



THE BUDIMEX GROUP

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for III quarters of 2016

**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	11
3.1. Accounting policies and basis of preparing the consolidated financial statements of the Budimex Group	11
3.2. Changes in accounting principles and the method of preparation of financial statements	13
3.3. Translation of selected financial data into euro	13
3.4. Cash recognised in the cash flow statement.....	13
4. Descriptions of factors and events which had a material effect on the financial result of the Budimex Group for the three quarters of 2016	14
5. Operating segments	16
6. Related party transactions.....	18
7. Factors which will affect results achieved by the Group in a period covering at least the next quarter	19
8. The main events in the third quarter of 2016 and significant events after 30 September 2016	19
9. Issue, redemption and repayment of debt and equity securities.....	20
10. 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 quarterly report in relation to the projected results.....	20
11. 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 third quarter of 2016.....	20
12. Proceedings pending as at 30 September 2016 before court, competent arbitration body or any public administration authority	21
13. Contingent assets and contingent liabilities	23

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of financial position

ASSETS	30 September 2016	31 December 2015
Non-current (long-term) assets		
Property, plant and equipment	102 547	83 248
Investment properties	24 718	63 410
Intangible assets	22 615	4 000
Goodwill of subordinates entities	73 237	73 237
Investments in equity accounted entities	44 981	45 762
Available-for-sale financial assets	9 396	9 247
Retentions for construction contracts	22 295	20 388
Trade and other receivables	36 303	34 909
Receivables from service concession arrangement	45 992	45 688
Other financial assets	6 860	396
Deferred tax asset	479 285	440 922
Total non-current (long-term) assets	868 229	821 207
Current (short-term) assets		
Inventories	1 093 821	867 581
Trade and other receivables	612 991	420 558
Retentions for construction contracts	22 578	16 276
Amounts due and receivable from customers under construction contracts	508 855	171 763
Current tax assets	46	421
Other financial assets	568	2 432
Cash and cash equivalents	2 265 723	2 413 126
Total current (short-term) assets	4 504 582	3 892 157
TOTAL ASSETS	5 372 811	4 713 364

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
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Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	30 September 2016	31 December 2015
Equity		
Issued capital	145 848	145 848
Share premium	87 163	87 163
Other reserves	4 623	4 801
Foreign exchange differences on translation of foreign operations	5 205	5 425
Retained earnings	399 245	355 969
Shareholders' equity attributable to the shareholders of the Parent	642 084	599 206
Equity attributable to non-controlling interests	4 420	3 918
Total equity	646 504	603 124
Liabilities		
Non-current (long-term) liabilities		
Loans, borrowings and other external sources of finance	52 576	44 563
Retentions for construction contracts	219 751	207 239
Provision for long-term liabilities and other charges	203 972	181 691
Retirement benefits and similar obligations	7 657	7 657
Other financial liabilities	3 494	3 076
Total non-current (long-term) liabilities	487 450	444 226
Current (short-term) liabilities		
Loans, borrowings and other external sources of finance	18 263	19 778
Trade and other payables	1 492 391	1 135 894
Retentions for construction contracts	154 616	168 033
Amounts due and payable to customers under construction contracts	1 342 371	1 239 940
Deferred income	981 191	896 448
Provision for short-term liabilities and other charges	179 977	135 565
Current tax liabilities	67 569	67 568
Retirement benefits and similar obligations	1 350	1 350
Other financial liabilities	1 129	1 438
Total current (short-term) liabilities	4 238 857	3 666 014
Total liabilities	4 726 307	4 110 240
TOTAL EQUITY AND LIABILITIES	5 372 811	4 713 364

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated income statement

	9-month period ended 30 September		3-month period ended 30 September	
	2016	2015	2016	2015
Continuing operations				
Net sales of finished goods, goods for resale and raw materials	4 119 008	3 743 040	1 689 308	1 474 800
Cost of finished goods, goods for resale and raw materials sold	(3 623 592)	(3 384 164)	(1 494 166)	(1 329 986)
Gross profit on sales	495 416	358 876	195 142	144 814
Selling expenses	(22 898)	(20 623)	(8 151)	(6 726)
Administrative expenses	(148 480)	(134 095)	(49 219)	(42 557)
Other operating income	32 918	32 612	6 012	3 993
Other operating expenses	(47 933)	(37 830)	(13 031)	(29 360)
Operating profit	309 023	198 940	130 753	70 164
Finance income	31 801	29 784	8 127	7 960
Finance costs	(26 545)	(22 568)	(8 069)	(9 635)
Share in net (losses) of equity accounted subordinates	(781)	(2 871)	(257)	197
Gross profit	313 498	203 285	130 554	68 686
Income tax	(61 905)	(41 566)	(25 479)	(14 032)
Net profit from continuing operations	251 593	161 719	105 075	54 654
Net profit for the period	251 593	161 719	105 075	54 654
<i>Of which:</i>				
Attributable to the shareholders of the Parent	251 091	161 155	105 024	54 560
<i>Attributable to non-controlling interests</i>	<i>502</i>	<i>564</i>	<i>51</i>	<i>94</i>
<i>Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)</i>	<i>9.84</i>	<i>6.31</i>	<i>4.11</i>	<i>2.14</i>

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of comprehensive income

	9-month period ended 30 September		3-month period ended 30 September	
	2016	2015	2016	2015
Net profit for the period	251 593	161 719	105 075	54 654
Other comprehensive income, which:				
<i>Items to be reclassified to profit or loss upon satisfaction of certain conditions:</i>				
Foreign exchange differences on translation of foreign operations	(220)	52	(257)	84
Other comprehensive income	(220)	52	(257)	84
Total comprehensive income for the period	251 373	161 771	104 818	54 738
<i>Of which:</i>				
Attributable to the shareholders of the Parent	250 871	161 207	104 767	54 644
<i>Attributable to non-controlling interests</i>	<i>502</i>	<i>564</i>	<i>51</i>	<i>94</i>

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of changes in equity

	Equity attributable to the shareholders of the Parent						Non-controlling interests	Total equity	
	Issued capital	Share premium	Other reserves		Foreign exchange differences on translation of foreign operations	Retained earnings			
			Share-based payments	Actuarial gains/(losses)					
						Total			
Balance as at 1 January 2016	145 848	87 163	7 349	(2 548)	5 425	355 969	599 206	3 918	603 124
Profit for the period	-	-	-	-	-	251 091	251 091	502	251 593
Other comprehensive income	-	-	-	-	(220)	-	(220)	-	(220)
Total comprehensive income for the period	-	-	-	-	(220)	251 091	250 871	502	251 373
Dividends	-	-	-	-	-	(207 815)	(207 815)	-	(207 815)
Share-based payments	-	-	(178)	-	-	-	(178)	-	(178)
Balance as at 30 September 2016	145 848	87 163	7 171	(2 548)	5 205	399 245	642 084	4 420	646 504

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
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						Total	Non-controlling interests	Total equity
	Issued capital	Share premium	Other reserves		Foreign exchange differences on translation of foreign operations	Retained earnings			
			Share-based payments	Actuarial gains/(losses)					
Balance as at 1 January 2015	145 848	87 163	6 712	(1 896)	5 326	276 112	519 265	3 244	522 509
Profit for the period	-	-	-	-	-	161 155	161 155	564	161 719
Other comprehensive income	-	-	-	-	52	-	52	-	52
Total comprehensive income for the period	-	-	-	-	52	161 155	161 207	564	161 771
Dividends	-	-	-	-	-	(155 989)	(155 989)	-	(155 989)
Share-based payments	-	-	467	-	-	-	467	-	467
Balance as at 30 September 2015	145 848	87 163	7 179	(1 896)	5 378	281 278	524 950	3 808	528 758
Profit for the period	-	-	-	-	-	74 691	74 691	110	74 801
Other comprehensive income	-	-	-	(652)	47	-	(605)	-	(605)
Total comprehensive income for the period	-	-	-	(652)	47	74 691	74 086	110	74 196
Share-based payments	-	-	170	-	-	-	170	-	170
Balance as at 31 December 2015	145 848	87 163	7 349	(2 548)	5 425	355 969	599 206	3 918	603 124

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows

	9-month period ended 30 September	
	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	313 498	203 285
Adjustments for:		
Depreciation/ amortisation	18 855	16 748
Share in net (profits)/losses of equity accounted subordinates	781	2 871
Foreign exchange (gains)/ losses	(109)	(304)
Interest and shares in profits (dividends)	1 109	151
(Profit)/ loss on investing activities	1 849	(14 191)
Change in valuation of derivative financial instruments	466	(2 178)
Change in provisions and liabilities arising from retirement benefits and similar obligations	66 693	41 871
Other adjustments	(107)	460
Operating profit before changes in working capital	403 035	248 713
Change in receivables and retentions for construction contracts	(215 220)	(183 212)
Change in inventories	(187 837)	(233 933)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	351 960	325 239
Change in deferred income	84 743	341 025
Change in amounts due and receivable under construction contracts	(234 661)	(86 470)
Change in cash and cash equivalents of restricted use	3 196	(178 980)
Cash flow from operating activities	205 216	232 382
Income tax paid	(100 469)	(66 506)
NET CASH FROM OPERATING ACTIVITIES	104 747	165 876

(all amounts are expressed in PLN thousand)

Consolidated statement of cash flows(cont.)

	9-month period ended 30 September	
	2016	2015
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of intangible assets and property, plant and equipment	432	1 325
Proceeds from sale of assets held for sale	-	14 000
Purchase of intangible assets and property, plant and equipment	(25 182)	(13 749)
Purchase of investment property	-	(38 788)
Purchase of shares in subsidiaries and associates	(150)	(188)
Loans granted	(6 860)	(21 260)
Interest received	1 879	324
Dividends received	7	-
NET CASH USED IN INVESTING ACTIVITIES	(29 874)	(58 336)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of loans and borrowings	(675)	(370)
Dividends paid	(207 815)	(155 989)
Payments of liabilities under finance lease	(8 918)	(9 600)
Interest paid	(1 394)	(1 455)
Other finance expenditure	(490)	(465)
NET CASH USED IN FINANCING ACTIVITIES	(219 292)	(167 879)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(144 419)	(60 339)
Foreign exchange differences, net	212	257
CASH AND CASH EQUIVALENTS – OPENING BALANCE (note 3.4)	2 184 077	1 726 690
CASH AND CASH EQUIVALENTS – CLOSING BALANCE (note 3.4)	2 039 870	1 666 608

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
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 construction-assembly services realized in the system of general execution at home and abroad, developer activities, property management, and limited scope trading, production 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 September 2016, 31 December 2015 and 30 September 2015 the following subsidiaries were subject to consolidation:

Company name	Registered office	% in the share capital as at		
		30 September 2016	31 December 2015	30 September 2015
Mostostal Kraków SA	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%
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. *	Warsaw / Poland	-	100.00%	100.00%
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	100.00%
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Elektromontaż Poznań SA Group	Poznań / Poland	92.31%	92.31%	92.31%

* the company merged with Budimex Nieruchomości Sp. z o.o. on 14 April 2016.

Stand-alone data of Budimex SA and other Group companies, which are partners in consortiums (treated as joint operations according to IFRS 11), includes their share in assets, liabilities, revenue and expenses of the following joint operations:

Consortium name	share
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	100.00%
Budimex SA Energetyka 1 Sp.j.	100.00%
Budimex SA Ferrovia Agroman SA s.c.	99.98%
Budimex SA Sygnity SA Sp. j.	67.00%
Budimex SA Cadagua SA III s.c.	60.00%
Budimex SA Cadagua SA IV s.c.	60.00%
Budimex SA Ferrovia Agroman SA Sp. j.	50.00%
Budimex SA Cadagua SA II s.c.	50.00%
Budimex SA Tecnicas Reunidas SA Turów s.c.	50.00%
Budimex SA Energetyka 2 Sp.j.	50.00%
Budimex SA Energetyka 3 Sp.j.	50.00%

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
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1.3. Description of the changes in the composition of the Group together with the indication of their consequences

In the 9-month period ended 30 September 2016 three new companies were created: Budimex SA Cadagua SA III s.c., Budimex SA Cadagua SA IV s.c. and Budimex Inwestycje Grunwald SA. The financial data of the newly formed civil law partnerships was included in the standalone data of Budimex SA. Budimex Inwestycje Grunwald SA was not consolidated due to immateriality of its financial data.

Budimex SA Ferrovial Agroman (UK) Limited – Metro II Sp. j. was dissolved without liquidation and deleted from the National Court Register on 13 April 2016 due to lack of planned economic activity.

Budimex SA Cadagua SA s.c. was liquidated and deleted from relevant registers on 23 August 2016. The company did not start any economic activity since the moment of its creation.

The joint venture Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. in liquidation was liquidated in accordance with the decision of the General Meeting of Shareholders on 14 October 2016. The company finished its operating activity due to the realization of the project for which it had been formed. Currently, the company is being deleted from the National Court Register. The event did not influence the consolidated financial statements of the Budimex Group for three quarters of 2016.

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 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 SA Group company (Spain)	ordinary	15 078 159	59.06%	15 078 159	59.06%
Aviva OFE Aviva BZ WBK	ordinary	1 720 000	6.74%	1 720 000	6.74%
Other shareholders	ordinary	8 731 939	34.20%	8 731 939	34.20%
Total		25 530 098	100.00%	25 530 098	100.00%

The above presented data has not changed in comparison to the status presented in the interim financial statements of the Group published on 30 August 2016.

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 2015, published on 14 March 2016.

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 have been noted that would indicate a threat to ability to continue as a going concern.

Amendments to standards effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board („IASB”) and adopted by the EU are effective for the current period:

- **Amendments to IFRS 11 „Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations, endorsed in the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 „Presentation of Financial Statements”** – Disclosure Initiative, endorsed in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 „Property, plant and equipment” and IAS 41 „Agriculture”** – Bearer Plants, endorsed in the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 „Property, plant and equipment” and IAS 38 „Intangible Assets”** – Clarification of Acceptable Methods of Depreciation and Amortization, endorsed in the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to 19 „Employee Benefits”** – Defined Benefit Plans: Employee Contributions, endorsed in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to 27 „Separate Financial Statements”** – Equity Method in Separate Financial Statements, endorsed in the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Annual Improvements to IFRSs (Cycle 2010-2012)** – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38, mainly with a view to removing inconsistencies and ensuring wording clarification; endorsed in the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **„Annual Improvements to IFRSs (Cycle 2012-2014)”** – improvements to IFRS 5, IFRS 7, IAS 19 and IAS 34, mainly with a view to removing inconsistencies and ensuring wording clarification, endorsed in the EU on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 „Consolidated Financial Statements”, IFRS 12 „Disclosure of Interests in Other Entities” and IAS 28 „Investments in Associates and Joint Ventures”** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any changes in the Group’s accounting policies.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards and amendments to the existing standards, which were not endorsed for use as at the report date:

- **IFRS 9 „Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 „Regulatory Deferral Accounts”** (the EU has decided to suspend the endorsement process),
- **IFRS 15 „Revenue from Contracts with Customers” and Amendments to IFRS 15** - Effective date of IFRS 15 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 „Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”** (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** – Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018),
- **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 EU has suspended the endorsement process for an indefinite period of time),
- **Amendments to IAS 7 „Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 „Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Clarifications to IFRS 15 „Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2018).

The Group estimates that the application of IFRS 16 „Leases” may, to some extent, increase both its non-current assets and its financial liabilities, which will influence some financial ratios. At the same time, positive impact on operating result and negative impact on the result from financing activities are expected. These changes are, however, to offset so that the implementation of IFRS 16 will not bear any material impact on Group’s net result. The remaining standards and amendments or improvements would not have any material impact on the condensed consolidated financial statements, had these been used by the Group at the reporting date.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Group’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the reporting date.

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

In the reporting period there were no changes in the accounting principles and the method of preparation of financial statements compared to those disclosed in the consolidated financial statements of the Budimex Group for the financial year 2015, published on 14 March 2016.

3.3. Translation of selected financial data into euro

Selected financial data was translated into euro in accordance with the following rules:

- individual asset and liability items – using the average exchange rate prevailing as at 30 September 2016 – 4.3120 PLN/EUR,
- individual profit and loss account and statement of cash flow items for the period of 9 months of 2016 – using the exchange rate being an arithmetic average of average exchange rates established by the National Bank of Poland for the last day of each ended month for the period from 1 January 2016 to 30 September 2016 – 4.3688 PLN/EUR,
- individual asset and liability items of comparative financial data for the year 2015 – using the average exchange rate prevailing as at 31 December 2015 – 4.2615 PLN/EUR,
- individual profit and loss account and statement of cash flow items of comparative financial data for the period of 9 months of 2015 - using the exchange rate being an arithmetic average of average exchange rates established by the National Bank of Poland for the last day of each ended month for the period from 1 January 2015 to 30 September 2015 – 4.1585 PLN/EUR.

3.4. 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 and funds kept in escrow by developer companies, provided their maturity does not exceed 3 months) 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 2016	31 December 2015	30 September 2015
Cash recognised in the statement of financial position	2 265 723	2 413 126	1 950 550
Cash and cash equivalents of restricted use	(225 853)	(229 049)	(283 942)
Cash recognised in the statement of cash flow	2 039 870	2 184 077	1 666 608

4. Descriptions of factors and events which had a material effect on the financial result of the Budimex Group for the three quarters of 2016

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 9-month period ended 30 September 2016, the Budimex Group earned sales revenue of PLN 4 119 008 thousand which means a 10.04% increase on the corresponding period of 2015. The Budimex Group's sales revenue in the third quarter amounted to PLN 1 689 308 thousand and was higher by PLN 701 654 thousand (71.04%) compared to the sales revenue earned in the first quarter of 2016 and higher by PLN 247 262 thousand (17.15%) compared to the sales revenue earned in the second quarter of 2016. Compared to the corresponding quarter of the previous year the sales revenue in the third quarter of the current year was higher by PLN 214 508 thousand (14.54%).

In the period of three quarters of 2016 construction-assembly production in Poland expressed in current prices decreased by 15,4% compared to the corresponding period of the prior year (a decrease by 14.9% in fixed prices), while sales of the construction segment of the Budimex Group on the home market were up by 10.86% on the corresponding periods.

Gross profit on sales in the 9-month period ended 30 September 2016 was PLN 495 416 thousand, while in the corresponding period of the prior year was PLN 358 876 thousand. The gross sales profitability ratio was therefore 12.03% for three quarters of 2016, while in the corresponding period of the prior year was 9.59%. The gross sales profitability ratio in the third quarter of 2016 amounted to 11.55%, while in the corresponding period of the prior year was 9.82%.

In the 9-month period ended 30 September 2016 gross profit on sales in the construction segment amounted to PLN 440 691 thousand and was higher by PLN 123 670 thousand compared to the corresponding period of the prior year and gross sales profitability ratio of construction segment for the 9-month period ended 30 September 2016 was 10.95% (8.71% in the corresponding period of 2015). In turn, gross profit on sales in the developer segment in the 9-month period ended 30 September 2016 was PLN 51 517 thousand, while in the corresponding period of the prior year it amounted to PLN 40 181 thousand. Gross sales profitability ratio of the developer segment decreased from 24.80% in the 9-month period ended 30 September 2015 to 24.65% in the corresponding period of the current year.

In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Amounts due and payable to customers under construction contracts“. As at 30 September 2016, the balance of the provision for contract losses amounted to PLN 536 697 thousand. In the 9-month period ended 30 September 2016, the balance of provision for contract losses decreased by PLN 92 992 thousand. In the third quarter the balance of provision for contract losses decreased by PLN 33 028 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 September 2016 the provision for warranty amounted to PLN 283 330 thousand. In the 9-month period ended 30 September 2016 the balance of the provision for warranty increased by PLN 57 427 thousand, while in the third quarter it increased by PLN 44 558 thousand.

Selling expenses increased in the 9-month period ended 30 September 2016 by PLN 2 275 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 14 385 thousand higher than expenses incurred in the corresponding period of 2015. The share of selling and administrative expenses in total sales increased from 4.13% for the period of 9 months of 2015 up to 4.16% for the period of 9 months of 2016.

Other operating income for the 9-month period ended 30 September 2016 was PLN 32 918 thousand (PLN 32 612 thousand for the three quarters of 2015) and comprised: income from compensations and contractual penalties received in the amount of PLN 17 388 thousand (of which PLN 3 239 thousand in the third quarter), income from reversal of provisions for claims amounted to PLN 6 189 thousand (of which PLN 679 thousand in the third quarter), income from reversal of provisions for lawsuits in the amount of PLN 2 766 thousand (of which PLN 155 thousand in the third quarter) and income from the reversal of the impairment write-downs against receivables in the amount of PLN 3 961 thousand (of which PLN 1 582 thousand in the third quarter). Income from reversal of the impairment

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

write-downs against inventories amounted to PLN 975 thousand (of which PLN 82 thousand in the third quarter). Additionally, in the period of three quarters of 2016 Group companies disposed of tangible fixed assets and earned profit on sale of PLN 319 thousand (of which minus PLN 15 thousand in the third quarter). The net book value of the tangible fixed assets sold in the period of three quarters of 2016 was PLN 18 thousand (PLN 18 thousand in the third quarter).

Other operating expenses for the 9-month period ended 30 September 2016 amounted to PLN 47 933 thousand (PLN 37 830 thousand for the corresponding period of the prior year), of which PLN 17 655 thousand related to the costs of created provisions for compensations and contractual penalties (of which PLN 6 855 thousand in the third quarter) and PLN 10 682 thousand – the value of compensations and contractual penalties paid (of which PLN 4 965 thousand in the third quarter). The created impairment write-downs against receivables was PLN 11 935 thousand (of which minus PLN 636 thousand in the third quarter) and the impairment write-down against fixed assets was PLN 1 677 thousand (cost created entirely in the third quarter). The loss on valuation and realization of FX forward and FX option derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 2 570 thousand (of which the gain in the amount of PLN 942 thousand in the third quarter).

The reported operating profit of the Group in the period of three quarters of 2016 was PLN 309 023 thousand, while in the period of three quarters of 2015 it was PLN 198 940 thousand (an increase by 55.33%). The operating profit for the third quarter of 2016 represented 7.74% of sales revenue value, while for the corresponding period of the prior year it constituted 4.76% of sales revenue.

In the 9-month period ended 30 September 2016 the Group generated profit on financing activities in the amount of PLN 5 256 thousand, while in the same period of the prior year it reported a profit in the amount of PLN 7 216 thousand. Finance income for three quarters of 2016 represented interest of PLN 29 336 thousand (of which PLN 7 971 thousand gained in the third quarter only), a gain on valuation of interest rate swap derivative instrument contracts (made with a view to limiting the interest risk) in the amount of PLN 11 thousand (of which PLN 131 thousand in the third quarter), reversal of discounting of long-term receivables in the amount of PLN 267 thousand (of which PLN 17 thousand in the third quarter) and valuation of concession receivables amounting to PLN 2 178 thousand (of which PLN 728 thousand in the third quarter).

Finance costs in three quarters of 2016 represented, among others, interest costs of PLN 2 452 thousand (of which PLN 821 thousand of interest costs was incurred in the third quarter only), bank commissions on guarantees and loans of PLN 18 033 thousand paid by Group companies (of which commissions for the third quarter only amounted to PLN 6 037 thousand), costs from discounting of long-term retention receivables and liabilities of PLN 5 394 thousand (of which PLN 1 015 thousand were incurred in the third quarter only) and losses incurred on realization of interest rate swap derivative instrument contracts in the amount of PLN 490 thousand (of which PLN 164 thousand in the third quarter).

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 9 months ended 30 September 2016, 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.

In the 9-month period ended 30 September 2016, the Group reported a gross profit of PLN 313 498 thousand, while in the corresponding period of the prior year – a gross profit of PLN 203 285 thousand (an increase by 54.22%).

Income tax for the 9-month period ended 30 September 2016 was PLN 61 905 thousand (PLN 41 566 thousand for the 9 months of 2015), of which:

- current tax was PLN 100 272 thousand,
- deferred tax was PLN (38 367) thousand.

As at 30 September 2016, the Group recognized a deferred tax asset in the amount of PLN 479 285 thousand, while as at 31 December 2015 – PLN 440 922 thousand. The reported statement of financial position items of deferred tax asset result mainly from a special method of settlement of construction contracts, under which the moment of recognition of costs as incurred and revenue as realized are different from the tax and accounting perspectives.

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



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

The net profit attributable to the shareholders of the Budimex Group for three quarters of 2016 was PLN 251 091 thousand, while the net profit attributable to the shareholders of the Budimex Group for the corresponding period of 2015 was PLN 161 155 thousand (an increase by 55.81%).

The net profit attributable to non-controlling interest for three quarters of 2016 amounted to PLN 502 thousand, while the net profit attributable to non-controlling interest for the third quarter only amounted to PLN 51 thousand. In the corresponding periods of 2015, the net profit attributable to non-controlling interest was equal to PLN 564 thousand and PLN 94 thousand, respectively.

In the 9-month period ended 30 September 2016, the Group purchased and started to lease property, plant and equipment, investment property and intangible assets with a total value of PLN 43 871 thousand (in the third quarter of 2016 – PLN 17 236 thousand), of which plant and machinery accounted for PLN 23 896 thousand (in the third quarter of 2016 – PLN 6 337 thousand).

5. 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 realized by the following Group companies:

- Budimex SA
- Mostostal Kraków SA
- 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-BN 1 Sp. z o.o.
- Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. (until the merger with Budimex Nieruchomości on 14 April 2016),
- Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. (until the merger with Budimex Nieruchomości on 27 May 2015),
- 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 production, service, trading activities or public-private partnerships.

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
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 9-month period of 2016 are presented in the table below:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated value
External sales	3 792 521	208 197	118 290	-	4 119 008
Inter-segment sales	233 719	805	6 260	(240 784)	-
Total sales of finished goods, goods for resale and raw materials	4 026 240	209 002	124 550	(240 784)	4 119 008
Gross profit on sales	440 691	51 517	16 884	(13 676)	495 416
Selling expenses	(8 098)	(11 200)	(3 642)	42	(22 898)
Administrative expenses	(137 992)	(12 488)	(4 086)	6 086	(148 480)
Other operating income/(expenses), net	(15 800)	78	707	-	(15 015)
Operating profit	278 801	27 907	9 863	(7 548)	309 023
Finance income, net	1 486	3 338	432	-	5 256
Shares in net (losses) of equity accounted subordinates	(6)	-	(775)	-	(781)
Income tax	(55 565)	(5 962)	(1 810)	1 432	(61 905)
Net profit for the period	224 716	25 283	7 710	(6 116)	251 593

The results of segments for the 9-month period of 2015 are presented in the table below:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated value
External sales	3 460 162	161 091	121 787	-	3 743 040
Inter-segment sales	179 218	903	7 376	(187 497)	-
Total sales of finished goods, goods for resale and raw materials	3 639 380	161 994	129 163	(187 497)	3 743 040
Gross profit on sales	317 021	40 181	16 467	(14 793)	358 876
Selling expenses	(7 683)	(9 864)	(3 112)	36	(20 623)
Administrative expenses	(125 070)	(9 767)	(3 733)	4 475	(134 095)
Other operating income/(expenses), net	(14 621)	11 963	(2 560)	-	(5 218)
Operating profit	169 647	32 513	7 062	(10 282)	198 940
Finance income, net	1 978	3 810	1 428	-	7 216
Shares in net (losses) of equity accounted subordinates	(6)	-	(2 865)	-	(2 871)
Income tax	(36 408)	(6 978)	(131)	1 951	(41 566)
Net profit for the period	135 211	29 345	5 494	(8 331)	161 719

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards



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

6. Related party transactions

Transactions with related parties made in the 9-month periods ended 30 September 2016 and 30 September 2015 and unsettled balances of receivables and liabilities as at 30 September 2016 and 31 December 2015 are presented in the tables below:

	Receivables		Liabilities	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Parent Company and related parties (the Ferrovial Group)	20 335	22 111	98 288	100 925
Jointly-controlled entities	839	1 321	668	882
Associates	139	212	815	1 236
Other related entities – non-consolidated subsidiaries*	3	20	702	746
Other related entities – other*	8	3	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	21 324	23 667	100 473	103 789

	Loans granted / acquired debt securities		Loans taken out / issued debt securities	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Parent Company and related parties (the Ferrovial Group)	-	-	8 917	8 760
Jointly-controlled entities	-	-	-	-
Associates	6 860	1 549	-	-
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	6 860	1 549	8 917	8 760

	Sales of finished goods and services		Purchase of finished goods and services	
	9-month period ended		9-month period ended	
	30 September 2016	2015	30 September 2016	2015
Parent Company and related parties (the Ferrovial Group)	6 939	47 449	(31 925)	(69 837)
Jointly-controlled entities	508	535	-	-
Associates	527	512	(4 857)	(4 955)
Other related entities – non-consolidated subsidiaries*	208	-	(1)	-
Other related entities – other*	-	272	-	(1 912)
Other related entities – through key personnel*	-	-	(15)	-
Total transactions with related parties	8 182	48 768	(36 798)	(76 704)

	Finance income		Finance costs	
	9-month period ended		9-month period ended	
	30 September 2016	2015	30 September 2016	2015
Parent Company and related parties (the Ferrovial Group)	-	-	(54)	(297)
Jointly-controlled entities	-	-	-	-
Associates	252	1 347	-	-
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total transactions with related parties	252	1 347	(54)	(297)

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

*) 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.

7. Factors which will affect results achieved by the Group in a period covering at least the next quarter

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

- instability on the financial markets,
- higher demand for subcontractors' services, which might have influence on quality and timeliness of the works performed,
- fluctuations of exchange rates, which have the impact on the sales revenue, operating costs and result of the valuation and realisation of derivative financial instrument contracts,
- price level of material and construction services affecting the amount of direct costs of realised contracts,
- 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 12 to these consolidated financial statements,
- availability of qualified employees,
- level of competition in public tenders,
- legislative changes affecting the pace of spending of EU funds and the level of competitiveness of general contractors.

As at 30 September 2016 the backlog was PLN 8 700 555 thousand. The value of contracts signed between January and September 2016 was PLN 4 135 557 thousand. The number of pre-sold apartments in the period from January - September 2016 (without booking) is 1 121 units.

8. The main events in the third quarter of 2016 and significant events after 30 September 2016

In the third quarter of 2016 the Budimex Group companies were notified about the selection of their offer or entered into the following significant contracts:

Significant contracts:

Date of the first current report	Customer	Contract value in PLN thousands	Description
12.07.2016	JSC "Vilniaus kogeneracine jegaine"	178 291 EUR thousand (86 400)* EUR thousand	The tender offer of the consortium consisting of Steinmüller Babcock Environment GmbH (leader of the consortium with 39.26% of the participation shares), Budimex SA (partner of the consortium with 48.46% of the participation shares) and UAB Kauno dujotiekio statyba (partner of the consortium with 12.28% of the participation shares) was selected for the construction of a new combined heat and power plant in Vilnius and the construction of the CHP plant aid systems. The contract was signed on 29 September 2016.
14.07.2016	LC Corp Invest XVII Sp. z o.o. Projekt 21 Sp. k.	89 936 (maximum remuneration)	Construction of „Retro Office House” commercial and service facilities including internal and external infrastructure in Wrocław. The remuneration for the contracts is divided into a fixed lump-sum, which is not higher than 58 985 PLN thousand, and a variable amount of 30 951 PLN thousand should the Investor order the contractor to perform fit-out works.

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards

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

Date of the first current report	Customer	Contract value in PLN thousands	Description
26.07.2016	Olsztyn City Hall	83 787 (79 598)*	The tender offer of the consortium consisting of Budimex SA (leader of the consortium with 95% of the participation shares) and Ferrovial Agroman SA (partner of the consortium with 5% of the participation shares) was selected for the construction of Towarowa street in Olsztyn. The contract was signed on 29 September 2016.
28.09.2016	Białystok City Hall	140 764	The tender offer was selected for the construction of the Trasa Niepodległości in Białystok Stage II: Construction of the Aleja Niepodległości in Białystok within the lane of the provincial road No. 669, section from Narodowych Sił Zbrojnych street to Aleja I. J. Paderewskiego, including construction and reconstruction of technical infrastructure.
28.09.2016	Białystok City Hall	145 180	The tender offer was selected for the construction of the Trasa Niepodległości in Białystok Stage III: Construction of the Aleja I. J. Paderewskiego in Białystok within the lane of the provincial road No. 669, section from Aleja Niepodległości to the provincial road No. 678, including construction and reconstruction of technical infrastructure.
21.10.2016	PKP Polskie Linie Kolejowe SA	159 700 (54 298)*	The tender offer of the consortium consisting of Budimex SA (leader of the consortium with 34% of the participation shares) ZUE SA (partner of the consortium with 33% of the participation shares) and the Strabag Group companies (partner of the consortium with 33% of the participation shares) was selected for the design and construction of the project "Works on the district line in Warsaw – Warsaw Gołębki station/ Warsaw West station – Warsaw Gdańska station section".

*share of the Budimex Group

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

In the third quarter of 2016 Budimex SA and Group companies did not issue, redeem or repay debt or equity securities.

10. 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 quarterly report in relation to the projected results

Budimex SA did not publish any forecasts.

11. 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 third quarter of 2016

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)	3 900 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 the date of publication of the half-year report of 2016, i.e. 30 August 2016.

12. Proceedings pending as at 30 September 2016 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 September 2016 was PLN 451 178 thousand. Excess of the value of proceedings against Group companies over proceedings relating to claims of Group companies amounted to PLN 125 430 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 September 2016 was PLN 288 304 thousand. These proceedings involve the Group companies' operating activity.

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

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

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

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

Regardless of PPL's counter-claim and in accordance with former announcements, on 27 February 2009 the Consortium FBL 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 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 the claim amounts to PLN 86 583 thousand.

On 27 May 2010, the Court of Arbitration issued a decision under which the evidence from the expert's opinion regarding the evaluation of reasonableness of the PPL claims was accepted (except for any amounts sought at that stage). The expert appointed by the Court of Arbitration, Grupa BS Consulting, started to work at the end of 2010. There were several meetings with proxies of parties and the expert and there was an inspection of the airport objects with the participation of the aforementioned expert in March 2011. Technical opinion prepared by the expert, that was delivered to proxies of both parties on 29 July 2011, represented the result of his work. The parties submitted comments, remarks and detailed questions to the opinion prepared by the expert. Upon taking these into consideration, the expert prepared his final supplementary opinion at the end of March 2012. The assessment

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

presented in the opinion was favourable to the FBL Consortium as it, among other things, confirmed that the FBL Consortium was entitled to postpone the work completion deadline.

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

Pursuant to a decision of the Court of Arbitration dated 28 January 2013 and based on a site inspection performed in July 2013, the expert, i.e. Grupa BS Consulting was to draft an opinion on assessment on value of claims submitted by the FBL Consortium in the extended claim by the end of October 2013. Due to the fact that the expert opinion had not been prepared on time, at the hearing on 20 December 2013 the Court of Arbitration took the decision on the appointment of a new expert. In 2015, the final scope of a new expert's opinion was determined as well as the composition of a new team of experts. Consequently, not until October 2016 the parties received the new experts' opinion on the claims of the Consortium. The experts acknowledged the scope of all claims of the consortium, which in value represent the vast majority of the amount claimed. However, according to the Consortium the claim value recognized by the experts is still too low because it does not reflect all the claims which were made. Currently, the content of the opinion is verified by the Consortium. On the next hearing in December 2016 the Consortium will request an appointment of the official deadline to submit comments to the opinion.

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

On 16 December 2010, Tomasz Ryskalok and Rafał Ryskalok, conducting business activity as a civil law partnership under the name Cerrys S.C., with its registered office in Wykroty, filed a lawsuit against Budimex SA for payment of a contractual penalty for delay in the removal of defects identified during the warranty period. The lawsuit concerns the construction of a concrete plant in line with the agreement concluded on 19 May 2003 with the value of the agreement amounting to PLN 4 189 thousand. The value of the subject matter of the lawsuit is PLN 90 000 thousand including contractual interest calculated from 19 October 2006 until the day of payment. In the opinion of Budimex SA, the claim constituting the subject matter of the argument is absolutely groundless and there is no basis, either formal or factual, for considering it (the deadline for submitting the claims in question expired, the limit concerning contractual penalties - i.e. up to 15 per cent of the value of the agreement - has not been taken into account, and the defect is not material). To date, there have been several hearings during which witnesses for the claimant and defendant were examined. Having heard the parties, on 19 December 2013, the Court issued a decision under which the evidence from the expert's opinion regarding the evaluation of reasonableness of the PPL claims was accepted. The inspection of the facility was carried out in June 2014. In October 2014, the court delivered the opinion of the construction expert. At the request of Budimex, the court ordered preparation of a supplementary opinion, to which the parties submitted comments. Despite oral explanations provided by expert during the course of court hearing in November 2015, a request was filed for another supplementary opinion. In July 2016 the court obliged the expert to prepare it. At the hearing in October 2016 the court delivered the supplementary opinion to the parties and set the date of the next hearing for 7 December 2016.

Another material in value legal proceedings relate to the claim filed on 5 March 2008 by Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. requesting that the amount of PLN 25 252 thousand be awarded jointly and severally against the consortium to which the Budimex SA and Budimex Dromex SA belonged. The claim relates to the replacement of contractor costs incurred by the investor when the consortium rescinded the contract. The share of the companies in the consortium was 90%, therefore the value of the claim for which Budimex SA is presently liable is PLN 22 727 thousand. The court ended examination of witnesses of both parties, and then heard the parties. On 6 February 2014, the court accepted evidence from the construction expert opinion with regard, inter alia, to: assessment of quality and value of works completed by the defendant, the scope and completeness of works to be performed as well as value of corrections. The expert drafted an opinion which the defendant considers to be in its favour. This assessment is confirmed by the actions of the claimant who submitted a request for appointment of a new expert. The court did not consider the request of the claimant in this matter and allowed to include in the court protocol only oral supplementary opinion of the expert, which was duly provided during the court hearing on 21 April 2015. The claimant filed another request for appointment of a new expert; this request was rejected by the court during the hearing in December 2015. At the same time, the court allowed preparation of a supplementary opinion, which was delivered to the parties in June 2016. The defendant maintained its previous position in relation to the content of supplementary opinion. According to the defendant the supplementary opinion is favourable for him.

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards

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

However, the plaintiff requested an opinion of another expert. The motion will be considered by the court at the hearing in November 2016.

As at the date of this report the final outcome of other proceedings is not known.

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 162 874 thousand as at 30 September 2016. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. Aside from the case brought to court by the FBL Consortium against PPL, the value of no other proceedings concerning claims is significant. As at the date of this report, the final outcome of the proceedings is not known.

13. Contingent assets and contingent liabilities

	30 September 2016	31 December 2015
<u>Contingent assets</u>		
From related entities		
– guarantees and sureties received	-	-
– bills of exchange received as security	-	-
From related entities, total	-	-
From other entities		
– guarantees and sureties received	444 406	348 558
– bills of exchange received as security	12 597	5 478
From other entities, total	457 003	354 036
Other contingent assets	4 119	1 350
Total contingent assets	461 122	355 386
<u>Contingent liabilities</u>		
To related entities		
– guarantees and sureties issued	5 139	5 286
– bills of exchange issued as performance bond	-	-
To related entities, total	5 139	5 286
To other entities		
– guarantees and sureties issued	2 811 116	2 722 682
– bills of exchange issued as performance bond	1 819	2 610
To other entities, total	2 812 935	2 725 292
Other contingent liabilities	133 554	133 554
Total contingent liabilities	2 951 628	2 864 132
Total contingent items	(2 490 506)	(2 508 746)

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

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

The BUDIMEX Group

Condensed consolidated financial statements for III quarters of 2016
prepared in accordance with International Financial Reporting Standards

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

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

Other contingent liabilities include among others voluntary submission to enforcement which secures the payment in the amount of up to PLN 133 554 thousand due and payable in the case of improper performance by Budimex SA of its obligations under agreement of the acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

Guarantees for bank loans and borrowings issued by Budimex SA and its subsidiaries as at 30 September 2016:

Name of the company which issued a guarantee or surety for a bank loan or borrowings	Name of the (company) entity which received sureties or guarantees	Total value of bank loans and borrowings, for which guarantee or surety was issued for the full amount or defined part	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 bank loan or borrowings
Budimex SA	Mostostal Kraków SA	63 928	2019-09-30	against payment	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	20 669	2026-03-31	free of charge	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	206	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	83	2016-12-31	free of charge	subsidiary
Budimex SA	FBSerwis SA	3 875	2021-06-16	against payment	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 264	2018-11-16	against payment	associate
TOTAL		90 025			

President of the Management Board

Management Board Member

Dariusz Blocher

Marcin Węglowski

Warsaw, 26 October 2016