



THE BUDIMEX GROUP

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for 1 half of 2019

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

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Table of contents

Consolidated statement of financial position	2
Consolidated income statement	4
Consolidated statement of comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	8
1. Organization of the Budimex Group and changes in the Group structure.....	10
1.1. The Parent Company.....	10
1.2. Entities subject to consolidation.....	10
1.3. Description of the changes in the composition of the Group together with the indication of their consequences.....	11
2. Shareholders of the Parent Company.....	11
3. Principles applied for the purpose of preparation of this report.....	12
3.1. Accounting policies and basis of preparing the consolidated financial statements of the Budimex Group.....	12
3.2. Changes in accounting principles and the method of preparation of financial statements.....	13
3.3. Cash recognised in the cash flow statement.....	16
4. Net sales of finished goods and services, selling expenses, administrative expenses and profitability	16
5. Other operating income and expenses	17
6. Finance income and costs	17
7. Other important information on activity of the Budimex Group in the I half of 2019	18
8. Operating segments.....	19
9. Revenue from sale of finished goods, services, goods for resale and raw materials, by category	21
9.1. Sales revenue, by type of good or service	21
9.2. Sales revenue, by geographical area.....	21
9.3. Sales revenue of the segment „Construction business” by construction type	22
10. Related party transactions	22
11. Factors which will affect results achieved by the Group in a period covering at least the next half-year	23
12. Description of significant achievements or failures of the Budimex Group in the I half-year of 2019, key events concerning the Group’s operations and significant events after 30 June 2019	24
13. Issue, redemption and repayment of debt and equity securities	24
14. The Management Board’s position on the feasibility of results stated in the financial forecasts published earlier for the year in view of the financial results presented in the half-year report in relation to the projected results	24
15. Statement of ownership of shares of Budimex SA or rights to such shares (options) held by the managing or supervisory persons of Budimex SA as at the date of publication of this report together with indication of changes in the ownership in the I half-year of 2019	25
16. Proceedings pending as at 30 June 2019 before court, competent arbitration body or any public administration authority.....	25
17. Contingent assets and contingent liabilities	26

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	30 June 2019 <i>not audited</i>	31 December 2018 <i>audited</i>
Non-current (long-term) assets		
Property, plant and equipment	278 544	258 123
Investment properties	34 844	28 365
Intangible assets	26 065	28 389
Goodwill of subordinated entities	73 237	73 237
Investments in equity accounted entities	42 187	37 427
Investments in equity instruments	9 778	9 778
Retentions for construction contracts	43 497	49 103
Trade and other receivables	23 252	21 807
Receivables from service concession agreement	46 496	46 416
Other financial assets	13 137	74 145
Deferred tax assets	378 047	361 851
Total non-current (long-term) assets	969 084	988 641
Current (short-term) assets		
Inventories	1 835 762	1 611 813
Trade and other receivables	988 043	819 300
Retentions for construction contracts	37 479	28 311
Valuation of construction contracts	795 762	561 537
Current tax assets	18 523	33 102
Other financial assets	62 493	4 495
Cash and cash equivalents	485 809	1 409 152
Total current (short-term) assets	4 223 871	4 467 710
TOTAL ASSETS	5 192 955	5 456 351

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019
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(all amounts are expressed in PLN thousand)

Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	30 June 2019 <i>not audited</i>	31 December 2018 <i>audited</i>
Equity		
Issued capital	145 848	145 848
Share premium	87 163	87 163
Other reserves	1 600	1 600
Cumulative translation differences	7 060	6 947
Retained earnings	413 048	501 783
Shareholders' equity attributable to the shareholders of the Parent	654 719	743 341
Equity attributable to non-controlling interests	7 565	7 136
Total equity	662 284	750 477
Liabilities		
Non-current (long-term) liabilities		
Loans, borrowings and other external sources of finance	196 596	184 110
Trade and other payables	25	-
Retentions for construction contracts	203 400	222 751
Provision for long-term liabilities and other charges	381 256	367 306
Retirement benefits and similar obligations	12 639	12 639
Other financial liabilities	2 718	2 015
Total non-current (long-term) liabilities	796 634	788 821
Current (short-term) liabilities		
Loans, borrowings and other external sources of finance	154 751	54 823
Trade and other payables	1 514 376	1 720 438
Retentions for construction contracts	212 248	214 866
Provisions for construction contract losses	188 259	158 035
Valuation of construction contracts	535 636	575 183
Deferred income	930 439	996 224
Provision for short-term liabilities and other charges	190 356	187 938
Current tax liability	4 924	6 846
Retirement benefits and similar obligations	1 412	1 412
Other financial liabilities	1 636	1 288
Total current (short-term) liabilities	3 734 037	3 917 053
Total liabilities	4 530 671	4 705 874
TOTAL EQUITY AND LIABILITIES	5 192 955	5 456 351

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

(all amounts are expressed in PLN thousand)

Consolidated income statement

	Note	6-month period ended 30 June		3-month period ended 30 June	
		2019	2018	2019	2018
		<i>not audited</i>		<i>not audited</i>	
Continuing operations					
Net sales of finished goods, goods for resale, raw materials and services	4, 9	3 248 421	3 302 661	1 868 164	1 963 830
Cost of finished goods, goods for resale, raw materials and services sold		(3 039 040)	(3 016 170)	(1 764 761)	(1 817 580)
Gross profit on sales		209 381	286 491	103 403	146 250
Selling expenses	4	(14 088)	(14 870)	(7 291)	(7 508)
Administrative expenses	4	(107 088)	(110 538)	(54 396)	(56 935)
Other operating income	5	40 483	24 264	29 122	12 532
Other operating expenses	5	(17 306)	(15 223)	(9 422)	(8 132)
Operating profit		111 382	170 124	61 416	86 207
Finance income	6	12 842	17 288	6 996	7 143
Finance costs	6	(21 040)	(20 378)	(10 050)	(10 050)
Share in net profits/(losses) of equity accounted subordinates		4 760	(3 673)	4 302	(838)
Gross profit		107 944	163 361	62 664	82 462
Income tax	7	(35 411)	(35 273)	(18 941)	(17 717)
Net profit from continuing operations		72 533	128 088	43 723	64 745
Net profit for the period		72 533	128 088	43 723	64 745
<i>of which:</i>					
Attributable to the shareholders of the Parent		72 104	128 047	43 566	64 727
<i>Attributable to non-controlling interests</i>		<i>429</i>	<i>41</i>	<i>157</i>	<i>18</i>
<i>Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)</i>		<i>2.82</i>	<i>5.02</i>	<i>1.71</i>	<i>2.54</i>

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

	6-month period ended 30 June		3-month period ended 30 June	
	2019	2018	2019	2018
	<i>not audited</i>		<i>not audited</i>	
Net profit for the period	72 533	128 088	43 723	64 745
Other comprehensive income which:				
<i>Items to be reclassified to profit or loss upon satisfaction of certain conditions:</i>				
Cumulative translation differences	113	1 602	(43)	725
Income tax related to components of other comprehensive income	-	-	-	-
<i>Items not to be subsequently reclassified to profit or loss:</i>				
Actuarial gains/(losses)	-	-	-	-
Income tax related to components of other comprehensive income	-	-	-	-
Other comprehensive income, net	113	1 602	(43)	725
Total comprehensive income for the period	72 646	129 690	43 680	65 470
<i>Of which:</i>				
Attributable to the shareholders of the Parent	72 217	129 649	43 523	65 452
<i>Attributable to non-controlling interests</i>	<i>429</i>	<i>41</i>	<i>157</i>	<i>18</i>

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019
prepared in accordance with International Financial Reporting Standards

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(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity

	Equity attributable to the shareholders of the Parent					Retained earnings	Total	Non-controlling interests	Total equity
	Issued capital	Share premium	Other reserves		Cumulative translation differences				
			Share-based payments	Actuarial gains/(losses)					
Balance as at 1 January 2019 <i>audited</i>	145 848	87 163	7 171	(5 571)	6 947	501 783	743 341	7 136	750 477
Profit for the period	-	-	-	-	-	72 104	72 104	429	72 533
Other comprehensive income	-	-	-	-	113	-	113	-	113
Total comprehensive income	-	-	-	-	113	72 104	72 217	429	72 646
Payment of dividend by Budimex SA	-	-	-	-	-	(160 839)	(160 839)	-	(160 839)
Balance as at 30 June 2019 <i>not audited</i>	145 848	87 163	7 171	(5 571)	7 060	413 048	654 719	7 565	662 284

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity (cont.)

	Equity attributable to the shareholders of the Parent Company						Total	Non-controlling interests	Total equity
	Issued capital	Share premium	Other reserves		Cumulative translation differences	Retained earnings			
			Share-based payments	Actuarial gains/(losses)					
Balance as at 1 January 2018 <i>audited</i>	145 848	87 163	7 171	(4 614)	5 342	640 533	881 443	685	882 128
Profit for the period	-	-	-	-	-	128 047	128 047	41	128 088
Other comprehensive income	-	-	-	-	1 602	-	1 602	-	1 602
Total comprehensive income	-	-	-	-	1 602	128 047	129 649	41	129 690
Payment of dividend by Budimex SA	-	-	-	-	-	(449 585)	(449 585)	-	(449 585)
Payment of dividend to non-controlling shareholders	-	-	-	-	-	-	-	(134)	(134)
Balance as at 30 June 2018 <i>not audited</i>	145 848	87 163	7 171	(4 614)	6 944	318 995	561 507	592	562 099
Profit for the period	-	-	-	-	-	177 377	177 377	19	177 396
Other comprehensive income	-	-	-	(957)	3	-	(954)	-	(954)
Total comprehensive income	-	-	-	(957)	3	177 377	176 423	19	176 442
Sale of a non-controlling interest of subsidiary	-	-	-	-	-	5 411	5 411	7 189	12 600
Disposal of subsidiary companies	-	-	-	-	-	-	-	(664)	(664)
Balance as at 31 December 2018 <i>audited</i>	145 848	87 163	7 171	(5 571)	6 947	501 783	743 341	7 136	750 477

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	6-month period ended 30 June	
	2019	2018
	<i>not audited</i>	
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	107 944	163 361
Adjustments for:		
Depreciation/ amortization	39 007	23 852
Share in net (profits)/ losses of equity accounted companies	(4 760)	3 673
Foreign exchange (gains)/ losses	198	(1 010)
Interest and shares in profits (dividends)	2 403	(2 143)
(Profit)/ loss on investing activities	(2 768)	(2 469)
Change in valuation of derivative financial instruments	4 062	956
Change in provisions and liabilities arising from retirement benefits and similar obligations	16 368	41 954
Other adjustments	74	1 618
Operating profit before changes in working capital	162 528	229 792
Change in receivables and retentions for construction contracts	(170 276)	(138 882)
Change in inventories	(134 182)	(117 772)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	(227 531)	(35 790)
Change in deferred income	(65 785)	(183 892)
Change in valuation of construction contracts and in provision for losses	(243 548)	(770 493)
Change in cash and cash equivalents of restricted use	37 053	(5 294)
Cash flow used in operating activities	(641 741)	(1 022 331)
Income tax paid	(38 950)	(4 708)
NET CASH USED IN OPERATING ACTIVITIES	(680 691)	(1 027 039)

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows (continued)

	6-month period ended 30 June	
	2019	2018
	<i>not audited</i>	
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of intangible assets and property, plant and equipment	2 305	10 392
Proceeds from sale of investment property	4 365	-
Purchase of intangible assets and property, plant and equipment	(4 205)	(8 085)
Purchase of shares in joint operations	(73)	-
Purchase of shares in non-consolidated entities	-	(100)
Purchase of bonds issued by banks	-	(238 868)
Proceeds from bonds issued by banks	-	516 877
Loans granted	-	(7 220)
Interest received	2 103	4 121
NET CASH FROM INVESTING ACTIVITIES	4 495	277 117
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of loans and borrowings	(9 548)	(484)
Dividends paid to the shareholders of the Parent	(160 839)	(449 585)
Dividends paid to non-controlling shareholders	-	(134)
Payment of lease liabilities	(32 575)	(10 848)
Interest paid	(6 586)	(1 905)
Other finance expenditure	(317)	(324)
NET CASH USED IN FINANCING ACTIVITIES	(209 865)	(463 280)
TOTAL NET CASH FLOW		
	(886 061)	(1 213 202)
Foreign exchange differences on cash and cash equivalents, net	(229)	1 409
CASH AND CASH EQUIVALENTS - OPENING BALANCE (note 3.3)	1 268 028	1 961 849
CASH AND CASH EQUIVALENTS - CLOSING BALANCE (note 3.3)	381 738	750 056

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

1. Organization of the Budimex Group and changes in the Group structure

1.1. The Parent Company

The parent company of the Budimex Group is Budimex SA (the „Parent Company”), which main area of business is building, rendering of management and advisory services for the Budimex Group companies.

The main areas of the business activities of the Group are widely understood construction-assembly services realized in the system of general execution at home and abroad, developer activities, property management, and limited scope trading, production, transport and other business. Budimex SA serves in the Group as an advisory, management and financial centre. Realization of these three functions is to facilitate:

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

1.2. Entities subject to consolidation

As at 30 June 2019, 31 December 2018 and 30 June 2018 the following entities were subject to consolidation:

Company name	Registered office	% in the share capital as at		
		30 June 2019	31 December 2018	30 June 2018
Parent company:				
Budimex SA	Warsaw / Poland			
Subsidiaries:				
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	100.00%
Mostostal Kraków Energetyka Sp. z o.o.	Cracow / Poland	100.00%	100.00%	100.00%
Budimex Bau GmbH	Cologne/ Germany	100.00%	100.00%	100.00%
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Biuro Inwestycji „Grunwald” SA	Warsaw / Poland	-	-	98.95%
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
SPV-PIM1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	100.00%
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	51.00%	51.00%	100.00%
Elektromontaż Poznań SA Group	Poznań / Poland	-	-	98.95%

As at 30 June 2019, 31 December 2018 and 30 June 2018 stand-alone data of Budimex SA and other Group companies, which are partners in consortiums (treated as joint operations according to IFRS 11), included their share in assets, liabilities, revenue and expenses of the following joint operations:

Joint operation name	Share in the issued capital and in the number of votes (%)		
	30 June 2019	31 December 2018	30 June 2018
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	100.00%	100.00%	100.00%
Budimex SA Energetyka 1 Sp.j.**	100.00%	100.00%	100.00%
Budimex SA Energetyka 2 Sp.j.**	100.00%*	50.00%	50.00%
Budimex SA Energetyka 3 Sp.j.	100.00%*	50.00%	50.00%
Budimex SA Ferrovial Agroman SA s.c.	99.98%	99.98%	99.98%
Budimex SA Cadagua SA II s.c.	99.90%	99.90%	50.00%
Budimex SA Cadagua SA III s.c.	99.90%	99.90%	60.00%
Budimex SA Cadagua SA IV s.c.	99.90%	99.90%	60.00%

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

Joint operation name	Share in the issued capital and in the number of votes (%)		
	30 June 2019	31 December 2018	30 June 2018
Budimex SA Cadagua SA V s.c.	99.90%	99.90%	60.00%
Budimex SA Ferrovial Agroman SA 2 s.c.	95.00%	95.00%	95.00%
Budimex SA Sygnity SA Sp. j.	67.00%	67.00%	67.00%
Budimex SA Ferrovial Agroman SA Sp. j.	50.00%	50.00%	50.00%
Budimex SA Tecnicas Reunidas SA Turów s.c.	50.00%	50.00%	50.00%

* On 2 January 2019, Budimex A Sp. z o.o. and Budimex PPP SA (not included in the consolidation scope due to their immateriality) signed an agreement on the disposal of all rights and obligations arising from participation in Budimex SA Energetyka 2 s.j. and Budimex SA Energetyka 3 s.j., respectively, in favour of Budimex Budownictwo Sp. z o.o. (included in the consolidation scope).

**on 13 August 2019, the partners of the companies Budimex SA Energetyka 1 Sp. j. and Budimex SA Energetyka 2 Sp.j. adopted resolutions on liquidation of companies without conducting liquidation proceedings. As at the date of this report, applications were submitted to remove companies from the relevant register.

As at 30 June 2019, 31 December 2018 and 30 June 2018 equity accounted companies included:

Associate	share
FBSerwis SA Group	49.00%
PPHU Promos Sp. z o.o.	26.31%

1.3. Description of the changes in the composition of the Group together with the indication of their consequences

In the 6-month period ended 30 June 2019 there were no changes in the Group structure.

In the period covered by this report, no significant activities were discontinued and nor were there plans to discontinue any significant activities in the future.

2. Shareholders of the Parent Company

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at the report date was as follows:

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Valivala Holdings B.V. Amsterdam (the Netherlands) - Ferrovial Group company (Spain)	ordinary	14 078 159	55.14%	14 078 159	55.14%
Aviva OFE Aviva BZ WBK	ordinary	2 552 000	10.00%	2 552 000	10.00%
Nationale-Nederlanden OFE	ordinary	1 360 000	5.33%	1 360 000	5.33%
Other shareholders	ordinary	7 539 939	29.53%	7 539 939	29.53%
Total		25 530 098	100.00%	25 530 098	100.00%

The above data presents the shareholding structure as at the last General Meeting of Shareholders of 16 May 2019.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at 31 December 2018 was as follows:

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Valivala Holdings B.V. Amsterdam (the Netherlands) - Ferrovial Group company (Spain)	ordinary	14 078 159	55.14%	14 078 159	55.14%
Aviva OFE Aviva BZ WBK	ordinary	2 490 000	9.75%	2 490 000	9.75%
Nationale-Nederlanden OFE	ordinary	1 360 000	5.33%	1 360 000	5.33%
Other shareholders	ordinary	7 601 939	29.78%	7 601 939	29.78%
Total		25 530 098	100.00%	25 530 098	100.00%

3. Principles applied for the purpose of preparation of this report

3.1. Accounting policies and basis of preparing the consolidated financial statements of the Budimex Group

These condensed financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" and appropriate accounting standards applicable for preparation of the interim consolidated financial statements adopted by the European Union issued and effective when preparing the interim consolidated financial statements applying the same principles for the current and comparable period. Details of accounting policies adopted by the Group were described in the consolidated financial statements of the Group for the year ended 31 December 2018, published on 26 March 2019.

The interim condensed consolidated financial statements of the Budimex Group cover the period of six months ended on 30 June 2019 and contain comparative data for the period of six months ended on 30 June 2018 and as at 31 December 2018. Consolidated statement of comprehensive income and income statement and notes to the consolidated statement of comprehensive income and income statement covering data for the period of 3 months ended on 30 June 2019 and comparative data for the period of 3 months ended on 30 June 2018, were not subject to review or audit by a certified auditor.

The consolidated financial statements were prepared on the assumption that the Parent Company and all entities included in the Budimex Group will be going concerns in the foreseeable future. In the reporting period and as at the date of preparation of these financial statements no circumstances were noted that would indicate a threat to ability to continue as a going concern.

Standards, amendments to standards and interpretations applied for the first time in 2019

- IFRS 16 „Leases”,
- Amendments to IFRS 9 „Financial instruments” – Prepayment Features with Negative Compensation,
- Amendments to different standards to 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,
- Interpretation of IFRIC 23 „Uncertainty over Income Tax Treatments”.

Details on the implementation of IFRS 16 are included in note 3.2. The impact of application of other changes to standards and interpretations was not significant.

Standards and amendments to standards issued by IASB but not yet adopted by the EU

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

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

- IFRS 14 „Regulatory deferral accounts” – according to the European Commission’s decision the endorsement process of the standard will not be initiated until the final version of the standard has been published (effective for annual periods beginning on or after 1 January 2016),
- IFRS 17 „Insurance contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 „Business Combinations” (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 10 „Consolidated financial statements” and IAS 28 „Investments in associates and joint ventures” – Sale or contribution of assets between an investor and its associate or joint venture – the endorsement process has been postponed by the EU indefinitely – the effective date has been postponed by the IASB indefinitely,
- Amendments to IAS 1 „Presentation of Financial Statements” and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Materiality (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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

3.2. Changes in accounting principles and the method of preparation of financial statements

In the period covered by the report the Budimex Group applied for the first time IFRS 16 „Lease”, which lifts the previous division between finance and operating lease and imposes presentation of leases as (until now) finance lease. The Group applied the IFRS retrospectively with the cumulative effect of initially applying the standard at the date of initial application. Therefore the Group has not restated comparative information and instead has decided to adjust the opening balance of retained earnings at the date of initial application.

Recognition exempt and practical expedient

The Group decided to use the recognition exempt as stated in IFRS 16 § 5. This means that in case of short-term lease agreements and lease agreements, for which the underlying asset is of low value the Group presents lease payments using linear method or other systematical basis in profit and lost statement as costs. The Group uses the equivalent of 5.000 USD in Polish zloty as low value of the underlying asset. Recognition exempt for short-term lease was chosen for all types of right-of-use assets.

With regards to agreements identified as lease before the first application of IFRS 16, i.e. according to IAS 17, the Group used practical expedient as stated in IFRS 16 and did not re-evaluate identification of lease agreements. Therefore IFRS 16 was not applied to agreements which had not been identified as lease agreements before the day of first application.

First-time application

In case of lease agreements identified as operating lease on the day of first application (except lease contracts of low value assets and where the remaining lease period is less than 12 months) the Group presented the liability as present value of the remaining lease payments, discounted at the marginal interest rate for the Group lease agreements on the day of the first application. On the other side, the Group presented right-of-use assets equal to value of the lease liability. Due to the fact that the Group did not identify any prepayments or accrued lease payments, which would require adjustment of the right-of-use assets on the day of the first application, lease liabilities and right-of-use assets on the day of first application were in the same value and there was no necessity of adjusting the retained earnings opening balance. The identified right-of-use assets were reviewed in terms of impairment on the day of first application and no impairment losses were recognized.

In case of lease agreements identified as operating lease on the day of first application the Group took advantage of §C9 of IFRS 16 and did not make adjustments to lease agreements in which the underlying assets is of low value. The Group, as Lessee, used practical expedient in §C9 point c) and classified lease agreements ending in 2019 (year of the first application) as short-term lease.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

Impact of the first application of IFRS 16 on specific items in the consolidated statement of financial position is as follows:

	31 December 2018	Adjustments due to application of IFRS 16	1 January 2019
Assets			
Non-current assets			
Property, plant and equipment	258 123	37 419	295 542
- of which: under finance lease (31.12.2018) / right-of-use assets (1.01.2019)	207 830	37 419	245 249
Investment property	28 365	10 199	38 564
- of which: under finance lease (31.12.2018) / right-of-use assets (1.01.2019)	-	10 199	10 199
Current assets			
Inventories	1 611 813	84 381	1 696 194
- of which: under finance lease (31.12.2018) / right-of-use assets (1.01.2019)	-	84 381	84 381
Equity & liabilities			
Non-current 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 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

Average weighted marginal interest rate of the lessee used by the Group entities for lease liabilities presented in financial statement on the day of first application was in the range of 3.07% - 4.45%.

Identifying a lease

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, 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.

Recognition of lease in lessee's books

At the commencement date the Group recognises a right-of-use asset and a lease liability.

Right-of use asset is measured at cost, which comprises initial value 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 is located or restoring the underlying asset.

After the commencement date a right-of-use asset is subject to depreciation and evaluation for impairment accordingly to IAS 36. The value of the asset is adjusted if lease liability value has changed due to modification of currently fixed lease payments or lease re-evaluation.

Lease liability is initially measured at present value of the remaining lease payments at the day of measurement. Lease payments are discounted using marginal interest rate calculated for the Group entities.

After the commencement date lease liability is increased by accrued interest and decreased by already paid lease payments. As mentioned above, lease liability value may change by modification of currently fixed lease payments or lease re-evaluation.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

Presentation

The Group decided to present right-of-use assets in the same financial statement line, in which assets owned by lessee would be shown. This means, that right-of-use assets are presented in:

- property, plant and equipment (hire/ lease/ rental agreements, office lease, ground temporarily used as construction sites, cars and trucks, the right of perpetual usufruct of land used for own purposes);
- investment property (the right of perpetual usufruct of land);
- inventories (the right of perpetual usufruct of land for development).

Lease liabilities shall be presented by the Group in the „Loans, borrowings and other external finance sources“, disclosing the value of lease liabilities in the notes to the consolidated financial statements.

The right of perpetual usufruct of land for development in terms of IFRS 16

On the basis of general lease definition the Group entities identified that the right of perpetual usufruct of land (considered as operating lease according to IAS 17), is in line with IFRS 16 lease definition and should be presented in the consolidated financial statement as right-of-use asset.

Majority of the right of perpetual usufruct of land relates to land purchased for future development projects. Due to the fact that the already purchased land under the right of perpetual usufruct of land is presented in “Inventories”, the value of new land under the right of perpetual usufruct of land will be presented in the same financial statement line. Costs are capitalized in the value of inventory for those projects, for which capitalization criteria have been met. Correspondingly, the Group entities present short-term lease liabilities.

The right of perpetual usufruct of land utilized for the Group own purposes is presented under property, plant and equipment and is subject to depreciation. Interest on the lease of the perpetual usufruct is shown in the finance costs of the Group. The Group entities present short and long-term lease liabilities, respectively.

The right of perpetual usufruct of land which is used as investment property is presented within this financial statement position. According to the Group’s accounting policy investment property is subject to depreciation. Interest on the lease of the perpetual usufruct is presented in the finance costs of the Group. The Group entities present short and long-term lease liabilities, respectively.

The right of perpetual usufruct converted into ownership right

In 2018, the Act on *The conversion of the right of perpetual usufruct of land used for residential housing into the ownership right of the land* entered into force, which caused that from 1 January 2019 the right of perpetual usufruct of lands developed for housing purposes became property.

In case of residential buildings under construction as of 1 January 2019, the conversion of the right of perpetual usufruct of land into property takes place at the moment of putting the building into use. Although the conversion of perpetual usufruct into property takes place by virtue of law, it still requires an appropriate certificate that confirms the transformation and indicates the amount of the conversion fee. Pursuant to the Act, the perpetual usufruct fees have been converted into conversion fees, which can be paid for a maximum of 99 years (such period was chosen by the Group companies). Therefore, plots of land with already completed residential buildings are no longer within the scope of IFRS 16, because they became the property of the Group companies. Thus, the companies recognized a short-term liability (under “Trade and other payables”) at the present value of 99 times of the established conversion fee (the first transformation fee is to be paid in 2020) in the amount of PLN 31 509 thousand. The value of inventories (finished products) was increased by the same amount.

The maximum period of payment of the conversion fee / perpetual usufruct fee

In accordance with IFRS 16, the Group entities must recognize lease liabilities as the present value of lease payments for the entire duration of the contract. In the case of perpetual usufruct of land, it might be even up to 99 years. In case of the former perpetual usufruct right, it is a period of 99 years. These periods do not depend on the duration of development projects expected by the Group companies, which usually last up to 5 years. This is a much shorter time than the one on which the value of the lease liability was calculated. Furthermore, after the notarial deed has been signed, the new owner is obliged to pay perpetual usufruct / conversion fee and therefore total assets and total liabilities

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

budimex

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

& equity in the Group's entities financial statements is suddenly reduced, which will cause significant fluctuations between the reporting periods.

Based on the plans of carrying out individual development projects, the Group companies estimate that the present value of future payments of perpetual usufruct fees and conversion fees incurred by the Group's companies until the notarial sale of apartments was equal to PLN 29 773 thousand as of 1 January 2019.

3.3. Cash recognised in the cash flow statement

The Group recognizes cash of restricted use (including mainly cash of the consortia in the portion attributable to other consortium members, cash representing security for bank guarantees, funds kept in escrow by developer companies and split payment bank accounts) in the statement of financial position under cash and cash equivalents. For the purpose of the statement of cash flow – the balance of cash at the beginning and at the end of the reporting period is reduced by cash of restricted use, and its change in the statement of financial position is recognized under cash flow from operating activities.

	30 June 2019	31 December 2018	30 June 2018
Cash recognised in the statement of financial position	485 809	1 409 152	920 340
Cash and cash equivalents of restricted use	(104 071)	(141 124)	(170 284)
Cash recognised in the statement of cash flow	381 738	1 268 028	750 056

4. Net sales of finished goods and services, selling expenses, administrative expenses and profitability

Sale of construction-assembly services in Poland is characterized by seasonality mainly connected with atmosphere conditions and the highest revenues are usually achieved in the second and third quarter, while the lowest – in the first quarter.

In the first quarter of 2019 construction-assembly production in Poland expressed in current prices increased by 10.5% (an increase by 6.6% in fixed prices) compared to the corresponding period of the prior year, while sales of the construction segment of the Budimex Group on the home market were up 1.39% on the corresponding period.

Net sales and profitability

	6 months ended			3 months ended		
	30 June 2019	30 June 2018	Change in %	30 June 2019	30 June 2018	Change in %
Net sales of finished goods and services	3 248 421	3 302 661	(1.64%)	1 868 164	1 963 830	(4.87%)
Gross profit on sales	209 381	286 491	(26.92%)	103 403	146 250	(29.30%)
Gross profitability on sales	6.45%	8.67%	(2.22 p.p.)	5.54%	7.45%	(1.91 p.p.)
Gross profit on sales in construction segment	151 039	213 320	(29.20%)	79 462	114 186	(30.41%)
Gross profitability on sales in construction segment	4.83%	7.01%	(2.18 p.p.)	4.29%	6.06%	(1.77 p.p.)
Gross profit on sales in developer segment	70 285	66 214	6.15%	31 719	28 894	9.78%
Gross profitability on sales in developer segment	22.46%	20.01%	2.45 p.p.	25.20%	24.06%	1.14 p.p.
Operating profit	111 382	170 124	(34.53%)	61 416	86 207	(28.76%)
Operating profitability	3.43%	5.15%	(1.72 p.p.)	3.29%	4.39%	(1.10 p.p.)
Net profit	72 533	128 088	(43.37%)	43 723	64 745	(32.47%)
Net profitability	2.23%	3.88%	(1.65 p.p.)	2.34%	3.30%	(0.96 p.p.)

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

budimex

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

Selling expenses and administrative expenses

	6 months ended			3 months ended		Change in %
	30 June 2019	30 June 2018	Change in %	30 June 2019	30 June 2018	
Selling expenses	(14 088)	(14 870)	(5.26%)	(7 291)	(7 508)	(2.89%)
Administrative expenses	(107 088)	(110 538)	(3.12%)	(54 396)	(56 935)	(4.46%)
Total selling & administrative expenses	(121 176)	(125 408)	(3.37%)	(61 687)	(64 443)	(4.28%)
Share of selling & administrative expenses in net sales of finished goods and services	3.73%	3.80%	(0.07 p.p.)	3.30%	3.28%	0.02 p.p.

5. Other operating income and expenses

Other operating income

	6 months ended		3 months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Reversal of impairment write-downs against receivables	7 319	509	6 292	58
Reversal of provisions for penalties and sanctions	7 271	6 080	5 465	335
Penalties/ compensations awarded	13 834	14 241	10 246	10 039
Statute-barred liabilities written-off	4 378	944	2 874	14
Gains on derivative financial instruments	3 575	96	841	(208)
Subsidies received	539	-	-	-
Gains on the sale of non-financial non-current assets	3 273	1 754	3 273	1 746
Other	294	640	131	548
Total	40 483	24 264	29 122	12 532

Other operating expenses

	6 months ended		3 months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Impairment write-downs against receivables	(3 438)	(4 898)	(1 546)	(2 783)
Compensations and liquidated damages paid	(4 165)	(5 089)	(1 295)	(1 042)
Loss on derivative financial instruments	(3 419)	(1 161)	(1 013)	(859)
Court charges	(1 134)	(343)	(721)	(176)
Creation of provisions for penalties and sanctions	(4 594)	(2 274)	(4 591)	(2 234)
Donations	(433)	(853)	(238)	(537)
Other	(123)	(605)	(18)	(501)
Total	(17 306)	(15 223)	(9 422)	(8 132)

6. Finance income and costs

Finance income

	6 months ended		3 months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Interest earned	9 750	15 994	4 744	6 660
Valuation of receivables from service concession arrangement	1 434	1 089	722	353
Foreign exchange gains	-	-	(123)	(74)
Other	1 658	205	1 653	204
Total	12 842	17 288	6 996	7 143

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

budimex

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

Finance costs

	6 months ended		3 months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Interest expense	(5 442)	(3 174)	(2 531)	(1 942)
Discount of retentions for construction contracts	(3 597)	(4 550)	(1 585)	(2 001)
Cost of bank commissions and guarantees	(10 891)	(12 070)	(5 249)	(5 913)
Loss on derivative financial instruments	(960)	(324)	(553)	(8)
Foreign exchange losses	(125)	(185)	(125)	(185)
Other	(25)	(75)	(7)	(1)
Total	(21 040)	(20 378)	(10 050)	(10 050)

All valued derivative instrument contracts (presented both in the operating and financing activity) were classified as level 2 in the fair value hierarchy. During the 6 months ended 30 June 2019, there was no transfer between Level 1 and Level 2 of fair value measurements, and no transfer into and out of Level 3 of fair value measurement. The fair value of financial instruments owned by the Group companies is similar to their carrying value.

7. Other important information on activity of the Budimex Group in the I half of 2019

Provisions for liabilities and other charges

	30 June 2019	31 December 2018
Provisions for litigation proceedings	23 769	23 870
Provisions for penalties and other sanctions	64 073	68 200
Provisions for warranty repairs	434 818	417 858
Other provisions	48 952	45 316
Total	571 612	555 244
<i>of which:</i>		
- long-term	381 256	367 306
- short-term	190 356	187 938

Income tax in the income statement

	30 June 2019	30 June 2018
Income tax – current	(51 607)	(28 068)
Income tax – deferred	16 196	(7 205)
Income tax in the income statement	(35 411)	(35 273)

Other information

	6 months ended	
	30 June 2019	30 June 2018
Reversal of impairment write-downs of inventories	5 585	7 516
Value of property, plant and equipment, investment property and intangible assets purchased or started to be leased:	69 724	43 437
- of which: increases due to first application of IFRS 16	47 618	-
- of which: plant and machinery	4 946	28 583

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

As at 30 June 2019 contractual obligations made by the Group for the purchase of property, plant and equipment amounted to PLN 2 895 thousand. Contractual obligations made by the Group for the purchase of property, plant and equipment as at 31 December 2018 amounted to PLN 784 thousand.

As in previous years, in the first half of 2019 the Budimex Group companies recorded a decrease in the level of cash and cash equivalents. This is mainly related to the seasonal, negative change in working capital and the payment of dividends made in June 2019. In the second and third quarters of each year the construction segment companies generate the largest throughputs on construction contracts, which translates into the need to commit temporarily their own funds due to the later moment of invoicing the works to investors and receiving receivables. Additionally, in the described period the Group companies made earlier payments to business partners, which translated into a noticeable decrease in the payables turnover ratio. The above factors resulted in an increase in under-billing (balance of valuation of construction contracts on the asset side), an increase in receivables and a decrease in the level of trade liabilities.

Another significant change on the assets' side was the reclassification of loans granted to the associate FBSerwis SA, whose repayment dates fall in the first and second quarters of 2020 (reclassification from long-term to short-term other financial assets amounting to PLN 61 424 thousand).

8. Operating segments

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

- construction business
- developer and property management business.

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

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

Developer and property management segment covers preparation of land for investment projects, realization of investment projects in the field of housing construction industry, flat disposal and rental and servicing property on own account. The following Group entities were included in this segment:

- Budimex Nieruchomości Sp. z o.o.
- SPV-PIM 1 Sp. z o.o.
- Budimex SA in a part relating to developer business, as a result of merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009

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

Other business conducted does not meet the requirements of reportable segment. Included in other business are entities that mainly conduct public-private partnerships.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

The results of segments for the first half of 2019 are presented in the table below:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated value
External sales	2 934 511	312 448	1 462	-	3 248 421
Inter-segment sales	191 118	435	5	(191 558)	-
Total sales of finished goods, goods for resale and raw materials	3 125 629	312 883	1 467	(191 558)	3 248 421
Gross profit	151 039	70 285	848	(12 791)	209 381
Selling expenses	(5 236)	(8 852)	-	-	(14 088)
Administrative expenses	(101 546)	(12 866)	(45)	7 369	(107 088)
Other operating income, net	18 465	4 699	13	-	23 177
Operating profit	62 722	53 266	816	(5 422)	111 382
Finance income/(costs), net	(9 773)	1 861	(75)	(211)	(8 198)
Shares in profits of equity accounted subordinates	-	-	4 760	-	4 760
Income tax expense	(26 035)	(10 577)	134	1 067	(35 411)
Net profit for the period	26 914	44 550	5 635	(4 566)	72 533

The results of segments for the first half of 2018 are presented in the table below:

Segment name	Construction business	Property management and developer business	Other business (restated)	Consolidation adjustments	Consolidated value
External sales	2 909 115	330 381	63 165	-	3 302 661
Inter-segment sales	133 875	484	11 435	(145 794)	-
Total sales of finished goods, goods for resale and raw materials	3 042 990	330 865	74 600	(145 794)	3 302 661
Gross profit	213 320	66 214	10 980	(4 023)	286 491
Selling expenses	(4 816)	(7 157)	(2 897)	-	(14 870)
Administrative expenses	(102 194)	(12 926)	(3 030)	7 612	(110 538)
Other operating income/(expenses), net	9 165	(88)	(61)	25	9 041
Operating profit	115 475	46 043	4 992	3 614	170 124
Finance income/ (costs), net	(5 219)	1 364	921	(156)	(3 090)
Shares in (losses) of equity accounted subordinates	-	-	(3 673)	-	(3 673)
Income tax expense	(24 522)	(9 091)	(1 003)	(657)	(35 273)
Net profit for the period	85 734	38 316	1 237	2 801	128 088

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

9. Revenue from sale of finished goods, services, goods for resale and raw materials, by category

9.1. Sales revenue, by type of good or service

In the first half of 2019 net sales of finished goods, services, goods for resale and raw materials, by type of good or service, were as follows:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Sales of construction and assembly services	3 078 625	-	-	(183 906)	2 894 719
Sales of other services	22 624	4 229	1 467	(7 652)	20 668
Sales of finished goods	21 158	306 604	-	-	327 762
Sales of goods for resale and raw materials	3 222	2 050	-	-	5 272
Total sales of finished goods, goods for resale and raw materials	3 125 629	312 883	1 467	(191 558)	3 248 421

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

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Sales of construction and assembly services	2 999 941	-	68 489	(137 911)	2 930 519
Sales of other services	13 481	3 773	2 442	(7 883)	11 813
Sales of finished goods	26 981	325 235	3 573	-	355 789
Sales of goods for resale and raw materials	2 587	1 857	96	-	4 540
Total sales of finished goods, goods for resale and raw materials	3 042 990	330 865	74 600	(145 794)	3 302 661

9.2. Sales revenue, by geographical area

In the first half of 2019 net sales of finished goods, services, goods for resale and raw materials, by geographical area, were as follows:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Poland	2 950 111	312 883	1 467	(191 558)	3 072 903
Germany	102 309	-	-	-	102 309
Other EU countries	69 197	-	-	-	69 197
Other countries*	4 012	-	-	-	4 012
Total sales of finished goods, goods for resale and raw materials	3 125 629	312 883	1 467	(191 558)	3 248 421

*other countries include Norway and Ukraine

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

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

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Poland	2 909 637	330 865	69 592	(145 794)	3 164 300
Germany	97 354	-	164	-	97 518
Other EU countries	35 807	-	3 095	-	38 902
Other countries*	192	-	1 749	-	1 941
Total sales of finished goods, goods for resale and raw materials	3 042 990	330 865	74 600	(145 794)	3 302 661

*other countries are Ukraine, Russia, Switzerland and Norway

9.3. Sales revenue of the segment „Construction business” by construction type

Net sales of finished goods, services, goods for resale and raw materials of the „Construction business” as the most significant operating segment in the Budimex Group were additionally analysed by type of construction objects. Data for the first half of 2019 and the first half of 2018 were as follows:

Type of construction	Sales revenue for a 6-month period ended:	
	30 June 2019	30 June 2018
Land-engineering	1 300 716	1 192 536
Railway	372 468	217 033
General construction, of which:	1 452 445	1 633 421
- non-housing	1 144 739	1 233 300
- housing	307 706	400 121
Net sales of finished goods, goods for resale and raw materials –Construction business segment	3 125 629	3 042 990

10. Related party transactions

Transactions with related parties made in the first half of 2019 and in the first half of 2018 and unsettled balances of receivables and liabilities as at 30 June 2019 and 31 December 2018 are presented in the tables below:

	Receivables		Liabilities	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Parent and it related parties (the Ferrovial Group)	29	1 490	22 430	32 952
Jointly controlled entities	2 284	12 065	870	911
Associates	80	298	158	425
Other related entities – non-consolidated subsidiaries*	-	233	-	24
Other related entities – other*	5	14	-	-
Other related entities – through key personnel*	-	-	1 849	5 575
Total settlements with related parties	2 398	14 100	25 307	39 887

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

	Loans granted / acquired debt securities		Loans taken out / issued debt securities	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Parent and it related parties (the Ferrovial Group)	-	-	-	9 019
Associates	74 145	74 145	-	-
Total settlements with related parties	74 145	74 145	-	9 019

	Sales of finished goods and services & other operating income		Purchase of finished goods and services & other operating expenses	
	6-month period ended 30 June		6-month period ended 30 June	
	2019	2018	2019	2018
Parent and it related parties (the Ferrovial Group)	-	271	(21 283)	(19 833)
Jointly controlled entities	8 147	30 201	-	(223)
Associates	3 387	931	(1 147)	(3 183)
Other related entities – non-consolidated subsidiaries*	-	38	-	(104)
Other related entities – through key personnel*	18	-	(2)	-
Total transactions with related parties	11 552	31 441	(22 432)	(23 343)

	Finance income		Finance costs	
	6-month period ended 30 June		6-month period ended 30 June	
	2019	2018	2019	2018
Parent and it related parties (the Ferrovial Group)	-	-	(12)	(25)
Associates	2 103	1 913	-	-
Total transactions with related parties	2 103	1 913	(12)	(25)

*) Other related parties represent controlled or 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 significant number of votes at the shareholders' meeting of this company.

Inter-Group transactions are made on an arm's length basis.

11. Factors which will affect results achieved by the Group in a period covering at least the next half-year

The main factors that may affect the financial situation of the Group at least in the next half-year include:

- higher demand for subcontractors' services, which might have influence on quality and timeliness of the works performed,
- price level of materials and construction services affecting the amount of direct costs of realised contracts,
- availability of qualified employees,
- intensification of construction works related to the implementation of large public investment programs, which causes problems related to logistics and transport of construction materials,
- level of competition in public tenders,
- intensification of actions aimed at recovery of overdue debts, which were provided for and strengthening the operational and financial control in respect of contracts realised,
- results of the pending legal proceedings, described in more detail in note 16 to these consolidated financial statements,
- changes of tax regulations affecting the construction sector,
- fluctuations of exchange rates, which have the impact on the sales revenue, operating costs and result of the valuation and realization of derivative financial instrument contracts.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards



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

12. Description of significant achievements or failures of the Budimex Group in the I half-year of 2019, key events concerning the Group's operations and significant events after 30 June 2019

In the first half of 2019 the results of the Budimex Group were weaker than in the corresponding period of the previous year. The drop in profitability affected mainly the construction segment and resulted mainly from the progressive cost inflation in the construction industry. In the construction segment, Budimex Group carries out long-term contracts whose contractual provisions in most cases do not provide for valorization of remuneration. Therefore, dynamic changes in prices of subcontracting services and labour costs recently translated into worsening margins, especially on contracts signed 2-3 years ago.

The order portfolio of the Budimex Group is profitable and ensures adequate workload for subsequent quarters. In the first half of 2019 Budimex SA significantly increased the value of the order portfolio in the railway segment, which will translate into an even better use of production capacity in the railway segment in the coming quarters.

The order backlog as at 30 June 2019 amounted to PLN 11 079 921 thousand. The value of contracts signed in the period January – June 2019 amounted to PLN 3 800 670 thousand.

The cash position of the Budimex Group is stable and allows for uninterrupted operation. Due to the difficult market situation, earlier payments for subcontractors and suppliers are consistently offered.

The developer segment improved profitability in the first half of 2019. As a result of the extension of the product offer, the number of pre-sold apartments in the period January - June 2019 (without reservations) increased to 731 units compared to 509 units in the same period of the previous year.

On 3 July 2019 Budimex concluded with Ferrovial Services International SE a dispositive agreement transferring the ownership of 89 760 shares in FBSerwis SA, constituting 51% of the share capital of FBSerwis and having a nominal value of PLN 500.00 per share, giving the right to exercise 89 760 votes at the General Meeting, i.e. giving 51% of votes at the meeting, for PLN 98 500 thousand. As a result of the transaction Budimex owns all the shares of FBSerwis, constituting in total 100% of the share capital of FBSerwis and entitling to exercise a total of 100% of votes at the General Meeting of FBSerwis. It means that on 3 July 2019 Budimex SA gained control over the companies belonging to the FBSerwis SA Group. As at 30 June 2019 Budimex SA held 49.00% of shares in FBSerwis SA, which was an associate at that date. The takeover of control over FBSerwis SA is of a long-term nature and is a part of the Budimex Group development strategy.

At the moment of approval of these consolidated financial statements for publication the preliminary purchase price allocation has not been completed. Therefore, it is not possible to disclose the information required by IFRS 3 B64 points e)-q). A part of the purchase price allocation will be fair value measurement of the investment held by the Budimex Group. The fair value measurement will be based on the purchase price of the controlling stake in FBSerwis SA, adjusted, among others, by the control premium. The value of sales revenue of the FBSerwis Group and its net profit for the first 6 months of 2019 (i.e. before the takeover by the Budimex Group) amounted to PLN 222 919 thousand and PLN 10 286 thousand, respectively.

Information on the most important contracts signed by the Group companies or those where the offer of the Group companies was rated the highest was disclosed in the form of current reports published on the Budimex website.

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

13. Issue, redemption and repayment of debt and equity securities

In the first half-year of 2019 Budimex SA and Group companies did not issue, redeem or repay debt or equity securities.

14. The Management Board's position on the feasibility of results stated in the financial forecasts published earlier for the year in view of the financial results presented in the half-year report in relation to the projected results

Budimex SA did not publish any forecasts.

15. Statement of ownership of shares of Budimex SA or rights to such shares (options) held by the managing or supervisory persons of Budimex SA as at the date of publication of this report together with indication of changes in the ownership in the I half-year of 2019

As at the date of publication of the report members of the Management Board and Supervisory Board of Budimex SA held the following number of shares:

Marcin Węglowski	(Management Board member)	2 830 shares
Marek Michałowski	(chairman of the Supervisory Board)	4 000 shares

Above mentioned members of the Management Board and Supervisory Board do not own share options of the company. As at the date of publication of this report other managing and supervisory persons of Budimex SA do not hold its shares or share options. There was no change in the status of ownership from 31 December 2018.

16. Proceedings pending as at 30 June 2019 before court, competent arbitration body or any public administration authority

The total value of legal proceedings in progress in respect of liabilities and receivables as at 30 June 2019 was PLN 393 019 thousand. Excess of the value of proceedings against Group companies over proceedings relating to claims of Group companies amounted to PLN 109 729 thousand.

In accordance with information in the possession of Budimex SA, the total value of legal proceedings in progress in respect of liabilities of Budimex SA and its subsidiaries as at 30 June 2019 was PLN 251 374 thousand. These proceedings involve the Group companies' operating activity.

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

In the opinion of the Management Board of Budimex SA, the claim is unjustified. The irregularities, if any, which the claimant names as the basis for its action do not result from contract performance or undue performance by the consortium. In addition, due contract performance was confirmed by the claimant by the issued Certificate of Acquisition and Certificate of Completion of premises of Muzeum Śląskie in Katowice. In the opinion of the Management Board, the reported provisions cover the risks related to contract performance. Budimex SA filed its reply to said claim on 31 October 2017. It was supplemented by Budimex SA in January 2018. Ferrovial Agroman SA files its request to the claim on 22 October 2018. The first hearing took place on 11 March 2019, during which the court obliged the parties to pay an advance towards the remuneration of the research institute, which will prepare an opinion on the case. As at the date of the report, the date of the next hearing is not known.

Another legal proceedings with a material value relate to the claim filed on 5 March 2008 by Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. requesting that the amount of PLN 25 252 thousand be awarded jointly and severally against the consortium to which the Budimex SA and Budimex Dromex SA belonged. The claim relates to the replacement of contractor costs incurred by the investor when the consortium rescinded the contract. The share of the companies in the consortium was 90%, therefore the value of the claim for which Budimex SA is presently liable is PLN 22 727 thousand. On 12 July 2017, the court of the first instance awarded against Budimex SA only the amount of PLN 22 thousand (towards reimbursement of the costs of expert opinions commissioned by the claimant), and dismissed the claim in its entirety. The appeal against court decision was filed both by the claimant (as regards the entire claim), and the defendant (as regards the part of the verdict regarding the amount of PLN 22 thousand). Currently, the parties await setting the date for the hearing before the court of the second instance.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

As at the date of the preparation of these consolidated financial statements, the final outcome of the remaining proceedings is not known. For all legal proceedings which – according to the Group – may finish in an unfavourable way, provisions were recognised in the amount that takes into account the risk estimated by the Group.

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 141 645 thousand as at 30 June 2019. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. As at the date of these consolidated financial statements, the final outcome of the proceedings is not known.

17. Contingent assets and contingent liabilities

	30 June 2019	31 December 20178
<u>Contingent assets</u>		
From other entities		
– guarantees and sureties received	548 373	583 363
– bills of exchange received as security	6 472	6 083
From other entities, total	554 845	589 446
Other contingent assets	-	12 000
Total contingent assets	554 845	601 446
<u>Contingent liabilities</u>		
To related parties, of which:		
– guarantees and sureties issued	1 537	1 537
To related parties, total	1 537	1 537
To other entities, of which:		
– guarantees and sureties issued	3 740 552	3 540 626
– promissory notes issued as performance bond	26 099	21 520
To other entities, total	3 766 651	3 562 146
Total contingent liabilities	3 768 188	3 563 683
Total contingent items	(3 213 343)	(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 7 to these condensed consolidated financial statements.

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

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019 prepared in accordance with International Financial Reporting Standards

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

Guarantees and sureties issued by Budimex SA as at 30 June 2019:

Name of the company which issued a guarantee or surety	Name of the (company) entity which received a surety or a guarantee	Total value of guarantees or sureties issued	Period of guarantees or sureties issuance	Financial conditions in respect of guarantees and sureties issued	Type of relations between Budimex SA and the entity which took out a guarantee or surety
Budimex SA	Mostostal Kraków SA	120 241	2026-01-06	against payment	subsidiary
Budimex SA	Mostostal Kraków Energetyka Sp. z o.o.	141	2023-11-21	against payment	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	125 320*	2028-10-15	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	11 477	2020-02-17	against payment	subsidiary
Budimex SA	Budimex Bau GmbH	44	2019-12-31	free of charge	subsidiary
Budimex SA	Budimex Kolejnictwo SA	64 202	2025-10-31	against payment	subsidiary
Budimex SA	FBSerwis SA	1 537	2020-10-30	against payment	associate
TOTAL		322 962			

*sureties were issued for contracts realised by Budimex SA

Guarantees and sureties issued by Budimex SA as at 31 December 2018:

Name of the company which issued a guarantee or surety	Name of the (company) entity which received a surety or a guarantee	Total value of guarantees or sureties issued	Period of guarantees or sureties issuance	Financial conditions in respect of guarantees and sureties issued	Type of relations between Budimex SA and the entity which took out a guarantee or surety
Budimex SA	Mostostal Kraków SA	130 027	2025-08-13	against payment	subsidiary
Budimex SA	Mostostal Kraków Energetyka Sp. z o.o.	471	2022-12-06	against payment	subsidiary
Budimex SA	Budimex Kolejnictwo SA	67 918	2025-10-31	against payment	subsidiary
Budimex SA	Budimex Bau GmbH	44	2019-12-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	115 994*	2026-12-23	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	10 125	2020-02-17	against payment	subsidiary
Budimex SA	FBSerwis SA	1 537	2020-10-30	against payment	associate
TOTAL		326 116			

*sureties were issued for contracts realised by Budimex SA

At Budimex SA, customs and tax audit is currently carried out with regard to the reliability of the declared tax bases and the correctness of calculating and paying corporate income tax for 2013. The subject of the audit are, in particular, intangible services acquired by the Company, license agreement concluded with Ferrovial, as well as restructuring, under which Budimex from the direct, sole shareholder of Budimex Danwood Sp. z o.o., holding directly 100% shares in the share capital, became an indirect shareholder (through 100% subsidiary Budimex B Sp. z o.o.) of 100% shares in the share capital of Budimex Danwood Sp. z o.o. (exchange of shares). In the opinion of the Management Board of Budimex SA, the transactions were settled correctly. At the time of preparing these consolidated financial statements, the result of the audit has not been issued.

In the second quarter of 2019, customs and tax audit control was finished with regard to the reliability of the declared tax bases and the correctness of calculating and paying corporate income tax for 2012. Budimex SA accepted the controller's findings and submitted an appropriate correction of the tax return, increasing the tax liability by PLN 3 610 thousand.

The BUDIMEX Group

The condensed consolidated financial statements for I half of 2019
prepared in accordance with International Financial Reporting Standards



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

Warsaw, 20 August 2019

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 Węglowski Member of the Management Board	
Henryk Urbański Member of the Management Board	
Grzegorz Fąfara Chief Accountant	

This is a translation of condensed consolidated financial statements originally issued in Polish. In case of any inconsistencies between the Polish and English version, the Polish version shall prevail.