



BUDIMEX SA

CONDENSED FINANCIAL STATEMENTS

for I quarter of 2019

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

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 (all amounts are expressed in PLN thousand)


Statement of financial position

ASSETS	31 March 2019 <i>unaudited</i>	31 December 2018 <i>audited</i>
Non-currents assets (long-term)		
Property, plant and equipment	194 197	169 160
Investment properties	3 704	3 178
Intangible assets	26 984	28 103
Investments in subsidiaries	690 544	690 544
Investments in associates	61 246	61 246
Investments in other entities	6 417	6 417
Other financial assets	75 722	75 869
Trade and other receivables	20 026	21 807
Retentions for construction contracts	77 231	79 665
Deferred tax assets	333 806	322 025
Total non-current assets (long-term)	1 489 877	1 458 014
Current assets		
Inventories	382 023	308 385
Trade and other receivables	672 606	802 012
Retentions for construction contracts	49 455	47 191
Valuation of construction contracts	662 213	552 306
Current tax assets	21 066	33 081
Other financial assets	14 187	17 055
Cash and cash equivalents	675 295	1 159 595
Total current assets (short-term)	2 476 845	2 919 625
TOTAL ASSETS	3 966 722	4 377 639

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Statement of financial position (cont.)

EQUITY AND LIABILITIES	31 March 2019 <i>unaudited</i>	31 December 2018 <i>audited</i>
Equity		
Issued capital	145 848	145 848
Share premium	80 199	80 199
Other reserves	51 356	51 356
Cumulative translation differences	7 313	7 159
Retained earnings	329 084	322 012
Total equity	613 800	606 574
Liabilities		
Long-term liabilities		
Loans, borrowings and other external sources of finance	99 999	88 171
Retentions for construction contracts	204 459	213 836
Provision for long-term liabilities and other charges	276 201	271 771
Retirement benefits and similar obligations	10 108	10 108
Total long-term liabilities	590 767	583 886
Short-term liabilities		
Loans, borrowings and other external sources of finance	48 770	42 082
Trade and other payables	1 308 400	1 641 899
Retentions for construction contracts	200 242	205 048
Provision for construction contract losses	153 525	159 036
Valuation of construction contracts	546 298	583 918
Deferred income	335 982	378 465
Provisions for current liabilities and other charges	167 192	174 929
Retirement benefits and similar obligations	1 122	1 122
Other financial liabilities	624	680
Total short-term liabilities	2 762 155	3 187 179
Total liabilities	3 352 922	3 771 065
TOTAL EQUITY AND LIABILITIES	3 966 722	4 377 639

Income statement

	Note	3-month period ended 31 March	
		2019	2018
		<i>unaudited</i>	
Continuing operations			
Net sales of finished goods, goods for resale, raw materials and services	3	1 212 197	1 087 484
Cost of finished goods, goods for resale, raw materials and services sold		(1 143 259)	(1 003 806)
Gross profit on sales		68 938	83 678
Selling expenses	3	(2 468)	(2 338)
Administrative expenses	3	(48 473)	(47 715)
Other operating income	4	8 747	10 617
Other operating expenses	4	(5 185)	(6 536)
Operating profit		21 559	37 706
Finance income	5	4 714	57 174
Finance costs	5	(9 194)	(9 222)
Gross profit		17 079	85 658
Income tax		(10 007)	(8 533)
Net profit from continuing operations		7 072	77 125
Net profit for the period		7 072	77 125

Basic and diluted earnings per share attributable to the shareholders (in PLN)

0.28

3.02

Statement of comprehensive income

	3-month period ended 31 March	
	2019	2018
		<i>unaudited</i>
Net profit for the period	7 072	77 125
Other comprehensive income for the period, which:		
<i>Items to be reclassified to profit or loss upon satisfaction of certain conditions: :</i>		
Cumulative translation differences	154	830
Deferred tax related to components of other comprehensive income	-	-
<i>Items not to be reclassified to profit or loss:</i>		
Actuarial gains/(losses)	-	-
Deferred tax related to components of other comprehensive income	-	-
Other comprehensive income, net of tax	154	830
Total comprehensive income for the period	7 226	77 955

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budimex**Statement of changes in equity**

	Issued capital	Share premium	Other reserves	Cumulative translation differences	Retained earnings	Total equity
Balance as at 1 January 2019 <i>audited</i>	145 848	80 199	51 356	7 159	322 012	606 574
Profit for the period	-	-	-	-	7 072	7 072
Other comprehensive income	-	-	-	154	-	154
Total comprehensive income for the period	-	-	-	154	7 072	7 226
Balance as at 31 March 2019 <i>unaudited</i>	145 848	80 199	51 356	7 313	329 084	613 800

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Statement of changes in equity (cont.)

	Issued capital	Share premium	Other reserves	Cumulative translation differences	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	-	-	-	-	77 125	77 125
Other comprehensive income	-	-	-	830	-	830
Total comprehensive income for the period	-	-	-	830	77 125	77 955
Balance as at 31 March 2018 <i>unaudited</i>	145 848	80 199	52 452	6 512	527 120	812 131
Profit for the period	-	-	-	-	244 477	244 477
Other comprehensive income	-	-	(1 096)	647	-	(449)
Total comprehensive income for the period	-	-	(1 096)	647	244 477	244 028
Dividends	-	-	-	-	(449 585)	(449 585)
Balance as at 31 December 2018 <i>audited</i>	145 848	80 199	51 356	7 159	322 012	606 574

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Cash flow statement

	3-month period ended 31 March	
	2019	2018
	<i>unaudited</i>	
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	17 079	85 658
Adjustments for:		
Depreciation/ amortization	15 981	10 142
Foreign exchange (gains)/ losses	(21)	(617)
Interest and shares in profits (dividends)	(5)	(50 955)
(Profit)/ loss on disposal of investments	15	(7)
Change in valuation of derivative financial instruments	2 382	(585)
Change in provisions and liabilities arising from retirement benefits and similar obligations	(3 307)	9 977
Other adjustments	149	854
Operating profit before changes in working capital	32 273	54 467
Change in receivables and retentions for construction contracts	132 349	(11 773)
Change in inventories	(73 638)	(153 468)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	(347 911)	(286 381)
Change in valuation of construction contracts and provision for construction contract losses	(153 038)	(214 313)
Change in deferred income	(42 483)	(34 738)
Change in cash and cash equivalents of restricted use	1 868	6 586
Cash used in operating activities	(450 580)	(639 620)
Income tax paid	(9 773)	(23 886)
NET CASH USED IN OPERATING ACTIVITIES	(460 353)	(663 506)
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of intangible assets and tangible fixed assets	2	164
Purchase of intangible assets and tangible fixed assets	(2 056)	(2 879)
Acquisition of bonds issued by banks	-	(238 868)
Proceeds from bonds issued by banks	-	278 009
Loans granted	-	(18 760)
Repayment of loans granted	600	11 900
Interest received	1 163	2 309
NET CASH FROM / USED IN INVESTING ACTIVITIES	(291)	31 875
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of loans and borrowings	(9 003)	-
Payment of finance lease liabilities	(11 614)	(4 069)
Interest paid	(1 165)	(540)
NET CASH USED IN FINANCING ACTIVITIES	(21 782)	(4 609)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(482 426)	(636 240)
Foreign exchange differences, net	(6)	695
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (note 2.3)	1 136 291	1 639 774
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 2.3)	653 859	1 004 229

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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 Company has an unlimited period of operation.

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. Details of accounting policies adopted by the Company were described in the financial statements of the Company for the year ended 31 December 2018, published on 26 March 2019.

As at 31 March 2019, 31 December 2018 and 31 March 2018 the Company's standalone data as part of the consortia (treated as a joint operation in accordance with IFRS 11), include also participation in assets, liabilities, revenues and costs of the following joint operations:

Joint operation	Share in the share capital and in the number of votes		
	31 March 2019	31 December 2018	31 March 2018
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	99.98%	99.98%	99.98%
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%
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 Energetyka 1 Sp.j.	50.00%	50.00%	50.00%
Budimex SA Energetyka 2 Sp.j.	50.00%	50.00%	50.00%
Budimex SA Energetyka 3 Sp.j.	50.00%	50.00%	50.00%
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%

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

Starting from 1 January 2019 the Company adopted IFRS 16 "Leases" and appropriate changes in accounting principles were presented in paragraph 2.2 of the report.

Apart from the above, the Company for the first time adopted below standards, changes to standards and interpretation:

- 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”.

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

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

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

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

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

In the period covered by the report Budimex SA 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 Company applied the IFRS retrospectively with the cumulative effect of initially applying the standard at the date of initial application. Therefore Budimex SA 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 Company 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 Company presents lease payments using linear method or other systematical basis in profit and lost statement as costs. Budimex SA 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 Company 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 Budimex SA presented the liability as present value of the remaining lease payments, discounted at the marginal interest rate for the Company's lease agreements on the day of the first application. On the other side, the Company presented right-of-use assets equal to value of the lease liability. Due to the fact that Budimex SA 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. 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 Company took advantage of §C9 of IFRS 16 and did not make adjustments to lease agreements in which the underlying assets is of low value. Budimex SA, 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.

Impact of the first application of IFRS 16 on specific items in 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	169 160	29 906	199 066
Investment property	3 306	559	3 865
Equity and Liabilities			
Non-current liabilities			
Loans, borrowings and other external sources of finance	88 171	16 876	105 047
Current liabilities			
Loans, borrowings and other external sources of finance	42 082	13 589	55 671

Average weighted marginal interest rate of the lessee used by the Company for lease liabilities presented in financial statement on the day of first application was equal to 3.01%.

Identifying a lease

At inception of a contract, Budimex SA 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 books

At the commencement date the Company 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 lessee shall measure right-of-use asset, which 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.

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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 Company.

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.

Presentation

Budimex SA 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).

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

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

On the basis of general lease definition the Company 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 financial statement as right-of-use asset.

The right of perpetual usufruct of land utilized for the Company's 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 Company. Budimex SA presents 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 Company'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 Company. Budimex SA presents short and long-term lease liabilities respectively.

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 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.

	31 March 2019	31 December 2018	31 March 2018
Cash recognised in the statement of financial position	675 295	1 159 595	1 038 240
Cash and cash equivalents of restricted use	(21 436)	(23 304)	(34 011)
Cash recognised in the statement of cash flow	653 859	1 136 291	1 004 229

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, 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 31 March 2019 the excess of the current liabilities over the current assets amounted to PLN 285 310 thousand. Taking into consideration good financial position of the Budimex Group related to liquidity, of which the excess of current assets over current liabilities as at 31 March 2019 amounted to PLN 663 281 thousand, the Company's

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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. 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.

Revenues and profitability

	3-month period ended		Change %
	31 March 2019	31 March 2018	
Net sales of finished goods and services	1 212 197	1 087 484	11.47%
Gross profit on sales	68 938	83 678	(17.62%)
Gross profitability on sales	5.69%	7.69%	(2.00 p.p.)
Operating profit	21 559	37 706	(42.82%)
Operating profitability	1.78%	3.47%	(1.69 p.p.)
Net profit	7 072	77 125	(90.83%)
Net profitability	0.58%	7.09%	(6.51 p.p.)

Selling and administrative expenses

	3-month period ended		Change
	31 March 2019	31 March 2018	
Selling expenses	(2 468)	(2 338)	5.56%
Administrative expenses	(48 473)	(47 715)	1.59%
Total selling & administrative expenses	(50 941)	(50 053)	1.78%
Share of selling & administrative expenses in net sales of finished goods and services	4.20%	4.60%	(0.40 p.p.)

4. Other operating income and expenses

Other operating income

	3-month period ended	
	31 March 2019	31 March 2018
Gains on sale of property, plant and equipment and investment property	-	6
Subsidies received	539	-
Reversal of impairment write-downs against receivables	965	449
Reversal of provisions of litigation and compensations	101	-
Reversal of provisions of penalties and sanctions	1 806	5 514
Penalties/ compensations awarded	3 488	3 592
Statute-barred liabilities written-off	1 472	930
Gains on derivative financial instruments	323	100
Other	53	26
Total	8 747	10 617

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Other operating expenses

	3-month period ended	
	31 March 2019	31 March 2018
Loss on sale of property, plant and equipment and investment property	(15)	-
Impairment write-downs against receivables	(1 744)	(1 987)
Compensations and liquidated damages paid	(2 818)	(3 994)
Donations	(187)	(313)
Other	(421)	(242)
Total	(5 185)	(6 536)

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 3 months ended 31 March 2019 and 31 March 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.

5. Finance income and finance costs**Finance income**

	3-month period ended	
	31 March 2019	31 March 2018
Dividends	-	49 000
Interest earned	4 621	8 174
Foreign exchange gains	93	-
Total	4 714	57 174

Finance cost

	3-month period ended	
	31 March 2019	31 March 2018
Cost of bank commissions and guarantees	(5 538)	(6 082)
Discount of retentions for construction contracts	(1 900)	(2 490)
Interest expense	(1 736)	(620)
Foreign exchange losses	-	(30)
Other	(20)	-
Total	(9 194)	(9 222)

6. Other significant information on activity of Budimex SA in the I quarter of 2019**Provisions for liabilities and other charges**

	31 March 2019	31 March 2018
Provisions for litigation proceedings	22 883	22 984
Provisions for penalties and other sanctions	51 159	52 962
Provisions for warranty repairs	369 351	370 754
Total	443 393	446 700
<i>of which:</i>		
- long-term	276 201	271 771
- short-term	167 192	174 929

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Income tax in the profit and loss statement

	31 March 2019	31 March 2018
Income tax – current	(21 788)	(10 918)
Income tax – deferred	11 781	2 385
Income tax in the profit and loss statement	(10 007)	(8 533)

Other information

	3-month period ended	
	31 March 2019	31 March 2018
Value of property, plant and equipment, investment property and intangible assets purchased or started to be leased:	41 357	8 805
- of which: increases due to application of IFRS 16	35 803	-
- of which: plant and machinery	4 335	6 388

As at 31 March 2019 the Company did not have any contractual obligations for the purchase of property, plant and equipment. Contractual obligations made by the Company for the purchase of property, plant and equipment as at 31 December 2018 amounted to PLN 784 thousand.

The scale of operations was larger than in the comparable quarter and had a significant impact on the cash and cash equivalents, which decreased by PLN 484 300 thousand. This effect is observed seasonally because at the end of each financial year public clients pay many invoices or make prepayments, which are settled in the first months of the next year.

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

In the first quarter of 2019 and 2018 net sales of services, goods for resale and raw materials, by type of good or service, were as follows:

Product/service type	3-month period ended	
	31 March 2019	31 March 2018
Sales of construction and assembly services	1 198 007	1 080 890
Sales of other services	12 095	4 604
Sales of goods for resale and raw materials	2 095	1 990
Total sales of goods for resale and raw materials	1 212 197	1 087 484

In the first quarter of 2019 and 2018 net sales of services, goods for resale and raw materials, by geographical area, were as follows:

Region	3-month period ended	
	31 March 2019	31 March 2018
Poland	1 144 126	1 035 988
Germany	43 318	38 886
Other EU countries	24 753	12 610
Total sales of finished goods, goods for resale, raw materials and services	1 212 197	1 087 484

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In the first quarter of 2019 and 2018 net sales of services, goods for resale and raw materials by type of construction was as follows:

Type of construction	3-month period ended	
	31 March 2019	31 March 2018
Land-engineering	447 706	352 213
Railway	150 985	62 342
General construction, of which:	599 316	666 335
- non-residential	469 667	482 947
- residential	129 649	183 388
Other	14 190	6 594
Total sales of finished goods, goods for resale, raw materials and services	1 212 197	1 087 484

8. Related party transactions

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

	Receivables		Liabilities	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Parent Company and related parties (the Ferrovial Group)	1 490	1 490	43 650	33 333
Subsidiary companies	114 994	145 865	9 852	20 689
Associates	-	289	144	121
Jointly controlled entities	3 302	4 891	710	696
Other related parties*	6	14	-	-
Total	119 792	152 549	54 356	54 839

	Loans granted		Loans taken out	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Parent Company and related parties (the Ferrovial Group)	-	-	-	9 019
Subsidiary companies	13 744	14 324	-	-
Associates	74 146	74 145	-	-
Total	87 890	88 469	-	9 019

	Sales of finished goods and services		Purchase of finished goods and services	
	3-month period ended 31 March		3-month period ended 31 March	
	2019	2018	2019	2018
Parent Company and related parties (the Ferrovial Group)	-	50	10 415	11 373
Subsidiary companies	155 033	139 565	11 237	26 606
Associates	71	72	115	74
Jointly controlled entities	139	270	-	-
Other related entities – through key personnel*	-	-	2	-
Total transactions with related parties	155 243	139 957	21 769	38 053

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	Finance income		Finance costs	
	3-month period ended 31 March		3-month period ended 31 March	
	2019	2018	2019	2018
Parent Company and related parties (the Ferrovia Group)	-	-	12	12
Subsidiary companies	137	49 143	-	-
Associates	1 046	915	-	-
Total transactions with related parties	1 183	50 058	12	12

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

Transactions are made on an arm's length basis.

9. Description of significant achievements or failures of Budimex SA in the I quarter of 2019, key events concerning the Company's operations and significant events after 31 March 2019

In the first quarter of 2019 the results of Budimex SA were weaker than in the corresponding period of the previous year. The drop in profitability resulted mainly from the progressive cost inflation in the construction industry. Budimex SA 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 recently translated into worsening margins, especially on contracts signed 2-3 years ago.

The order portfolio of Budimex SA is profitable and ensures adequate workload for subsequent quarters. In the first quarter of 2019 a contract was signed for "Modernization of railway line No. 7 on the section Dęblin - Nałęczów from km 107.283 to km 146.320", which will translate into a better use of production capacity in the railway segment this year.

The cash position of the Company is stable and allows for uninterrupted operation; consequently, earlier payments to subcontractors and suppliers are offered.

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

On 24 April 2019 Budimex SA sold its only investment property, located at ul. Ujastek in Kraków, to an associated company of Promos Sp. z o.o. for PLN 6 300 thousand net. The result of the transaction will be settled in the books of Budimex SA in April 2019.

In the period after 31 March 2019 to the date of the financial statement no other significant events took place.

10. Proceedings pending as at 31 March 2019 before court, competent arbitration body or any public administration authority

The total value of legal proceedings pending in respect of liabilities and receivables as at 31 March 2019 was PLN 301 432 thousand. Excess of the value of proceedings against Budimex SA over proceedings relating to claims of the Company amounted to PLN 113 910 thousand.

On the basis of the information at hand, the total value of legal proceedings pending in respect of liabilities of Budimex SA and subsidiaries as at 31 March 2019 was PLN 207 671 thousand. The proceedings pending in respect of Budimex SA relate to the operating activities of the Company.

The largest claim in dispute was submitted on 24 July 2017 by Muzeum Śląskie in Katowice 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

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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.

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.

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

The total value of legal proceedings pending in respect of claims of Budimex SA amounted to PLN 93 761 thousand as at 31 March 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 this report, the final outcome of the proceedings is not known.

11. Contingent receivables and contingent liabilities

	31 March 2019	31 December 2018
<u>Contingent receivables</u>		
From related parties, of which:	1 693	1 693
– bills of exchange received as security	1 693	1 693
From other entities	554 284	556 742
– guarantees and sureties received	549 436	552 442
– bills of exchange received as security	4 848	4 300
Other contingent receivables	-	12 000
Total contingent receivables	555 977	570 435
<u>Contingent liabilities</u>		
To related parties, of which:	317 608	326 116
– guarantees and sureties issued	317 608	326 116
To other entities, of which:	3 297 432	3 296 811
– guarantees and sureties issued	3 279 109	3 284 159
– promissory notes issued as performance bond	18 323	12 652
Total contingent liabilities	3 615 040	3 622 927
Total off-balance sheet items	(3 059 063)	(3 052 492)

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Contingent assets arising from guarantees and sureties represent guarantees issued by banks or other entities in favour of Budimex SA serving as security for the Company'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 Company to secure their claims against the Company that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Budimex SA under these guarantees. Guarantees issued to the investors of the Company represent an alternative, to the retentions held, method of securing potential investor claims relating to construction contracts. At the same time, the risk relating to warranty repairs assessed by the Management Board of the Company as probable was appropriately reflected in the warranty repair provision, as described in note 6 to these condensed financial statements.

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

At Budimex SA, customs and tax audit is currently carried out with regard to the reliability of the declared tax bases and the correctness of calculating and paying corporate income tax for 2012. The subject of the audit are, in particular, intangible services acquired by the Company, as well as the acquisition of PNI Sp. z o.o., consequences of the bankruptcy of the company and the sale of its shares to Budimex Kolejnictwo SA. In the opinion of the Management Board of Budimex SA, the transactions were settled correctly. At the time of preparing these financial statements, the result of the audit has not been issued. Another tax audit regarding the correctness of the calculation of corporate income tax for 2013 was started. As of today, the initial verification of the Company's books is under way.

Management Board Member

Management Board Member

Jacek Daniewski

Marcin Węglowski

Warsaw, 26 April 2019