THE BUDIMEX GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

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(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	**Note**	**31 December 2019**	**31 December 2018**
Non-current (long-term) assets			
Property, plant and equipment	10	512 921	258 123
Investment property	11	7 721	28 365
Intangible assets	12	168 822	28 389
Goodwill of subordinated entities	13	168 508	73 237
Investments in equity accounted entities	14	2 076	37 427
Investments in equity instruments	15	7 816	9 778
Retentions for construction contracts	29	59 212	49 103
Trade and other receivables	17	41 887	21 807
Receivables from service concession arrangements	16	46 690	46 416
Other financial assets	15	-	74 145
Deferred tax assets	24	418 889	361 851
Total non-current (long-term) assets		**1 434 542**	**988 641**
Current (short-term) assets			
Inventories	18	2 013 756	1 611 813
Trade and other receivables	17	1 096 157	819 300
Retentions for construction contracts	29	48 433	28 311
Valuation of construction contracts	27	444 008	561 537
Current tax assets		108	33 102
Other financial assets	15, 16	120 978	4 495
Cash and cash equivalents	19	1 515 977	1 409 152
Total current (short-term) assets		**5 239 417**	**4 467 710**
TOTAL ASSETS		**6 673 959**	**5 456 351**

(all amounts are expressed in PLN thousand)

Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	**Note**	**31 December 2019**	**31 December 2018**
EQUITY			
Issued capital	20	145 848	145 848
Share premium	20	87 163	87 163
Other reserves	25, 39	1 180	1 600
Cumulative translation differences		7 000	6 947
Retained earnings		566 958	501 783
Shareholders' equity attributable to the shareholders of the Parent		**808 149**	**743 341**
Equity attributable to non-controlling interests	21	**28 491**	**7 136**
Total equity		**836 640**	**750 477**
LIABILITIES			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	22	273 258	184 110
Retentions for construction contracts	29	229 522	222 751
Provisions for long-term liabilities and other charges	26	498 422	367 306
Retirement benefits and similar obligations	25	14 979	12 639
Other financial liabilities	15	19 807	2 015
Deferred tax liabilities	24	13 404	-
Total non-current (long-term) liabilities		**1 049 392**	**788 821**
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	22	177 108	54 823
Trade and other payables	23	1 530 773	1 720 438
Retentions for construction contracts	29	215 032	214 866
Provisions for losses on construction contracts	27	240 677	158 035
Valuation of construction contracts	27	951 448	575 183
Deferred income	28	1 356 310	996 224
Provisions for short-term liabilities and other charges	26	216 746	187 938
Current tax liability		96 653	6 846
Retirement benefits and similar obligations	25	1 877	1 412
Other financial liabilities	15	1 303	1 288
Total current (short-term) liabilities		**4 787 927**	**3 917 053**
Total liabilities		**5 837 319**	**4 705 874**
TOTAL EQUITY AND LIABILITIES		**6 673 959**	**5 456 351**

(all amounts are expressed in PLN thousand)

Consolidated profit and loss account

		Year ended 31 December	
	Note	**2019**	**2018**
Continuing operations			
Net sales of finished goods, services, goods for resale and raw materials	30	7 569 663	7 387 137
Cost of finished goods, services, goods for resale and raw materials sold	31	(7 018 111)	(6 758 048)
Gross profit on sales		**551 552**	**629 089**
Selling expenses	31	(30 478)	(30 650)
Administrative expenses	31	(198 992)	(229 593)
Other operating income	33	99 453	67 977
Other operating expenses	33	(103 141)	(63 824)
Gains on disposal of subsidiary companies		-	44 011
Operating profit		**318 394**	**417 010**
Finance income	34	60 127	28 291
Finance costs	34	(50 949)	(40 118)
Shares in net profits/ (losses) of equity accounted subordinates	14	4 785	(1 795)
Gross profit		**332 357**	**403 388**
Income tax	24	(103 506)	(97 904)
Net profit from continuing operations		**228 851**	**305 484**
Net profit for the period		**228 851**	**305 484**
of which:			
Attributable to the shareholders of the Parent		***226 014***	***305 424***
Attributable to non-controlling interests	*21*	*2 837*	*60*

Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)	*35*	*8.85*	*11.96*

(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

		Year ended 31 December	
		2019	**2018**
Net profit for the period		**228 851**	**305 484**
Other comprehensive income which:			
Items to be reclassified to profit or loss upon satisfaction of certain conditions:			
Cumulative translation differences	37	53	1 605
Deferred tax related to components of other comprehensive income		-	-
Items not to be reclassified to profit or loss:			
Actuarial gains/ (losses)	25	(518)	(1 181)
Deferred tax related to components of other comprehensive income	24	98	224
Other comprehensive income, net		**(367)**	**648**
Total comprehensive income for the period		**228 484**	**306 132**
of which:			
Attributable to the shareholders of the Parent		***225 647***	***306 072***
Attributable to non-controlling interests	*21*	*2 837*	*60*

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity

	Equity attributable to the shareholders of the Parent							Non-controlling interests	Total equity
			Other reserves						
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)	Cumulative translation differences	Retained earnings	Total		
Balance as at 1 January 2019	**145 848**	**87 163**	**7 171**	**(5 571)**	**6 947**	**501 783**	**743 341**	**7 136**	**750 477**
Profit for the period	-	-	-	-	-	226 014	226 014	2 837	**228 851**
Other comprehensive income	-	-	-	(420)	53	-	(367)	-	**(367)**
Total comprehensive income for the period	-	-	-	**(420)**	**53**	**226 014**	**225 647**	**2 837**	**228 484**
Acquisition of control over associate (note 8)	-	-	-	-	-	-	-	21 444	**21 444**
Payment of dividend by Budimex SA (note 36)	-	-	-	-	-	(160 839)	(160 839)	-	**(160 839)**
Payment of dividend to non-controlling shareholders (note 21)	-	-	-	-	-	-	-	(2 926)	**(2 926)**
Balance as at 31 December 2019	**145 848**	**87 163**	**7 171**	**(5 991)**	**7 000**	**566 958**	**808 149**	**28 491**	**836 640**

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity (cont.)

	Equity attributable to the shareholders of the Parent							Non-controlling interests	Total equity
			Other reserves		Cumulative translation differences				
	Issued capital	Share premium	Share-based payments	Actuarial gains/ (loses)		Retained earnings	Total		
Balance as at 1 January 2018	**145 848**	**87 163**	**7 171**	**(4 614)**	**5 342**	**640 533**	**881 443**	**685**	**882 128**
Profit for the period	-	-	-	-	-	305 424	305 424	60	**305 484**
Other comprehensive income	-	-	-	(957)	1 605	-	648	-	**648**
Total comprehensive income for the period	-	-	-	**(957)**	**1 605**	**305 424**	**306 072**	**60**	**306 132**
Sale of non-controlling interest of the subsidiary	-	-	-	-	-	5 411	5 411	7 189	**12 600**
Disposal of subsidiary companies	-	-	-	-	-	-	-	(664)	**(664)**
Dividend payment by Budimex SA	-	-	-	-	-	(449 585)	(449 585)	-	**(449 585)**
Payment of dividend to non-controlling shareholders	-	-	-	-	-	-	-	(134)	**(134)**
Balance as at 31 December 2018	**145 848**	**87 163**	**7 171**	**(5 571)**	**6 947**	**501 783**	**743 341**	**7 136**	**750 477**

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	Note	Year ended 31 December 2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before tax		**332 357**	**403 388**
Adjustments for:			
Depreciation/ amortisation	31	105 679	52 111
Shares in net (profits)/ losses of equity accounted subordinates	14	(4 785)	1 795
Foreign exchange (gains)/ losses		(543)	(637)
Interest and shares in profits (dividends)		7 961	(1 675)
(Profit)/ loss on investing activities		(58 740)	(44 279)
Change in valuation of derivative financial instruments	15.2	4 588	3 022
Change in provisions and liabilities arising from retirement benefits and similar obligations		119 732	84 579
Other adjustments	37	(146)	1 629
Operating profit/ (loss) before changes in working capital		**506 103**	**499 933**
Change in receivables and retentions for construction contracts		(205 718)	(156 862)
Change in inventories		(305 181)	(187 201)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings		(271 917)	95 966
Change in deferred income		359 615	(348 074)
Change in the balance of valuation of construction contracts and provision for losses on construction contracts		576 436	(395 899)
Change in cash and cash equivalents of restricted use	19	(34 638)	23 866
Cash flow from operating activities		624 700	(468 271)
Income tax paid		(50 352)	(55 104)
NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITIES		**574 348**	**(523 375)**

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows (cont.)

	Note	Year ended 31 December 2019	2018
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of intangible assets and property, plant and equipment		6 169	11 726
Proceeds from sale of investment properties		20 365	-
Purchase of investment properties	11	(7 769)	-
Purchase of intangible assets and property, plant and equipment		(43 764)	(21 522)
Disposal of subsidiary companies		-	47 111
Disposal of investments in equity instruments	15.3	1 708	-
Purchase of shares in subsidiaries	8	(44 365)	-
Increase in equity of non-consolidated entities	15.3	(70)	(1 060)
Purchase of shares in jointly-controlled entities		(73)	-
Purchase of bonds issued by banks	15.4	(119 588)	(238 868)
Proceeds from bonds issued by banks	15.4	-	516 877
Loans granted	15.1	-	(10 780)
Dividends received	14; 34	24	5
Interest received	15.1; 15.4	2 103	6 195
NET CASH FLOW FROM/ (USED IN) INVESTING ACTIVITIES		**(185 260)**	**309 684**
CASH FLOW FROM FINANCING ACTIVITIES			
Loans and borrowing taken out		26 411	1 611
Repayment of loans and borrowings		(91 016)	(968)
Dividends paid to the shareholders of the Parent	36	(160 839)	(449 585)
Dividends paid to non-controlling shareholders	21	(2 926)	(134)
Payments of liabilities under lease		(73 962)	(26 862)
Interest paid		(13 326)	(4 445)
Other financial expenditure		(815)	(654)
NET CASH (USED) IN FINANCING ACTIVITIES		**(316 473)**	**(481 037)**
TOTAL NET CASH FLOW		**72 615**	**(694 728)**
Foreign exchange differences on cash and cash equivalents, net		(428)	907
CASH AND CASH EQUIVALENTS - OPENING BALANCE	**19**	**1 268 028**	**1 961 849**
CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**19**	**1 340 215**	**1 268 028**
Cash and cash equivalents of disposable groups		-	-
TOTAL CASH AND CASH EQUIVALENTS OF THE GROUP		**1 340 215**	**1 268 028**

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. Siedmiogrodzka 9, a joint stock company entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, 12th Economic Department of the National Court Register under entry KRS No. 1764.

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

The main area of Group business activities are broadly understood construction and assembly services rendered under the system of general contracting at home and abroad, property development activities, property management, as well as production and service rendering activities. 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 23 March 2020.

Changes in the composition of the Parent Company's Management Board were presented in the Directors' Report on the activities of Budimex Group for 2019.

1.1 Going concern assumption

The consolidated financial statements of the Group for the year 2019 were prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of signing these consolidated financial statements, the Management Board of the Parent Company is not aware of any facts or circumstances that would indicate any threat to the main Group companies' continued activities after the reporting date due to an intended or compulsory withdrawal from or a significant limitation in their activities.

2. Key accounting policies

The main accounting policies applied during the course of the preparation of these consolidated financial statements are presented below. These accounting policies were applied consistently in all the periods presented, except for the application of new or amended standards and interpretation applicable to annual periods beginning on 1 January 2019 and later.

2.1 Basis of preparing consolidated financial statements and statement of compliance

These consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union ("EU") and binding as at the reporting date of these consolidated financial statements**.**

Standards, Amendments to Standards and IFRIC Interpretation applied for the first time in 2019

The Group adopted for use IFRS 16 „Leases" and applied this standard for the first time as of 1 January 2019, and appropriate changes in accounting policies and their impact on the financial statements were described in note 2.2.

Apart from that, in the financial year ended 31 December 2019, the Group applied for the first time the following amendments to IFRSs and the following IFRIC Interpretation:

- Amendments to IFRS 9 „Financial Instruments" – *„Prepayment Features with Negative Compensation",*
- Annual Improvements to IFRSs (Cycle 2015-2017),

- Amendments to IAS 19 „Employee Benefits" – *„Plan Amendment, Curtailment or Settlement",*
- Amendments to IAS 28 „Investments in Associates and Joint Ventures" - *Long-term Interests in Associates and Joint Ventures",*
- IFRIC Interpretation 23 „Uncertainty over Income Tax Treatments".

The above Amendments to Standards and IFRIC Interpretation did not have any material impact on the consolidated financial statements**.**

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

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

- Amendments to IAS 1 „Presentation of Financial Statements" and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors" – *Definition of Materiality*" (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9 „Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – *"Interest Rate Benchmark Reform"* (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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

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

- IFRS 14 „Regulatory Deferral Accounts" – according to the decision of the European Union, standard endorsement process in its draft form will not be initiated before publication of standard's final version (effective for annual periods beginning on or after 1 January 2016),
- IFRS 17 „Insurance contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 „Business Combinations" (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 10 „Consolidated Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures" – *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* – work leading to the endorsement of these changes was postponed indefinitely – the date of amendments becoming effective was indefinitely deferred by the IASB,
- Amendments to IAS 1 „Presentation of Financial Statements" – *"Classification of Liabilities as Current or Non-Current"* (effective for annual periods beginning on or after 1 January 2022).

The consolidated financial statements were prepared under the historical cost convention, except for the hyperinflation adjustment described in note 20 and except for certain financial instruments measured at fair value at the end of each reporting period in accordance with the accounting policy 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 IFRS 16, 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 in 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).

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

2.2 Changes in accounting policies and policies of financial statements preparation

In the period covered by these consolidated financial statements the Budimex Group applied for the first time IFRS 16 „Leases", which in the case of lessee removes the classification of leases as operating and finance leases and requires that all leases are classified as (until now) finance leases. The Group applied the standard retrospectively with the total effect of first-time application recognized at the date of initial application. Thereby, the Group did not restate the comparative data, and the total effect of first-time application was recognized as an adjustment to the opening balance of retained earnings.

Exemptions and practical expedients

The Group decided to apply the exemption provided in paragraph 5 of IFRS16. It means that in the case of short-term lease contracts and lease contracts where the underlying asset is of low value the Group recognizes lease payments associated with such asset as an expense on either the straight line basis or another systematic basis. The Group assumed that the low-value is the Polish zloty equivalent of USD 5,000. The selection of the exemption from recognition of short-term leases was made for all types (classes) of right-of-use assets.

As regards contracts identified as lease contracts prior to first-time application of IFRS 16, i.e. in accordance with IAS 17, the Group used the practical expedient provided in IFRS 16 and did not perform a re-assessment of whether the given contract is a lease. This way the provisions of IFRS 16 were not applied to the contracts which prior to the date of first-time application were not identified as contracts containing a lease.

First-time application

In the case of lease contracts, which to date have been classified as operating leases, at the date of first-time application (except for lease contracts relating to low-value assets and the remaining lease term of less than 12 months), the Group recognized a liability measured as the present value of outstanding lease payments discounted using the lessee's (Group's) incremental borrowing rate prevailing on the date of first-time application. As a corresponding entry, the Group recognised the right-of-use assets at the amount equating lease liability. Since the Group did not identify any prepayments or accrued lease payments to adjust the value of right-of-use assets, the outstanding lease liability and the right-of-use assets had the same value upon first-time application and thus no adjustment was required to the opening balance of retained earnings. The identified right-of-use assets were assessed for impairment upon standard first-time application, and no need was identified to recognise their impairment.

In the case of lease contracts which to date have been classified as operating leases, upon standard first-time application, the Group applied the provisions of paragraph C9 of IFRS 16 and did not introduce the adjustment regarding lease contracts with low-value underlying asset. The Group as lessee also used the practical expedient described in paragraph C10 point c) and treated lease contracts with their lease-term ending during 2019 (year of standard first-time application) as short-term leases.

The table below shows the impact of first-time application of IFRS 16 on individual items of the statement of financial position:

	31 December 2018	Adjustment due to IFRS 16 application	1 January 2019
Assets			
Non-current assets			
Property, plant and equipment	258 123	37 419	295 542
- of which: under finance lease (31 December 2018) / right-of-use assets (1 January 2019)	*207 830*	*37 419*	*245 249*
Investment property	28 365	10 199	38 564
- of which: under finance lease (31 December 2018) / right-of-use assets (1 January 2019)	-	*10 199*	*10 199*
Current assets			
Inventories	1 611 813	84 381	1 696 194
- of which: under finance lease (31 December 2018) / right-of-use assets (1 January 2019)	-	*84 381*	*84 381*
Equity and liabilities			
Non-current (long-term) liabilities			
Loans, borrowings and other external sources of finance	184 110	30 789	214 899
- of which: lease liabilities	*153 697*	*30 789*	*184 486*
Current (short-term) liabilities			
Loans, borrowings and other external sources of finance	54 823	101 210	156 033
- of which: lease liabilities	*44 714*	*101 210*	*145 924*

The incremental borrowing rate applied by the Group (as lessee) to lease liabilities recognised in the statement of financial position upon standard first-time application ranged between 3.07% - 4.45%.

Identifying a lease

At inception of a contract, Group companies make an assessment whether the contract contains a lease. A contract is a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Accounting by lessee

At the commencement date of a lease, Group companies recognise a right-of-use asset and, as a corresponding entry, a lease liability.

At the commencement date, the right-of-use asset is measured at cost, which comprises the amount of the initial measurement of lease liability, increased by:

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset/ restoring the site on which it was located or restoring the underlying asset required by the terms and conditions of the lease.

After the commencement date, the right-of-use asset is depreciated and assessed to determine whether it is impaired in accordance with IAS 36. The value of the right-of-use asset is re-measured if lease liability, as a corresponding entry, was re-measured due a change in the future of now fixed lease payments or due to a change in the lease term or re-assessment of lease.

At the commencement date, the lease liability is measured at the present value of lease payments outstanding at that date. Lease payments are discounted using the incremental borrowing rate calculated for the Group companies as lessees.

After the commencement date, lease liability is increased by accrued interest and reduced by paid lease payments. As stated above, the value of lease liability may be remeasured as a result of lease change or reassessment, or as a result of change in future lease payments following change in the now fixed index or rate.

Presentation/ Disclosure

The Group decided to account for the right-of-use assets in the same reporting line item, in which said assets would be presented had they been owned by the lessee. This means that the right-of-use assets were presented in the following reporting line items:

- property, plant and equipment (contracts of rent/ hire/ lease of office space, plots of land used temporarily as construction sites, passenger and commercial vehicles and the right of perpetual usufruct of land used for the Group companies' own needs);
- investment property (right of perpetual usufruct of land).

Lease liabilities were presented under „Loans, borrowings and other external sources of finance", and the value of lease liabilities was disclosed in the notes to the consolidated financial statements.

Right to perpetual usufruct of land vs IFRS 16

Based on a general definition of a lease, the Group companies determined that the right of perpetual usufruct of land, treated so far as an operating lease in accordance with IAS 17, under IFRS 16 meets the definition of a lease and thus should be recognised in the statement of financial position as a right-of-use asset.

The majority of the right of perpetual usufruct relates to the land acquired for development projects purposes. Since to date the value of acquired land that was the right of perpetual usufruct was presented under current assets' line item of „inventories", also the newly recognised right-of-use asset was presented in this line item. The costs are capitalized in the value of inventories for these projects, for which capitalization criteria have been fulfilled. As a corresponding entry, the Group's companies recognised a short-term lease liability.

As regards the right of perpetual usufruct used for the Group's companies own needs, it is recognized under tangible fixed assets, is subject to depreciation, and interest on the liability from lease of right of perpetual usufruct reduces finance costs of the Group. As a corresponding entry, Group companies recognise a long- or short-term lease liability, as appropriate.

The right of perpetual usufruct that relates to investment property is recognised under this reporting line item. In accordance with the Group's accounting policy, investment property is subject to depreciation, and interest on liability from lease of perpetual usufruct right is charged to finance costs. As a corresponding entry, the Group companies recognise a long- or short-term lease liability, as appropriate.

Right of perpetual usufruct transformed into ownership right

In 2018 the *Act on the transformation of perpetual usufruct rights to land developed for housing purposes into property rights" ("Rights Transformation Act") (Ustawa o przekształceniu prawa użytkowania wieczystego gruntów zabudowanych na cele mieszkaniowe w prawo własności tych gruntów)* came into effect, which caused that as of 1 January 2019 the rights of perpetual usufruct to land developed for housing purposes were transformed into property (ownership) rights.

In the case of housing buildings in the process of construction as at 1 January 2019, the transformation into property rights takes place upon giving over the building for use. Despite the fact that said transformation is effected by law, an appropriate certificate is required to confirm the fact of transformation and set the amount of the transformation fee *(opłata przekształceniowa)*. In accordance with the Rights Transformation Act, the fee for perpetual usufruct rights was changed into transformation fee which can be paid for the maximum period of 99 years (such period was selected by Group companies). For this reason, the plots of land on which located are the housing buildings which have already been given over for use *are no longer* within the scope of IFRS16 as they became the property of Group companies. Thereby, as at 1 January 2019, the Group companies recognised a short-term liability (under the reporting line: „Trade and other payables") in the amount of the present value of 99-times the value of set transformation fee (the first transformation fee is not to be paid until 2020) in the amount of PLN 31 509 thousand. As a corresponding entry, the value of inventories (stocks of finished goods) was increased by the same amount.

The maximum period of payment of transformation fee/ perpetual usufruct fee

In accordance with IFRS 16, the Group companies must recognise a lease liability at the present value of lease payments for the entire period of lease-term. In the case of rights of perpetual usufruct, it may even be the period of 99 years. On the other hand, in the case of the property that originated from the transformation of perpetual usufruct rights it is the period of 99 years (as per selection of Group's companies). These periods *do not* depend on the company-anticipated period of development projects realization, which usually does not exceed 5 years. It is the period of time considerably shorter than that underlying the calculation of lease liability value. What is more, as of the moment of notarized flat sale, a person obligated to pay the perpetual usufruct fee/ transformation fee becomes flat owner, and the value of total assets reported in the financial statements of Group companies rapidly decreases, which will cause considerable fluctuations between reporting periods.

Based on the plans of realised individual development projects, the Group companies estimated that the present value of future payments of perpetual usufruct and transformation fee incurred by Group companies until notarised flats sale amounted as at 1 January 2019 to PLN 29 773 thousand.

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

The following were excluded from the consolidated financial statements:

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

- dividends accrued or paid by subsidiary companies to the Parent Company or to other entities subject to consolidation.

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

Associates

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

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

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

Joint arrangements

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

- joint operation - (registered partnerships, civil law partnerships – where the partners have right to their share in the assets and obligations for the liabilities relating to the arrangement) – the Group recognises its assets and liabilities (including share in the assets and liabilities held/incurred jointly) and its share in 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

Assumption of control by the Group over an entity, including over a jointly controlled entity, is accounted for using the purchase method.

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

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

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

Goodwill is recognised as the excess between the aggregate of the consideration transferred, any non-controlling interests in the acquired entity (acquiree) and the acquisition-date fair value of the acquirer's previously held equity interest (shares) in the acquiree, and the net identifiable assets acquired and liabilities assumed. If after another testing, the acquisition-date net value of identifiable assets and liabilities exceeds the aggregate of the consideration transferred, any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the surplus is recognised directly in profit or loss as gain from a bargain purchase.

Non-controlling interests (NCIs) that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of entity's liquidation are initially measured at either fair value or the NCI's proportionate share of net identifiable assets of the acquiree. Measurement method is selected by the Group on a transaction by transaction basis.

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

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

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

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

Control acquisitions over entities under common control are also accounted for in the above manner.

Loss of control

Where the Group loses control of a subsidiary, assets or liabilities of a former subsidiary are de-recognised from the statement of financial position and any resulting gain or loss is calculated as a difference between:

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

and recognised in profit or loss. At the date of loss of control, the fair value of an investment retained in the former subsidiary is treated as fair value upon investment initial recognition, which is subsequently accounted for in accordance with IFRS 9 "Financial Instruments", or is treated as cost upon initial recognition of an investment in an associate or jointly controlled entity.

2.4 Foreign currency transactions and valuation of foreign currency items

Functional and presentation currency

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

Transactions and balances

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

At each reporting date:

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

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

Foreign operations and interest in subsidiaries using other functional currencies

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

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

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

2.5 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:

- own perpetual usufruct right to land 78 years
- right-of-use asset – perpetual usufruct right to land 2 – 100 years
- own buildings and constructions 2 – 67 years
- right-of-use asset – buildings and constructions 2 - 10 years
- own plant and machinery 2 – 14 years
- right-of-use-asset – plant and machinery 2 – 17 years
- own means of transport 2 – 14 years
- right-of-use asset - means of transport 2 – 17 years
- own other [tangible fixed assets] 2 – 17 years
- right-of-use asset - own other [tangible fixed assets 2 – 17 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 residual values 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 and 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.

Prepayments for construction in progress are presented under property, plant and equipment.

2.6 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 – 50 years
- other investment property 2 – 22 years

As at 31 December 2019, the Group did not have any right-of-use assets in respect of investment property.

Prepayments for the purchase of investment property are presented under same reporting line.

2.7 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 – 5 years
- software 2 – 10 years
- authorization to process 14 – 22 years
- right to store natural method.

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.

Prepayments for the purchase of intangible assets are presented under the reporting line of intangible assets.

2.8 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 determined in accordance with IFRS 13.

2.9 Goodwill of subordinated entities

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.

2.10 Borrowing costs

Borrowing costs comprise interest calculated using the effective interest rate method, finance charges under lease agreements and FX differences arising from external financing to the amount matching interest expense adjustment.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost or cost of production 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.

2.11 Accounting for lease by lessee

Lease-related accounting policies were described in note 2.2.

2.12 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 total of 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.

2.13 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.

Prepayments for the purchase of inventory items are presented under short-term receivables.

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

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

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

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

2.15 Financial instruments

Classification and measurement

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

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

A financial liability is any liability that is:

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

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

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

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

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

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

- amortized cost,
- fair value through other comprehensive income (FVOCI),

- fair value through profit or loss(FVPL).

A financial asset is recognised at amortized cost, if:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Budimex Group companies do not apply hedge accounting.

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

Impairment of financial assets

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

Amount of expected credit loss allowance

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

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

In the case of financial assets *not covered* by IFRS 15, if a Budimex Group entity initially recognised the lifetime ECL allowance for a financial asset and then at the following reporting date ascertained that the related credit risk *was no longer* significantly higher, the entity re-measured the lifetime ECL allowance to the amount of 12-month expected credit losses.

2.16 Equity

Equity

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

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

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

Cumulative translation differences comprise the effect of translation of the financial statements of foreign operations of the Group (foreign companies and foreign branches) from foreign currencies to Polish zloty (PLN).

Equity attributable to non-controlling interests

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

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

2.17 Employee benefits

Group entities operate retirement benefits/ pension plan programs and to this end create provisions for the present value of their underlying liabilities, which are presented under "Retirement benefits and similar obligations". 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 1.5% of total revenue from a given contract. This value is assessed on an individual basis and in justified cases may be increased or decreased. The costs of future warranty repairs are recognised in the cost of goods sold.

2.20 Recognition of revenues and expenses

Sales revenue is recognised using the policies described in note 2.21, 2.22 and note 30.2 below.

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

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

2.21 Revenue from contracts with customers

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

- the parties to the contract have approved the contract and are committed to perform their respective obligations,
- Group company can identify each party's rights regarding the goods or services to be transferred,
- Group company can identify the payment terms for the goods or services to be transferred,
- the contract has commercial substance, and
- 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, the 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 to the customer as the respective performance obligations are satisfied over time is the surveys of work performed method or the work progress measurement method *(metoda obmiaru wykonanych prac),* which is the results-based method, as long as during the course of contract performance measurement is possible of the progress towards complete satisfaction of that performance obligation.

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

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

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

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

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

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

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

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

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

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

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

Included in liabilities is “Valuation of construction contracts” referring to all contracts in progress, for which progress billings exceed recognised profits. Recorded under "Provisions for 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 (advance payments) is recognised in the statement of financial position as deferred income.

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

2.22 Revenue and expenses of service concession arrangements

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

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

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

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

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

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

In order to define the nature/ type of such consideration as well as the value to be disclosed in the statement of financial position, a test is performed at the date of the arrangement to confirm to what extent the payments guaranteed under service concession arrangements 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 2019, the Budimex Group companies were parties to three concession arrangements, for which the relevant tests disclosed that the value of guaranteed consideration for the entire term of the arrangements calculated in present values was 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 and measured at amortised cost using the effective interest rate method, as in accordance with IFRS 9 assets are held in accordance with the business model whose objective is to collect contractual cash flows, and the contractual cash flows of the assets give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding. 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 arrangements, the Group recognised financial assets and therefore, the costs of financing were expensed to the profit or loss under "finance costs".

2.23 Gross profit/ (loss) on sales

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

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

2.24 Operating profit/ (loss)

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

2.25 Income tax (incl. deferred tax)

The item "income tax" in the profit and loss account includes current and deferred tax.
Income tax on revenues earned in Poland is calculated in accordance with Polish tax regulations, while revenues from foreign operations are subject to local tax regulations, after considering appropriate treaties on avoiding double taxation.

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

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

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

Deferred tax assets and deferred tax liabilities are not recognised if temporary differences result from goodwill or initial recognition (except for mergers) of other assets and liabilities in a transaction that does not affect taxable or accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax asset to be utilised.

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

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

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

Recognition of uncertain tax position

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

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

Value added tax

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

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

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

2.26 Operating segments reporting

The Budimex Group management and organisation is based on segments.

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

- construction business,
- development activities and property management,
- service activities.

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

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

Interest (shares) in equity accounted entities has been classified to the appropriate segment, based on entity's type of business.

3. Financial risk management

The main financial instruments used by the Budimex Group are:

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

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

Currency risk

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

In accordance with the Group policy, foreign currency exposure is systematically measured for both individual construction contracts (by way of analysis of foreign currency inflows and outflows for the contracts concluded in foreign currency and by way of analysis of foreign currency outflows for the contracts concluded in domestic currency) and for all contracts in aggregate (global currency exposure). It is the Management Board's policy to hedge the net foreign currency exposure on individual contracts. As at 31 December 2019, the Group had approx. 92% 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 2019, the Group had approx. 74% of its foreign exchange risk hedged.

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

Foreign currency risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in exchange rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, the „feasibly possible" fluctuations in exchange rates were assessed at -10% / +10% as at 31 December 2019 and as at 31 December 2018.

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 2019	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts			
– EUR	28 344	4 532	(4 532)
– USD	42 722	713	(713)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	23 041	9 812	(9 812)
– USD	(47)	(18)	18
Gross effect on the result for the period and net assets		**15 039**	**(15 039)**
Deferred tax		(2 857)	2 857
Total		**12 182**	**(12 182)**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2018	
		Depreciation	Appreciation
		of Polish zloty against other currencies	
		+10%	-10%
Forward contracts			
– EUR	38 019	(7 496)	7 496
– USD	335	125	(125)
– CZK	114 300	1 898	(1 898)
Financial instruments denominated in foreign currencies – net currency exposure:			
– EUR	10 661	4 584	(4 584)
– USD	(181)	(68)	68
– GBP	(4)	(2)	2
– CZK	7	-	-
Gross effect on the result for the period and net assets		**(959)**	**959**
Deferred tax		182	(182)
Total		**(777)**	**777**

Interest rate risk

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

The interest rate risk related to current debt balances was assessed as relatively low from the point of view of its effect on Group results. 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 interest rate swap (IRS) transactions (floating rates to fixed rates).

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

Interest rate risk – sensitivity to changes

In order to analyse the sensitivity to fluctuations in interest rates, on the basis of historical changes in values and the Group's knowledge of and experience in the financial markets, "reasonably possible" fluctuations in interest rates were assessed at -0.25 p.p./ +0.25 p.p. as at 31 December 2019 (as at as at 31 December 2018 at the same level) for PLN, at -0.25 p.p./ +0.25 p.p. as at 31 December 2019 (as at as at 31 December 2018 at the same level) for EUR, at -0.25 p.p./ +0.25 p.p. as at 31 December 2019 (at -0.5 p.p./ +0.5 p.p. as at as at 31 December 2018) for USD, and at -0.25 / +0.25 p.p as at 31 December 2019 (at -0.5 p.p./ +0.5 p.p. as at as at 31 December 2018) for CZK.
Presented below is the effect of interest rate fluctuations on the net result and on net assets as at 31 December 2019 and 31 December 2018:

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2019	
		+25 bp (PLN, EUR, CZK, USD)	-25 bp (PLN, EUR, CZK, USD)
Cash at bank (fair value)	1 515 821	3 790	(3 790)
Derivative financial instruments – interest rate swap			
– recognised in liabilities (fair value)	(3 438)	429	(439)
Bank loans and borrowings (principal)	(81 486)	(204)	204
Lease liabilities (present value)	(368 834)	(922)	922
Gross effect on net result for the period and on net assets		**3 093**	**(3 103)**
Deferred tax		(588)	590
Total		**2 505**	**(2 513)**

	Nominal value at the reporting date	Sensitivity to fluctuations as at 31 December 2018	
		+25 bp (PLN, EUR) +50 bp (CZK, USD)	-25 bp (PLN, EUR) -50 bp (CZK, USD)
Cash at bank (fair value)	1 409 137	3 523	(3 523)
Derivative financial instruments – interest rate swap			
– recognised in liabilities (fair value)	(2 623)	467	(478)
Loans granted	74 145	185	(185)
Bank loans and borrowings (principal)	(40 514)	(101)	101
Finance lease liabilities (present value) (in accordance with IAS 17)	(198 411)	(496)	496
Gross effect on net result for the period and on net assets		**3 578**	**(3 589)**
Deferred tax		(680)	682
Total		**2 898**	**(2 907)**

In the assessment of sensitivity to interest rates fluctuations, cash on hand was disregarded.
Valuation of forward contracts does not show sensitivity to parallel fluctuations in interest rates with the exchange rates remaining unchanged.

Price risk

The Group is exposed to the price risk relating to increases in prices of the most popular construction materials such as steel products, being among others, reinforcing bars, rails and other steel goods, aggregates, concrete or crude oil derivatives such as petrol, diesel oil, asphalts or fuel oil. The price risk regarding materials purchased on the domestic market is estimated as moderate, while the price risk related to crude oil derivatives and steel goods is assessed as high. Increases in prices of construction materials and labour costs may, in turn, translate into higher prices of services rendered by Group subcontractors. The prices set forth in investor contracts remain fixed over the entire period of contract execution i.e. most often for the period of 6 – 36 months, while subcontractor contracts are made at a later date, as work on individual contract progresses. The highest risk of raw material price volatility (increases) exists in the case of public procurements due to the relatively long process of general contractor selection. This pertains to the period from bid placing to general contractor selection and contract signing, during which further commitments not always can be made, and prices - secured.
In order to limit the incurred price risk, the Budimex Group conducts ongoing monitoring of prices of the most popular construction materials, and the construction contracts signed specify the parameters relating, among others, to contract duration and value, that adequately 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 Group operates the policy of assessment and verification of credit risk based on the quantitative-qualitative models using the publicly available information and ratings of external rating agencies, with particular emphasis placed on the assessment of credit risk of private investors both at the stage of tender proceedings and regularly, on a monthly basis, during contracts execution, based on the analysis of contractor terms and conditions and current receivables servicing.

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

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

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

Except for the data presented in note 45, the value of financial assets recognised in the statement of financial position, before losses, reflects the maximum credit risk exposure of the Group, without accounting for the collaterals and securities.

Liquidity risk

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

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

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

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

4. Capital management

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

The Group manages its capital structure and modifies it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may return equity to the shareholders, issue new shares or pay out dividend. In 2019 and 2018, no changes were made to the objectives and policies binding in this area.

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

	31 December 2019	**31 December 2018**
Interest-bearing loans and borrowings and other external sources of finance	450 366	238 933
Trade and other payables	4 347 508	3 627 709
Less: Cash and cash equivalents	(1 515 977)	(1 409 152)
Less: Short-term securities	(119 721)	-
Net debt	3 162 176	2 457 490
Equity	836 640	750 477
Equity and net debt	3 998 816	3 207 967
Gearing ratio	**79.08%**	**76.61%**

5. Key estimates and assumptions

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

5.1 Key accounting estimates

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

Provisions for warranty repairs

The Budimex Group companies are required to issue warranties for their construction services rendered. The amount of warranty provision is linked to particular construction segments and ranges from 0.3% to 1.5% of total revenue from a given contract. This ratio is, however, analysed on an individual basis and in justified cases may be increased or reduced, as appropriate. The amount of warranty provision has been presented in note 26.

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

Un-invoiced services

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

Tax settlements

Polish law contains numerous regulations concerning VAT, excise tax, corporate income tax and social security contributions. Regulations regarding these taxes are subject to frequent changes which cause that they 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 contrived legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to above may be treated as a hint of contrived activities subject to GAAR. These regulations require considerably greater judgment in assessing tax effects of individual transactions.

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

Provision for litigation, penalties and sanctions

The management boards of Group companies carry out detailed analyses of potential risks relating to pending legal cases and claims filed against the Group and, based on these, take decisions on the necessity to recognise appropriate provisions and on the amount of the provisions.

5.2 Professional judgment in applying accounting policies

Recognition of construction contracts revenue and losses

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

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

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

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

6. Discontinued operations

In 2019 and 2018, no operations were discontinued within the meaning of IFRS 5.

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

7. The Budimex Group Entities

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

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Parent company					
Budimex SA	Warsaw / Poland			full	full
Consolidated					
Mostostal CracowSA	Cracow/ Poland	100.00%	100.00%	full	full
Mostostal CracowEnergetyka Sp. z o.o.	Cracow/ Poland	100.00%	100.00%	full	full
Budimex Bau GmbH	Koln / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-PIM1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	51.00%	51.00%	full	full
FBSerwis SA [1]	Warsaw / Poland	100.00%	49.00%	full	equity
FBSerwis A Sp. z o.o. [1]	Warsaw / Poland	100.00%	49.00%	full	equity
FBSerwis B Sp. z o.o. [1]	Warsaw / Poland	100.00%	49.00%	full	equity
FBSerwis Karpatia Sp. z o.o. [1]	Tarnów / Poland	100.00%	49.00%	full	equity
FBSerwis Wrocław Sp. z o.o. [1]	Bielany Wrocławskie / Poland	100.00%	49.00%	full	equity
FBSerwis Dolny Śląsk Sp. z o.o. [1]	Ścinawka Dolna / Poland	100.00%	49.00%	full	equity
FBSerwis Kamieńsk Sp. z o.o. [1]	Kamieńsk / Poland	80.00%	39.20%	full	equity
Non-consolidated					
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A1 SA (in liquidation) [2]	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej [in liquidation bankrupcy]	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.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex K Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex L Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
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	Koln / Germany	50.00%	50.00%	non-consolidated	non-consolidated
Budimex Autostrada SA (in liquidation) [3]	Warsaw / Poland	-	100.00%	-	non-consolidated

[1]) Budimex SA acquired 51% shares in FBSerwis SA on 3 July 2019 and thus assumed control over this company and its subsidiary companies. Detailed information was presented in note 8.

[2]) on 31 July 2018, the General Shareholders' Meeting of Budimex Autostrada A1 SA resolved to terminate company liquidation. As at 31 December 2019, the company was not yet removed from the National Court Register.

[3]) on 24 October 2018, the General Sharehjolders' Meeting of Budimex Autostrada SA resolved to terminate company liquidation. As of 4 February 2019, the company was removed from the National Court Register.

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

The list of **jointly controlled entities** of Budimex Group is as follows:

Entity name	Registered office	Share in the issued capital and in the number of votes (%)		Consolidation method	
		31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Joint operations					
Budimex SA - Budimex Budownictwo Sp. z o.o. s.c.[1]	Warsaw / Poland	-	100.00%	Full	full
Budimex SA Energetyka 1 Sp.j. [2]	Warsaw / Poland	-	100.00%		
Budimex SA Energetyka 3 Sp.j. [3,]	Warsaw / Poland	100.00%	50.00%		
Budimex SA Ferrovial Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%	Share in assets, liabilities, revenues and costs	Share in assets, liabilities, revenues and costs
Budimex SA Ferrovial Agroman SA 2 s.c.	Warsaw / Poland	95.00%	95.00%		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA II s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA III s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA IV s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA V s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA Ferrovial Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 2 Sp.j. [2]	Warsaw / Poland	-	50.00%		

[1]) on 20 September 2019, the shareholders of Budimex SA Budimex Budownictwo Sp. z o.o. s.c. resolved to dissolve the company due to achievement of economic objective, for which the company was established

[2]) on 13 August 2019, the shareholders of Budimex SA Energetyka 1 Sp. j. and Budimex SA Energetyka 2 Sp.j. resolved to liquidate those companies without carrying out winding-up proceedings. Budimex SA Energetyka 1 Sp.j. was removed from the National Court register on 25 September 2019, while Budimex SA Energetyka 2 Sp.j. – on 9 October 2019.

[3]) on January 2019, the companies Budimex A Sp. z o.o. and Budimex PPP SA (non-consolidated due to the lack of conducted operating activities) signed an agreement on the disposal of total rights and obligations relating to the participation in, as appropriate, SA Energetyka 2 s.j. and Budimex SA Energetyka 3 s.j. in favour Budimex Budownictwo Sp. z o.o. (consolidated).

The above entities are under common control (also these, in which the Group companies hold a total of more than 50% shares), as unanimity of all partners is required in the matters concerning their business.

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

Apart from the changes listed above, the composition of the Group did not change.

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

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

8. Acquisition of a subsidiary company

On 3 July 2019, Budimex SA concluded with Ferrovial Services International SE a contract transferring ownership of 89 760 shares in FBSerwis SA, representing 51% of shares in the issued capital of FBSerwis with a nominal value of PLN 500.00 per share, giving right to 89 760 votes at the General Meeting i.e. 51% votes at said meeting for the price of PLN 98 500 thousand. Following this transaction, Budimex SA holds currently all shares in FBSerwis SA, representing in total a 100% interest in the issued capital of FBSerwis SA and giving right to 100% votes at the General Meeting of FBSerwis. This means that as of 3 July 2019, Budimex SA obtained control over the companies which are making up the FBSerwis SA Group.

The assumption of control over FBSerwis SA is of long-term character and is part of the development strategy of the Budimex Group. FBSerwis SA and its subsidiary companies deal primarily with municipal waste management, comprehensive road maintenance and technical operation (maintenance) of buildings.

Prior to 3 July 2019, Budimex held 49% shares in FBSerwis SA, which was treated as an associate and recognized using the equity method. The value of the investments measured using the equity method as at acquisition date was PLN 40 115 thousand and the Group re-measured its prior participating interest in this entity to fair value i.e. PLN 74 872 thousand, and gains on this re-measurement in the amount of PLN 34 757 thousand was recognized in finance income (note 34).

As at 31 December 2019, final settlement was made of the acquisition of shares in FBSerwis SA, and the fair values upon acquisition are presented in the table below:

Acquisition fee – cash payment at acquisition date	98 500
Fair value of the investment (participating interest) in FBSerwis SA held to date	74 872
Amount of non-controlling interest in the subsidiary of FBSerwis SA at acquisition date	21 444
	194 816

Fair value of acquired assets and liabilities at the date of control assumption:	**3 July 2019**
Non-current assets	
Intangible assets	141 066
Property, plant and equipment	179 299
Other non-current assets	2 414
Current assets	
Trade and other receivables	88 106
Cash and cash equivalents	54 135
Other current assets	10 057
Non-current (long-term) liabilities	
Loans and borrowings and other external sources of finance	(49 718)
Provision for long-term liabilities and other charges	(41 068)
Deferred tax liabilities	(24 514)
Other financial liabilities	(16 436)
Other non-current (long-term) liabilities	(2 133)
Current (short-term) liabilities	
Loans and borrowings and other external sources of finance	(150 885)
Trade and other payables	(87 250)
Other current (short-term) liabilities	(3 528)
Acquired net assets at fair value	**99 545**
Goodwill identified on acquisition	**95 271**
Fee for the purchase in the form of cash	(98 500)
Cash and cash equivalents in the acquired entity upon acquisition	54 135
Outflow of cash and cash equivalents in connection with acquisition	**(44 365)**

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

The amount of non-controlling interest was measured at the amount of the proportionate share in the fair value of net assets of FBSerwis Kamieńsk Sp. z o.o., direct subsidiary of FBSerwis SA.

Goodwill identified on acquisition amounted to PLN 95 271 thousand. Goodwill was determined as a difference between the acquisition cost and the fair value of net assets attributable to the Budimex Group. According to the assessment of the Budimex Group, goodwill is mainly composed of future synergies which do not qualify for separate recognition. Recognised goodwill shall not represent a tax-deductible cost in income tax calculation. Goodwill was allocated to the segment of „service activities".

Sales of the FBSerwis Group for the period from acquisition to 31 December 2019	275 263
Net profit attributable to the parent of the FBSerwis Group for the period from acquisition to 31 December 2019	6 293

Sales of the FBSerwis Group for the period from the beginning of the year to 31 December 2019	498 182
Net profit of the FBSerwis Group for the period from the beginning of the year to 31 December 2019	22 593

The value of gross receivables upon company acquisition amounted to PLN 89 394 thousand, while the value of receivables deemed as non-recoverable and covered by impairment write-down amounted to PLN 1 169 thousand.

Costs relating to the assumption of control over the FBSerwis SA Group amounted to PLN 1 225 thousand.

Due to the acquisition of the controlling interest in FBSerwis SA, no liabilities were recognised in connection with contingent consideration or assets in connection with awarded compensations.

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
- service activities.

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

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

- Budimex Nieruchomości Sp. z o.o.
- SPV-PIM1 Sp. z o.o.
- Biuro Inwestycji „Grunwald" SA (for the period from 1 February – 17 September 208),
- Budimex SA in the part relating to the development business, as a result of the merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

The segment of service activities comprises comprehensive services in the field of with municipal waste management, comprehensive road maintenance, lighting infrastructure extension and management, and technical operation (maintenance) of buildings. As part of the service activities segment recognised were also other Group entities, which conduct, among others, production, trading/ commercial activities, and activities contracted in the form of public-private partnership (cPPP). Classified to this segment were the following entities:

- Budimex Parking Wrocław Sp. z o.o.

- FBSerwis SA (consolidated using the full method as of 3 July 2019)
- FBSerwis A Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- FBSerwis B Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- FBSerwis Dolny Śląsk Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- FBSerwis Wrocław Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- FBSerwis Karpatia Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- FBSerwis Kamieńsk Sp. z o.o. (consolidated using the full method as of 3 July 2019)
- Elektromontaż Poznań SA (sold on 17 September 2018)
- Elektromontaż Import Sp. z o.o. (subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018)
- Instal Polska Sp. z o.o. (subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018)
- Elektromontaż Warszawa SA (subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018).

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

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

Segment results for the **year ended 31 December 2019** are presented in the table below:

	Construction business	Property management and development business	Service activities	Consolidation exclusions	Consolidated value
Revenue from external sales	6 733 292	557 371	277 311	1 689	**7 569 663**
Inter-segment sales	418 686	440	970	(420 096)	**-**
Total sales revenue	**7 151 978**	**557 811**	**278 281**	**(418 407)**	**7 569 663**
Cost of finished goods, goods for resale and raw materials sold externally	(6 359 363)	(420 508)	(238 240)	-	**(7 018 111)**
Cost of finished goods, goods for resale and raw materials sold to other segments	(374 426)	(188)	(738)	375 352	**-**
Total cost of finished goods, goods for resale and raw materials sold	**(6 733 789)**	**(420 696)**	**(238 978)**	**375 352**	**(7 018 111)**
Gross profit on sales	**418 189**	**137 115**	**39 303**	**(43 055)**	**551 552**
Selling expenses	(10 721)	(19 757)	-	-	**(30 478)**
Administrative expenses	(173 135)	(26 183)	(14 157)	14 483	**(198 992)**
Other operating income/ (expenses), net	(27 339)	25 610	(1 959)	-	**(3 688)**
Operating profit	**206 994**	**116 785**	**23 187**	**(28 572)**	**318 394**
Finance income / (finance costs), net, of which:	(18 533)	3 361	24 103	247	**9 178**
- interest income	*20 356*	*1 847*	*163*	*(3 844)*	***18 522***
- interest expense	*(9 762)*	*(1 651)*	*(6 397)*	*3 711*	***(14 099)***
Shares in profits of equity accounted entities	-	-	4 785	-	**4 785**
Income tax	(81 667)	(23 090)	(4 129)	5 380	**(103 506)**
Net profit	**106 794**	**97 056**	**47 946**	**(22 945)**	**228 851**

In 2019, sales revenue from one customer amounted to PLN 1 221 047 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 2018** are presented in the table below:

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

In 2018, sales revenue from one customer amounted to PLN 1 916 370 thousand and related entirely to the construction segment.

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

Other segment-related items recognised in the profit and loss account **for the year ended 31 December 2019** are as follows:

	Construction business	Property management and development business	Service activities	Consolidated value
Depreciation/ amortization (note 31)	(81 021)	(3 080)	(21 578)	**(105 679)**
(Recognition)/ reversal of impairment write-downs against receivables (note 17)	(3 473)	53	(739)	**(4 159)**
(Recognition)/ reversal of impairment write-downs against inventories (note 18)	(494)	(1 055)	-	**(1 549)**
(Recognition)/ reversal of impairment write-downs against non-financial long-term assets (note 10)	187	-	-	**187**
Other non-monetary income/ (costs)*	(152 622)	(9 681)	264	**(162 039)**
Result on sale of non-financial long-term assets and investments**	627	23 085	(150)	**23 562**
Capital expenditure	106 404	17 876	34 054	**158 334**

Other segment-related items recognised in the profit and loss account **for the year ended 31 December 2018** are as follows:

	Construction business	Property management and development business	Service activities	Consolidated value
Depreciation/ amortization (note 31)	(49 915)	(1 781)	(415)	**(52 111)**
(Recognition)/ reversal of impairment write-downs against receivables (note 17)	(14 627)	(2 632)	(138)	**(17 397)**
(Recognition)/ reversal of impairment write-downs against inventories (note 18)	(862)	11 853	-	**10 991**
(Recognition)/ reversal of impairment write-downs against non-financial long-term assets (note 10)	(187)	-	-	**(187)**
(Recognition)/ reversal of other impairment write-downs (note 15.3)	(682)	-	-	**(682)**
Other non-monetary income/ (costs)*	5 714	(13 183)	2 571	**(4 898)**
Result on sale of non-financial long-term assets and investments**	1 888	(18)	4	**1 874**
Capital expenditure	160 850	1 241	389	**162 480**

*) Other non-monetary income / (costs) cover reversal / (creation) of provisions for contract losses and warranty repairs.
**) Result on the sale of non-financial long-term assets and investments covers sale of property, plant and equipment, investment property and investments.

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 EU countries.

Geographical information on sales revenue was presented in note 30.

Non-current assets

	31 December 2019	31 December 2018
Domestic market	880 335	409 055
German market	1 074	738
Other markets	-	128
Total	**881 409**	**409 921**

Capital expenditure

	2019	2018
Domestic market	157 691	162 034
German market	621	357
Other markets	22	89
Total	**158 334**	**162 480**

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 to land		Buildings & constructions		Plant & machinery		Means of transport		Other [tangible] fixed assets		Construction in progress	Prepaym. for construct.	Total
	freehold	leased*	own	leased*	own	leased*	own	leased*	own	leased*			
Gross value as at 1 January 2019	**3 181**	**-**	**20 972**	**-**	**161 782**	**219 142**	**21 428**	**40 141**	**43 868**	**886**	**1 016**	**-**	**512 416**
Increases:	**16 423**	**12 432**	**87 065**	**58 311**	**40 913**	**15 176**	**20 572**	**77 734**	**17 476**	**2 016**	**8 453**	**3 687**	**360 258**
– change in Group composition (note 8)	16 268	-	79 969	-	25 736	3 715	17 188	23 250	10 236	-	2 818	119	**179 299**
– first-time application of IFRS 16 (note 2.2)	-	7 792	-	7 160	-	222	-	22 178	-	67	-	-	**37 419**
– purchase	-	-	7 054	-	15 033	-	3 384	-	7 123	-	-	-	**32 594**
– acceptance for use under lease contracts	-	4 640	-	51 151	-	11 239	-	32 306	-	1 949	-	-	**101 285**
– transfer from construction in progress	-	-	25	-	141	-	-	-	111	-	(277)	-	**-**
– increase in construction in progress	-	-	-	-	-	-	-	-	-	-	5 912	-	**5 912**
– prepayments made	-	-	-	-	-	-	-	-	-	-	-	3 568	**3 568**
– transfer from investment property (note 11)	155	-	16	-	-	-	-	-	-	-	-	-	**171**
– other increases	-	-	1	-	3	-	-	-	6	-	-	-	**10**
Decreases:	**(29)**	**(441)**	**(5 628)**	**(169)**	**(15 324)**	**(5 430)**	**(4 481)**	**(2 433)**	**(5 374)**	**(74)**	**(199)**	-	**(39 582)**
– liquidation, scrapping	-	(441)	(4 358)	(169)	(5 526)	(1 361)	(397)	(381)	(4 284)	(74)	(199)	-	**(17 190)**
– sale	(29)	-	(1 270)	-	(9 763)	-	(4 084)	(95)	(1 076)	-	-	-	**(16 317)**
– post-lease purchase	-	-	-	-	-	(4 067)	-	(1 957)	-	-	-	-	**(6 024)**
– foreign exchange differences	-	-	-	-	-	-	-	-	(14)	-	-	-	**(14)**
– other decreases	-	-	-	-	(35)	(2)	-	-	-	-	-	-	**(37)**
Gross value as at 31 December 2019	**19 575**	**11 991**	**102 409**	**58 142**	**187 371**	**228 888**	**37 519**	**115 442**	**55 970**	**2 828**	**9 270**	**3 687**	**833 092**

**right-of-use assets*

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

	Land & perpetual usufruct to land		Buildings & constructions		Plant & machinery		Means of transport		Other [tangible] fixed assets		Construction in progress	Prepaym. for construct.	Total
	freehold	leased*	own	leased*	own	leased*	own	leased*	own	leased*			
Accumulated depreciation as at 1 January 2019	**(163)**	**-**	**(12 648)**	**-**	**(142 006)**	**(46 814)**	**(15 789)**	**(5 250)**	**(29 485)**	**(274)**	**-**	**-**	**(252 429)**
Movements in the period:	**(301)**	**(2 324)**	**(1 117)**	**(9 111)**	**(1 861)**	**(26 368)**	**(2 317)**	**(19 094)**	**(2 918)**	**(654)**	**-**	**-**	**(66 065)**
– charge for the period (note 31)	(314)	(2 467)	(5 896)	(9 200)	(12 879)	(29 992)	(4 152)	(21 019)	(7 569)	(728)	-	-	**(94 216)**
– liquidation, scrapping	-	143	4 214	89	5 074	803	273	291	3 977	74	-	-	**14 938**
– sale	13	-	578	-	8 767	-	3 101	95	667	-	-	-	**13 221**
– transfer from investment property (note 11)	-	-	(8)	-	-	-	-	-	-	-	-	-	**(8)**
– post-lease purchase	-	-	-	-	(2 824)	2 824	(1 539)	1 539	-	-	-	-	**-**
– foreign exchange differences	-	-	-	-	1	-	-	-	10	-	-	-	**11**
– other	-	-	(5)	-	-	(3)	-	-	(3)	-	-	-	**(11)**
Accumulated depreciation as at 31 December 2019	**(464)**	**(2 324)**	**(13 765)**	**(9 111)**	**(143 867)**	**(73 182)**	**(18 106)**	**(24 344)**	**(32 403)**	**(928)**	**-**	**-**	**(318 494)**
Impairment write-downs as at 1 January 2019	**(1 677)**	**-**	**-**	**-**	**(187)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1 864)**
– (increases)/ decreases (note 33)	-	-	-	-	187	-	-	-	-	-	-	**-**	**187**
Impairment write-downs as at 31 December 2019	**(1 677)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1 677)**
Net value as at 1 January 2019	**1 341**	**-**	**8 324**	**-**	**19 589**	**172 328**	**5 639**	**34 891**	**14 383**	**612**	**1 016**	**-**	**258 123**
Net value as at 31 December 2019	**17 434**	**9 667**	**88 644**	**49 031**	**43 504**	**155 706**	**19 413**	**91 098**	**23 567**	**1 900**	**9 270**	**3 687**	**512 921**

**right-of-use assets*

The reason behind the reversal of impairment write-down against property, plant and equipment in the amount of PLN 187 thousand was disposal of a fixed asset.

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

	Land & perpetual usufruct right to land	Buildings and constructions	Plant & machinery	Means of transport	Other [tangible] fixed assets	Construction in progress	Total
Gross value as at 1 January 2018	**3 181**	**29 675**	**273 091**	**47 465**	**39 429**	**9 806**	**402 647**
Increases:	**82**	**779**	**133 186**	**19 353**	**7 114**	**(255)**	**160 259**
– purchase (incl. acceptance for use under lease contracts)	-	582	132 379	19 338	5 848	-	**158 147**
– transfer from construction in progress	-	174	804	15	231	(1 224)	**-**
– increase in construction in progress	-	-	-	-	-	969	**969**
– foreign exchange differences	-	-	3	-	35	-	**38**
– other increases	82	23	-	-	1 000	-	**1 105**
Decreases:	**(82)**	**(9 482)**	**(25 353)**	**(5 249)**	**(1 789)**	**(8 535)**	**(50 490)**
– sale	-	-	(5 380)	(1 729)	(10)	(8 481)	**(15 600)**
– transfer to investment property (note 11)	-	(6 196)	(880)	-	(7)	-	**(7 083)**
– liquidation, scrapping	-	(76)	(14 482)	(2 507)	(693)	(54)	**(17 812)**
– change in Group composition	(82)	(3 210)	(4 611)	(1 013)	(1 079)	-	**(9 995)**
Gross value as at 31 December 2018	**3 181**	**20 972**	**380 924**	**61 569**	**44 754**	**1 016**	**512 416**
Accumulated depreciation as at 1 January 2018	**(100)**	**(12 422)**	**(180 906)**	**(19 528)**	**(24 101)**	**-**	**(237 057)**
Movements for the period:	**(63)**	**(226)**	**(7 914)**	**(1 511)**	**(5 658)**	**-**	**(15 372)**
– charge for the period (note 31)	(70)	(1 857)	(32 547)	(5 369)	(6 343)	-	**(46 186)**
– sale	7	-	5 371	1 671	10	-	**7 059**
– transfer to investment property (note 11)	-	1 772	869	-	7	-	**2 648**
– liquidation, scrapping	-	76	14 482	1 331	670	-	**16 559**
– foreign exchange differences	-	(1)	(2)	-	(26)	-	**(29)**
– change in Group composition	14	1 156	3 823	855	1 048	-	**6 896**
– other	(14)	(1 372)	90	1	(1 024)	-	**(2 319)**
Accumulated depreciation as at 31 December 2018	**(163)**	**(12 648)**	**(188 820)**	**(21 039)**	**(29 759)**	**-**	**(252 429)**
Impairment write-downs as at 1 January 2018	**(1 677)**	**(1 377)**	**(114)**	**-**	**-**	**-**	**(3 168)**
– (increases)/ decreases (note 33)	-	-	(187)	-	-	-	**(187)**
– change in Group composition	-	-	114	-	-	-	**114**
– other	-	1 377	-	-	-	-	**1 377**
Impairment write-downs as at 31 December 2018	**(1 677)**	**-**	**(187)**	**-**	**-**	**-**	**(1 864)**
Net value as at 1 January 2018	**1 404**	**15 876**	**92 071**	**27 937**	**15 328**	**9 806**	**162 422**
Net value as at 31 December 2018	**1 341**	**8 324**	**191 917**	**40 530**	**14 995**	**1 016**	**258 123**

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

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

	2019	2018
Cost of finished goods and services sold	89 576	41 421
Administrative expenses	3 586	3 859
Other costs	1 054	906
Total (note 31)	**94 216**	**46 186**

As at 31 December 2018, the Group as lessee used under finance lease agreements (within the then current meaning of IAS 17) the following tangible fixed assets:

	31 December 2018	
	Initial cost – capitalised finance lease	Net carrying amount
Plant and machinery	219 142	172 328
Means of transport	40 141	34 891
Other [tangible] fixed assets	886	612
Total	**260 169**	**207 831**

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

In the years 2018-2019, the Group did not receive any compensations with regard to these fixed assets that were impaired or lost.

11. Investment property

	31 December 2019	31 December 2018
Own perpetual usufruct right to land	4 776	19 987
Own buildings and constructions	2 945	8 373
Other	-	5
Total investment property	**7 721**	**28 365**
Fair value of investment property	*7 721*	*38 730*

Movements in the balance of investment property during 2019 and 2018 were as follows:

	2019	2018
Opening balance		
Gross value	30 520	27 898
Depreciation (incl. accumulated impairment losses)	(2 155)	(3 275)
Net value - opening balance	**28 365**	**24 623**
Movements for the period:	**(20 644)**	**3 742**
First-time application of IFRS 16 (note 2.2)	10 199	-
Disposal	(37 602)	-
Purchase	7 769	-
Transfer to property, plant and equipment (note 10)	(163)	-
Transfer from property, plant and equipment (note 10)	-	4 435
Depreciation (note 31)	(886)	(698)
Other	39	5
Closing balance		
Gross value	7 771	30 520
Depreciation (incl. accumulated impairment losses)	(50)	(2 155)
Net value	**7 721**	**28 365**

As at 31 December 2019 and 31 December 2018, no collaterals were established on investment property.

Depreciation of investment property for the years 2019 and 2018 was recognised in the profit and loss account under cost of finished goods and services sold.

As at 31 December 2019, the Group held only one investment property located in Poznań. Due to the fact that it was acquired in June 2019 for the market price, the Group did not commission its re-appraisal at the reporting date. Thereby, as at 31 December 2019, no impairment risk was recognized of the investment properties.

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

The investment properties which the Group held as at 31 December 2018 were sold: the property in Cracow was sold in April 2019, while the property in Poznań – in December 2019.

The Group companies recognised in their profit and loss accounts the following balances of investment-property related income and expense:

	2019	2018
Rental charge income	4 262	4 266
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that generated rental income	3 581	1 159
Direct operating expenses (incl. repair and maintenance costs) relating to investment property that *did not* generate rental income	-	-

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

12. Intangible assets

Entity name	Computer software	Licenses & patents acquired	Right to store	Authorization to process	Other	Prepayments for intangible assets	Total
Gross value as at 1 January 2019	**58 678**	**678**	**-**	**-**	**36**	**-**	**59 392**
Increases:	**7 859**	**1**	**53 825**	**86 306**	**-**	**3 036**	**151 027**
– change in Group composition (note 8)	935	-	53 825	86 306	-	-	**141 066**
– purchase	5 188	1	-	-	-	-	**5 189**
– transfer of prepayments	-	-	-	-	-	2 017	**2 017**
– settlement of prepayments	1 736	-	-	-	-	(1 736)	**-**
– transfer from receivables	-	-	-	-	-	2 755	**2 755**
Decreases:	**(334)**	**-**	**-**	**-**	**-**	-	**(334)**
– liquidation	(318)	-	-	-	-	-	**(318)**
– foreign exchange differences	(16)	-	-	-	-	-	**(16)**
Gross value as at 31 December 2019	**66 203**	**679**	**53 825**	**86 306**	**36**	**3 036**	**210 085**
Accumulated amortization as at 1 January 2019	**(30 393)**	**(587)**	**-**	**-**	**(23)**	**-**	**(31 003)**
Movements for the period:	**(4 731)**	**(23)**	**(2 994)**	**(2 505)**	**(7)**	**-**	**(10 260)**
– charge for the period (note 31)	(5 048)	(23)	(2 994)	(2 505)	(7)	-	**(10 577)**
– liquidation	313	-	-	-	-	-	**313**
– foreign exchange differences	4	-	-	-	-	-	**4**
Accumulated amortization as at 1 December 2019	**(35 124)**	**(610)**	**(2 994)**	**(2 505)**	**(30)**	**-**	**(41 263)**
Net value as at 1 January 2019	**28 285**	**91**	**-**	**-**	**13**	**-**	**28 389**
Net value as at 31 December 2019	**31 079**	**69**	**50 831**	**83 801**	**6**	**3 036**	**168 822**

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

	Computer software	Licenses & patents acquired	Other	Total
Gross value as at 1January 2018	**58 364**	**989**	**804**	**60 157**
Increases:	**3 583**	**64**	**-**	**3 647**
– purchase	3 300	64	-	**3 364**
– settlement of advance payments	275	-	-	**275**
– foreign exchange differences	8	-	-	**8**
Decreases:	**(3 269)**	**(375)**	**(768)**	**(4 412)**
– change in Group composition	(3 174)	(375)	(768)	**(4 317)**
– liquidation	(95)	-	-	**(95)**
Gross value as at 31 December 2018	**58 678**	**678**	**36**	**59 392**
Accumulated amortisation as at 1January 2018	**(28 292)**	**(918)**	**(784)**	**(29 994)**
Movements for the period:	(2 101)	331	761	**(1 009)**
– charge for the period (note 31)	(5 197)	(23)	(7)	**(5 227)**
– change in Group composition	3 006	354	768	**4 128**
– liquidation	95	-	-	**95**
– foreign exchange differences	(5)	-	-	**(5)**
Accumulated amortisation as at 31 December 2018	**(30 393)**	**(587)**	**(23)**	**(31 003)**
Net value as at 1January 2018	**30 072**	**71**	**20**	**30 163**
Net value as at 31 December 2018	**28 285**	**91**	**13**	**28 389**

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

	2019	2018
Cost of finished goods and services sold	6 052	563
Administrative expenses	4 440	4 624
Other costs	85	40
Total (note 8)	**10 577**	**5 227**

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

As at 31 December 2019 and 31 December 2018, Group companies reported no material liens or encumbrances *(obciążenia o charakterze prawnorzeczowym)* or encumbrances obligating to perform a legal act *(obciążenia obligacyjne)* established on their intangible assets.

No impairment write-downs against intangible assets were made in the year 2019 or 2018.

13. Goodwill of subordinated entities

Goodwill of subordinated entities amounted as at 31 December 2019 to PLN 168 508 thousand and was composed of goodwill of Budimex Dromex SA in the amount of PLN 73 237 thousand and goodwill recognized on acquisition of the FBSerwis SA Group in the amount of PLN 95 271 thousand (note 8).

Goodwill recognised in the consolidated statement of financial position as at 31 December 2018 amounted to PLN 73 237 thousand and comprised goodwill that entirely related to Budimex Dromex SA, which merged with Budimex SA on 16 November 2009.

Impairment test of goodwill that originated on acquisition of shares of Budimex Dromex SA

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

The recoverable amount of the cash generating unit is determined on the basis of calculations of value in use. The calculations make use of the projections of five-year cash flows. Cash flows beyond the five-year period were assessed at fixed level. The adopted growth rate does not exceed long-term average growth rate for the construction industry, in which the cash generating unit operates. The calculations assumed the gross margin ranging from 5.9% to 8.0% and the discount rate of 9% (after rounding and grossing up). The Management Board determined budgeted gross margin on the basis of historical data and its projections for market development. Weighted average growth rates are consistent with the forecasts presented in industry reports. The applied discount rate is a pre-tax rate that accounts for the specific threats of individual segments. No reasonable change in test assumptions would cause goodwill impairment.

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

Based on the impairment test of goodwill that originated on acquisition of shares of Budimex Dromex SA which was performed as at 31 December 2019, the Management Board concluded that there was no need to recognize goodwill impairment write-down.

Impairment test of goodwill that originated on acquisition of shares of FBSerwis SA

It is assumed that for goodwill that originated on acquisition of shares of FBSerwis SA by Budimex SA, which resulted in the assumption of control over FBSerwis SA and its subsidiary companies, the cash generating unit is the entire business activity of the FBSerwis Group allocated to the dominant shareholder, which is composed of the following: the entire business of FBSerwis SA, FBSerwis Dolny Śląsk sp. z o.o., FBSerwis Wrocław sp. z o.o., FBSerwis Karpatia sp. z o.o. and 80% of the value generated by the business of FBSerwis Kamieńsk sp. z o.o.

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/constant level in real terms. The adopted growth rate does not exceed long-term average growth rate for the service industry, in which the cash generating unit operates. The calculations assume the level of EBITDA (earnings before interest, taxes, depreciation and amortization) ranging between 14.8% and 16.4%, while the applied discount rate was 8.2%. The Management Board determined the forecasted margin based on historical results and the forecasts (own and those of the key management of the FBSerwis Group) regarding future results of the FBSerwis Group. No reasonably possible change in test assumptions points to a possible loss of value.

Based on the results of the impairment test of goodwill that originated on acquisition of shares in FBSerwis SA, which was performed as at 31 December 2019, the Management Board concluded that there was no need to recognize goodwill impairment write-down.

14. Investments in equity-accounted entities

	2019	2018
Opening balance	**37 427**	**39 228**
– of which goodwill	-	-
Share in profits / (losses)*	4 785	(1 795)
Assumption of control over an associate (note 8).	(40 115)	-
Dividend paid by associates	(21)	(5)
Other	-	(1)
Closing balance	**2 076**	**37 427**
– 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 for a given financial year, and the financial statements of these entities changed after publication by the Group of its consolidated financial statements. In 2019, the Group's share in the results of equity accounted entities was adjusted by the amount of PLN (302) thousand. In 2018, the Group's share in the results of equity-accounted entities was adjusted by PLN 205 thousand.

The list of associates as at 31 December 2019 and 31 December 2018:

Entity name	Type	Registered office	Share in the issued capital and in the number of votes (%)	
			31 December 2019	31 December 2018
Promos Sp. z o.o.	associate	Cracow / Poland	26.31%	26.31%
FBSerwis SA*	subsidiary/ associate	Warsaw / Poland	-	49.00%

* as of 3 July 2019, companies of the FBSerwis Group have been consolidated using the full method (note 8)

The selected financial data of the associates included in the FBSerwis SA Group are as follows:

The FBSerwis SA Group	3 July 2019	31 December 2018
Non-current assets	311 508	322 981
Current assets	152 298	118 881
Non-controlling interests	(12 525)	(10 639)
Non-current liabilities	(127 750)	(274 033)
Current liabilities	(241 663)	(85 059)

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

The FBSerwis SA Group	1 January – 3 July	31 December 2018
Revenue	223 422	371 416
Profit (loss) on continuing operations	10 286	(4 333)
Profit (loss) on discontinued operations, after tax	-	-
Other comprehensive income	-	-
Comprehensive income for the period	10 286	(4 333)
Dividend received from the associate	-	-

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

The FBSerwis SA Group	3 July 2019	31 December 2018
Net assets	81 868	72 131
The Group's equity interest in the associate	49.00%	49.00%
Other adjustments	-	-
Carrying amount of the Group's equity interest in the associate	**40 115**	**35 344**

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

Promos Sp. z o.o.	2019	2018
Non-current assets	15 787	9 419
Current assets	2 108	3 344
Non-current liabilities	(6 963)	(2 509)
Current liabilities	(3 041)	(2 346)
Revenue	9 267	11 477
Profit (loss) on continuing operations	180	469
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	-
Comprehensive income for the period	180	469
Dividend received from the associate	21	5

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

Promos Sp. z o.o.	31 December 2019	31 December 2018
Net assets	7 891	7 908
The Group's equity interest in the associate	26.31%	26.31%
Other adjustments	-	2
Carrying amount of the Group's equity interest in the associate	**2 076**	**2 083**

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

	2019	2018
Share in profits of associates	4 785	118
Share in losses of associates	-	(1 913)
Total	**4 785**	**(1 795)**

In 2019, the Group's share in other comprehensive income of associates amounted to PLN 0.00.

As at 31 December 2019 and 31 December 2018, the Budimex Group had no share in the contingent liabilities of associates. As at 31 December 2019, the share of the Budimex Group in the contingent assets of associates was PLN 0 thousand (as at 31 December 2018 – PLN 1 537 thousand).

The associate conducts property maintenance and property lease activities.

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

15. Financial assets and financial liabilities

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

		Note	31 December 2019	31 December 2018
FINANCIAL ASSETS				
Financial assets measured at amortized cost				
Retentions for construction contracts		29	107 645	77 414
Receivables from service concession arrangements (long-term portion)/ Other financial assets (short-term portion)		16	46 921	46 416
Valuation of construction contracts		27	444 008	561 537
Trade and other receivables*		17	1 031 145	738 911
Other financial assets (loans granted)		15.1	-	74 145
Other financial assets (debt instruments)		15.4	119 721	-
Financial assets at fair value through profit or loss (FVPL)				
Cash and cash equivalents	*level 2 of the fair value hierarchy according to IFRS 13*	19	1 515 977	1 409 152
Other financial assets (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	15.2	1 026	4 495
Investments in equity instruments	*level 3 of the fair value hierarchy according to IFRS 13*	15.3	7 816	9 778
Balance at the end of the period			**3 274 259**	**2 921 848**
FINANCIAL LIABILITIES				
Financial liabilities measured at amortised cost				
Trade and other payables**		23	1 266 506	1 446 389
Retentions for construction contracts		29	444 554	437 617
Loans and borrowings and other external sources of finance		22	450 366	238 933
Other financial liabilities (liability from deferred payment for shares)		15.5	16 687	-
Liabilities measured at fair value through profit or loss (FVPL)				
Other financial liabilities (derivative financial instruments)	*level 2 of the fair value hierarchy according to IFRS 13*	15.2	4 423	3 303
Balance at the end of the period			**2 182 536**	**2 126 242**

*except for the amounts of accrued income, taxation, subsidy, customs duty, social security and insurance debtors, and except for the prepayments
**financial liabilities according to note 23

In the 12-month periods ended 31 December 2019 and 31 December 2018, there were no movements between Level 1 and Level 2 of the fair value hierarchy, and there were no movements from/ to Level 3 of this hierarchy.

Investments in equity instruments classified to Level 3 of the fair value hierarchy are measured at historical cost (see note 15.3).

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

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

For the period from 1 January 2019 to 31 December 2019

	Financial assets measured at fair value through profit or loss (FVPL) from initial recognition	Financial assets measured at amortized cost	Financial liabilities measured at fair value through profit or loss (FVPL) from initial recognition	Financial liabilities measured at amortized cost	Total
Interest income /(expense)	8 662	5 497	-	(7 651)	**6 508**
Foreign exchange gains /(losses)	(618)	(1 118)	-	1 886	**150**
Reversal/ (recognition) of impairment write-downs	-	(3 634)	-	-	**(3 634)**
Statute-barred liabilities written-off	-	-	-	7 445	**7 445**
Dividends received	3	-	-	-	**3**
Valuation gains/(losses)	(3 236)	3 624	(1 352)	(27)	**(991)**
Gains /(losses) on disposal/ realization of financial instruments	4 231	-	(952)	-	**3 279**
Total	**9 042**	**4 369**	**(2 304)**	**1 653**	**12 760**

For the period from 1 January 2018 to 31 December 2018

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

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

15.1 Loans granted

Until the moment of the assumption of control over the FB Serwis Group, the Budimex Group issued the following 3 loan facilities to the associate company i.e. FB Serwis SA :

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 3 July 2019 amounted to PLN 307 thousand (PLN 307 thousand as at 31 December 2018). Loan effective interest rate in 2019 was 5.72% (2018: 5.72%). 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 3 July 2019 amounted to PLN 12 721 thousand (PLN 12 721 thousand as at 31 December 2018). Loan effective interest rate in 2019 was 5.72% (2018: 5.72%). 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 3 July 2019 amounted to PLN 61 117 thousand (PLN 61 117 thousand as at 31 December 2018). Loan effective interest rate in 2018 was 5.72% (2018: 5.72%). Loan maturity date was set at 26 May 2020.

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

	2019	2018
Opening balance	**74 145**	**62 451**
– including the FBSerwis Group in consolidation	(74 145)	-
– loan granted	-	10 780
– accrued interest (note 34)	2 161	3 987*
– interest repayment	(2 103)	(3 072)
– reversal of impairment write-down (note 34)	525	-
– set-off with liabilities	(583)	-
– other	-	(1)
Closing balance	**-**	**74 145**
of which:		
– long-term	-	*74 145*
– short-term	-	-

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

The reason behind reversal of impairment write-downs against loans value was signed set-off agreement with a non-Group entity.

15.2 Derivative financial instruments

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

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

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

	2019	2018
Gains/ (losses) on valuation of FX forward contracts	(3 774)	(2 538)
Gains / (losses) on realisation of FX forward contracts	4 215	2 816
Total gains / (losses) on derivative financial instruments recognised as part of operating activities (note 33)	**441**	**278**
Gains/ (losses) on valuation of IRS contracts	(814)	(484)
Gains/ (losses) on realisation of IRS contracts	(612)	(654)
Total gains / (losses) on derivative financial instruments recognised as part of financing activities (note 34)	**(1 426)**	**(1 138)**

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

The fair value of the transactions concluded by Group companies and open as at 31 December 2019 and 31 December 2018 is presented in the table below:

	Financial assets arising from derivatives valuation		**Financial liabilities arising from derivatives valuation**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
FX forward contracts	**1 026**	**4 495**	**985**	**680**
– up to 1 year	*1 026*	*4 495*	*788*	*680*
– 1 – 2 years	-	-	*197*	-
Interest rate swap	**-**	**-**	**3 438**	**2 623**
– up to 1 year	-	-	*515*	*608*
– 1 – 2 years	-	-	*522*	*479*
– 2 – 5 years	-	-	*1 406*	*1 081*
– above 5 years	-	-	*995*	*455*

The total nominal value of FX forward contracts as at 31 December 2019 was EUR 28 344 thousand and CZK 42 722 thousand, while as at 31 December 2018 – EUR 38 019 thousand, USD 335 thousand and CZK 114 300 thousand,

Forward selling/ buying rate for Euro-based transactions open as at 31 December 2019 ranged EUR/ PLN 4.2710 – 4.4712 (as at 31 December 2018 – EUR/ PLN 4.2552 – 4.7035). Euro-based forward transactions open as at 31 December 2019 are to be settled within 30 - 664 days (as at 31 December 2018, transaction settlement date was 31 - 346 days).

As at 31 December 2019, the Budimex Group did not have any open USD-based FX forwards contracts. Forward selling/ buying rate for USD-based transactions open as at 31 December 2018 ranged USD/ PLN 3.7712 – 3.7880. USD-based forward transactions open as at 31 December 2018 are to be settled within 31 - 150 days.

Forward selling/ buying rate for CZK-based transactions open as at 31 December 2019 was CZK/ PLN 0.1674 (as at 31 December 2018 – ranged CZK/ PLN 0.1661 – 0.1732). CZK-based forward transactions open as at 31 December 2019 are to be settled within 30 days (as at 31 December 2018 - 31 - 241 days).

As at 31 December 2019 and as at 31 December 2018, the Group had open IRS transactions, under which it will pay fixed interest rate and will receive 3M WIBOR floating rate. The nominal value of individual IRS transactions did not exceed PLN 10 000 thousand. The longest maturity date for said transactions falls on 30 September 2030.

15.3 Investments in equity instruments

Investments in equity instruments comprise solely shares in the companies.

	2019	**2018**
Opening balance	**9 778**	**9 501**
Increases:	**70**	**1 060**
– increase in the issued capital of non-consolidated entity	70	-
– share contribution to the newly incorporated, non-consolidated companies	-	100
– purchases	-	960
Decreases	**(2 032)**	**(783)**
– change in Group composition	-	(1)
– including in consolidation (Budimex Inwestycje Grunwald SA)	-	(100)
– impairment write-downs (note 34)	-	(682)
– sale	(2 032)	-
Closing balance	**7 816**	**9 778**
of which:		
– long-term	***7 816***	***9 778***
– short-term	-	-

In 2019, Budimex SA increased its share (equity participating interest) in non-consolidated company, Budimex Most Wschodni SA.

On 7 November 2019, Budimex SA sold shares in Autostrada Wielkopolska SA for the amount of EUR 400 thousand (PLN 1 708 thousand), thus realizing a loss on sale in the amount of PLN 324 thousand (note 34).

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

Investments in equity instruments were classified as financial assets measured at fair value through profit or loss (FVPL). Due to the fact that determining fair value of these assets is not possible (they are not listed), it was assumed that the most reasonable value for their disclosure is book value.

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

15.4 Investments in debt instruments

Investments in debt instruments comprise solely short-term unlisted bonds of Polish banks holding long-term investment rating.

	2019	2018
Balance at the beginning of the period	**-**	**278 972**
Increases:	**119 721**	**241 028**
– purchase	119 588	238 868
– accrued interest (note 34)	133	2 160
Decreases:	**-**	**(520 000)**
– bonds redemption	-	(516 877)
– interest payment	-	(3 123)
Balance at the end of the period	**119 721**	**-**
of which:		
– long-term	-	-
– short-term	*119 721*	-

As at 31 December 2019, the average yield to maturity of these debt securities was 2.03% p.a. and their average maturity date was 43 days.

The fair value of bonds approximated the value presented in the consolidated statement of financial position as these were the short-term instruments. Investments in debt instruments were classified as financial assets measured at amortised cost.

15.5 Liabilities from deferred payment for shares

The FBSerwis Group over which Budimex Group assumed control on 3 July 2019 (note 8), reported, at the time of control assumption, liabilities from deferred payment for shares in FBSerwis Karpatia Sp. z o.o. and FBSerwis Wrocław Sp. z o.o. in the amount of PLN 16 436 thousand (fair value at acquisition date). As at 31 December 2019, this liability amounted to PLN 16 687 thousand and was measured at amortised cost. Nominal value of said liability was PLN 18 385 thousand and effective discount rate was 9.34% (which matches the annual rate of 2.84%). Liability maturity rate was set for 2023.

16. Receivables from service concession arrangements

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

Apart from that, Group companies concluded with a public sector entity a contract for the performance of construction works and services of summer and winter road maintenance.

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

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

Movements in receivables from service concession arrangement

	2019	2018
Opening balance	**46 416**	**46 440**
Increases:	**3 326**	**2 519**
– valuation of financial asset at amortised cost (note 34)	2 870	2 519
– change in Group composition	456	-
Decreases	**(2 821)**	**(2 543)**
– repayments	(2 821)	(2 543)
Closing balance	**46 921**	**46 416**
of which:		
– long-term	***46 690***	***46 416***
– short-term (note 15) – presented under “other financial assets”	***231***	**-**

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

In 2019 and 2018, revenue and gains/ (losses) from construction services under realised service concession arrangement did not occur.

Receivables from service concession arrangement were classified as financial assets measured at amortized cost.

17. Trade and other receivables

	31 December 2019	31 December 2018
Long-term trade and other receivables		
Prepayments and accruals	23 437	21 807
Other receivables	18 450	-
Long-term trade and other receivables, net	**41 887**	**21 807**
Impairment write-down against long-term receivables	102	103
Long-term trade and other receivables, gross	**41 989**	**21 910**
Short-term trade and other receivables		
Trade receivables	981 729	725 810
Advance payments made	51 678	42 729
Taxation, subsidy, customs duty, social security, health insurance and other debtors	3 140	10 033
Prepayments and accruals	28 644	27 627
Other receivables	30 966	13 101
Short-term trade and other receivables, net	**1 096 157**	**819 300**
Impairment write-down against receivables	134 836	135 108
Short-term trade and other receivables, gross	**1 230 993**	**954 408**
Total trade and other receivables, net	**1 138 044**	**841 107**

Prepayments and accruals include mainly guarantee and insurance costs paid in advance.

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 2019 and 31 December 2018, no securities or collaterals were established on these assets.

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

	2019	2018
Impairment write-downs against receivables - opening balance	**135 211**	**132 662**
Charged to other operating expenses (note 33)	12 350	18 942
Reversed to other operating income (note 33)	(8 191)	(1 545)
Utilised	(5 679)	(14 954)
Foreign exchange differences	(76)	399
Change in Group composition	1 323	(220)
Other	-	(73)
Impairment write-downs against receivables - closing balance	**134 938**	**135 211**

Impairment write-downs against trade and other receivables have been measured at the amount of lifetime expected credit losses of the given financial asset.

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

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

For the above groups of receivables, a portfolio analysis was performed and a simplified matrix was used for the impairment write-downs in individual receivable ageing categories, based on the receivables' lifetime expected credit losses calculated using the indexes of impairment write-downs in the individual categories determined using the 2015-2019 historical data.

1. In the analysed period, on average 75% of sales was realised to the public sector companies, including in a significant part to the State Treasury companies, or – in case of sales in the development business – the transfer of the subject of sale (flat) took place after all receivables have been settled. Given the fact that the Group does not assume any significant change in the realized sales

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structure, and the level of impairment write-downs against past due receivables from these entities was approx. 0.1%, the credit risk for this portfolio was assessed as insignificant.

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

2. Receivables from private contractors incur the highest credit risk. However, the Budimex Group's proactive policy of credit risk control minimizes the level of doubtful receivables also in this part of the portfolio. The average for the last 5 years shows that the level of impairment write-downs approximated 0.1% of portfolio receivables.

3. Receivables from other contractors incur higher credit risk, but due to the their marginal share in total receivables (of approx. 5%, and approx. 1% share in total sales) and the adopted policy for their valuation and revaluation at the time of origination based on expected cash flows and held securities (guarantees and retentions to be set-off against), they also do not have any significant impact on risk assessments in the future.

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

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

As at 31 December 31 2019 all overdue other receivables in the amount of PLN 36 702 thousand belonged to the category of receivables whose credit risk increased materially.

The total value of impairment write-down in the amount of expected credit losses amounted as at 31 December 2019 to PLN 134 938 thousand (as at 31 December 2018 - PLN 135 211 thousand).

Ageing analysis of trade receivables

	31 December 2019	31 December 2018
Trade receivables due and receivable in:		
- up to 1 month	679 653	395 704
- 1 – 3 months	195 901	162 736
- 3 -6 months	9 312	4 811
- 6 months – 1 year	336	14 406
- above 1 year	1 662	305
- overdue receivables	193 101	245 701
Trade receivables, gross	**1 079 965**	**823 663**
Impairment write-downs, net	98 236	97 853
Trade receivables, net	**981 729**	**725 810**

The Group's exposure to credit risk in relation to trade receivables is presented in the table below:

	Short-term trade receivables as at 31 December 2019						
	current	**overdue**					
		1-30 days	**31-90 days**	**91-180 days**	**181-365 days**	**>365 days**	
Expected credit loss rate	0.74%	0.95%	1.25%	5.88%	16.75%	90.16%	
Gross value of trade receivables at default	886 864	34 629	38 834	11 571	9 880	98 187	1 079 965
Impairment write-down in the amount of expected credit loss	6 563	329	485	680	1 655	88 524	98 236

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)

18. Inventories

	31 December 2019	31 December 2018
Raw materials - own	478 596	299 000
Semi-finished goods and work in progress – own	909 239	512 707
Semi-finished goods and work in progress – right-of-use asset	29 989	-
Finished goods – own	51 580	218 885
Finished goods – right-of-use asset	1 512	-
Goods for resale – own	490 585	581 221
Goods for resale – right of use asset	52 255	-
Inventories net value - closing balance	**2 013 756**	**1 611 813**
Inventory impairment write-downs	21 755	29 745
Inventories gross value - closing balance	**2 035 511**	**1 641 558**

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Inventory impairment write-downs

	2019	2018
Inventory impairment write-downs - opening balance	**29 745**	**54 461**
Charged to other operating expenses (note 33)	1 549	7 735
Reversed to other operating income (note 33)	-	(18 726)
Change in Group composition	-	(495)
Utilised	(9 539)	(13 230)
Inventory impairment write-downs – closing balance	**21 755**	**29 745**

The reason for reversing inventory impairment write-downs in 2018 was an increase in their recoverable amount.

As at 31 December 2019, inventories were pledged as collaterals for investment loans with a value of PLN 288 791 thousand. As at 31 December 2018, no collateral was established on inventories (note 38).

In 2019, inventories were financed by non-Group loans and therefore, at the consolidated level, the Group companies capitalised to inventories loan interest. The total value of interest capitalised to Group inventories was PLN 100 thousand. In 2018, inventories *were not* financed by non-Group loans and hence at the consolidated level Group companies *did not* capitalise any interest.

As at 31 December 2019, the value of inventories to be utilised or sold in the period of more than 12 months is PLN 1 011 458 thousand, while as at 31 December 2018 – PLN 933 689 thousand.

Inventories with a value of PLN 1 522 023 thousand relate to the expenditure incurred in respect of realised residential projects earmarked for further sale. Due to the general situation on the residential market, the Group is exposed to the risk of fluctuations of selling prices of apartments and service spaces/ premises. The risk of price fluctuations was mitigated in respect of these apartments that had been sold based on preliminary sale agreements. As regards the investment projects for which the construction phase did not start, no binding agreements for construction services were signed.

To verify market value of held assets, the Management Board commissioned an external appraiser, Savills Sp. z o.o. to perform valuation of certain inventory items. Inventory market value as at 31 December 2019 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 inventory adjustment or disclosure in the consolidated financial statements.

19. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	156	15
Cash at bank	1 515 821	1 409 137
Total cash and cash equivalents	**1 515 977**	**1 409 152**
Cash and cash equivalents of restricted use	(175 762)	(141 124)
Cash recognised in the statement of cash flows	**1 340 215**	**1 268 028**

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

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

	31 December 2019	31 December 2018
Cash of the consortia in the portion attributable to other consortium members	753	12 815
Cash representing security for bank guarantee	3 024	-
Escrow accounts of development companies	24 757	46 704
Blocked development project bank accounts	123 185	69 554
Cash on the split payment accounts	22 490	9 808
Cash and cash equivalents serving as loan collateral (note 38)	1 455	1 215
Other	98	1 028
Total cash and cash equivalents of restricted use	**175 762**	**141 124**

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 2019 of 1.49% per annum for PLN-based deposits (as at 31 December 2018: 1.37% p.a. for PLN-based deposits). The average maturity period for these deposits is 36 days (31 December 2018: 37 days).

In 2019, the Group acquired cash and cash equivalents with a value of PLN 2 352 thousand following guarantee realization (in 2018: PLN 4 014 thousand).

20. Equity

At the date of transition to IFRSs, the Group adjusted the value of issued capital and of share premium for the period, in which the Polish economy was hyperinflationary. The effects of restatement and reconciliation of balances shown in the books of account and corporate records of Group companies as at 31 December 2019 and 31 December 2018 to the balances recognised in the financial statements are presented in the table below.

	31 December 2019		31 December 2018	
	Ordinary shares	Share premium	Ordinary shares	Share premium
Equity as per books of account	**127 650**	**85 083**	**127 650**	**85 083**
Restatement of equity due to hyperinflation	18 198	2 080	18 198	2 080
Equity as per financial statements	**145 848**	**87 163**	**145 848**	**87 163**

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

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 2019 is as follows:

Share series/ issue	Class of shares	Type of preference	Type of restrictions on rights to shares	Number of shares	Value of series/ issues according to nominal value
A	ordinary/ registered	None	None	2 250	11
A	ordinary/bearer	None	None	2 997 750	14 989
B	ordinary/bearer	None	None	2 000 000	10 000
C	ordinary/bearer	None	None	1 900 285	9 502
D	ordinary/bearer	None	None	1 725 072	8 625
E	ordinary/bearer	None	None	2 000 000	10 000
F	ordinary/bearer	None	None	5 312 678	26 563
G	ordinary/bearer	None	None	2 217 549	11 088
H	ordinary/bearer	None	None	1 448 554	7 243
I	ordinary/bearer	None	None	186 250	931
K	ordinary/bearer	None	None	1 484 693	7 423
L	ordinary/bearer	None	None	4 255 017	21 275
Total				**25 530 098**	**127 650**

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

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

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

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

21. Equity attributable to non-controlling interests

	2019	2018
Balance at the beginning of the period	**7 136**	**685**
– change in Group composition (note 8)	21 444	-
– share in profit/(loss) during the year	3 424	43
– share in consolidation adjustments	(587)	17
– disposal of subsidiary companies	-	(664)
– sale of a non-controlling interest	-	7 189
– dividend to non-controlling interests	(2 926)	(134)
Balance at the end of the period	**28 491**	**7 136**

As at 31 December 2019 and 31 December 2018, the non-controlling interests accounted for 49% of the issued capital and the number of votes at the General Shareholders' Meeting of Budimex Parking Wrocław Sp. z o.o.

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

Budimex Parking Wrocław Sp. z o.o.	2019	2018
Statement of financial position		
Non-current assets	47 436	47 069
Current assets	3 259	4 379
Non-current liabilities	(34 614)	(34 691)
Current liabilities	(2 256)	(2 193)
Statement of comprehensive income*		
Revenue	5 965	957
Profit (loss) on continuing operations	1 671	(117)
Profit (loss) on discontinued operations, after tax		-
Other comprehensive income	-	-
Comprehensive income for the period	1 671	(117)
Dividends received from Budimex Parking Wrocław Sp. z o.o.		-

**data from the statement of comprehensive income in 2018 cover the period from 29 October to 31 December 2018.

On 3 July 2019, Budimex SA acquired 51% shares in FBSerwis SA and thus obtained control over the companies of the FBSerwis SA Group, including FBSerwis Kamieńsk Sp. z o.o., in which the Budimex Group holds 80% of shares (detailed information was presented in note 8).

The selected financial data of FBSerwis Kamieńsk Sp. z o.o. were as follows:

FBSerwis Kamieńsk Sp. z o.o.	2019
Statement of financial position	
Non-current assets	57 369
Current assets	77 043
Non-current liabilities	(40 979)
Current liabilities	(55 943)
Statement of comprehensive income (for the period from 3 July to 31 December 2019)	
Revenue	60 121
Profit (loss) on continuing operations	13 024
Profit (loss) on discontinued operations, after tax	-
Other comprehensive income	-
Comprehensive income for the period	13 024
Dividends received from FBSerwis Kamieńsk Sp. z o.o.	-

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

22. Loans and borrowings and other external sources of finance

	31 December 2019	31 December 2018
	Carrying amount	
Non-current		
Bank loans and borrowings	69 420	30 410
Lease liabilities	203 792	153 697
Interest accrued on long-term loans and borrowings	46	3
	273 258	**184 110**
Current		
Bank loans and borrowings	12 066	10 104
Lease liabilities	165 042	44 714
Interest accrued on short-term loans and borrowings	-	5
	177 108	**54 823**
Total	**450 366**	**238 933**

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

	31 December 2019		31 December 2018	
	Carrying amount	Undiscounted contractual cash flows*	Carrying amount	Undiscounted contractual cash flows*
– up to 1 year	12 066	13 691	10 109	11 019
– 1-3 years	11 475	13 991	2 696	4 307
– 3-5 years	31 407	36 060	3 125	4 567
– above 5 years	26 584	29 559	24 592	28 204
	81 532	**93 301**	**40 522**	**48 097**

*) comprise both principal and interest payments; as at 31 December 2019 and 31 December 2018, the amounts expressed in foreign currency were translated into Polish zloty at the NBP period-end exchange rates, and interest payments were calculated using the interest rates prevailing in the last interest period before 31 December 2019 and 31 December 2018.

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 2019	31 December 2018
	Outstanding amount	
Long-term portion	69 466	30 413
PLN (WIBOR)	*61 173*	*30 413*
PLN (fixed interest rate)	*8 293*	-
Short-term portion	12 066	10 109
PLN (WIBOR)	*6 834*	*1 090*
PLN (fixed interest rate)	*5 232*	-
EUR (EURIBOR)	-	*9 019*
	81 532	**40 522**

Risk of interest rate fluctuations

The effective interest rate as at 31 December 2019 and 31 December 2018 were as follows:

	31 December 2019		31 December 2018	
	PLN	EUR	PLN	EUR
Bank loans and borrowings	2.86% - 4.63%	-	2.87% - 3.92%	0.60%
Lease liabilities	3.01% - 4.45%	0.93% - 1.03%	3.07%	-

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

Lease liabilities

The Budimex Group companies signed lease contracts for financing all classes of property, plant and equipment, mainly plant and machinery, and means of transport. The Group companies recognised as lease also liabilities from the fee for perpetual usufruct right (prior to transformation into ownership right); as a corresponding entry, inventories right-of use assets was recognised. Leased assets were made available for the period from 13 months (construction site offices) to 1200 months (perpetual usufruct). After the completion of the original lease term and after discharging its liabilities, the Company will have the right to acquire some of the leased assets for the price equating their residual value. The contractual liabilities are partly secured with a blank promissory note issued by the Company together with a written authorisation for its drawing.

Ageing analysis of lease liabilities

31 December 2019	Present value of lease payments	Undiscounted contractual cash flows
– less than 1 year	84 564	120 413
– 1-3 years	137 963	175 289
– 3-5 years	53 584	76 588
– above 5 years	92 723	317 114
	368 834	**689 404**

Future minimum lease payments under the above lease agreements and the present value of net minimum lease payments as at 31 December 2018 were as follows (in accordance with IAS 17):

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

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

23. Trade and other payables

	31 December 2019	31 December 2018
Short-term trade and other payables		
Financial liabilities		
Trade liabilities	370 312	520 073
Un-invoiced costs	651 238	684 523
Payroll	13 804	9 346
Accrued expenses, of which:	231 152	229 936
- unused annual leave	*48 131*	*47 635*
- employee bonus	*183 021*	*182 301*
Liabilities relating to consortia settlement	-	2 511
Non-financial liabilities		
Taxation and social security creditors	206 910	241 449
Accrued expenses	35 915	28 691
- costs of construction contracts completion	*33 657*	*26 998*
- other	*2 258*	*1 693*
Other liabilities	21 442	3 909
Total short-term trade and other payables	**1 530 773**	**1 720 438**
Total trade and other payables	**1 530 773**	**1 720 438**

All trade and other payables as at 31 December 2019 and 31 December 2018 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

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

24. Income tax

	31 December 2019	31 December 2018
Deferred tax assets		
– to be realised after 12 months	156 962	130 579
– to be realised within 12 months	431 579	394 083
Total	**588 541**	**524 662**
Offsetting	(169 652)	(162 811)
Deferred tax assets, after set-off	**418 889**	**361 851**
Deferred tax liabilities		
– to be settled after 12 months	53 357	24 429
– to be settled within 12 months	129 699	138 382
Total	**183 056**	**162 811**
Offsetting	(169 652)	(162 811)
Deferred tax liabilities, after set-off	**13 404**	**-**

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

	2019	2018
Balance at the beginning of the year	**361 851**	**405 208**
Credit/ (charge) to financial result	68 039	(38 818)
Credit/ (charge) to other comprehensive income	98	224
Change in Group composition	(24 514)	(4 764)
Other	11	1
Balance at the end of the year	**405 485**	**361 851**

	2019	2018
Current tax	162 475	59 234
Deferred tax	(68 039)	38 818
Adjustments to prior periods current income tax	9 070	(148)
Tax expense/ (tax income)	**103 506**	**97 904**

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:

	2019	2018
Gross profit/ (loss)	**332 357**	**403 388**
Shares in (profits)/ losses of equity accounted entities	(4 785)	1 795
Pre-tax profit/ (loss)	**327 572**	**405 183**
Tax calculated using domestic tax rates	62 239	76 985
Differences in taxation of revenues of foreign operations	2 665	(629)
Adjustments to prior periods current income tax	9 070	(148)
Tax effects of permanent differences between gross profit and taxable income	14 054	16 416
Utilisation of carry-forward of unused tax losses or prior period deductible temporary differences	(688)	-
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	14 061	2 620
Tax expense/ (tax income) calculated with respect to industrial and commercial business operations in Germany	2 151	3 319
Other	(46)	(659)
Tax expense/ (tax income)	**103 506**	**97 904**
Effective tax rate	*31.60%*	*24.16%*

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

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

	Deferred tax assets as at 1 January 2018	**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 changes**	**Deferred tax assets as at 31 December 2018**	**Recognition/ (utilisation) of deferred tax asset through profit or loss**	**Recognition/ (utilisation) of deferred tax asset through other comprehensive income**	**Change in Group composition**	**Other movements**	**Deferred tax assets as at 31 December 2019**
Valuation of construction contracts and provision for contract losses	195 137	(55 387)	-	(439)	-	139 311	64 516	-	-	-	203 827
Contract costs related to accrued income	82 703	17 983	-	-	-	100 686	(26 518)	-	-	-	74 168
Liabilities – un-invoiced costs	68 805	(11 172)	-	(2 453)	-	55 180	(5 909)	-	45	-	49 316
Tax loss	77	1 782	-	(909)	-	950	(363)	-	-	-	587
Provisions for warranty repairs	61 402	11 077	-	(804)	-	71 675	10 480	-	-	-	82 155
Other provisions for liabilities	23 179	2 924	-	-	-	26 103	64 466	-	(2 120)	-	88 449
Receivables - impairment write-downs	22 309	(4 425)	-	-	-	17 884	(1 699)	-	-	-	16 185
Employee bonus	33 287	1 497	-	(971)	-	33 813	(918)	-	182	-	33 077
Unused annual leave	7 800	953	-	(215)	-	8 538	(566)	-	221	-	8 193
Discount of retentions for construction contracts	569	222	-	-	-	791	(143)	-	-	-	648
Forward contracts valuation	1 719	(1 091)	-	-	-	628	215	-	-	-	843
Retirement benefits and similar obligations	2 398	261	224	(213)	-	2 670	351	98	80	-	3 199
Provision for land rehabilitation	-	-	-	-	-	-	(42)	-	7 907	-	7 865
Impairment write-down against long-term financial assets	2 598	(184)	-	(20)	-	2 394	(333)	-	-	-	2 061
Other	32 319	31 972	-	(248)	(4)	64 039	(47 484)	-	1 402	11	17 968
Total	**534 302**	**(3 588)**	**224**	**(6 272)**	**(4)**	**524 662**	**56 053**	**98**	**7 717**	**11**	**588 541**
Offsetting	(129 094)					(162 811)					(169 652)
After set-off (recognised in the statement of financial position)	**405 208**					**361 851**					**418 889**

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

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

	Deferred tax liabilities as at 1 January 2018	Recognition / (utilisation) of deferred tax liability through profit or loss	Recognition / (utilisation) of deferred tax liability through other comprehensive income	Change in Group composition	Other movements	Deferred tax liabilities as at 31 December 2018	Recognition / (utilisation) of deferred tax liability through profit or loss	Recognition / (utilisation) of deferred tax liability through other comprehensive income	Change in Group composition	Other movements	Deferred tax liabilities as at 31 December 2019
Valuation of construction contracts	91 865	16 233	-	(1 406)	-	106 692	(22 343)	-	-	-	84 349
Forward transactions valuation	2 307	(1 448)	-	(5)	-	854	(645)	-	-	-	209
Discount of retentions for construction contracts	4 457	471	-	(46)	-	4 882	41	-	-	-	4 923
Receivables – accrued interest	822	(778)	-	(9)	-	35	750	-	-	-	785
Right to store	-	-	-	-	-	-	(568)	-	10 226	-	9 658
Authorization to process	-	-	-	-	-	-	(476)	-	16 398	-	15 922
Leases	17 297	20 626	-	(32)	-	37 891	8 876	-	-	-	46 767
Other	12 346	126	-	(10)	(5)	12 457	2 379	-	5 607	-	20 443
Total	**129 094**	**35 230**	**-**	**(1 508)**	**(5)**	**162 811**	**(11 986)**	**-**	**32 231**	**-**	**183 056**
Offsetting	(129 094)					(162 811)					(169 652)
After set-off (recognised in the statement of financial position)	-					-					**13 404**

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 2019, 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 84 646 thousand (as at 31 December 2018: PLN 12 792 thousand) and expired in the years 2020 - 2021. 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, as well as the lack of taxable income in Lithuania.

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

25. Retirement benefits and similar obligations

As at 31 December 2019, all employees of the Budimex Group benefited from two types of employee benefits:

- the retirement-pension benefits
- posthumous benefits (only employees of FBSerwis SA and its subsidiary companies).

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 ratio (progressing in proportion to the years of service). Liability under posthumous benefits was recognised only in FBSerwis SA and its subsidiary companies, because in other Budimex Group companies employees were covered by life insurance policy.

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

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

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

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

	31 December 2019	31 December 2018
Retirement/ pension benefits, of which:	**16 640**	**14 051**
– present value of the obligation at the reporting date	16 640	14 051
Posthumous benefits, of which:	**216**	**-**
– present value of the obligation at the reporting date	216	-
Total retirement benefits and similar obligations	**16 856**	**14 051**
of which:		
– long-term portion	*14 979*	*12 639*
– short-term portion	*1 877*	*1 412*

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 2019	31 December 2018
Discount rate	1.72% – 2.29%	1.80% – 2.65%
Forecast inflation rate	2.3% – 2.6%	2.9% – 3.2%
Forecast staff turnover	0.0% – 16.0%	2.0% – 11.0%
Forecast salary growth rate	3.0%– 7.2%	3.3% – 6.7%

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

The last valuation of employee benefits was made by an independent actuary as at 31 December 2019.

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

Retirement and pension benefits

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

	2019	2018
Present value of liability at the beginning of the period	**14 051**	**12 130**
Interest expense	342	298
Service costs	1 860	1 433
Benefits paid	(729)	(499)
Actuarial (gains)/losses, of which arising from:	518	1 181
- change in assumptions	*730*	*259*
- historical experience relating to program obligations	*(212)*	*922*
Change in Group composition	598	(492)
Present value of liability at the end of the period	**16 640**	**14 051**

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

	2019	2018
Service costs	1 860	1 433
Interest expense	342	298
Costs recognised in the profit and loss account (note 32)	**2 202**	**1 731**
Actuarial losses to be recognised in the period	518	1 181
Costs recognised in other comprehensive income	**518**	**1 181**
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	*204*	*305*
- selling expenses	*37*	*34*
- administrative expenses	*1 961*	*1 392*

Posthumous benefits

Posthumous benefits are paid to employee family upon employee demise. The amount of the posthumous benefit due and payable is the product of the base of benefit calculation at the date of entitlement (i.e. at the date the right to receive benefit payment vests) and the appropriate ratio (progressing in proportion to the years of service).In 2019, liability under posthumous benefits was recognised only in FBSerwis SA and its subsidiary companies, because in other Budimex Group companies employees were covered by life insurance policy.

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

	2019	2018
Present value of liability at the beginning of the period	**-**	**493**
Interest expense	-	-
Service costs	216	-
Change in Group composition	-	(493)
Actuarial (gains)/losses, of which:	-	-
- change in assumptions	-	-
- historical experience relating to program obligations	-	-
Present value of liability at the end of the period	**216**	**-**

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

	2019	2018
Service costs	216	-
Interest expense	-	-
Costs recognised in the profit and loss account (note 32)	**216**	**-**
Actuarial losses to be recognised in the current period	-	-
Costs recognised in other comprehensive income	**-**	**-**
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	*216*	-
- selling expenses	-	-
- administrative expenses	-	-

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

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 1 840 thousand, while a decrease in the assumed discount rate by 1 percentage point would bring about an increase in said liability by PLN 2 252 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 2 124 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 1 784 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 2 013 thousand, while a decrease in the assumed staff turnover by 1 percentage point would bring about an increase in said liability by PLN 2 447 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.

26. Provisions for liabilities and other charges

	Litigation	Penalties and other sanctions	Warranty repairs	Restructuring	Other	Total
Balance as at 1January 2018	**24 634**	**55 521**	**354 623**	**-**	**41 842**	**476 620**
Creation of additional provisions	469	21 588[1]	111 978	-	26 388[2]	160 423
Reversal of unused provisions	(1 095)	(8 909)[3]	(21 513)	-	(13 348)[4]	(44 865)
Provisions utilisation	-	-	(23 139)	-	(9 241)	(32 380)
Other movements	3	-	44	-	122	169
Change in Group composition	(141)		(4 135)		(447)	(4 723)
Balance as at 31 December 2018	**23 870**	**68 200**	**417 858**	**-**	**45 316**	**555 244**
Balance as at 1 January 2019	**23 870**	**68 200**	**417 858**	**-**	**45 316**	**555 244**
Creation of additional provisions	417	72 079[5]	97 748	-	14 021[6]	184 265
Reversal of unused provisions	(411)	(18 195)[7]	(18 351)	(221)	(8 414)[8]	(45 592)
Provisions utilisation	-	-	(16 814)	-	(3 822)	(20 636)
Other movements	-	-	6	-	-	6
Change in Group composition	-		264	41 617	-	41 881
Balance as at 31 December 2019	**23 876**	**122 084**	**480 711**	**41 396**	**47 101**	**715 168**

[1)] of which PLN 567 thousand was recognised under finance costs and under cost of finished goods and services, and goods for resale and raw materials sold
[2)] of which PLN 26 319 thousand was recognised under cost of finished goods and services, and goods for resale and raw materials sold, PLN 47 thousand - under administrative expenses, and PLN 22 thousand - under finance costs
[3)] of which PLN 49 thousand was recognised as a decrease in finance costs, and PLN 797 thousand was recognised under finance income
[4)] of which PLN 13 348 thousand was recognised as a decrease to the cost of goods and services, and goods for resale and raw materials sold
[5)] of which PLN 292 thousand was recognized under finance cost
[6)] of which 13 940 thousand was recognized under cost of goods and services, and goods for resale and raw materials sold, PLN 45 thousand – under administrative expenses, and PLN 36 thousand – under finance costs
[7)] of which PLN 3 296 thousand was recognized under finance income
[8)] of which PLN 8 414 thousand was recognised as a decrease to the cost of goods and services, and goods for resale and raw materials sold

The creation/(reversal) of provisions for litigation (court cases), penalties and other sanctions and restructuring provision was recognised under other operating expenses (note 33), while creation / (reversal) of provision for warranty repair and provision for land rehabilitation – under operating expenses, except for the transactions described in the footnotes to the above table.

The most significant legal cases, to which the Group companies are parties were described in point 5.7 of the Director's Report on activities for 2019.

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

The structure of total provisions is as follows:

	31 December 2019	31 December 2018
Non-current	498 422	367 306
Current	216 746	187 938
	715 168	**555 244**

27. Construction contracts

The tables below present data relating to construction contracts which are valued by Group companies in accordance with the stage of completion method (the surveys of work performed method or the work progress measurement method):

Selected consolidated data – statement of financial position

	31 December 2019	31 December 2018
Assets		
Valuation of construction contracts	444 008	561 537
Liabilities		
Valuation of construction contracts	951 448	575 183
Provision for construction contract losses	240 677	158 035
Advance payments for construction contracts in progress (note 28)	593 163	373 389

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

28. Deferred income

Deferred income comprises:

	31 December 2019	31 December 2018
Advance payments for construction contracts in progress (note 27)	593 163	373 389
Advance payments for flats in developer companies	757 307	614 828
Other accrued income	5 840	8 007
Total	**1 356 310**	**996 224**

All advance payments received and other accrued income as at 31 December 2019 and 31 December 2018 were recognised under current liabilities as they will be settled in the course of Group normal operating cycle.

29. Retentions for construction contracts

	31 December 2019	31 December 2018
Retained by customers – to be returned after 12 months	59 212	49 103
Retained by customers – to be returned within 12 months	48 433	28 311
Total retentions for construction contracts retained by customers	**107 645**	**77 414**
Received from suppliers – to be returned after 12 months	229 522	222 751
Received from suppliers – to be returned within 12 months	215 032	214 866
Total retentions for construction contracts received from suppliers	**444 554**	**437 617**

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 2019	31 December 2018
Discount of long-term retentions for construction contracts retained by customers	3 409	4 163
Discount of long-term retentions for construction contracts received from suppliers	25 916	25 943

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

Amount of discount recognised in the profit and loss account:

	2019	2018
Decrease in sales revenue	(953)	(2 432)
Reduction in the cost of services sold	8 566	11 955
Total adjustment to gross margin	**7 613**	**9 523**
Adjustment to finance income / (finance costs) (note 34)	(6 886)	(8 210)
Deferred tax on the above adjustments	(139)	(249)
Net effect on the profit and loss account	**588**	**1 064**

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

30. Revenue from contracts with customers

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

30.1.1 Sales revenue, by type of good or service

In 2019, 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	Service activities	Exclusions	Consolidated financial data
Sales of construction-assembly work	7 053 193	-	-	(404 214)	**6 648 979**
Sales of other services	43 358	8 163	278 281	(15 882)	**313 920**
Sales of finished goods	40 981	542 097	-	-	**583 078**
Sales of goods for resale and raw materials	14 446	7 551	-	1 689	**23 686**
Total sales of finished goods, goods for resale and raw materials	**7 151 978**	**557 811**	**278 281**	**(418 407)**	**7 569 663**

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

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

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

30.1.2 Sales revenue, by geographical area

In 2019, 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	Service activities	Exclusions	Consolidated financial data
Poland	6 743 996	557 811	278 239	(418 407)	**7 161 639**
Germany	225 029	-	41	-	**225 070**
Other EU countries	174 642	-	1	-	**174 643**
Other countries*	8 311	-	-	-	**8 311**
Total sales of finished goods, goods for resale and raw materials	**7 151 978**	**557 811**	**278 281**	**(418 407)**	**7 569 663**

**other countries are Norway, Senegal and USA*

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

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

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

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

30.1.3 Sales of the Construction business segment, by type of construction works

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 construction works/ constructed objects. Data for the years 2019 and 2018 are as follows:

Type of construction works	Sales revenue for the 12-month period ended:	
	31 December 2019	31 December 2018
Land-engineering	3 091 858	3 163 230
Railway	1 190 217	634 112
Cubic objects, of which:	2 869 903	3 250 301
- non-housing	*2 215 176*	*2 537 318*
- housing	*654 727*	*712 983*
Sales of finished goods, goods for resale and raw materials – Construction business segment	**7 151 978**	**7 047 643**

30.2 Assets and liabilities arising from contracts with customers

Deadline to satisfy contract performance obligations vs applied payment deadlines

Construction contracts are settled with investors in the following manner:

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

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

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

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

During 2019 and 2018, no revenues from contracts with customers occurred that were recognised in the given financial year, for which the performance obligation to deliver a good or service was satisfied in the prior financial year.

During 2019 and 2018, 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 Dec 2018	Change in contracts valuation	Revenue recognised in 2019 and included in contract liabilities balance as at 31 Dec 2018	Change of the period, in which right to contract consideration becomes unconditional	Received advance payments for flats	Other	31 Dec 2019
Receivables from service concession arrangements	46 416	-	-	-	-	505	46 921
Valuation of construction contracts	561 537	444 008	-	(561 537)	-	-	444 008
Assets from contracts with customers	**607 953**	**444 008**	**-**	**(561 537)**	**-**	**505**	**490 929**
Deferred income – advance payments for flats at developer companies	614 828	-	(463 255)	-	605 734	**-**	757 307
Valuation of construction contracts	575 183	641 705	(265 440)	-	-	-	951 448
Liabilities from contracts with customers	**1 190 011**	**641 705**	**(728 695)**	**-**	**605 734**	**-**	**1 708 755**

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

30.3 Outstanding performance obligations under contracts with customers

	31 December 2019	31 December 2018
Total transaction price allocated to construction contract performance obligation (to deliver goods or services) outstanding at year-end, to be realized in:	10 471 597	10 743 510
- less than 1 year	*6 337 132*	*6 606 068*
- over 1 year	*4 134 465*	*4 137 442*
Total	**10 471 597**	**10 743 510**

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

31. Costs by type

	2019	2018
Depreciation/ amortization of which:	105 679	52 111
– property, plant and equipment (note 10)	*94 216*	*46 186*
– investment property (note 11)	*886*	*698*
– intangible assets (note 12)	*10 577*	*5 227*
Employee benefits (note 32)	1 024 973	977 854
Materials and energy	1 963 371	2 418 714
External services	3 980 219	3 792 466
Taxes and charges	37 991	18 965
Advertising and representation	10 342	11 119
Non-life (property) and life insurance	21 378	18 161
Change in the balance of provision for contract losses (note 27)	82 642	(85 567)
Other costs by type	243 423	(89 850)
Selling expenses (negative value)	(30 478)	(30 650)
Administrative expenses (negative value)	(198 992)	(229 593)
Change in the balance of finished goods and work in progress	(240 496)	(99 741)
Cost of goods produced for the entity's own needs (negative value)	-	-
Cost of finished goods and services sold	**7 000 052**	**6 753 989**
Cost of goods for resale and raw materials sold	18 059	4 059
Cost of finished goods, services, goods for resale and raw materials sold	**7 018 111**	**6 758 048**

32. Cost of employee benefits

	2019	2018
Cost of salaries and wages, of which:	**848 380**	**810 785**
– retirement and pension benefits (note 25)	*2 418*	*1 731*
– share-based payments (note 39)	*2 857*	*3 287*
– termination benefits	*5 108*	*4 769*
Cost of social security surcharges and other allowances, of which:	**176 593**	**167 069**
– social security	*140 656*	*112 207*
– termination benefits	*622*	*644*
Total cost of employee benefits recognised in the costs by type (note 31)	**1 024 973**	**977 854**

33. Other operating income and other operating expenses

Other operating income

	2019	2018
Gains on the sale of non-financial long-term assets	23 886	1 874
Reversal of impairment write-downs, of which against:	8 378	20 271
– receivables (note 17)	*8 191*	*1 545*
– inventories (note 18)	*-*	*18 726*
– property, plant and equipment (note 10)	*187*	*-*
Reversal of provisions, of which for:	15 310	9 158
– litigation and compensations (note 26)	*411*	*1 095*
– penalties and sanctions (note 26)	*14 899*	*8 063*
Compensations awarded	38 463	30 065
Subsidies	539	147
Statute-barred liabilities written-off	7 445	2 778
Gains on derivative financial instruments (note 15.2)	4 215	2 816
Other	1 217	868
Total	**99 453**	**67 977**

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

Other operating expenses

	2019	2018
Recognition of impairment write-downs, of which against:	13 899	26 864
– receivables (note 18)	*12 350*	*18 942*
– inventories (note 18)	*1 549*	*7 735*
– property, plant and equipment (note 10)	*-*	*187*
Creation of provisions, of which for:	72 204	21 490
– litigation (note 26)	*417*	*469*
– penalties and sanctions (note 26)	*71 787*	*21 021*
Compensations and liquidated damages paid	9 107	8 074
Court charges and executions, costs of legal proceedings	2 299	1 214
Loss on derivative financial instruments (note 15.2)	3 774	2 538
Donations given	883	1 890
Other	975	1 754
Total	**103 141**	**63 824**

34. Finance income and finance costs

Finance income

	2019	2018
Interest earned on financial instruments, of which:	10 956	19 569
– on bank deposits and cash at bank	*8 662*	*13 422*
– on loans granted (note 15.1)	*2 161*	*3 987*
– on bonds issued by banks (note 15.4)	*133*	*2 160*
Other interest income, of which:	7 566	5 160
– interest on discount received and penalty interest	*7 408*	*5 160*
– other	*158*	-
Dividends and shares in profits	3	-
Receivables from service concession arrangements (note 16)	2 870	2 519
Gains on evaluation of interest in associate company (note 8)	34 757	-
Reversal of write-downs against loans granted *(note 15.1)*	525	-
Reversal of provisions for penalties and sanctions (note 26)	3 296	797
Foreign exchange gains	150	202
Other	4	44
Total	**60 127**	**28 291**

Finance costs

	2019	2018
Interest expense in respect of financial instruments, of which:	10 859	4 795
– interest on borrowings and loans taken out and on other external sources of finance	*1 746*	*1 083*
– interest on lease contracts	*9 113*	*3 712*
Other interest expense, of which:	3 240	1 717
– penalty interest paid to suppliers and interest on discounts	*997*	*796*
– other interest	*2 243*	*921*
Impairment of shares in non-consolidated entities (note 15.3)	-	682
Discount on retentions for construction contracts (note 29)	6 886	8 210
Cost of bank commissions and guarantees	23 681	23 390
Loss on derivative financial instruments (note 15.2)	1 426	1 138
Loss on the sale of investments in equity instruments (note 15.3)	324	-
Other	4 533	186
Total	**50 949**	**40 118**

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

35. Earnings/ (loss) per share

Basic earnings/ (loss) per share

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

	2019	2018
Earnings / (loss) attributable to the shareholders of the Parent Company	226 014	305 424
Weighted average number of ordinary shares	25 530 098	25 530 098
Basic earnings / (loss) per share (in PLN per share)	**8.85**	**11.96**

Diluted earnings/ (loss) per share

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

36. Dividend per share

On 19 June 2018, Budimex SA paid out a dividend in the amount of PLN 160 839 thousand i.e. the gross amount of PLN 6.30 per one share, for which part of separate net profit for the period from 1January 2018 to 31 December 2018 was appropriated. The remaining amount of separate net profit for 2018 of PLN 160 763 thousand was appropriated to reserve capital increase.

Until the date of the preparation of these consolidated financial statements for the year ended 31 December 2019, the Management Board of Budimex SA has not adopted a resolution on recommended appropriation of profit for 2019.

37. Statement of Cash Flows

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

	2019	2018
Cumulative translation differences	53	1 605
Other	(199)	24
Total	**(146)**	**1 629**

Non-monetary transactions

In 2019, non-monetary transactions relating to all types of activities (operating, investing and financing activities) *not* recognised in the statement of cash flows related to the increase in property, plant and equipment due to first-time application of IFRS 16 with a value of PLN 131 999 thousand (PLN 37 419 thousand – property, plant and equipment, PLN 10 199 thousand – investment property, PLN and PLN 84 381 thousand – inventory) and to the acceptance of assets for use under lease contracts - PLN 107 042 thousand (PLN 101 285 thousand – property, plant and equipment and PLN 5 757 thousand – inventories).

In 2018, non-monetary transactions relating to investing and financing activities not recognised in the statement of cash flows related solely to the acquisition of property, plant and equipment with a value of PLN 142 569 thousand under finance lease agreements (in accordance with IAS 17).

38. Liabilities secured on the Group's assets

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

	31 December 2019		31 December 2018	
	Assets pledged as security/ collateral	Security/ collateral contractual value	Assets pledged as security/ collateral	Security/ collateral contractual value
Property, plant and equipment	13 925	104 030	1	1
Shares in subsidiary companies*	25 726	50 000	-	-
Inventories (note 18)	235 165	288 791	-	-
Cash and cash equivalents (note 19)	1 455**	1 455**	1 215**	1 215**
Total	**276 271**	**444 276**	**1 216**	**1 216**

**pledge on shares in one of the subsidiary companies, which are subject to consolidation exclusions*
***as at 31 December 2019 and 31 December 2018, the collaterals established on cash and cash equivalents equate the amount of 2 nearest principal-interest instalments of the investment loan repaid by Budimex Parking Wrocław Sp. z o.o.*

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

39. Share-based payments

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

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

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

As at 31 December 2019 and as at 31 December 2018, the total fair value of services recorded under other reserves was PLN 7 171 thousand. As at 31 December 2019, the total fair value of services recorded under liabilities amounted to PLN 14 831 thousand, while as at 31 December 2018 – PLN 11 974 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 2014-2019 was classified as liabilities (with a corresponding expense item).

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

Year	Number of initially granted shares	Grant date	Fair value of 1 share at grant date	Financial covenants realization	Cost of shares granted
2019	38 050	15-02-2019	85.71	100%	2 857
2018	44 650	15-02-2018	71.72	100%	3 287

The cost of the shares granted in 2019 was calculated as 2/36th of the cost of shares granted in 2016, 12/36th of the cost of shares granted in 2017, 12/36th of the cost of shares granted in 2018 and 10/36th of the cost of shares granted in 2019.

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

The three-year vesting period for the shares granted in 2016 ended in February 2019. As the conditions of the incentive program were satisfied, 40 134 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 awarded number due to adjustments made at a later date.

40. Related party transactions

Transactions with related parties made in 2019 and 2018 and the resultant unsettled balances of receivables and liabilities as at 31 December 2019 and 31 December 2018 are presented below.

	Receivables		Liabilities	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Parent and its related parties (the Ferrovial Group)	2 493	1 490	22 781	32 952
Jointly controlled entities	5 097	12 065	840	911
Associates	108	298	48	425
Other related entities – non-consolidated subsidiaries*	95	233	-	24
Other related entities – other*	4	14	-	-
Other related entities – through key personnel*	-	-	4 519	5 575
Total settlements with related parties	**7 797**	**14 100**	**28 188**	**39 887**

	Revenue from sale of finished goods and services and other operating income		Purchase of finished goods and services	
	2019	2018	2019	2018
Parent and its related parties (the Ferrovial Group)	-	158	2 577	42 931
Jointly controlled entities	16 229	65 471	(10)	414
Associates	3 395	2 027	1 803	6 065
Other related entities – non-consolidated subsidiaries*	178	198	-	104
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	2 181	2 203	166	3
Total settlements with related parties	**21 983**	**70 057**	**4 536**	**49 517**

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

	Loans granted / (taken out); debt securities acquired / (issued)		Finance income / (costs)	
	31 December 2019	31 December 2018	2019	2018
Parent and its related parties (the Ferrovial Group)	-	(9 019)	(12)	(50)
Jointly controlled entities	-	-	-	2
Associates	-	74 145	2 103	3 985
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	**-**	**65 126**	**2 091**	**3 937**

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

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

Transactions with related companies are made on an arms' length basis.

Sales revenue/ purchase of finished goods and services

Revenue from the sale of goods and services includes mainly revenue from construction contracts carried out in consortia with the Ferrovial Group companies. Costs, in turn, relate to the purchase of services under the agreements listed below.

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 2019 were PLN 6 578 thousand and PLN 4 215 thousand, respectively, while in 2018: PLN 5 709 thousand and PLN 5 220 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.

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

On 24 September 2019, Budimex SA concluded another agreement which terminated the license agreement of 28 March 2017 and determined the new rules for the settlement of license fee paid to Ferrovial Agroman SA for the period from 1 January 2012 to the date of agreement concluding. At the same time, on the same date, Budimex SA concluded with Ferrovial Agroman SA a new license agreement with effect from 1 January 2018. Under this new agreement, Ferrovial Agroman granted to Budimex a license for industrial intangible assets that support the main business of Budimex in the area of all construction works and infrastructure management. As a result of prior years' settlement, Agroman SA returned to Budimex SA the amount of PLN 29 382 thousand, whilst charging Budimex with the amount of PLN 22 246 thousand for 2019.

Loans

Based on a loan agreement of 1 December 2004, Budimex SA obtained from Ferrovial Infraestructuras SA (currently Ferrovial SA) a loan of EUR 1 500 thousand. Loan interest was capitalised. Loan in the amount of PLN 9 003 thousand was repaid by Budimex SA on 22 March 2019 together with interest accrued for 2019 in the amount of PLN 12 thousand.

40.1 Emoluments of key members of management

Management Board

In 2019 the total value of remuneration, bonuses and awards for the members of the Management Board of Budimex SA amounted to PLN 10 583 thousand (of which, PLN 3 397 thousand represented performance bonus for completing the tasks scheduled for 2018), of which PLN 9 368 thousand was recognised as costs of Budimex SA. The remaining balance was charged to the costs of its subsidiaries.

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

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

In 2019, remuneration of Management Board members was as follows:

Dariusz Blocher	PLN 2 541 thousand
Henryk Urbański	PLN 1 215 thousand
Marcin Węgłowski	PLN 1 210 thousand
Jacek Daniewski	PLN 1 107 thousand
Cezary Mączka	PLN 1 098 thousand
Radosław Górski	PLN 1 617 thousand*
Artur Popko	PLN 1 795 thousand.

**of which PLN 219 thousand related to remuneration under non-competition clause*

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2019, the estimated costs of share-based payment under Ferrovial SA incentive programs allocated to the Company's Management Board amounted to PLN 1 743 thousand (of which PLN 1 577 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 841 thousand
Henryk Urbański	PLN 166 thousand
Marcin Węgłowski	PLN 162 thousand
Jacek Daniewski	PLN 162 thousand
Cezary Mączka	PLN 161 thousand
Radosław Górski	PLN 9 thousand
Artur Popko	PLN 242 thousand.

The above costs consist of: 2/36th of the cost of shares granted in 2016, 12/36th of the cost of shares granted in 2017, 12/36th of the cost of shares granted in 2018 and 10/36th of the cost of shares granted in 2019.

The three-year vesting period for the shares granted in 2016 ended in March 2019. As the conditions of the incentive program were satisfied, the shares in Ferrovial SA have been formally transferred. The number of shares actually transferred to the members of the Company's Management Board was as follows:

Dariusz Blocher	10 438 shares
Henryk Urbański	2 958 shares
Marcin Węgłowski	2 030 shares
Jacek Daniewski	2 030 shares
Cezary Mączka	1 914 shares
Radosław Górski	1 972 shares
Artur Popko	2 320 shares.

The market value of the Ferrovial SA share at the actual transfer date was PLN 88.72.

Proxies

The total value of remuneration paid to the proxies of Budimex SA in 2019 was PLN 808 thousand, while in 2018 - PLN 888 thousand.

Individual remuneration of proxies in 2019 was as follows:

Piotr Świecki	PLN 808 thousand.

Additionally, apart from the amounts presented above, in the 12-month period ended 31 December 2019, the estimated cost of share-based payment under Ferrovial SA incentive programs allocated to the Company's proxy, Piotr Świecki, amounted to PLN 121 thousand.

Due to satisfying the incentive program conditions after the three-year vesting period for the shares granted in 2016 has lapsed, Ferrovial SA formally transferred 1 508 shares to the proxy of Budimex SA, Piotr Świecki. The market value of the Ferrovial SA share at the actual share transfer date was PLN 88.72.

Supervisory Board

The total value of remuneration paid in 2019 to the members of Supervisory Board of Budimex SA amounted to PLN 1 569 thousand (PLN 1 377 thousand in 2018).

In 2019, remuneration of Supervisory Board members of Budimex SA was as follows:

Marek Michałowski	PLN 232 thousand	
Igor Chalupec	PLN 159 thousand	
Juan Ignacio Gastón Najarro	PLN 152 thousand	
Javier Galindo Hernandez	PLN 159 thousand	
Jose Carlos Garrido-Lestache Rodriguez	PLN 140 thousand	
Marzenna Anna Weresa	PLN 155 thousand	
Piotr Kamiński	PLN 66 thousand	(until 16 May 2019)
Fernando Luis Pascual Larragoiti	PLN 152 thousand	
Janusz Dedo	PLN 148 thousand	
Danuta Dąbrowska	PLN 113 thousand	(from 16 May 2019)
Agnieszka Słomka-Gołębiewska	PLN 93 thousand	(from 16 May 2019)

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

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

As at 31 December 2019 and 31 December 2018, members of the Management or Supervisory Boards of the Parent Company, their spouses, close relatives, in-laws, adopted persons and adoptive parents, and other persons who are related to them in person did not have any unpaid loans or borrowings or guarantees issued by Budimex SA or its subsidiaries, jointly controlled entities or associates.

As at 31 December 2019 and 31 December 2018, members of the Management or Supervisory Boards of the subsidiary companies of the Group did not have any unpaid loans or borrowings or guarantees issued by those companies and were not parties to any agreements obligating them to provide services to Group companies.

41. Leases

a) The character of lease-related activities of the Company was described in note 22.

b) The cost of depreciation of right-of-use assets was disclosed in note 10 (right-of-use assets under property, plant and equipment) and in note 11 (right-of-use assets under investment property).

c) The cost of lease-related interest was disclosed in note 34.

d) The cost of short-term leases recognized in accordance with IFRS 16.6 amounted in 2019 to PLN 281 840 thousand.

e) The cost related to lease of low-value assets recognized in accordance with IFRS 16.6 amounted in 2019 to PLN 87 659 thousand.

f) The Group did not earn any revenues from the sub-lease of right-of-use assets.

g) The total outflow of cash in connection with lease amounted in 2019 to PLN 452 574 thousand (of which: PLN 73 962 thousand – related to the principal of lease instalments; PLN 9 113 thousand – to interest of lease instalments; PLN 369 499 thousand – payments relating to short-term leases and low-value assets recognized under cash flow from operating activities).

h) The Group did not make any sale and leaseback transactions in 2019.

i) The carrying amount of right-of-use assets as at 31 December 2019 analysed by class of the underlying assets and increases in the right-of-use assets were disclosed in note 10, note 11, and note 18.

j) The portfolio of short-term leases to which the Group is obligated as at 31 December 2019 does not differ materially from the portfolio of short-term leases, to which the cost of short-term leases referred to in point c) relates. Therefore, the Group estimates that the value of future payments, to which it is obligated under short-term leases recognised in accordance with IFRS 16.6 should not materially differ from that for 2019, on the assumption of retaining the same scale of operations and used technology.

k) Lease instalments paid by the Group are partially calculated based on variable interest rate (WIBOR/ EURIBOR, as appropriate). The analysis of sensitivity to interest rate fluctuations was disclosed in note 3.

l) According to the Group's estimates, it is not exposed to future outflows that would not be included in valuation of lease liabilities.

m) The reconciliation of future payments to which the Group was obligated as at 31 December 2018 under operating leases disclosed in accordance with IAS 17, discounted using the incremental borrowing rate prevailing at the date of first-time application [of IFRS 16], and lease liabilities as at 1 January 2019 is as follows:

	1 January 2019
Future undiscounted operating lease payments as at 31 December 2018, of which:	81 747
- operating lease payments	*73 060*
- payments under perpetual usufruct	*8 687*
Future undiscounted payments relating to inventories lease, not disclosed in 2018	321 638
Payments relating to short-term leases completing in 2019	(38 211)
Payments relating to fees which did not become lease elements (service fees)	(7 614)
Effect of discount	(227 605)
Other	2 044
Total (note 2.2)	**131 999**

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

42. Capital expenditure incurred and planned

Capital expenditure (for non-financial long-term assets) incurred in 2019 amounted to PLN 158 334 thousand. In 2018, capital expenditure amounted to PLN 162 480 thousand.

Capital expenditure planned to be incurred in 2020 for non-financial long-term assets amounts to approx. PLN 130 000 thousand.

In 2019 and In 2018, 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 2019, the committed investment expenditure amounted to PLN 6 912 thousand and related to the purchase of railway and road equipment.
As at 31 December 2018, the committed investment expenditure amounted to PLN 784 thousand and related to the purchase of road equipment.

44. Events after the reporting date

In connection with the progressive spread of the COVID-19 coronavirus, in accordance with the decision of the Management Board of Budimex SA, the Group continues its operations unchanged. The situation is dynamic and depends on the recommendations of national authorities, which may result in the introduction of contingency plans. A Crisis Committee was established which reports to the Management Board daily. To date, no case of COVID-19 coronavirus infection has been reported among employees, subcontractors and their family members. There is a potential supply chain risk that could result in contractual deadlines being missed. Currently, the potential financial effects remain difficult to assess from the Group's perspective.

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

45. Contingent assets and contingent liabilities

	31 December 2019	**31 December 2018**
Contingent assets		
From other entities		
– guarantees and sureties received	571 994	583 363
– bills of exchange received as security	5 079	6 083
From other entities, total	**577 073**	**589 446**
Other contingent assets	**-**	**12 000**
Total contingent assets	**577 073**	**601 446**
Contingent liabilities		
To related entities		
– guarantees and sureties issued	-	1 537
To related entities, total	**-**	**1 537**
To other entities		
– guarantees and sureties issued	3 904 245	3 540 626
– promissory notes issued as security	117 293	21 520
To other entities, total	**4 021 538**	**3 562 146**
Other contingent liabilities	**167**	**-**
Total contingent liabilities	**4 021 705**	**3 563 683**
Total contingent items	**(3 444 632)**	**(2 962 237)**

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

Contingent liabilities arising from guarantees and sureties comprise mainly guarantees issued by banks to business partners of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees. Guarantees issued to the investors of the Group represent an alternative, to the retentions held, method of securing potential investor claims relating to construction contracts. At the same time, the risk relating to warranty repairs assessed by the Management Board of the Group as probable was appropriately reflected in the warranty repair provision, as described in note 5.1 and note 26 to these consolidated financial statements.

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

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

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

46. Employment structure

Employee group	Number of employees as at 31 December	
	2019	**2018**
Blue collar employees	3 426	2 964
White collar employees	4 052	3 942
Total	**7 478**	**6 906**

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

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

In March 2010, the Management Board of Budimex SA learned that the project design documentation prepared by Spółka Jawna on behalf of Autostrada Południe SA had not been accepted by the Ministry of Infrastructure. Due to the above, there is a risk that the full amount of contract costs incurred by that company (in which Budimex SA holds 50% of shares) will not be recovered from Autostrada Południe SA unless it is proved that the lack of payments in favour of Autostrada Południe SA from the State Treasury does not result from a defect in the project design delivered by Spółka Jawna, or that 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 the years 2012 - 2013, partial hearing of evidence and witness interrogation took place, and an expert opinion was drafted. Autostrada Południe SA submitted a request for a supplementary opinion which was prepared and delivered to the parties in October 2014. As follows from the opinion, all stages of design works with respect to which the claimant demands payment were performed, and thus the comments of the former expert were not justified. After that, in October 2015, the court concurred with the defendant's request to examine another witness, as a result of which the necessity arose to draft another supplementary expert opinion. The supplementary expert opinion was filed with the court in October 2018 and was favourable to Autostrada Południe SA. Asa result of two trials in 2019, during which the court heard a representative of the Institute (i.e. of the Faculty of Construction Installation of Hydro and Environmental Engineering Department of Warsaw University of Technology) appointed to draft an opinion in said matter, the court eventually admitted evidence from the opinion favourable to Autostrada Południe SA. As a result of this decision, the State Treasury proposed to start settlement discussions with Autostrada Południe SA. These were initiated at the beginning of 2020 and are currently in the initial phase. Assuming the good will of both parties, settlement discussions should be completed later this year.

The share of Budimex SA in total revenue recognised by Spółka Jawna in prior years in connection with performed design works (including the anticipated risks) 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.

Warsaw, 23 March 2020

Dariusz Blocher President of the Management Board	
Artur Popko Vice-president of the Management Board	
Jacek Daniewski Member of the Management Board	
Cezary Mączka Member of the Management Board	
Marcin Węgłowski Member of the Management Board	
Grzegorz Fąfara Chief Accountant	