



BUDIMEX SA

CONDENSED FINANCIAL STATEMENTS

for III quarters of 2018

**prepared in accordance with
International Financial Reporting Standards**

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(all amounts are expressed in PLN thousand)

Statement of financial position

ASSETS	30 September 2018 <i>unaudited</i>	31 December 2017 <i>audited</i>
Non-currents assets (long-term)		
Property, plant and equipment	169 272	115 521
Investment properties	3 210	3 306
Intangible assets	26 568	29 937
Investments in subsidiaries	687 995	727 827
Investments in associates	61 246	61 246
Investments in other entities	6 417	6 417
Other financial assets	74 439	70 384
Trade and other receivables	23 352	18 124
Retentions for construction contracts	72 839	54 685
Deferred tax asset	350 805	360 149
Total non-current assets (long-term)	1 476 143	1 447 596
Current assets		
Inventories	344 162	242 103
Trade and other receivables	823 652	638 335
Retentions for construction contracts	45 609	46 306
Long-term construction contracts valuation	969 731	472 740
Current income tax receivable	-	29 995
Other financial assets	18 946	295 836
Cash and cash equivalents	601 437	1 680 371
Total current assets (short-term)	2 803 537	3 405 686
TOTAL ASSETS	4 279 680	4 853 282

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(all amounts are expressed in PLN thousand)

Statement of financial position (cont.)

EQUITY AND LIABILITIES	30 September 2018 <i>unaudited</i>	31 December 2017 <i>audited</i>
Equity		
Shareholders' equity		
Issued capital	145 848	145 848
Share premium	80 199	80 199
Other reserves	52 452	52 452
Foreign exchange differences on translation of foreign operations	6 975	5 682
Retained earnings	260 524	449 995
Total shareholders' equity	545 998	734 176
Liabilities		
Long-term liabilities		
Loans, borrowings and other external sources of finance	88 580	45 885
Retentions for construction contracts	203 884	192 314
Provision for long-term liabilities and other charges	231 803	219 909
Long-term retirement benefits and similar obligations	7 857	7 857
Other financial liabilities	137	713
Total long-term liabilities	532 261	466 678
Short-term liabilities		
Loans, borrowings and other external sources of finance	40 466	26 381
Trade and other payables	1 613 445	1 579 248
Retentions for construction contracts	207 594	207 272
Provision for construction contract losses	204 135	234 876
Long-term construction contracts valuation	432 215	767 855
Deferred revenue	480 517	671 844
Provisions for current liabilities and other charges	200 273	157 814
Current income tax payable	20 729	-
Short-term retirement benefits and similar obligations	985	985
Other financial liabilities	1 062	6 153
Total short-term liabilities	3 201 421	3 652 428
Total liabilities	3 733 682	4 119 106
TOTAL EQUITY AND LIABILITIES	4 279 680	4 853 282

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Income statement

	9-month period ended 30 September		3-month period ended 30 September	
	2018 <i>unaudited</i>	2017 <i>unaudited</i>	2018 <i>unaudited</i>	2017 <i>unaudited</i>
Continuing operations				
Net sales of finished goods, goods for resale, raw materials and services	4 898 119	4 151 306	1 995 770	1 657 173
Cost of finished goods, goods for resale, raw materials and services sold	(4 567 203)	(3 673 374)	(1 854 632)	(1 468 109)
Gross profit on sales	330 916	477 932	141 138	189 064
Selling expenses	(7 629)	(7 650)	(2 609)	(2 554)
Administrative expenses	(147 092)	(138 132)	(48 785)	(45 852)
Other operating income	33 325	36 860	10 472	16 252
Other operating expenses	(23 953)	(13 027)	(10 382)	(9 593)
Operating profit	185 567	355 983	89 834	147 317
Finance income	157 735	72 770	71 118	6 329
Finance costs	(26 390)	(26 740)	(7 486)	(8 998)
Profit before tax	316 912	402 013	153 466	144 648
Income tax	(56 798)	(68 827)	(36 280)	(28 243)
Net profit from continuing operations	260 114	333 186	117 186	116 405
Net profit for the period	260 114	333 186	117 186	116 405
<i>Basic and diluted earnings per share attributable to the shareholders (in PLN)</i>	10.19	13.05	4.59	4.56

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(all amounts are expressed in PLN thousand)

Statement of comprehensive income

	9-month period ended 30 September		3-month period ended 30 September	
	2018 <i>unaudited</i>	2017 <i>unaudited</i>	2018 <i>unaudited</i>	2017 <i>unaudited</i>
Net profit for the period	260 114	333 186	117 186	116 405
Other comprehensive income for the period, which:				
<i>Will be subsequently reclassified to profit or loss:</i>				
Foreign exchange differences on translation of foreign branch	1 293	(21)	(135)	142
Deferred tax related to components of other comprehensive income	-	-	-	-
<i>Will not be subsequently reclassified to profit or loss:</i>				
Actuarial gains/(losses)	-	-	-	-
Income tax related to components of other comprehensive income	-	-	-	-
Other comprehensive income, net of tax	1 293	(21)	(135)	142
Total comprehensive income for the period	261 407	333 165	117 051	116 547

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**Statement of changes in equity**

	Issued capital	Share premium	Other reserves	Foreign exchange differences on translation of foreign branch	Retained earnings	Total equity
Balance as at 1 January 2018 <i>audited</i>	145 848	80 199	52 452	5 682	449 995	734 176
Profit for the period	-	-	-	-	260 114	260 114
Other comprehensive income	-	-	-	1 293	-	1 293
Total comprehensive income for the period	-	-	-	1 293	260 114	261 407
Dividend paid	-	-	-	-	(449 585)	(449 585)
Balance as at 30 September 2018 <i>unaudited</i>	145 848	80 199	52 452	6 975	260 524	545 998

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Statement of changes in equity (cont.)

	Issued capital	Share premium	Other reserves	Foreign exchange differences on translation of foreign branch	Retained earnings	Total equity
Balance as at 1 January 2017 <i>audited</i>	145 848	80 199	54 001	5 670	382 856	668 574
Profit for the period	-	-	-	-	333 186	333 186
Other comprehensive income	-	-	-	(21)	-	(21)
Total comprehensive income for the period	-	-	-	(21)	333 186	333 165
Dividend paid	-	-	-	-	(382 696)	(382 696)
Balance as at 30 September 2017 <i>unaudited</i>	145 848	80 199	54 001	5 649	333 346	619 043
Profit for the period	-	-	-	-	116 649	116 649
Other comprehensive income	-	-	(1 549)	33	-	(1 516)
Total comprehensive income for the period	-	-	(1 549)	33	116 649	115 133
Balance as at 31 December 2017 <i>audited</i>	145 848	80 199	52 452	5 682	449 995	734 176

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

Cash flow statement

	9-month period ended 30 September	
	2018 <i>unaudited</i>	2017 <i>unaudited</i>
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	316 912	402 013
Adjustments:		
Depreciation/ amortization	32 487	24 589
Foreign exchange (gains)/ losses	(597)	(457)
Interest and shares in profits (dividends)	(76 355)	(54 423)
(Profit)/ loss on disposal of investments	(69 539)	(5 968)
Change in valuation of derivative financial instruments	642	(2 742)
Change in provisions and liabilities arising from retirement benefits and similar obligations	54 353	46 604
Other adjustments	1 290	738
Operating profit before changes in working capital	259 193	410 354
Change in receivables and retentions for construction contracts	(208 434)	(272 921)
Change in inventories	(102 059)	(66 998)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	46 814	60 729
Change in amounts due and receivable under construction contracts	(863 372)	(816 134)
Change in deferred income	(191 327)	142 968
Change in cash and cash equivalents of restricted use	112	(5 960)
Cash used in operations	(1 059 073)	(547 962)
Income tax paid	3 270	(91 163)
NET CASH USED IN OPERATING ACTIVITIES	(1 055 803)	(639 125)
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of intangible assets and tangible fixed assets	2 549	933
Purchase of intangible assets and tangible fixed assets	(12 966)	(13 951)
Sale of investment properties	-	5 367
Sale of shares in related parties	108 068	-
Purchase of shares in related parties	(1 060)	(3 249)
Purchase of bonds issued by banks	(238 868)	(437 160)
Proceeds from bonds issued by banks	516 877	208 632
Dividend received	72 834	40 000
Loans granted	(30 160)	(63 853)
Repayment of loans granted	19 700	3 136
Interest received	5 687	1 913
NET CASH USED IN / FROM INVESTING ACTIVITIES	442 661	(258 232)

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Cash flow statement (cont.)

CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(449 585)	(382 696)
Payment of finance lease liabilities	(14 933)	(8 233)
Interest paid	(1 969)	(1 078)
NET CASH USED IN FINANCING ACTIVITIES	(466 487)	(392 007)
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Foreign exchange differences, net	807	220
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (note 2.3)	1 639 774	2 239 546
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 2.3)	560 952	950 402

1. General information

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

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

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

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

2. Principles applied for the purpose of preparation of this report**2.1. Accounting policies and basis of preparing the financial statements of the Company**

These condensed financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" and appropriate accounting standards applicable for preparation of the interim financial statements adopted by the European Union issued and effective when preparing the interim financial statements applying the same principles for the current and comparable period, with the exception of the application of new or amended standards and interpretations applicable to annual periods beginning on or after 1 January 2018.

The financial statements and the comparative data contain aggregated data of following jointly controlled entities, attributable to Budimex SA, which constitute joint operations as per IFRS 11 "Joint Agreements":

- Budimex SA Sygnity SA Sp. j.,
- Budimex SA Ferrovial Agroman SA Sp. j.,
- Budimex SA Ferrovial Agroman SA S.C.,
- Budimex SA Budimex Budownictwo Sp. z o.o. S.C.,
- Budimex SA Cadagua SA II S.C.,
- Budimex SA Tecnicas Reunidas SA-Turów S.C.,
- Budimex SA Energetyka 1 Sp. j.,
- Budimex SA Energetyka 2 Sp. j.,
- Budimex SA Energetyka 3 Sp. j.,
- Budimex SA Ferrovial Agroman SA 2 S.C.,
- Budimex SA Cadagua SA III S.C.,
- Budimex SA Cadagua SA IV S.C.,
- Budimex SA Cadagua SA V S.C.

Standards, amendments to standards and interpretations effective in the current period

- IFRS 9 “Financial Instruments
- Amendments to IFRS 2 “Share-based Payment” – Classification and Measurement of Share-based Payment Transactions,
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property,
- Annual Improvements to IFRSs (Cycle 2014-2016) – annual improvements to IFRS (IFRS 1 and IAS 28), mainly with a view to removing inconsistencies and ensuring wording clarification,
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”.

Details on the implementation of IFRS 9 were described in the half-year condensed financial statements. The implementation of other changes to standards and interpretations had no material impact on the financial statements.

Standards and amendments to standards already published, but not yet effective

At the date of the authorization of the financial statements, the Company did not apply the following standards, which had been issued and authorised for use in the EU, but were not yet effective:

- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 “Financial Instruments” – “Prepayment option with negative compensation” (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

The Company has elected not to use the opportunity of early adoption of IFRS 16. The Company currently estimates that the application of IFRS 16 „Leases” may, to some extent, increase both its non-current assets and its financial liabilities which can impact some financial ratios. At the same time, positive impact on operating result and negative impact on the result from financing activities are expected. The value of future (undiscounted) payments under operating lease which would be recognised as financial assets / financial liabilities as at 31 December 2017 was disclosed in the financial statements for the year ended 31 December 2017, published on 22 March 2018.

Standards, amendments to standards and interpretations 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 financial statements were not yet adopted for use:

- IFRS 17 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IAS 19 “Employee benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Annual Improvements to IFRSs (Cycle 2015-2017), effective for annual periods beginning on or after 1 January 2019,
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 “Business Combinations” (effective for annual periods beginning on or after 1 January 2020).

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

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

In the period covered by the report the Company applied for the first time IFRS 9 "Financial Instruments". The Company decided to apply the standard without restating comparative data and to include potential impact of the first time application in opening balance of the retained earnings.

The main accounting policy assumptions adopted by the Company with the first application of IFRS 9 were included in the half-year condensed financial statements published on 30 August 2018.

2.3. Cash recognized in the cash flow statement

The Company recognizes cash of restricted use including cash of the consortia in the portion attributable to other consortium members 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 September 2018	31 December 2017	30 September 2017
Cash recognised in the statement of financial position	601 437	1 680 371	988 926
Cash and cash equivalents of restricted use	(40 485)	(40 597)	(38 524)
Cash recognised in the statement of cash flow	560 952	1 639 774	950 402

2.4. Going concern

The financial statements of the Company were prepared on the assumption that the Company will be going concern in the foreseeable future without a significant limitation in its activities. As at the date of signing the financial statements, besides the matter mentioned below, the Management Board of the Company is not aware of any facts or circumstances that would indicate a threat to the Company's continued activities after the reporting date, due to an intended or compulsory withdrawal from or a significant limitation in its activities.

As at 30 September 2018 the excess of the current liabilities over the current assets amounted to PLN 397 884 thousand. Taking into consideration very good financial position of Budimex Group related to liquidity, of which the excess of current assets over current liabilities as at 30 September 2018 amounted to PLN 368 548 thousand, the Company's Management Board does not state as at the date of signing the financial statements any threat to Company's ability to continue as a going concern.

3. 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 issued capital	Number of votes	% of voting rights at the AGM
Valivala Holdings B.V. Amsterdam (the Netherlands) - Ferrovial SA 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%

The above data presents the shareholding structure as at the last General Meeting of Shareholders of 17 May 2018 and it has not changed in comparison to the data presented in the report for the first half of 2018.

4. Descriptions of factors and events which had a material effect on the financial result of the Company for three quarters of 2018

4.1. Business operation of the Company for three quarters of 2018

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 period of nine months of 2018 Budimex SA earned sales revenue in the amount of PLN 4 898 119 thousand (in the third quarter PLN 1 995 770 thousand), and in the comparative period of the year 2017 sales revenue amounted to PLN 4 151 306 thousand (in the third quarter PLN 1 657 173 thousand) giving the increase of 17.99% (20.43% in the third quarter).

Gross profit on sales for three quarters of 2018 amounted to PLN 330 916 thousand and was by PLN 147 016 thousand (i.e. by 30.76%) lower than in the comparative period of the previous year in relation to increase in costs of sale, mainly due to costs of materials used and costs of subcontractors services.

Total amount of administrative and selling expenses in three quarters of 2018 was PLN 154 721 thousand, while in three quarters of 2017 amounted to PLN 145 782 thousand. The share of selling and administrative expenses in total sales in three quarters of 2018 equaled 3.16% (in the corresponding period of 2017 equaled 3.51%).

In the period of three quarters of 2018, the result from other operating activity, including financial result from derivative instruments, was positive and amounted to PLN 9 372 thousand. Other operating income comprised mainly: revenue from received penalties and compensations in the amount of PLN 19 914 thousand, released provisions for compensations and contractual penalties in the amount of PLN 7 086 thousand, profit from sale of investment properties and fixed assets in the amount of PLN 2 382 thousand, overdue liabilities write-off in the amount of PLN 2 297 thousand, reversal of receivable and retention write-downs in the amount of PLN 1 322 thousand and profit on valuation and realization of derivative instrument contracts of PLN 172 thousand. Other operating expenses comprised mainly: provisions for compensation payments and contractual penalties in the amount of PLN 9 246 thousand, costs of receivable and retention write-downs in the amount of PLN 7 030 thousand, penalties and compensation paid in the amount of PLN 5 395 thousand, donations made in the amount of PLN 1 554 thousand and court fees of PLN 616 thousand.

In comparison, in three quarters of 2017, the result from other operating activity, including financial result from derivative instruments, was positive and amounted to PLN 23 833 thousand. Other operating income comprised mainly: revenue from received penalties and compensations in the amount of PLN 18 071 thousand, profit from sale of investment properties and fixed assets in the amount of PLN 5 968 thousand, released provisions for penalties and legal proceedings in the amount of PLN 4160 thousand and PLN 1 760 thousand accordingly, reversal of receivable and retention write-downs in the amount of PLN 3 583 thousand, overdue liabilities write-off in the amount of PLN 1 217 thousand and profit on valuation and realization of derivative instrument contracts of PLN 1 515 thousand. Other operating expenses comprised mainly: penalties and compensation paid in the amount of PLN 5 374 thousand, provisions for compensation payments and legal proceedings of PLN 1 502 thousand and PLN 3 122 thousand accordingly, costs of receivable and retention write-downs in the amount of PLN 1 770 thousand, donations made in the amount of PLN 635 thousand and court fees of PLN 521 thousand.

All valued derivative instrument contracts were classified as level 2 in the fair value hierarchy. During the 9-month period ended 30 September 2018, 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 is close to their carrying amount.

In the period of three quarters of 2018 the operating profit amounted to PLN 185 567 thousand and was lower by PLN 170 416 thousand (47.87%) compared to the same period of the year 2017. For three quarters of 2018, the operating margin equaled 3.79%, while in the comparative period of 2017 was equal to 8.58%.

In the period of three quarters of 2018, the result from financial activity was positive and amounted to PLN 131 345 thousand and in the comparative period of 2017 the result was lower by PLN 85 315 thousand. In three-quarter period of 2018 financial income, besides dividend income from related entities in the amount of PLN 72 834 thousand, in financial income an important item was the profit from the sale of shares in subsidiary companies: Elektromontaż Poznań SA and Biuro inwestycji "Grunwald" SA in the amount of PLN 67 176 thousand, it comprised also interest of PLN 17 666 thousand and exchange differences in the amount of PLN 59 thousand. Financial expenses in three-quarter period of 2018 comprised mainly costs of bank guarantees and commissions in the amount of PLN 17 661 thousand, costs of long-term retention

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

receivables and liabilities discounting of PLN 5 940 thousand, interest costs in the amount of PLN 2 793 thousand.

In the three-quarter period of 2017 main items of financial income constituted dividends received from related entities in the amount of PLN 51 686 thousand and interest of PLN 21 084 thousand. Financial expenses comprised mainly costs of bank guarantees and commissions in the amount of PLN 17 378 thousand, costs of long-term retention receivables and liabilities discounting of PLN 6 400 thousand, interest costs in the amount of PLN 2 359 thousand and exchange differences in the amount of PLN 586 thousand.

Profit before tax in the 9-month period of 2018 amounted to PLN 316 912 thousand and was by PLN 85 101 thousand lower (i.e. by 21.17%) than in the 9-month period of 2017.

In the period of nine months of 2018 the Company reported a net profit of PLN 260 114 thousand gaining a net profit margin of 5.31% while in the same period of 2017 net profit margin was equal to 8.03%.

In the three-quarter period of 2018, the Company purchased or started to lease property, plant and equipment, intangible assets with a total value of PLN 84 180 thousand, of which machinery and equipment accounted for PLN 58 644 thousand.

In comparison, in the three-quarter period of 2017, the Company purchased or started to lease property, plant and equipment, intangible assets and investment property with a total value of PLN 42 301 thousand, of which machinery and equipment accounted for PLN 33 432 thousand.

Liabilities arising from investment agreements in relation to fixed assets as of 30 September 2018 equaled PLN 7 802 thousand and as of 30 September 2017 equaled PLN 61 833 thousand.

4.2. Revenue from sale of finished goods, services, goods for resale and raw materials by categories

In the 9-month period of 2018 and 2017 the revenue from sale of finished goods, services, goods for resale and raw materials by type of product or service was as follows:

Product/service type	Sales of finished goods and services in the 9-month period ended:	
	30 September 2018	30 September 2017
Revenue from sale of construction and assembly services	4 864 619	4 128 446
Revenue from sale of other services	27 804	19 480
Revenue from sale of goods and materials	5 696	3 380
Total sales of finished goods, services goods for resale, raw materials	4 898 119	4 151 306

In the 9-month period of 2018 and 2017 the revenue from sale of finished goods, services, goods for resale and raw materials from contracts with customers by geographic area was as follows:

Region	Sales of finished goods and services in the 9-month period ended:	
	30 September 2018	30 September 2017
Poland	4 717 475	4 011 544
Germany	131 690	134 623
Other EU countries	48 954	5 139
Total sales of finished goods, services, goods for resale, raw materials	4 898 119	4 151 306

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

In the 9-month period of 2018 and 2017 the revenue from sale of finished goods, services, goods for resale and raw materials by type of construction was as follows:

Type of construction	Sales of finished goods and services in the 9-month period ended:	
	30 September 2018	30 September 2017
Civil engineering (infrastructure)	2 248 109	2 170 261
Railway construction	405 926	153 695
General construction, of which:	2 210 584	1 804 490
- non-residential	1 651 962	1 212 212
- residential	558 622	592 278
Other	33 500	22 860
Total sales of finished goods, services, goods for resale, raw materials	4 898 119	4 151 306

4.3. Changes of estimates

Provisions for onerous contracts

Provisions for onerous contracts refer mainly to provisions for expected construction contracts losses. In accordance with accounting policies adopted, the Company creates provisions for expected contract losses if budgeted contract costs exceed the entire expected contract revenue. As at 30 September 2018, the balance of the provision for contract losses amounted to PLN 204 135 thousand, while as at 31 December 2017 amounted to PLN 234 876 thousand. Due to that, in the 9-month period of 2018 the balance of provision decreased by PLN 30 741 thousand, while in the third quarter of 2018 increased by PLN 33 115 thousand.

Provision for legal proceedings

The Company recognizes provisions for legal proceedings when it is suited and the probability of an unfavorable court judgment is higher than the probability of a favorable one. An estimation of that result is made on the basis of analysis of a legal proceedings progress as well as lawyers' opinions. As at 30 September 2018, the balance of the provision in this respect amounted to PLN 23 551 thousand, while as at 31 December 2017 amounted to PLN 23 550 thousand. Due to that, in the 9-month period of 2018 the balance of provision increased by PLN 1 thousand, while in the third quarter of 2018 decreased by PLN 3 thousand.

Provision for penalties and compensations

The Company recognizes provisions for penalties and compensations related to the realization of construction contracts. A provision is recognized only when the Company has a present obligation as a result of past event, the settlement of that obligation is highly probable and a reliable estimate can be made of the amount of the obligation. As at 30 September 2018, the balance of the provision in this respect amounted to PLN 41 187 thousand, while as at 31 December 2017 amounted to PLN 39 027 thousand. Due to that, in the 9-month period of 2018 the balance of provision increased by PLN 2 160 thousand, in the third quarter of 2018 it increased by PLN 5 734 thousand.

Costs of future warranty repairs

The Company is required to issue guarantees for its construction services. It is accepted that the provision between 0.3%-1.4% of revenue from the given contract is made what depends on particular construction segment. This general value is assessed on an individual basis and may be increased or reduced, as appropriate. Provision for warranty repairs is presented in the line: "Provision for long-term / short-term liabilities and other charges". As at 30 September 2018, the balance of the provision in this respect amounted to PLN 367 338 thousand, while as at 31 December 2017 amounted to PLN 315 146 thousand. Due to that, in the 9-month period of 2018 the balance of provision increased by PLN 52 192 thousand, while in the third quarter of 2018 it increased by PLN 26 268 thousand.

Deferred tax asset and liability

As at 30 September 2018, the balance of deferred tax asset (reduced by deferred tax liability) amounted to PLN 350 805 thousand, while as at 31 December 2017 amounted to PLN 360 149 thousand. Due to that, in the 9-month period of 2018 the balance of deferred tax asset decreased by PLN 9 344 thousand, of which PLN 5 287 thousand was reported in the third quarter of 2018.

Impairment write-downs against receivables and retentions for constructions contracts

As at 30 September 2018, the balance of recognized impairment write-downs against receivables and retentions amounted to PLN 126 083 thousand, while as at 31 December 2017 amounted to PLN 131 246 thousand. In the 9-month period of 2018 the Company recognized impairment write-downs in the amount of PLN 7 030 thousand and reversed it increasing operating income in the amount of PLN 1 322 thousand and in the same time the Company utilized impairment write-downs in the amount of PLN 11 125 thousand and increased it by PLN 254 thousand due to exchange differences. Only in the third quarter of 2018 the Company recognized impairment write-downs in the amount of PLN 2 429 thousand, reversed impairment write-downs in the amount of PLN 816 thousand and in the same time the Company utilized impairment write-downs in the amount of PLN 11 125 thousand and decreased them by PLN 184 thousand due to exchange differences.

Impairment write-downs against inventory

As at 30 September 2018 and 31 December 2017, the balance of recognised impairment write-downs against inventory amounted to PLN 2 425 thousand.

5. Proceedings pending as at 30 September 2018 before court, competent arbitration body or any public administration authority

As at 30 September 2018, the total value of the proceedings relating to the Company's liabilities and claims amounted to PLN 192 492 thousand and PLN 62 581 thousand accordingly, and as at 30 June 2018 PLN 311 957 thousand and PLN 124 516 thousand accordingly.

The proceedings in the highest value case, completed during the third quarter of 2018, were pending before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, which involved the consortium members: Ferrovial Agroman SA, Budimex SA and Estudio Lamela S.L. (the FBL Consortium) and Przedsiębiorstwo Państwowe "Porty Lotnicze" (PPL). The litigation was the result of PPL serving a notice rescinding the contract for the development and modernization of Terminal 2 of the Warsaw Chopin Airport.

Initially, the proceedings related solely to the claim filed in 2008 by the FBL Consortium, in relation to bank guarantees realised by PPL, which were given as a performance bond for a total amount of PLN 54 382 thousand. That case was finally resolved by a judgment of the Court of Appeal in Warsaw in 2012. The total value of the awarded claim and the amount of statutory interest for late payment was PLN 87 920 thousand (the amount attributable to Budimex SA was PLN 35 168 thousand, of which PLN 21 612 thousand as reimbursement of the performance bond). The court enforcement officer transferred that amount to the bank account of Budimex SA on 28 September 2012. After the cassation appeal of PPL was dismissed by the Supreme Court, the enforcement proceedings became final.

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

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

During several hearings the court has examined all witnesses for the claimant and the counter-claimant with respect to the circumstances included in PPL's counter-claim. At the beginning of 2018 the hearing of evidence was completed.

On 8 August 2018 the parties to the dispute entered into a court settlement before the Court of Arbitration at the Polish Chamber of Commerce. Under the settlement, the parties waived each other's claims before the Court of Arbitration and cancelled each other's costs. The payment by PPL to the Consortium includes only receivables for the works and deliveries performed, including amounts retained.

Conclusion of the settlement confirms the amicable solution by the parties of the contract linking them and ending any disputes related to its implementation. In the opinion of the Management Board of Budimex SA, the settlement was favorable for both parties to the dispute.

On 24 July 2017, Muzeum Śląskie in Katowice filed a claim against Budimex SA and Ferrovia 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. The court successfully delivered a copy of the claim to Ferrovia Agroman SA on 21 September 2018. Ferrovia Agroman SA filed a reply to the statement of claim on 22 October 2018. Until the date of the report, there is no date for the hearing.

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 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.

As at the date of the preparation of these financial statements, the final outcome of the remaining proceedings is not known. For all legal proceedings, which according to the Company's assessment many finish in an unfavourable way, provisions were created in the amount including the risk estimated by the Company.

The proceedings in respect of claims of Budimex SA 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 this report, the final outcome of the proceedings is not known.

6. Significant events during III quarter of 2018 and after 30 September 2018

On **11 July 2018** new tranche of the loan in the amount of PLN 1 800 thousand was paid by Budimex SA to Budimex Nieruchomości Sp. z o.o. (subsidiary of Budimex SA) based on the loan agreement, up to the amount of PLN 100 million, dated 24 April 2017. At the repayment date i.e. 29 June 2018 the annex to the loan agreement was signed, under which a new loan repayment date was established on 29 June 2019. The interest rate on the loan was determined as the sum of the 1M WIBOR rate and the margin. On 13 July 2018 Budimex Nieruchomości Sp. z o.o. made a partial repayment of the loan in the amount of PLN 2 800 thousand.

On **12 July 2018** the Company acquired from Budimex PPP SA (subsidiary of Budimex SA) 100% shares in issued capital of Budimex D Sp. z.o.o. with total nominal value of PLN 225 thousand for the price equal to this amount.

On **7 August 2018** the Company acquired from Budimex PPP SA (subsidiary of Budimex SA) 100% shares in issued capital of: Budimex C Sp. z.o.o., Budimex F Sp. z.o.o., Budimex H Sp. z.o.o., Budimex I Sp. z.o.o., Budimex J Sp. z.o.o. for the price equal to the shares nominal value i.e. PLN 225 thousand, PLN 175 thousand, PLN 125 thousand, PLN 125 thousand and PLN 75 thousand accordingly.

On **3 September 2018** the agreement between Budimex and Cadagua SA entered into force, including arrangements for reducing the share of Cadagua SA in jointly controlled entities, i.e. Budimex SA Cadagua SA II S.C., Budimex SA Cadagua SA III S.C., Budimex SA Cadagua SA IV, Budimex SA Cadagua SA V S.C. up to the level of 0.1% share in each company. The final settlement with Cadagua SA is planned for October 2018.

On **17 September 2018**, Budimex concluded sales agreements and agreements for the sale and transfer of rights from shares with respect to two subsidiary companies: Elektromontaż-Poznań SA and Biuro Inwestycji "Grunwald" SA. Under the agreements, Budimex sold 5 351 890 shares of Elektromontaż-Poznań SA, representing a 98.95% stake in the share capital of the company with a nominal value of PLN 3.40 per share (entitling to exercise 98.95% of votes at the general meeting), for a total price of PLN 64 990 thousand and 354 224 740 shares of Biuro Inwestycji "Grunwald" SA representing a 98.96% share in the share capital of the company with a nominal value of PLN 0.10 per share (entitling to exercising 98.96% of votes at the general meeting), for a total price of PLN 43 078 thousand. According to the agreements, the transfer of ownership of the shares was conditioned by the payment of the entire price which was received on the Company's bank account.

In the period from 30 September 2018 to the date of the financial statement no other significant events took place.

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

7. Related party transactions

Transactions with related parties made in the 9-month period of 2018 and 2017 and unsettled balances of receivables and liabilities as at 30 September 2018 and 31 December 2017 are presented in the tables below.

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

	Receivables		Liabilities	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Parent Company and related parties (the Ferrovial Group)	30 518	20 679	83 306	73 553
Subsidiary companies	125 899	105 478	78 337	106 756
Associates	575	289	93	175
Jointly controlled entities	1 706	3 754	779	682
Other related parties*	-	11	-	-
Total	158 698	130 211	162 515	181 166

	Loans granted		Loans taken out	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Parent Company and related parties (the Ferrovial Group)	-	-	8 946	8 698
Subsidiary companies	16 703	13 217	-	-
Associates	70 226	62 451	-	-
Total	86 929	75 668	8 946	8 869

	Sales of finished goods and services		Purchase of finished goods and services	
	9-month period ended 30 September		9-month period ended 30 September	
	2018	2017	2018	2017
Parent Company and related parties (the Ferrovial Group)	363	819	29 973	33 087
Subsidiary companies	493 711	251 822	90 331	78 171
Associates	1 509	802	236	440
Jointly controlled entities	2 113	864	-	-
Other related parties*	-	-	-	-
Total transactions with related parties	497 696	254 307	120 540	111 698

	Finance income		Finance costs	
	9-month period ended 30 September		9-month period ended 30 September	
	2018	2017	2018	2017
Parent Company and related parties (the Ferrovial Group)	-	-	37	44
Subsidiary companies	73 276	52 010	-	-
Associates	2 923	1 370	-	-
Jointly controlled entities	2	-	-	-
Total transactions with related parties	76 201	53 380	37	44

*) Other related parties comprise also entities on which the key management person of the Company or his close relative exercises significant influence.

8. Contingent receivables and contingent liabilities

	30 September 2018	31 December 2017
<u>Contingent receivables</u>		
From related parties, of which:	1 495	15 066
– guarantees and suretyships received	-	2 518
– bills of exchange received as security	1 495	2 548
– other contingent receivables	-	10 000
From other entities	572 491	558 021
– guarantees and suretyships received	568 142	557 169
– bills of exchange received as security	4 349	852
Other contingent receivables	12 000	14 768
Total contingent receivables	585 986	587 855
<u>Contingent liabilities</u>		
To related parties, of which:	326 459	347 754
– guarantees and suretyships issued	326 459	347 754
To other entities, of which:	3 402 828	3 484 000
– guarantees and suretyships issued	3 389 076	3 470 248
– bills of exchange issued as performance bond	13 752	13 752
Other contingent liabilities	134 381	134 381
Total contingent liabilities	(3 863 668)	3 966 135
Total off-balance sheet items	(3 277 682)	(3 378 280)

Contingent receivables represent guarantees issued by banks and other financial institutions to the companies of the Company as security for the potential claims the Company may file against its business partners in respect of the construction contracts in progress.

Contingent liabilities represent guarantees and suretyships issued by banks to business partners of the Company as security for the potential claims they may be filed against the Company in respect of the construction contracts in progress. Banks are entitled to recourse the underlying claims to the Company. Guarantees issued to the Company's customers represent an alternative, to the retentions held, method of securing potential claims of customers.

The bills of exchange issued represent a security for the settlement of liabilities towards the strategic suppliers of the Company, while the bills of exchange received and recognized under contingent assets (receivables) represent security for the repayment by the Company's customers of the amounts due to the Company.

Other contingent liabilities include among others voluntary acceptance of enforcement constituting a security of payment up to the amount of PLN 134 381 thousand due and payable in the case of improper performance of investment obligations and liabilities by Budimex SA under the acquisition agreement concerning shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

President of the Board

Board Member

Dariusz Blocher

Marcin Węglowski

Warsaw, 29 October 2018

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