-	6	3	41	-	**51**
Decreases:	**-**	**(132)**	**(6 202)**	**(607)**	**(968)**	**-**	**(7 909)**
– sale	-	(23)	(3 714)	(484)	(341)	-	**(4 562)**
– liquidation, scrapping	-	(109)	(2 488)	(123)	(627)	-	**(3 347)**
Gross value as at 31 December 2016	**3 027**	**30 754**	**230 964**	**25 679**	**33 974**	**8 540**	**332 938**
Accumulated depreciation as at 1 January 2016	**(28)**	**(10 430)**	**(154 953)**	**(17 583)**	**(16 605)**	**-**	**(199 599)**
Movements for the period:	**(13)**	**(1 163)**	**(10 916)**	**(654)**	**(2 751)**	**-**	**(15 497)**
– charge for the period (note 32)	(20)	(1 230)	(17 020)	(1 238)	(3 540)	-	**(23 048)**
– sale	-	6	3 698	484	202	-	**4 390**
– liquidation, scrapping	-	61	2 408	103	627	-	**3 199**
– other	7	-	(2)	(3)	(40)	-	**(38)**
Accumulated depreciation as at 31 December 2016	**(41)**	**(11 593)**	**(165 869)**	**(18 237)**	**(19 356)**	**-**	**(215 096)**
Impairment write-downs as at 1 January 2016	**-**	**(1 377)**	**-**	**-**	**-**	**-**	**(1 377)**
– (increases)/decreases (note 34)	(1 677)	-	(114)	-	-	-	**(1 791)**
Impairment write-downs as at 31 December 2016	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
Net value as at 1 January 2016	**2 998**	**17 779**	**49 622**	**4 630**	**7 069**	**1 150**	**83 248**
Net value as at 31 December 2016	**1 309**	**17 784**	**64 981**	**7 442**	**14 618**	**8 540**	**114 674**

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

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

	2017	2016
Cost of finished goods and services sold	30 185	21 473
Administrative expenses	1 391	1 115
Other costs	617	460
Total (note 32)	**32 193**	**23 048**

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

	31 December 2017		31 December 2016	
	Initial cost – capitalised finance lease	Net carrying amount	Initial cost – capitalised finance lease	Net carrying amount
Plant and machinery	95 770	70 506	60 774	44 265
Means of transport	22 003	20 537	2 414	1 542
Other tangible fixed assets	461	336	126	56
Total	**118 234**	**91 379**	**63 314**	**45 863**

The value of collaterals established on property, plant and equipment is described in note 39.

The total value of received or receivable compensations in respect of the fixed assets that were impaired or lost in 2017 is PLN 134 thousand (2016 – PLN 305 thousand).

11. Investment property

	31 December 2017	31 December 2016
Perpetual usufruct right to land	460	749
Buildings and constructions	24 057	24 717
Other	106	115
Total investment property	**24 623**	**25 581**
Fair value of investment property	*25 105*	*29 541*

Movements in the balance of investment property during 2017 and 2016 were as follows:

	2017	2016
Opening balance		
Gross value	29 074	65 926
Depreciation (incl. accumulated impairment losses)	(3 493)	(2 516)
Net value - opening balance	**25 581**	**63 410**
Movements for the period:		
Improvements	-	9
Disposal	(533)	-
Transfer to property, plant and equipment (note 10)	(216)	-
Transfer to inventories	-	(38 403)
Depreciation (note 32)	(118)	(334)
Other	(91)	899
Closing balance		
Gross value	27 898	29 074
Depreciation (incl. accumulated impairment losses)	(3 275)	(3 493)
Net value	**24 623**	**25 581**

The value of collaterals established on investment property is described in note 39.

Depreciation of investment property for the years 2017 and 2016 was recognised in the profit and loss account under cost of finished goods and services sold.

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

Appraisals of certain items of investment property for the amount of PLN 22 392 thousand were performed as at 31 December 2017 (the book value of the appraised investment property amounted to PLN 21 693 thousand). The appraisals confirmed that the investment property held by the Group were not impaired. The measurement of investment property fair value was classified as level 2 of the fair value hierarchy under IFRS 13. In 2017, there were no movements between fair value hierarchy levels. Investment property items were valued using the income method based on observable rental rates on local property markets similar to those appraised. Due to the fact that in 2017 the Group concluded several transactions of sale of investment property on which it realised gains, thus confirming that the impairment of other investment property was rather unlikely, appraisal of those investment property was abandoned.

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

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

	2017	2016
Rental charge income	5 594	5 758
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that generated rental income	3 743	3 848
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that did not generate rental income	-	-

12. Intangible assets

	Computer software	Licenses and patents acquired	Other	Total
Gross value as at 1 January 2017	**56 890**	**953**	**2 049**	**59 892**
Increases:	**5 378**	**39**	**-**	**5 417**
– purchase	4 006	39	-	**4 045**
– settlement of advance payments	1 372	-	-	**1 372**
Decreases:	**(3 904)**	**(3)**	**(1 245)**	**(5 152)**
– liquidation	(3 892)	(3)	(1 127)	**(5 022)**
- foreign exchange differences	(12)	-	-	**(12)**
– other	-	-	(118)	**(118)**
Gross value as at 31 December 2017	**58 364**	**989**	**804**	**60 157**
Accumulated amortization as at 1 January 2017	**(27 054)**	**(891)**	**(2 021)**	**(29 966)**
Movements for the period:	(1 238)	(27)	1 237	**(28)**
– charge for the period (note 32)	(5 129)	(30)	(8)	**(5 167)**
– liquidation	3 881	3	1 127	**5 011**
- foreign exchange differences	9	-	-	**9**
– other	1	-	118	**119**
Accumulated amortisation as at 31 December 2017	**(28 292)**	**(918)**	**(784)**	**(29 994)**
Net value as at 1 January 2017	**29 836**	**62**	**28**	**29 926**
Net value as at 31 December 2017	**30 072**	**71**	**20**	**30 163**

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

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

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

	2017	2016
Cost of finished goods and services sold	4 401	708
Administrative expenses	737	1 809
Other costs	29	24
Total	**5 167**	**2 541**

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

As at 31 December 2017 and 31 December 2016, Group companies did not report any material public or obligatory charges established on their intangible assets.

No impairment write-downs against intangible assets were made in the year 2017 or 2016.

13. Goodwill of subordinated entities

Goodwill recognised in the statement of financial position as at 31 December 2017 and as at 31 December 2016 in the amount of PLN 73 237 thousand comprises goodwill that entirely related to Budimex Dromex SA, which merged with Budimex SA on 16 November 2009.

Goodwill impairment test

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

The recoverable amount of the cash generating unit is determined on the basis of calculations of value in use. The calculations make use of the projections of five-year cash flows. Cash flows beyond the five-year period were assessed at fixed level. The adopted growth rate does not exceed long-term average growth rate for the construction industry, in which the cash generating unit operates. The calculations assumed the gross margin ranging from 7.9% to 9.4% and the discount rate of 10% (after rounding and grossing up). The Management Board determined budgeted gross margin on the basis of historical data and its projections for market development. Weighted average growth rates are consistent with the forecasts presented in industry reports. The applied discount rate is a pre-tax rate that accounts for the specific threats of individual segments. No rational change in the assumptions of the test would result in goodwill impairment.

Based on the impairment test performed as at 31 December 2017, the Management Board concluded that there was no need to recognise goodwill impairment write-down.

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

14. Investments in equity-accounted entities

	2017	2016
Opening balance	**43 427**	**45 762**
– of which goodwill	-	-
Liquidation of an associate/joint venture	-	(47)
Share in profits / (losses)*	(4 199)	(2 272)
Dividend paid by associates/joint ventures	-	(15)
Other	-	(1)
Closing balance	**39 228**	**43 427**
– of which goodwill	**-**	**-**

*) Shares in profits (losses) for the period also cover part of the prior year's result, which was not consolidated in the year, to which it related. The consolidated financial statements of the Budimex Group were based on the preliminary financial data of associates/joint ventures for a given financial year, and the financial statements of equity accounted entities changed after publication by the Group of its consolidated financial statements. In 2017, the share in the results of equity accounted entities was adjusted by PLN 362 thousand. In 2016, the share in the results of equity accounted entities was adjusted by PLN (18) thousand.

The list of associates/joint ventures as at 31 December 2017 and 31 December 2016:

Entity name	Type	Registered office	Share in the issued capital and in the number of votes (%)	
			31 December 2017	31 December 2016
PPHU Promos Sp. z o.o.	associate	Cracow / Poland	26.31%	26.31%
FBSerwis SA	associate	Warsaw / Poland	49.00%	49.00%

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

The FBSerwis SA Group	2017	2016
Non-current assets	325 760	183 488
Current assets	91 700	64 372
Non-controlling interests	(9 313)	(9 297)
Non-current liabilities	(223 968)	(67 227)
Current liabilities	(108 144)	(86 690)
Revenue	261 241	178 875
Profit (loss) on continuing operations	(9 402)	(4 649)
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	-	-
Comprehensive income for the period	(9 402)	(4 649)
Dividend received from the associate	-	-

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

The FBSerwis SA Group	31 December 2017	31 December 2016
Net assets	76 035	84 646
The Group's share (interest) in the associate	49.00%	49.00%
Other adjustments	-	-
Carrying amount of the Group's share (interest) in the associate	**37 257**	**41 477**

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

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

PPHU Promos Sp. z o.o.	2017	2016
Non-current assets	10 183	9 729
Current assets	2 567	2 014
Non-current liabilities	(2 512)	(2 750)
Current liabilities	(2 709)	(1 616)
Revenue	10 418	8 479
Profit (loss) on continuing operations	174	123
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	-
Comprehensive income for the period	174	123
Dividend received from the associate	-	15

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

PPHU Promos Sp. z o.o.	31 December 2017	31 December 2016
Net assets	7 529	7 377
The Group's share (interest) in the associate	26,31%	26,31%
Other adjustments	(10)	9
Carrying amount of the Group's share (interest) in the associate	**1 971**	**1 950**

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

	2017	2016
Shares in profits of associates/joint ventures	21	27
Share in losses of associates/joint ventures	(4 220)	(2 299)
Total	**(4 199)**	**(2 272)**

In 2017, the Group's share in other comprehensive income of associates amounted to PLN 0.00 (in 2016 also PLN 0.00).

The Management Board of Budimex SA made a test for impairment of investments in FBSerwis SA. The recoverable amount of FBSerwis was determined based on financial flows presented by the management board of FBSerwis SA. The forecasts were divided into individual cash generating units, i.e. separately for FBSerwis SA and for individual operating subsidiaries of FBSerwis SA. Cash flows were calculated in the nine-year period for units with infinite period of operation. In the case of cash generating units with a limited time horizon (landfills), flows were estimated for the entire lifetime (which in each case goes beyond 2040). Forecasts were prepared on the basis of historical results and predictions of the Management Board of FBSerwis SA regarding the development of the market on which the company and its subsidiaries operate. The applied discount rate is a pre-tax rate that reflects the specific nature of FBSerwis SA's operations and specific opportunities and threats regarding individual segments of its operations. Based on the impairment test described above, the Management Board stated that there was no need to recognise any impairment write-down.

As at 31 December 2017 and 31 December 2016, the Budimex Group had no share in the contingent liabilities of associates. As at 31 December 2017, the share of the Budimex Group in the contingent assets of associates was PLN 2 814 thousand (as at 31 December 2016 – PLN 5 037 thousand).

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

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

15. Available-for-sale financial assets

	2017	2016
Opening balance	**9 396**	**9 247**
Increases:	**105**	**150**
– acquisition	105	150
Decreases	**-**	**(1)**
– other	-	(1)
Closing balance	**9 501**	**9 396**
of which:		
– long-term	***9 501***	***9 396***
– short-term	-	-

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

The carrying amount of long-term financial assets available for sale as at 31 December 2017 and 31 December 2016 equated to their acquisition cost. The fair value of these assets cannot be established as there is no active market for those items.
The Group does not intend to sell any available-for-sale financial assets during the period of the next 12 months.

16. Other financial assets/ financial liabilities

	31 December 2017	31 December 2016
Other financial assets – non-current portion	**67 033**	**10 035**
Derivative financial instruments	4 582	872
– 1-2 years	*4 550*	*774*
– 2-5 years	-	*30*
– above 5 years	*32*	*68*
Loans granted	62 451	9 163
– 2 - 5 years	*62 451*	*9 163*
Other financial assets - current portion	**286 533**	**1 758**
Derivative financial instruments	7 518	1 758
Bonds issued by banks	278 972	-
Other – Energy Performance Certificates (EPCs)	43	-
Other financial assets - total	**353 566**	**11 793**
Other liabilities – non-current portion	**2 250**	**1 984**
Derivative financial instruments	2 250	1 984
– 1-2 years	*1 192*	*574*
– 2-5 years	*751*	*990*
– above 5 years	*307*	*420*
Other liabilities – current portion	**6 796**	**1 018**
Derivative financial instruments	6 796	1 018
Other liabilities - total	**9 046**	**3 002**

16.1 Derivative financial instruments

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

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

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

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

	2017	2016
Gains/ (losses) on valuation of FX forward contracts	5 060	2 273
Gains / (losses) on realisation of FX forward contracts and currency options	(1 169)	(2 600)
Total gains / (losses) on derivative financial instruments recognised as part of operating activities (note 34)	**3 891**	**(327)**
Gains/ (losses) on valuation of IRS contracts	401	1 230
Gains/ (losses) on realisation of IRS contracts	(643)	(652)
Total gains / (losses) on derivative financial instruments recognised as part of financing activities (note 35)	**(242)**	**578**

The fair value of the transactions concluded by Group companies and open as at 31 December 2017 and 31 December 2016 is presented in the table below:

	Financial assets arising from derivatives valuation		**Financial liabilities arising from derivatives valuation**	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
FX forward contracts and currency options	12 068	2 562	6 874	394
Interest rate swap	32	68	2 172	2 608

The total nominal value of FX forward contracts as at 31 December 2017 was EUR 70 397 thousand, USD 977 thousand and CZK 191 859 thousand, while as at 31 December 2016 – EUR 56 002 thousand, USD 2 547 thousand and GBP 122 thousand.

Forward selling/ buying rate for Euro-based transactions open as at 31 December 2017 ranged EUR/ PLN 4.2105 – 4.7035 (as at 31 December 2016 – EUR/ PLN 4.3163 – 4.7035). Euro-based forward transactions open as at 31 December 2017 are to be settled within 25 - 711 days (as at 31 December 2016, transaction settlement date was 26 – 1 034 days).

Forward selling/ buying rate for USD-based transactions open as at 31 December 2017 ranged 3.5349 – 4.0927 USD/ PLN (as at 31 December 2016 – USD/ PLN 3.8202 – 4.1970). USD-based forward transactions open as at 31 December 2017 are to be settled within 25 - 270 days (as at 31 December 2016, transaction settlement date was 26 - 180 days).

As at 31 December 2017, the Group did not have any open GBP-based forward transactions. Forward selling/ buying rate for GBP-based transactions open as at 31 December 2016 was GBP/ PLN 5.3244. GBP-based forward transactions open as at 31 December 2016 were to be settled within 26 days.

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

As at 31 December 2017, the Group did not have open currency options, while as at 31 December 2016 the value of acquired currency options was EUR 4 014 thousand. As at 31 December 2016, the exchange rate for acquired currency options (call on call) amounted to EUR/PLN 4.53.

As at 31 December 2017 and as at 31 December 2016, the Group had open IRS transactions, under which it will pay fixed interest rate and will receive 3M WIBOR floating rate. The nominal value of individual IRS transactions did not exceed PLN 10 000 thousand. The longest maturity date for said transactions falls on 30 September 2030.

16.2 Loans granted

In the years 2015 – 2017, the Group made available to its associate company, FB Serwis SA, 3 following loan facilities:

1. Loan based on the loan agreement dated 24 March 2015 to the amount of PLN 3 969 thousand. The value of issued loan tranches as at 31 December 2017 amounted to PLN 302 thousand (no loan tranches were issued on 31 December 2016). Loan effective interest rate in 2017 was 5.73% (2016: 5.71%). Loan maturity date was set at 24 March 2020.

2. Loan based on the loan agreement dated 4 January 2016 to the amount of PLN 13 720 thousand. The value of issued loan tranches as at 31 December 2017 amounted to PLN 11 081 thousand (PLN 9 163 thousand as at 31 December 2016). Loan effective interest rate in 2017 was 5.73% (2016: 5.71%). Loan maturity date was set at 4 January 2021.

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

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

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

	2017	2016
Opening balance	**9 163**	**1 549**
– loan granted	51 153	9 163
– accrued interest (note 35)	2 264*	369
– loan principal repayment	-	-
– interest repayment	(129)	(1 918)
Closing balance	**62 451**	**9 163**
of which:		
– long-term	*62 451*	*9 163*
– short-term	-	-

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

16.3 Bonds issued by banks

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

The bonds were classified as financial assets held to maturity. Since they are short-term financial instruments, their fair value approximates carrying amount presented in the statement of financial position.

17. Receivables from service concession arrangement

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

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

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

Movements in receivables from service concession arrangement

	2017	2016
Opening balance	**46 096**	**45 688**
Increases:	**2 931**	**2 907**
– valuation of financial asset at amortised cost (note 35)	2 931	2 907
Decreases	**(2 587)**	**(2 499)**
– repayments	(2 587)	(2 499)
Closing balance	**46 440**	**46 096**
of which:		
– long-term	***46 440***	***46 096***
– short-term	-	-

In 2017 and 2016, revenue and gains(losses) from construction services under service concession arrangement did not occur because the construction of the underground car park was completed in 2014 and the car park was given over for use.

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

18. Trade and other receivables

	31 December 2017	31 December 2016
Long-term trade and other receivables		
Prepayments and accruals	18 266	13 015
Other receivables	21 075	23 241
Long-term trade and other receivables, net	**39 341**	**36 256**
Impairment write-down against long-term receivables	96	106
Long-term trade and other receivables, gross	**39 437**	**36 362**
Short-term trade and other receivables		
Trade receivables	596 648	442 597
Advances made	36 814	35 006
Taxation, subsidy, customs duty, social security, health insurance and other debtors	2 100	13 523
Prepayments and accruals	24 643	17 449
Other receivables	29 734	8 145
Short-term trade and other receivables, net	**689 939**	**516 720**
Impairment write-down against receivables	132 566	137 173
Short-term trade and other receivables, gross	**822 505**	**653 893**
Total trade and other receivables, net	**729 280**	**552 976**

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

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

As at 31 December 2017 and 31 December 2016, no securities or collaterals were established on these assets.

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

	2017	2016
Impairment write-downs against receivables - opening balance	**137 279**	**130 826**
Charged to other operating expenses (note 34)	2 870	14 524
Reversed to other operating income (note 34)	(4 405)	(4 257)
Utilised	(2 454)	(4 593)
Foreign exchange differences	(628)	482
Other	-	297
Impairment write-downs against receivables - closing balance	**132 662**	**137 279**

Maturity analysis of past-due trade receivables

The table below shows the maturity analysis of trade and other receivables, which at the reporting date are overdue but not impaired. The Group companies decided not to recognise any write-downs against those receivables as they are able to offset their liabilities towards those contractors or they received from these contractors securities/ collaterals in the form of sureties or guarantees.

As at 31 December 2017 and 31 December 2016, there were no past due other receivables, for which no impairment write-down was recognised.

	31 December 2017	31 December 2016
Past due trade receivables, outstanding for:		
– up to 1 month	71 322	58 246
– 1-3 months	6 536	2 849
– 3-6 months	2 701	4 883
– 6 months to 1 year	3 153	1 134
– above 1 year	29 785	28 199
Total past due trade receivables	**113 497**	**95 311**

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

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

19. Inventories

	31 December 2017	31 December 2016
Raw materials	238 877	158 384
Semi-finished goods and work in progress	516 087	546 436
Finished goods	137 279	36 501
Goods for resale	532 857	442 328
Inventories net value - closing balance	**1 425 100**	**1 183 649**
Impairment write-downs	54 461	69 012
Inventories gross value - closing balance	**1 479 561**	**1 252 661**

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Inventory impairment write-downs

	2017	2016
Inventory impairment write-downs - opening balance	**69 012**	**73 856**
Charged to other operating expenses (note 34)	3 070	4 067
Reversed to other operating income (note 34)	(3 251)	(1 958)
Utilised	(14 370)	(6 953)
Inventory impairment write-downs – closing balance	**54 461**	**69 012**

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

	2017	2016
Inventory disposal	68	975
Increase in recoverable amount	3 164	983
Scrapping	19	-
Total	**3 251**	**1 958**

The value of collaterals established on inventories is described in note 39.

In the years 2016 – 2017, inventories were not financed by non-Group loans and therefore, at the consolidated level, the Group companies did not capitalise to inventories any interest in those years, and the total value of interest capitalised to Group inventories was PLN 0 thousand as at 31 December 2016 and as at 31 December 2017.

As at 31 December 2017, the value of inventories to be utilised or sold in the period of more than 12 months is PLN 768 126 thousand, while as at 31 December 2016 – PLN 698 005 thousand.

Inventories with a value of PLN 1 177 741 thousand relate to the expenditure incurred in respect of realised residential projects earmarked for further sale. Due to the general situation on the residential market, the Group is exposed to the risk of fluctuations of selling prices of apartments and service spaces/ premises. The risk of price fluctuations was mitigated in respect of apartments that had been sold based on preliminary sale agreements. As regards the investment projects for which the construction phase did not start, no binding agreements for construction services were signed.

To verify market value of held assets, the Management Board commissioned an external appraiser, Savills Sp. z o.o. to perform valuation of certain inventory items. Inventory market value as at 31 December 2017 determined based on appraiser and in-house valuations exceeds the carrying amount of tested inventory items. Given the above, the Management Board decided that no impairment adjustment should be recognised other than that already recognised in the financial statements. However, due to the instability of the real estate market, one cannot exclude that future sales prices will differ from the prices used by the Group or independent appraiser for impairment test purposes, and that further write-downs or reversals of such write-downs may be necessary.

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

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

20. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	30	41
Cash at bank	2 126 809	2 715 093
Total cash and cash equivalents	**2 126 839**	**2 715 134**
Cash and cash equivalents of restricted use	(164 990)	(191 101)
Cash recognised in the statement of cash flows	**1 961 849**	**2 524 033**

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

	31 December 2017	31 December 2016
Cash of the consortia in the portion attributable to other consortium members	42 412	32 156
Escrow accounts of development companies	62 083	33 821
Blocked development project bank accounts	58 643	123 530
Cash and cash equivalents serving as bank guarantee (note 39)	-	115
Cash and cash equivalents serving as loan collateral (note 39)	1 021	1 018
Other	831	461
Total cash and cash equivalents of restricted use	**164 990**	**191 101**

Short-term bank deposits and highly liquid investments included in cash and cash equivalents comprise mainly “overnight” deposits and short-term deposits with a maturity date of 2-365 days with an average effective interest rate as at 31 December 2017 of 1.51% per annum for PLN-based deposits (as at 31 December 2016: 1.50% p.a. for PLN-based deposits). The average maturity period for these deposits is 45 days (31 December 2016: 82 days).

In 2017, the Group obtained cash in the amount of PLN 8 395 thousand as a result of guarantee realisation (in 2016: PLN 1 322 thousand).

21. Capital

At the date of transition to IFRSs, the Group adjusted the value of issued capital and of share premium for the period, in which the Polish economy was hyperinflationary. The effects of translation and reconciliation of balances shown in the books of account and corporate records of Group companies as at 31 December 2017 and 31 December 2016 to the balances recognised in the financial statements are presented in the table below.

	31 December 2017		31 December 2016	
	Ordinary shares	Share premium	Ordinary shares	Share premium
Capital as per books of account	**127 650**	**85 083**	**127 650**	**85 083**
Translation of capital due to hyperinflation	18 198	2 080	18 198	2 080
Capital as per financial statements	**145 848**	**87 163**	**145 848**	**87 163**

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

The issued capital of the Parent Company consists of 25 530 098 shares with a total value of PLN 127 650 thousand. The structure of the issued capital of the Parent Company as at 31 December 2017 is as follows:

Share series/ issue	Class of shares	Type of preference	Type of restrictions on rights to shares	Number of shares	Value of series/ issues according to nominal value
A	ordinary/ registered	None	None	2 250	11
A	ordinary/bearer	None	None	2 997 750	14 989
B	ordinary/bearer	None	None	2 000 000	10 000
C	ordinary/bearer	None	None	1 900 285	9 501
D	ordinary/bearer	None	None	1 725 072	8 625
E	ordinary/bearer	None	None	2 000 000	10 001
F	ordinary/bearer	None	None	5 312 678	26 563
G	ordinary/bearer	None	None	2 217 549	11 088
H	ordinary/bearer	None	None	1 448 554	7 243
I	ordinary/bearer	None	None	186 250	931
K	ordinary/bearer	None	None	1 484 693	7 423
L	ordinary/bearer	None	None	4 255 017	21 275
Total				**25 530 098**	**127 650**

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

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

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

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

22. Equity attributable to non-controlling interest

	2017	2016
Balance at the beginning of the period	**4 443**	**3 918**
– change in the percentage of shares attributable to non-controlling interests	(3 945)	-
– share in profit/(loss) during the year	269	563
– share in consolidation adjustments	(82)	73
– adjustment to non-controlling interests	-	(111)
Balance at the end of the period	**685**	**4 443**

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

In Q1 2017, Budimex SA acquired from non-controlling interests 282 484 shares representing 5.22% in the issued capital and in the total number of votes at the General Shareholders' Meeting of Elektromontaż Poznań SA. The total price paid by Budimex SA for the shares amounted to PLN 2 418 thousand. The value of net assets of Elektromontaż Poznań SA representing those shares was PLN 3 080 thousand. The difference between price paid for the acquired shares and the share in the net assets of PLN 662 thousand was recognised in Retained earnings.

On 10 July 2017, Budimex Budownictwo Sp. z o.o., 100% subsidiary of Budimex SA, acquired from the State Treasury 77 043 shares in Elektromontaż Poznań SA, which in total account for 1.42% of the issued capital and the number of votes at the General Shareholders' Meeting. The total price for the acquired shares amounted to PLN 822 thousand. The value of net assets of Elektromontaż Poznań SA representing those shares was PLN 865 thousand. The difference between price paid for the acquired shares and the share in the net assets of PLN 43 thousand was recognised in Retained earnings. On 31 August 2017, Budimex SA acquired those shares from Budimex Budownictwo Sp. z o.o. for the amount of PLN 831 thousand – this transaction did not have any impact on the consolidated financial statements.

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

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

The Elektromontaż Poznań SA Group	**2017**	**2016**
Statement of financial position*		
Non-current assets	34 269	37 903
Current assets	97 824	99 156
Non-current liabilities	(8 414)	(8 184)
Current liabilities	(57 154)	(71 489)
Statement of comprehensive income		
Revenue	153 980	162 583
Profit (loss) on continuing operations	9 052	7 175
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	87	144
Total comprehensive income for the period	9 139	7 319
Dividends received from the Elektromontaż Poznań SA Group	-	-

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

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

23. Loans and borrowings and other external sources of finance

	31 December 2017	31 December 2016
	Carrying amount	
Non-current		
Bank loans and borrowings	29 888	30 858
Finance lease liabilities	62 198	31 475
	92 086	**62 333**
Current		
Bank loans and borrowings	9 663	10 185
Finance lease liabilities	20 657	10 086
Interest accrued on short-term loans and borrowings	4	5
	30 324	**20 276**
Total	**122 410**	**82 609**

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

	31 December 2017		31 December 2016	
	Carrying amount	Undiscounted contractual cash flows*	Carrying amount	Undiscounted contractual cash flows*
– up to 1 year	9 667	10 659	10 190	11 255
– 1-3 years	2 341	4 130	2 059	3 977
– 3-5 years	2 918	4 526	2 696	4 460
– above 5 years	24 629	28 339	26 103	30 906
	39 555	**47 654**	**41 048**	**50 598**

*) comprise both principal and interest payments; as at 31 December 2017 and 31 December 2016, the amounts expressed in foreign currency were translated at the NBP period-end exchange rates and interest payments were calculated using the interest rates prevailing in the last interest period before 31 December 2017 and 31 December 2016.

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

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

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

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

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

	31 December 2017		31 December 2016	
	Outstanding amount	Amount as per agreement	Outstanding amount	Amount as per agreement
Long-term portion	29 888	32 598	30 858	32 542
PLN (WIBOR)	*29 888*	*32 598*	*30 858*	*32 542*
Short-term portion	9 667	9 663	10 190	10 185
PLN (WIBOR)	*969*	*969*	*1 025*	*1 025*
EUR (EURIBOR)	*8 698*	*8 694*	*9 165*	*9 160*
	39 555	**42 261**	**41 048**	**42 727**

Risk of interest rate fluctuations

The effective interest rate as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017		31 December 2016	
	PLN	EUR	PLN	EUR
Bank loans and borrowings	3.38%	0.56%	3.36%	0.67%
Finance lease liabilities	3.12%	-	3.10%	-

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

Finance lease liabilities

The Budimex Group companies signed finance lease agreements for financing mainly plant and machinery, and means of transport. Leased assets were made available for the period of 36 - 96 months. After the completion of the original lease term and after discharging their liabilities, Group companies will have the right to acquire some of the leased assets for the price equating their residual value. The contractual liabilities are partly secured with a blank bill of exchange issued by the Lessee together with a written authorisation for its drawing. Future minimum lease payments under the above lease agreements and the present value of net minimum lease payments as at 31 December 2017 are as follows:

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

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

24. Trade and other payables

	31 December 2017	31 December 2016
Short-term trade and other payables		
Financial liabilities		
Trade liabilities	513 916	515 197
Un-invoiced costs	685 863	560 431
Payroll	9 237	8 247
Accrued expenses, of which:	221 662	199 444
- unused annual leave	*43 005*	*39 726*
- employee bonus	*178 657*	*159 718*
Liabilities relating to consortia settlement	1 707	10 561
Non-financial liabilities		
Taxation and social security creditors	228 674	153 400
Accrued expenses	23 492	22 908
- costs of construction contracts completion	*21 579*	*22 603*
- other	*1 913*	*305*
Other liabilities	13 433	5 795
Total short-term trade and other payables	**1 697 984**	**1 475 983**
Total trade and other payables	**1 697 984**	**1 475 983**

All trade liabilities and other payables as at 31 December 2017 and 31 December 2016 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

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

25. Income tax

	31 December 2017	31 December 2016
Deferred tax assets		
– to be realised after 12 months	123 211	154 912
– to be realised within 12 months	411 091	372 190
Total	**534 302**	**527 102**
Offsetting	(129 094)	(82 127)
Deferred tax assets, after set-off	**405 208**	**444 975**
Deferred tax liabilities		
– to be settled after 12 months	19 767	14 508
– to be settled within 12 months	109 327	67 619
Total	**129 094**	**82 127**
Offsetting	(129 094)	(82 127)
Deferred tax liabilities, after set-off	-	-

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

	2017	2016
Balance at the beginning of the year	**444 975**	**440 922**
Credit/ (charge) to financial result	(40 289)	4 091
Credit/ (charge) to other comprehensive income	508	(26)
Other	14	(12)
Balance at the end of the year	**405 208**	**444 975**

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

As at 31 December 2017, deductible temporary differences and carry-forward of unused tax losses for which no deferred tax asset was recognised in the statement of financial position amounted to PLN 69 thousand (as at 31 December 2016: PLN 6 858 thousand) and expired as follows: PLN 39 thousand in 2018 and PLN 30 thousand in 2019. The reason for non-recognition of a deferred tax asset is that the probability of non-recovery of debts that exists under Polish tax law is rather remote.

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

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

	Deferred tax asset as at 1 January 2016	Recognition/ (utilisation) of deferred tax asset through profit or loss	Recognition/ (utilisation) of deferred tax asset through other comprehensive income	Change in Group composition	Other movements	Deferred tax asset as at 31 December 2016	Recognition/ (utilisation) of deferred tax asset through profit or loss	Recognition/ (utilisation) of deferred tax assets through other comprehensive income	Change in Group composition	Other movements	Deferred tax asset as at 31 December 2017
Valuation of long-term construction contracts and provision for losses	235 589	21 412	-	-	-	257 001	(61 864)	-	-	-	195 137
Contract costs related to accrued income	25 710	18 821	-	-	-	44 531	38 172	-	-	-	82 703
Liabilities – un-invoiced costs	95 416	(44 523)	-	-	-	50 893	17 912	-	-	-	68 805
Tax loss	5	4	-	-	-	9	68	-	-	-	77
Provisions for warranty repairs	41 738	9 770	-	-	-	51 508	9 894	-	-	-	61 402
Other provisions for liabilities	17 357	395	-	-	-	17 752	5 427	-	-	-	23 179
Receivables - impairment write-downs	25 896	(584)	-	-	-	25 312	(3 003)	-	-	-	22 309
Employee bonus	30 060	(273)	-	-	-	29 787	3 500	-	-	-	33 287
Unused annual leave	6 466	676	-	-	-	7 142	658	-	-	-	7 800
Discount of retentions for construction contracts	173	112	-	-	-	285	284	-	-	-	569
Forward contracts valuation	858	(288)	-	-	-	570	1 149	-	-	-	1 719
Retirement benefits and similar obligations	1 711	93	(26)	-	-	1 778	112	508	-	-	2 398
Impairment write-down against long-term financial assets	2 600	(1)	-	-	-	2 599	(1)	-	-	-	2 598
Other	8 370	29 577	-	-	(12)	37 935	(5 630)	-	-	14	32 319
Total	**491 949**	**35 191**	**(26)**	**-**	**(12)**	**527 102**	**6 678**	**508**	**-**	**14**	**534 302**
Offsetting	(51 027)					(82 127)					(129 094)
After set-off (recognised in the statement of financial position)	**440 922**					**444 975**					**405 208**

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

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

	Deferred tax liability as at 1 January 2016	**Recognition / (utilisation) of deferred tax liability through profit or loss**	**Recognition / (utilisation) of deferred tax liability through other comprehensive income**	**Change in Group composition**	**Deferred tax liability as at 31 December 2016**	**Recognition / (utilisation) of deferred tax liability through profit or loss**	**Recognition / (utilisation) of deferred tax liability through other comprehensive income**	**Change in Group composition**	**Deferred tax liability as at 31 December 2017**
Valuation of long-term construction contracts	32 635	22 172	-	-	54 807	37 058	-	-	91 865
Forward transactions valuation	243	257	-	-	500	1 807	-	-	2 307
Discount of retentions for construction contracts	3 204	721	-	-	3 925	532	-	-	4 457
Receivables – accrued interest	825	(249)	-	-	576	246	-	-	822
Deferred tax liability - German market	447	(26)	-	-	421	(329)	-	-	92
Lease	6 569	2 477	-	-	9 046	8 251	-	-	17 297
Other	7 104	5 748	-	-	12 852	(598)	-	-	12 254
Total	**51 027**	**31 100**	**-**	**-**	**82 127**	**46 967**	**-**	**-**	**129 094**
Offsetting	(51 027)				(82 127)				(129 094)
After set-off (recognised in the statement of financial position)	-				-				-

	2017	2016
Current tax	74 552	106 127
Deferred tax	40 289	(4 091)
Adjustments to prior periods current income tax	997	(1 107)
Tax expense/ (tax income)	**115 838**	**100 929**

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

	2017	2016
Gross profit/ (loss)	**580 432**	**511 405**
Shares in (profits)/ losses of equity accounted entities	4 199	2 272
Pre-tax profit/ (loss)	**584 631**	**513 677**
Tax calculated using domestic tax rates	111 080	97 599
Differences in taxation of revenues of foreign operations	(671)	(638)
Adjustments to prior periods current income tax	997	(1 107)
Tax effects of permanent differences between gross profit and taxable income	1 640	2 325
Utilisation of carry-forward of unused tax losses or prior period deductible temporary differences	(7)	(524)
Deductible temporary differences, carry-forward of unused tax losses and carry-forward of unused tax credits for which no deferred tax assets were recognised in the statement of financial position	222	1 305
Tax expense/ (tax income) calculated with respect to industrial and commercial business operations in Germany	2 651	2 048
Other	(74)	(79)
Tax expense/ (tax income)	**115 838**	**100 929**
Effective tax rate	*19.81%*	*19.65%*

26. Retirement benefits and similar obligations

As at 31 December 2017, all employees of the Budimex Group benefited from the two types of employee allowances:

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

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

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

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

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

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

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

Risk of changes to retirement age - the present value of liabilities from retirement benefits and similar obligations is calculated based on statutory retirement age applicable in Poland.

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

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

	31 December 2017	31 December 2016
Retirement/ pension benefits, of which:	**12 130**	**8 826**
– present value of the obligation at the reporting date	12 130	8 826
– actuarial gains/ (losses) not recognised at the reporting date	-	-
– past service costs not recognised at the reporting date	-	-
Posthumous benefits, of which:	**493**	**533**
– present value of the obligation at the reporting date	493	533
– actuarial gains/ (losses) not recognised at the reporting date	-	-
– past service costs not recognised at the reporting date	-	-
Total retirement benefits and similar obligations	**12 623**	**9 359**
of which:		
– long-term portion	*11 086*	*7 937*
– short-term portion	*1 537*	*1 422*

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

	31 December 2017	31 December 2016
Discount rate	1.81% – 2.98%	1.77% – 2.98%
Forecast inflation rate	(0.9%) – 2.5%	1.3% – 2.5%
Forecast salary growth rate	5.0% – 6.5%	1.7% – 5.0%

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

The last valuation of employee benefits was made by an independent actuary as at 31 December 2017.

Retirement and pension benefits

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

	2017	2016
Present value of liability at the beginning of the period	**8 826**	**8 323**
Interest expense	214	158
Service costs	871	841
Benefits paid	(548)	(570)
Actuarial (gains)/losses, of which:	2 767	74
- change in assumptions	*2 527*	*(537)*
- historical experience relating to program obligations	*240*	*611*
Present value of liability at the end of the period	**12 130**	**8 826**

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

	2017	2016
Service costs	871	841
Interest expense	214	158
Costs recognised in the profit and loss account (note 33)	**1 085**	**999**
Actuarial losses to be recognised in the period	2 767	74
Costs recognised in other comprehensive income	**2 767**	**74**
of which, employee allowances recognised in the profit and loss account under the following items:		
- cost of finished goods, goods for resale and raw materials sold	*886*	*139*
- selling expenses	*22*	*(32)*
- administrative expenses	*177*	*892*

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

Posthumous benefits

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

	2017	2016
Present value of liability at the beginning of the period	**533**	**684**
Interest expense	14	14
Current service costs	38	48
Past service costs	-	-
Actuarial (gains)/losses, of which:	(92)	(213)
- change in assumptions	*(31)*	*(149)*
- historical experience relating to programme obligations	*(61)*	*(64)*
Present value of liability at the end of the period	**493**	**533**

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

	2017	2016
Current service costs	38	48
Interest expense	14	14
Past service costs	-	-
Costs recognised in the profit and loss account (note 33)	**52**	**62**
Actuarial losses to be recognised in the current period	(92)	(213)
Costs recognised in other comprehensive income	**(92)**	**(213)**
of which, employee allowances recognised in the profit and loss account under the following items:		
- cost of finished goods, goods for resale and raw materials sold	*42*	*47*
- selling expenses	*5*	*8*
- administrative expenses	*5*	*7*

Sensitivity analysis

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

Analysis of sensitivity to fluctuations in interest rates

An increase in the assumed discount rate by 1 percentage point would result in a decrease in liabilities from retirement and similar benefits by PLN 1 265 thousand, while a decrease in the assumed discount rate by 1 percentage point would bring about an increase in said liability by PLN 1 537 thousand.

Analysis of sensitivity to fluctuations in salary growth rates

An increase in the assumed salary growth rate by 1 percentage point would result in an increase in liabilities from retirement and similar benefits by PLN 1 463 thousand, while a decrease in the assumed remuneration growth rate by 1 percentage point would bring about a decrease in liability under retirement and similar benefits by PLN 1 235 thousand.

Analysis of sensitivity to staff turnover

An increase in the assumed staff turnover by 1 percentage point would result in a decrease in liabilities from retirement and similar benefits by PLN 1 388 thousand, while a decrease in the assumed staff turnover by 1 percentage point would bring about an increase in said liability by PLN 1 684 thousand.

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

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

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

27. Provisions for liabilities and other charges

	Litigation proceedings	Penalties and other sanctions	Warranty repairs	Restructuring	Other	Total
Balance as at 1 January 2016	**27 826**	**60 752**	**239 158**	**369**	**18 349**	**346 454**
Creation of additional provisions	377[1]	10 994[2]	103 871	-	15 600[3]	130 842
Reversal of unused provisions	(2 765)	(6 189)	(27 059)	-	(1 448)[4]	(37 461)
Provisions utilisation	(24)	(20)	(20 006)	(207)	(2 615)	(22 872)
Other movements	(1)	-	64	-	(1)	62
Balance as at 31 December 2016	**25 413**	**65 537**	**296 028**	**162**	**29 885**	**417 025**
Balance as at 1 January 2017	**25 413**	**65 537**	**296 028**	**162**	**29 885**	**417 025**
Creation of additional provisions	2 617	2 371[5]	91 898	-	23 042[6]	119 928
Reversal of unused provisions	(3 391)	(12 387)[7]	(11 554)	(29)	(114)[8]	(27 475)
Provisions utilisation	-	-	(21 654)	(133)	(10 971)	(32 758)
Other movements	(5)	-	(95)	-	-	(100)
Balance as at 31 December 2017	**24 634**	**55 521**	**354 623**	**-**	**41 842**	**476 620**

1) of which PLN 141 thousand was recognised as a decrease in other operating expenses
2) of which PLN 576 thousand was recognised under finance costs
3) of which PLN 15 594 thousand was recognised under costs of finished goods, services, goods for resale and raw materials sold and PLN 6 thousand under finance costs
4) of which PLN 1 448 thousand was recognised as a decrease in the costs of finished goods, services, goods for resale and raw materials sold
5) of which PLN 565 thousand was recognised under finance costs
6) of which PLN 22 642 thousand was recognised under costs of finished goods, services, goods for resale and raw materials sold
7) of which PLN 24 thousand was recognised as a decrease in finance costs
8) of which PLN 114 thousand was recognised as a decrease in the costs of finished goods, services, goods for resale and raw materials sold

The creation/(reversal) of provisions for litigation, penalties and other sanctions and restructuring provision was recognised under other operating expenses (note 34), while creation / (reversal) of provisions for warranty repair – under other operating expenses.

The structure of total provisions is as follows:

	31 December 2017	31 December 2016
Non-current	305 858	247 481
Current	170 762	169 544
	476 620	**417 025**

28. Long-term construction contracts

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

Selected consolidated data – statement of financial position

	31 December 2017	31 December 2016
Assets		
Valuation of long-term construction contracts	483 501	288 456
Liabilities		
Valuation of long-term construction contracts	783 209	944 184
Provision for construction contract losses	243 829	408 455
Advance payments for construction contracts in progress (note 29)	677 391	407 788

The fair value of valuation of long-term construction contracts approximates their carrying amounts.

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

29. Deferred income

Deferred income comprises:

	31 December 2017	31 December 2016
Advance payments for construction contracts in progress (note 28)	677 391	407 788
Advance payments for flats in developer companies	661 862	587 089
Other accrued income	6 014	7 140
Total	**1 345 267**	**1 002 017**

All advance payments received and other accrued income as at 31 December 2017 and 31 December 2016 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

30. Retentions for construction contracts

	31 December 2017	31 December 2016
Retained by customers – to be returned after 12 months	30 138	23 333
Retained by customers – to be returned within 12 months	27 812	30 818
Total retentions for construction contracts retained by customers	**57 950**	**54 151**
Received from suppliers – to be returned after 12 months	203 643	206 147
Received from suppliers – to be returned within 12 months	217 193	186 244
Total retentions for construction contracts received from suppliers	**420 836**	**392 391**

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

	31 December 2017	31 December 2016
Discount of long-term retentions for construction contracts retained by customers	2 996	1 502
Discount of long-term retentions for construction contracts received from suppliers	23 463	20 662

Amount of discount recognised in the profit and loss account:

	2017	2016
Decrease in sales revenue	(2 018)	(1 083)
Reduction in the cost of services sold	11 905	10 648
Total adjustment to gross margin	**9 887**	**9 565**
Adjustment to finance income / (finance costs) (note 35)	(8 580)	(6 362)
Deferred tax on the above adjustments	(248)	(609)
Net effect on the profit and loss account	**1 059**	**2 594**

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

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

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

	31 December 2017	31 December 2016
Retentions for construction contracts overdue for the period of:		
– up to 1 month	991	1 352
– 1-3 months	3 382	1 120
– 3-6 months	50	-
– 6 months to 1 year	6	1 385
– above 1 year	1 538	418
Total overdue retentions for construction contracts	**5 967**	**4 275**

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

31. Revenue from contracts with customers

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

31.1.1 Sales revenue, by type of good or service

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

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Sales of construction-assembly work	5 982 645	346	143 028	(340 490)	**5 785 529**
Sales of other services	34 258	4 054	8 120	(12 400)	**34 032**
Sales of finished goods	48 943	494 251	2 608	-	**545 802**
Sales of goods for resale and raw materials	3 831	-	115	-	**3 946**
Total sales of finished goods, goods for resale and raw materials	**6 069 677**	**498 651**	**153 871**	**(352 890)**	**6 369 309**

In 2016, net sales of finished goods and services, and goods for resale and raw materials, by type of good or service, were as follows:

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Sales of construction-assembly work	5 329 004	-	153 477	(322 034)	**5 160 447**
Sales of other services	34 200	3 708	8 026	(9 730)	**36 204**
Sales of finished goods	24 605	345 824	1 312	-	**371 741**
Sales of goods for resale and raw materials	3 644	54	200	-	**3 898**
Total sales of finished goods, goods for resale and raw materials	**5 391 453**	**349 586**	**163 015**	**(331 764)**	**5 572 290**

31.1.2 Sales revenue, by geographical area

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

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Poland	5 843 713	498 651	151 160	(352 890)	**6 140 634**
Germany	201 171	-	370	-	**201 541**
Other EU countries	23 889	-	-	-	**23 889**
Other countries*	904	-	2 341	-	**3 245**
Total sales of finished goods, goods for resale and raw materials	**6 069 677**	**498 651**	**153 871**	**(352 890)**	**6 369 309**

**other countries are Ukraine and Russia*

In 2016, net sales of finished goods and services, and goods for resale and raw materials, by geographical area, were as follows:

Segment	Construction business	Development activities and property management	Other business	Exclusions	Consolidated financial data
Poland	5 192 275	349 586	161 033	(331 764)	**5 371 130**
Germany	184 852	-	-		**184 852**
Other EU countries	5 375	-	120		**5 495**
Other countries*	8 951	-	1 862		**10 813**
Total sales of finished goods, goods for resale and raw materials	**5 391 453**	**349 586**	**163 015**	**(331 764)**	**5 572 290**

**other countries are Ukraine and Russia*

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

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

31.1.3 Sales revenue of the segment „Construction business" by construction type

Net sales of finished goods and services, and goods for resale and raw materials of the "Construction business" as the most significant Budimex Group operating segment were additionally analysed by type of constructed objects. Data for the years 2017 and 2016 are as follows:

Type of construction works	Sales revenue for the 12-month period ended: 31 December 2017	31 December 2016
Land-engineering	2 966 701	3 015 746
Railway	237 210	130 644
Cubic objects, of which:	2 865 766	2 245 063
- non-housing	*2 057 748*	*1 564 355*
- housing	*808 018*	*680 708*
Sales of finished goods, goods for resale and raw materials – Construction business segment	**6 069 677**	**5 391 453**

31.2 Assets and liabilities arising from contracts with customers

Deadline to satisfy contract obligations vs. applied payment deadlines

Long-term 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 obligation (interim certificate of payment, interim technical acceptance (OT) protocols, progress billings), and
- After work completion – based on final documents (final technical acceptance (OT) protocol, 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 Group companies are usually set at 30 days, with the proviso that for certain construction contracts Group companies obtain financing prior to commencement of contract work in the form of advance payments which are successively settled under progress billings and final invoices.

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

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

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

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

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

31.3 Outstanding performance obligations under contracts with customers

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

32. Costs by type

	2017	2016
Depreciation/ amortization of which:	37 478	25 923
– property, plant and equipment (note 10)	*32 193*	*23 048*
– investment property (note 11)	*118*	*334*
– intangible assets (note 12)	*5 167*	*2 541*
Employee benefits (note 33)	869 193	745 215
Materials and energy	1 939 688	1 566 901
External services	3 024 344	2 537 004
Taxes and charges	15 501	15 750
Advertising and representation	10 285	10 830
Non-life (property) and life insurance	12 185	9 096
Change in the balance of provision for contract losses (note 28)	(164 626)	(221 234)
Other costs by type	134 425	490 730
Selling expenses (negative value)	(34 016)	(32 671)
General administrative expenses (negative value)	(216 627)	(198 766)
Change in the balance of finished goods and work in progress	(69 876)	(131 602)
Cost of goods produced for the entity's own needs (negative value)	-	-
Cost of finished goods and services sold	**5 557 954**	**4 817 176**
Cost of goods for resale and raw materials sold	1 531	3 849
Cost of finished goods, services, goods for resale and raw materials sold	**5 559 485**	**4 821 025**

33. Cost of employee benefits

	2017	2016
Cost of salaries and wages, of which:	**724 600**	**622 437**
– retirement and pension benefits (note 26)	*1 137*	*1 061*
– share-based payments (note 40)	*3 105*	*2 292*
– termination benefits	*3 451*	*2 850*
Cost of social security surcharges and other allowances, of which:	**144 593**	**122 778**
– social security	*111 418*	*94 038*
– termination benefits	*511*	*538*
Total cost of employee benefits recognised in the costs by type (note 32)	**869 193**	**745 215**

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

34. Other operating income and other operating expenses

Other operating income

	2017	2016
Gains on the sale of non-financial long-term assets and investment property	3 301	760
Reversal of impairment write-downs, of which:	7 656	6 215
– receivables (following receivables repayment by debtors) (note 18)	*4 405*	*4 257*
– inventories (following inventory scrapping, disposal and increase in recoverable amount) (note19)	*3 251*	*1 958*
Reversal of provisions, of which for:	15 783	8 954
– litigation and compensations (note 27)	*3 391*	*2 765*
– penalties and sanctions (note 27)	*12 363*	*6 189*
– restructuring (note 27)	*29*	*-*
Penalties/ compensations received	24 828	23 579
Write-off of time-barred liabilities	2 656	2 545
Gains on derivative financial instruments (note 16)	5 060	2 273
Other	1 786	2 125
Total	**61 070**	**46 451**

Other operating expenses

	2017	2016
Recognition of impairment write-downs, of which against:	5 940	20 382
– receivables (note 18)	*2 870*	*14 524*
– inventories (note 19)	*3 070*	*4 067*
– property, plant and equipment (note 10)	*-*	*1 791*
Creation of provisions, of which for:	4 823	10 654
– litigation (note 27)	*2 617*	*236*
– penalties and sanctions (note 27)	*1 806*	*10 418*
– other (note 27)	*400*	*-*
Compensations and liquidated damages paid	13 311	23 934
Court charges and executions, costs of legal proceedings	717	1 807
Loss on derivative financial instruments (note 16)	1 169	2 600
Other	5 973	1 795
Total	**31 933**	**61 172**

35. Finance income and finance costs

Finance income

	2017	2016
Interest earned on financial instruments, of which:	27 585	29 014
– on bank deposits and cash at bank	*21 967*	*28 645*
– on loans granted (note 16)	*2 264*	*369*
– on bonds issued by banks (note 16)	*3 354*	*-*
Other interest income, of which:	5 280	9 023
– interest on discount and penalty interest	*5 279*	*9 023*
– other	*1*	*-*
Dividends and shares in profits	-	7
Receivables from service concession arrangement (note 17)	2 931	2 907
Reversal of long-term receivables discount	820	355
Gains on derivative financial instruments (note 16)	401	1 230
Foreign exchange gains	-	690
Other	67	1
Total	**37 084**	**43 227**

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

Finance costs

	2017	2016
Interest expense in respect of financial instruments, of which:	2 865	2 031
– interest on borrowings and loans taken out and on other external sources of finance	*1 116*	*1 162*
– interest on lease contracts	*1 749*	*869*
Other interest expense, of which:	2 702	1 617
– penalty interest paid to suppliers and interest on discounts	*1 887*	*789*
– other interest	*815*	*828*
Foreign exchange losses	797	-
Discount on retentions for construction contracts (note 30)	8 580	6 362
Cost of bank commissions and guarantees	24 234	23 960
Loss on derivative financial instruments (note 16)	643	652
Loss on transformation of jointly controlled entity	-	23
Other	950	12
Total	**40 771**	**34 657**

36. Earnings/ (loss) per share

Basic

Basic earnings (loss) per share are calculated as the quotient of profit/ (loss) attributable to the shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year (note 21).

	2017	2016
Earnings / (loss) attributable to the shareholders of the Parent Company	464 408	409 851
Weighted average number of ordinary shares	25 530 098	25 530 098
Basic earnings / (loss) per share (in PLN per share)	**18.19**	**16.05**

Diluted

Diluted earnings / (loss) per share equated to basic earnings per share for both periods because there were no instruments causing dilution.

37. Dividend per share

On 5 June 2017, Budimex SA paid out a dividend in the amount of PLN 382 696 thousand, for which separate net profit for the period from 1 January 2016 to 31 December 2016 and reserve capital from prior year profits were appropriated, i.e. the gross amount of PLN 14.99 per one share.

Until the date of the preparation of these consolidated financial statements for the year ended 31 December 2017, the Management Board of Budimex SA has not adopted a resolution on recommended appropriation of profit for 2017.

38. Statement of Cash Flows

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

	2017	2016
Foreign exchange differences on translation of foreign operations	(183)	100
Share-based payments – part recognised in equity (note 40)	-	(178)
Settlement of option premium	759	640
Other	63	(983)
Total	**639**	**(421)**

Non-monetary transactions

In 2017, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows related solely to the acquisition of property, plant and equipment with a value of PLN 54 245 thousand under finance lease agreements.

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

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

39. Liabilities secured on the Group's assets

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

	31 December 2017		31 December 2016	
	Assets pledged as security/ collateral	Security/ collateral contractual value	Assets pledged as security/ collateral	Security/ collateral contractual value
Property, plant and equipment	2 078	49 503	6 492*	49 504*
Investment property	-	-	19 468*	39 750*
Inventories	-	-	40 563	2 550
Cash and cash equivalents (note 20)	1 021**	1 021**	1 133	1 133
Total	**3 099**	**50 524**	**67 656**	**92 937**

** the collateral was established jointly on property, plant and equipment and investment property*
***as at 31 December 2017, the collaterals established on cash and cash equivalents equate the amount of 2 principal-interest instalments of the investment loan repaid by Budimex Parking Wrocław Sp. z o.o. As at 31 December 2016, the balance also covered the amount of PLN 115 thousand which represented security for bank guarantees at Elektromontaż Poznań SA.*

40. Share-based payments

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

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

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

As at 31 December 2017 and as at 31 December 2016, the total fair value of services recorded under other reserves was PLN 7 171 thousand. As at 31 December 2017, the total fair value of services recorded under liabilities amounted to PLN 8 687 thousand, while as at 31 December 2016 – PLN 5 582 thousand.

Pursuant to an agreement concluded with the Ferrovial Group in 2014, Budimex SA undertook to cover scheme costs with respect to the tranche of the instruments granted in 2014 and in the subsequent years. Therefore, the fair value of employee services related to the instruments granted in the years 2014-2017 was classified as liabilities (with a corresponding expense item).

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

	Number of initially granted shares	Grant date	Fair value of 1 share at grant date	Financial covenants realization	Cost of shares granted*
2017	45 750	15-02-2017	74.00	100%	3 105
2016	44 020	15-02-2016	79.22	100%	2 292
2015	47 843	15-02-2015	76.93	100%	2 897
2014	50 200******	11-02-2014	59.94	100%	2 194
2013	48 464*****	15-02-2013	51.84	100%	2 665
2012	55 650****	12-02-2012	38.84	100%	1 422
2011	50 900***	28-02-2011	33.98	100%	1 027
2010	41 800**	31-03-2010	24.47	100%	256
Total	**384 627**	**-**	**-**	**-**	**15 858**

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

- 2010 - 9/36th of the cost of shares granted in 2010,
- 2011 - 12/36th of the cost of shares granted in 2010 and 10/36th of the cost of shares granted in 2011,
- 2012 - 12/36th of the cost of shares granted in 2010, 12/36th of the cost of shares granted in 2011 and 10/36th of the cost of shares granted in 2012,
- 2013 - 3/36th of the cost of shares granted in 2010, 12/36th of the cost of shares granted in 2011, 12/36th of the cost of shares granted in 2012 and 10/36th of the cost of shares granted in 2013,
- 2014 - 2/36th of the cost of shares granted in 2011, 12/36th of the cost of shares granted in 2012, 12/36th of the cost of shares granted in 2013 and 10/36th of the cost of shares granted in 2014,
- 2015 - 2/36th of the cost of shares granted in 2012, 12/36th of the cost of shares granted in 2013, 12/36th of the cost of shares granted in 2014 and 10/36th of the cost of shares granted in 2015,

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

- 2016 - 2/36th of the cost of shares granted in 2013, 12/36th of the cost of shares granted in 2014, 12/36th of the cost of shares granted in 2015 and 10/36th of the cost of shares granted in 2016,
- 2017 - 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 2010 ended in March 2013. As the conditions of the incentive program were satisfied, 59 800 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
*** The three-year vesting period for shares granted in 2011 ended in February 2014. As the conditions of the incentive program were satisfied, 59 800 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
**** The three-year vesting period for shares granted in 2012 ended in February 2015. As the conditions of the incentive program were satisfied, 49 650 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
****** The three-year vesting period for shares granted in 2013 ended in February 2016. As the conditions of the incentive program were satisfied, 33 436 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.
****** The three-year vesting period for shares granted in 2014 ended in February 2017. As the conditions of the incentive program were satisfied, 41 050 shares in Ferrovial SA were formally handed over to the employees entitled to obtain shares from this tranche. The number of shares actually granted differs from the originally defined number due to adjustments made at a later date.

41. Related party transactions

Transactions with related parties made in 2017 and 2016 and the resultant unsettled balances of receivables and liabilities as at 31 December 2017 and 31 December 2016 are presented below.

	Receivables		Liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Parent and its related parties (the Ferrovial Group)	20 679	20 472	73 553	95 843
Jointly controlled entities	13 820	8 890	744	665
Associates	304	357	1 635	1 537
Other related entities – non-consolidated subsidiaries*	26	-	387	623
Other related entities – other*	11	7	-	-
Other related entities – through key personnel*	-	-	5 091	552
Total settlements with related parties	**34 840**	**29 726**	**81 410**	**99 220**

	Revenue from sale of finished goods and services and other operating income		Purchase of finished goods and services	
	2017	2016	2017	2016
Parent and its related parties (the Ferrovial Group)	856	7 462	45 522	39 275
Jointly controlled entities	58 116	6 462	234	4
Associates	1 090	860	7 728	7 296
Other related entities – non-consolidated subsidiaries*	266	266	(235)	(78)
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	7	15
Total settlements with related parties	**60 328**	**15 050**	**53 256**	**46 512**

	Loans granted / (taken out); debt securities acquired / (issued)		Finance income / (costs)	
	31 December 2017	31 December 2016	2017	2016
Parent and its related parties (the Ferrovial Group)	(8 698)	(9 165)	(58)	(71)
Jointly controlled entities	-	-	-	-
Associates	62 451	9 163	2 264	369
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	**53 753**	**(2)**	**2 206**	**298**

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

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

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

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

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

In 2010, Budimex SA signed two agreements with Ferrovial Agroman SA under which Ferrovial renders to the Company services relating to IT maintenance and development, and staff secondment. The costs of these agreements incurred by Budimex SA in 2017 were PLN 3 702 thousand and PLN 5 601 thousand, respectively, while in 2016: PLN 3 743 thousand and PLN 5 586 thousand, respectively.

On 29 October 2012, Budimex SA concluded with Ferrovial Agroman SA a conditional agreement for operational know-how support, streamlining of processes and procedures in the key areas of construction, investment and management activity. The consideration under this contract was set at 0.5% of the value of annual sales revenue of the Budimex Group, less sales revenue of Budimex Nieruchomości Sp. z o.o., with the proviso that until the correctness of the transaction price is authorized by the Polish and Spanish tax authorities in the form of an authorized BAPA agreement, Budimex SA will be remitting to Ferrovial Agroman SA a fee reduced by 25%.

In 2017, based on Annex No. 1 to said agreement of 29 October 2012, repayment was made of 25% of the outstanding consideration for the period from 1 January 2012 to 31 December 2016 in the amount of PLN 28 796 thousand, despite non-obtaining of BAPA agreement authorization.

On 28 March 2017, a new agreement was signed which is valid as of 1 January 2017 for the next 5 years. The principles of consideration determining remained unchanged, the consideration is paid in the full amount despite non-authorization of the BAPA agreement. Due to the execution of these agreements, Budimex SA incurred in 2017 and 2016 costs in the total amount of PLN 29 357 thousand and PLN 26 115 thousand, respectively.

<u>Loans</u>

Based on the agreement dated 1 December 2004, Budimex SA received from Ferrovial Infraestructuras SA (currently, the lender is Ferrovial SA, the ultimate parent company) a loan in the amount of EUR 1 500 thousand. Under the loan contract, the loan was granted for the period of 12 months from contract date, with an option to extend. If the shares in Inversora de Autopistas del Levante, S.L. are sold, the loan will become immediately due and payable. After the maturity date, the loan will be repaid together with interest calculated based on 1Y EURIBOR+0.75%. On 1 December 2017, loan repayment date was extended for another year and the amount of the loan was increased by the amount of interest accrued as at that date.

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

41.1 Remuneration of key members of management

Management Board

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

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

In 2017, remuneration of Management Board members was as follows:

Dariusz Blocher	PLN 2 240 thousand
Henryk Urbański	PLN 1 311 thousand
Marcin Węgłowski	PLN 1 212 thousand
Jacek Daniewski	PLN 1 200 thousand
Fernando Pascual Larragoiti	PLN 1 935 thousand
Cezary Mączka	PLN 1 137 thousand
Radosław Górski	PLN 1 195 thousand
Artur Popko	PLN 1 862 thousand.

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

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2017, the estimated costs of share-based payment under Ferrovial SA incentive programs allocated to the Company's Management Board amounted to PLN 2 025 thousand (of which PLN 1 786 thousand was charged to the costs of Budimex SA, and the remaining – to the costs of subsidiary companies) and were distributed as follows:

Dariusz Blocher	PLN 759 thousand
Henryk Urbański	PLN 239 thousand
Marcin Węgłowski	PLN 165 thousand
Jacek Daniewski	PLN 165 thousand
Fernando Pascual Larragoiti	PLN 227 thousand
Cezary Mączka	PLN 122 thousand
Radosław Górski	PLN 157 thousand
Artur Popko	PLN 191 thousand

The above costs consist of: 2/36th of the cost of shares granted in 2014, 12/36th of the cost of shares granted in 2015, 12/36th of the cost of shares granted in 2016 and 10/36th of the cost of shares granted in 2017.

The three-year vesting period for the shares granted in 2014 ended in March 2017. As the conditions of the incentive program were satisfied, the shares in Ferrovial SA were formally handed over. The number of shares actually granted to the members of the Company's Management Board was as follows:

Dariusz Blocher	10 000 shares
Henryk Urbański	3 950 shares
Marcin Węgłowski	3 200 shares
Jacek Daniewski	3 200 shares
Fernando Pascual Larragoiti	3 600 shares
Radosław Górski	2 500 shares
Artur Popko	2 700 shares

The market value of Ferrovial SA share at the actual grant date was PLN 77.30.

Proxies

The total value of remuneration paid to proxies of Budimex SA in 2017 was PLN 816 thousand, while in 2016 - PLN 350 thousand.

Individual remuneration of proxies in 2017 was as follows:
Piotr Świecki PLN 816 thousand.

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2017, the estimated cost of share-based payment under Ferrovial SA incentive programs allocated to the Company's proxy, Piotr Świecki, amounted to PLN 93 thousand.

Supervisory Board

The total value of remuneration paid in 2017 to the members of Supervisory Board of Budimex SA amounted to PLN 1 284 thousand (PLN 1 225 thousand in 2016).

In 2017, remuneration of Supervisory Board members of Budimex SA was as follows:

Marek Michałowski	PLN 203 thousand
Igor Chalupec	PLN 139 thousand
Javier Galindo Hernandez	PLN139 thousand
Jose Carlos Garrido-Lestache Rodriguez	PLN128 thousand
Marzenna Anna Weresa	PLN161 thousand
Piotr Kamiński	PLN139 thousand
Alejandro de la Joya Ruiz de Velasco	PLN139 thousand
Janusz Dedo	PLN118 thousand
Ignacio Clopes Estela	PLN 118 thousand

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

As at 31 December 2017 and 31 December 2016, members of the Management or Supervisory Boards of the Parent Company, their spouses, close relatives, in-laws, adopted persons and adoptive parents, and other persons who are related to them in person did not have any unpaid loans or borrowings or guarantees issued by Budimex SA or its subsidiaries, jointly controlled entities or associates.

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

As at 31 December 2017 and 31 December 2016, members of the Management or Supervisory Boards of the subsidiary companies of the Group did not have any unpaid loans or borrowings or guarantees issued by those companies and were not parties to any agreements obligating them to provide services to Group companies.

42. Capital expenditure incurred and planned

Capital expenditure (for non-financial long-term assets) incurred in 2017 amounted to PLN 85 752 thousand. In 2016, capital expenditure amounted to PLN 70 898 thousand.

Capital expenditure planned to be incurred in 2018 for non-financial long-term assets amount to approx. PLN 100 000 thousand.

In 2017 and in 2016, Group companies did not incur any environmental protection expenditure and have no plans to incur any such expenditure in the 12-month period after the reporting date.

43. (Off-balance sheet) investment expenditure

As at 31 December 2017, the committed investment expenditure amounted to PLN 51 385 thousand.
As at 31 December 2016, the committed investment expenditure amounted to PLN 98 028 thousand.

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

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

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

	31 December 2017	31 December 2016
– up to 1 year	41 069	32 273
– 1-5 years	32 791	42 481
– above 5 years	125	90
Total	**73 985**	**74 844**

	2017	2016
Lease payments taken to costs	48 765	41 852

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

	31 December 2017	31 December 2016
– up to 1 year	607	648
– 1-5 years	2 428	2 592
– above 5 years	41 116	44 035
Total	**44 151**	**47 275**

	2017	2016
Fee for perpetual usufruct right to land taken to costs	641	648

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

45. Financial instruments

45.1 Carrying amounts in the statement of financial position

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

Balance as at 31 December 2017

Classes of financial instruments	Available-for-sale financial assets	Financial assets held to maturity	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Available-for-sale financial assets	9 501	-	-	-	-	-	**9 501**
Retentions for construction contracts	-	-	-	57 950	-	(420 836)	**(362 886)**
Trade and other receivables*	-	-	-	647 457	-	-	**647 457**
Receivables from service concession arrangement	-	-	-	46 440	-	-	**46 440**
Valuation of long-term construction contracts	-	-	-	483 501	-	-	**483 501**
Other financial assets/(liabilities)	-	278 972	12 143	62 451	(9 046)	-	**344 520**
Cash and cash equivalents	-	-	2 126 839	-	-	-	**2 126 839**
Loans, borrowings and other external sources of finance	-	-	-	-	-	(122 410)	**(122 410)**
Trade liabilities and other financial liabilities (note 24)	-	-	-	-	-	(1 432 385)	**(1 432 385)**
Total	**9 501**	**278 972**	**2 138 982**	**1 297 799**	**(9 046)**	**(1 975 631)**	**1 740 577**

Balance as at 31 December 2016

Classes of financial instruments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Available-for-sale financial assets	9 396	-	-	-	-	**9 396**
Retentions for construction contracts	-	-	54 151	-	(392 391)	**(338 240)**
Trade and other receivables*	-	-	473 983	-	-	**473 983**
Receivables from service concession arrangement	-	-	46 096	-	-	**46 096**
Valuation of long-term construction contracts	-	-	288 456	-	-	**288 456**
Other financial assets/(liabilities)	-	2 630	9 163	(3 002)	-	**8 791**
Cash and cash equivalents	-	2 715 134	-	-	-	**2 715 134**
Loans, borrowings and other external sources of finance	-	-	-	-	(82 609)	**(82 609)**
Trade liabilities and other financial liabilities (note 24)	-	-	-	-	(1 293 880)	**(1 293 880)**
Total	**9 396**	**2 717 764**	**871 849**	**(3 002)**	**(1 768 880)**	**1 827 127**

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

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

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

For the period from 1 January 2017 to 31 December 2017

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

For the period from 1 January 2016 to 31 December 2016

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

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

45.3 Financial assets and financial liabilities measured at fair value

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

	31 December 2017			
	Fair value measurement			
	Level 1	**Level 2**	**Level 3**	**Total**
Other financial assets	-	12 143	-	**12 143**
Cash and cash equivalents	-	2 126 839	-	**2 126 839**
Financial assets measured at fair value through profit or loss, total	**-**	**2 138 982**	**-**	**2 138 982**
Other financial liabilities	-	9 046	-	**9 046**
Financial liabilities measured at fair value through profit or loss, total	**-**	**9 046**	**-**	**9 046**

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

During the 12-month periods ended 31 December 2017 and 31 December 2016, there was no transfer between Level 1 and Level 2 of fair value hierarchy, and no transfer into and out of Level 3 of fair value hierarchy.

46. Legal proceedings pending as at 31 December 2017

Based on the information held, the total value of legal proceedings in progress in respect of liabilities of Budimex SA and its subsidiaries amounted as at 31 December 2017 to PLN 320 057 thousand. The proceedings involving Budimex SA and its subsidiaries concern operating activity of Group companies.

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

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

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

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

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

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

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

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

At the beginning of August 2017, the experts forwarded to the Arbiter Team and to the concerned Parties yet another (third) supplementary opinion. In this opinion, the experts upheld their then current conclusions - this opinion does not bear any unfavourable impact on the amount of the Consortium's claim. As part of the summary of the parties' positions, PPL submitted to members of the Consortium a statement on deduction and possible charge of deduction in the proceedings, which resulted in a change of the Arbitration Court decision, which in its order of 6 March 2018 decided not to issue a second partial court order covering the plaintiff's claims and decided to recognize together the principal claim and the counterclaim together with the abovementioned charge of deduction. As a result, the evidentiary proceedings regarding the opinion of experts regarding PPL claims filed in the counterclaim will be continued and probably this stage will not end earlier than in the first half of 2019.

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

On 24 July 2017, Muzeum Śląskie in Katowice filed a claim against Budimex SA and Ferrovial Agroman SA, operating as a consortium, in connection with the performance of the contract called „Construction of new premises of Muzeum Śląskie in Katowice" concluded on 7 June 2011 (the „Contract"). The Claimant requested that either the amount of PLN 122 758 thousand, together with statutory interest calculated as of the date of claim filing, was awarded jointly and severally against the Defendants towards undue performance of the Contract, or the Defendants were ordered to reduce contract transaction price by the amount of PLN 34 675 thousand being the reimbursement of the unfairly, as stated by the Claimant, paid contract consideration. Art. 471 of the Civil Code was named as the basis for the principal claim, while the provisions of contractor warranty for defects in the constructed facility – for the alternative claim *(żądanie ewentualne).*

In the opinion of the Management Board of Budimex SA, the claim is unjustified. The irregularities, if any, which the Claimant names as the basis for its action do not result from contract performance or undue performance by the consortium. In addition, due contract performance was confirmed by the Claimant by the issued Certificate of Acquisition and Certificate of Completion of premises of Muzeum Śląskie in Katowice. In the opinion of the Management Board, the reported provisions cover the risks related to Contract performance. Budimex SA filed its reply to said claim on 31 October 2017. It was supplemented by Budimex SA in January 2018. At the same time, the court attempted to deliver a copy of the claim to Ferrovial Agroman SA. Due to the non-translation of all documents into Spanish, Ferrovial Agroman SA refused to accept the parcel. As at the date of the report, it was not possible to successfully deliver a copy of the claim to Ferrovial Agroman SA.

Another legal proceedings with a material value relate to the claim filed on 5 March 2008 by Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. requesting that the amount of PLN 25 252 thousand be awarded jointly and severally against the consortium to which the Budimex SA and Budimex Dromex SA belonged. The claim relates to the replacement of contractor costs incurred by the investor when the consortium rescinded the contract. The share of the companies in the consortium was 90%, therefore the value of the claim for which Budimex SA is presently liable is PLN 22 727 thousand. The court ended examination of witnesses of both parties, then heard the parties, and on 6 February 2014 accepted the evidence from the construction expert opinion with regard, inter alia, to the assessment of quality and value of works completed by the defendant, the scope and completeness of works to be performed as well as the value of corrections. The expert drafted an opinion which the defendant considers to be in its favour. This assessment is confirmed by the actions of the claimant who submitted a request for appointment of a new expert. The court did not consider the request of the claimant in this matter and allowed to include in the court protocol only oral supplementary opinion of the expert, which was duly provided during the court hearing on 21 April 2015. The claimant filed another request for appointment of a new expert; this request was rejected by the court during the hearing in December 2015. At the same time, the court allowed preparation of a supplementary opinion, which was delivered to the parties in June 2016. With respect to the contents of this new supplementary opinion, the defendant upheld his current standpoint presented for the main opinion, which he assessed as favourable. Instead, the claimant requested yet another expert opinion which fully concurred with the first claim. On 12 July 2017, the court of the first instance awarded against Budimex SA only the amount of PLN 22 thousand (towards reimbursement of the costs of expert opinions commissioned by the claimant), and dismissed the claim in its entirety. The appeal against court decision was filed both by the claimant (as regards the entire claim), and the defendant (as regards the part of the verdict regarding the amount of PLN 22 thousand). Currently, the Parties await setting the date for the hearing before the court of the second instance.

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

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 133 493 thousand as at 31 December 2017. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. Apart from the case brought to court by the FBL Consortium against PPL, the value of no other proceedings concerning claims is material. As at the date of these consolidated financial statements, the final outcome of the proceedings is not known.

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

47. Events after the reporting date

On 1 February 2018, the court of registration registered division of Elektromontaż Poznań SA effected by spinning-off property management operations and transferring them to Budimex Inwestycje Grunwald SA. Following this division, the issued capital of Elektromontaż Poznań SA decreased from PLN 54 082 thousand to PLN 18 388 thousand (following decrease in the nominal value of shares from PLN 10.00 to PLN 3.40), while the issued capital of Budimex Inwestycje Grunwald SA was increased from PLN 100 thousand to 35 794 thousand (by way of the issue of new shares with a nominal value of PLN 0.10 each). Thereby, as of 1 February 2018, consolidation covered Budimex Inwestycje Grunwald SA, which - to date - had no significant assets and was treated as a non-material entity from the Budimex Group perspective. The above spin-off based division did not have any material impact on the consolidated financial statements other than change in the structure of operating segments – prior to the division, the Elektromontaż Poznań SA Group companies were all presented under other operating activities, while after the division, the operations relating to property management transferred to Budimex Inwestycje Grunwald SA were allocated to the segment of development activities and property management.

Apart from that until the date of the publication of these consolidated financial statements there were no other significant events that should be subject to disclosure.

48. Contingent assets and contingent liabilities

	31 December 2017	31 December 2016
<u>**Contingent assets**</u>		
From related entities		
– guarantees and sureties received	-	-
– bills of exchange received as security	-	-
From related entities, total	**-**	**-**
From other entities		
– guarantees and sureties received	589 062	475 101
– bills of exchange received as security	3 628	12 373
From other entities, total	**592 690**	**487 474**
Other contingent assets	**14 768**	**16 117**
Total contingent assets	**607 458**	**503 591**
<u>**Contingent liabilities**</u>		
To related entities		
– guarantees and sureties issued	2 814	5 037
– promissory notes issued as security	-	-
To related entities, total	**2 814**	**5 037**
To other entities		
– guarantees and sureties issued	3 821 829	3 028 156
– promissory notes issued as security	16 141	2 695
To other entities, total	**3 837 970**	**3 030 851**
Other contingent liabilities	**134 381**	**133 554**
Total contingent liabilities	**3 975 165**	**3 169 442**
Total contingent items	**(3 367 707)**	**(2 665 851)**

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

Contingent liabilities arising from guarantees and sureties comprise mainly guarantees issued by banks to business partners of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees. Guarantees issued to the investors of the Group represent an alternative, to the retentions held, method of securing potential investor claims relating to construction contracts. At the same time, the risk relating to warranty repairs assessed by the Management Board of the Group as probable was appropriately reflected in the warranty repair provision, as described in note 6.1 and 27 to these consolidated financial statements.

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

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

In addition, the Group has contingent liabilities resulting from collateral established on its assets, as described in note 39.

Other contingent liabilities include, among others, voluntary submission to enforcement which secures making payment to the amount of PLN 134 381 thousand due in the event of improper performance by Budimex SA of its obligations under the agreement of acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

49. Employment structure

Employee group	Number of employees as at 31 December	
	2017	2016
Blue collar employees	2 660	2 249
White collar employees	3 879	3 459
Total	**6 539**	**5 708**

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

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

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

On 21 December 2011, Autostrada Południe SA instituted a claim against the State Treasury represented by the Ministry of Transportation, Construction and Naval Economy, calling for payment of PLN 176 855 thousand regarding design works performed by Spółka Jawna. In 2012 and 2013, partial hearing of evidence and witness interrogation took place, and an expert opinion was drafted. Autostrada Południe SA submitted a request for a supplementary opinion which was prepared and delivered to the parties in October 2014. As follows from the opinion, all stages of design works with respect to which the claimant demands payment were performed, and thus the comments of the former expert were not justified. In October 2015, the court concurred with the defendant's request to examine another witness, as a result of which the necessity arose to draft another supplementary expert opinion. This supplementary expert opinion was to be prepared by the end of November 2017, however, the experts pointed out that due to the considerable lapse of time between project design and this hearing they need more time, and - as such - they were obligated to set deadline for opinion preparation.

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

In reference to the court proceedings described in note 46 concerning the Contract for the development project at the Warsaw Chopin Airport - Terminal 2 Construction, according to the Management Board's best estimates as at the date of drafting these consolidated financial statements, the total loss incurred by Budimex on this contract (proportionate to the share of Budimex in the Consortium), taking into account other operating expenses/income and finance costs/income (including the result on forward contracts entered into to minimize the FX risk) was PLN 96 035 thousand as at 31 December 2017 (as at 31 December 2016: PLN 89 957 thousand). In view of the legal proceedings pending and the fact that the Consortium has not completed its financial settlements with Przedsiębiorstwo Państwowe Porty Lotnicze and with its subcontractors, the final result on this contract performance may change.

Dariusz Blocher	President of the Management Board	.... signature	Henryk Urbański	Member of the Management Board	.... signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	.... signature	Marcin Węgłowski	Member of the Management Board	.... signature
Jacek Daniewski	Member of the Management Board	.... signature	Artur Popko	Member of the Management Board	.... signature
Cezary Mączka	Member of the Management Board	.... signature	Grzegorz Fąfara	Chief Accountant	.... signature
Radosław Górski	Member of the Management Board	.... signature		Warsaw, 19 March 2018	