



BUDIMEX SA

CONDENSED FINANCIAL STATEMENTS

for III quarters of 2016

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

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Statement of financial position

ASSETS	30 September 2016	31 December 2015
	(PLN thousands)	(PLN thousands)
Non-currents assets (long-term)		
Property, plant and equipment	80 269	61 821
Investment properties	3 796	3 888
Intangible assets	22 378	3 761
Investments in subsidiaries	724 473	724 323
Investments in associates	61 246	61 246
Investments in other entities	6 596	6 597
Other financial assets	13 353	6 666
Trade and other receivables	12 277	11 120
Retentions for construction contracts	39 037	35 404
Deferred tax asset	435 521	401 824
Total non-current assets (long-term)	1 398 946	1 316 650
Current assets		
Inventories	135 341	79 329
Trade and other receivables	595 124	379 325
Retentions for construction contracts	35 267	25 649
Amounts due and receivable from customers (investors) under construction contracts	505 967	155 241
Other financial assets	568	2 333
Cash and cash equivalents	1 778 439	1 983 136
Total current assets (short-term)	3 050 706	2 625 013
TOTAL ASSETS	4 449 652	3 941 663

Statement of financial position (cont.)

EQUITY AND LIABILITIES	30 September 2016	31 December 2015
	(PLN thousands)	(PLN thousands)
Equity		
Shareholders' equity		
Issued capital	145 848	145 848
Share premium	80 199	80 199
Other reserves	53 731	53 909
Foreign exchange differences on translation of foreign operations	5 461	5 630
Retained earnings	246 366	208 753
Total shareholders' equity	531 605	494 339
Liabilities		
Long-term liabilities		
Loans, borrowings and other external sources of finance	20 575	11 551
Retentions for construction contracts	209 024	196 185
Provision for long-term liabilities and other charges	174 933	153 495
Long-term retirement benefits and similar obligations	5 358	5 358
Other financial liabilities	381	5
Total long-term liabilities	410 271	366 594
Short-term liabilities		
Loans, borrowings and other external sources of finance	16 773	18 382
Trade and other payables	1 382 778	1 019 137
Retentions for construction contracts	144 779	158 641
Amounts due and payable to customers (investors) under construction contracts	1 337 506	1 229 015
Deferred income	386 141	464 616
Provision for short-term liabilities and other charges	174 903	130 964
Current tax payable	63 503	58 313
Short-term retirement benefits and similar obligations	926	926
Other financial liabilities	467	736
Total short-term liabilities	3 507 776	3 080 730
Total liabilities	3 918 047	3 447 324
TOTAL EQUITY AND LIABILITIES	4 449 652	3 941 663

Income statement

	9-month period ended 30 September		3-month period ended 30 September	
	2016 (PLN thousands)	2015 (PLN thousands)	2016 (PLN thousands)	2015 (PLN thousands)
Continuing operations				
Net sales of finished goods, goods for resale, raw materials and services	3 876 916	3 518 588	1 609 627	1 418 166
Cost of finished goods, goods for resale, raw materials and services sold	(3 458 753)	(3 210 534)	(1 439 491)	(1 288 656)
Gross profit on sales	418 163	308 054	170 136	129 510
Selling expenses	(8 113)	(7 596)	(2 791)	(2 626)
Administrative expenses	(134 711)	(121 943)	(44 164)	(38 365)
Other operating income	31 334	31 919	5 554	4 047
Other operating expenses	(47 162)	(34 951)	(12 952)	(26 558)
Operating profit	259 511	175 483	115 783	66 008
Finance income	61 826	36 026	5 848	8 664
Finance costs	(23 894)	(24 759)	(7 271)	(8 825)
Profit before tax	297 443	186 750	114 360	65 847
Income tax	(52 015)	(36 525)	(22 320)	(13 556)
Net profit from continuing operations	245 428	150 225	92 040	52 291
Net profit for the period	245 428	150 225	92 040	52 291
<i>Basic and diluted earnings per share attributable to the shareholders (in PLN)</i>	9.61	5.88	3.61	2.05

Statement of comprehensive income

	9-month period ended 30 September		3-month period ended 30 September	
	2016 (PLN thousands)	2015 (PLN thousands)	2016 (PLN thousands)	2015 (PLN thousands)
Net profit for the period	245 428	150 225	92 040	52 291
Other comprehensive income for the period, which:				
<i>Will be subsequently reclassified to profit or loss:</i>				
Foreign exchange differences on translation of foreign operation	(169)	96	(177)	47
Deferred tax related to components of other comprehensive income	-	-	-	-
<i>Will not be subsequently reclassified to profit or loss:</i>				
Actuarial gains/(losses)	-	-	-	-
Deferred tax related to components of other comprehensive income	-	-	-	-
Other comprehensive income, net of tax	(169)	96	(177)	47
Total comprehensive income for the period	245 259	150 321	91 863	52 338

Statement of changes in equity

	Issued capital	Share premium	Other reserves	Foreign exchange differences on translation of foreign operation	Retained earnings	Total equity
	PLN thousands					
Balance as at 1 January 2016	145 848	80 199	53 909	5 630	208 753	494 339
Profit for the period	-	-	-	-	245 428	245 428
Other comprehensive income	-	-	-	(169)	-	(169)
Total comprehensive income for the period	-	-	-	(169)	245 428	245 259
Dividends	-	-	-	-	(207 815)	(207 815)
Share-based payment	-	-	(178)	-	-	(178)
Balance as at 30 September 2016	145 848	80 199	53 731	5 461	246 366	531 605

Statement of changes in equity (cont.)

	Issued capital	Share premium	Other reserves	Foreign exchange differences on translation of foreign operation	Retained earnings	Total equity
	in PLN thousands					
Balance as at 1 January 2015	145 848	80 199	59 520	5 507	150 926	442 000
Zysk za okres	-	-	-	-	150 225	150 225
Inne całkowite dochody	-	-	-	96	-	96
Total comprehensive income for the period	-	-	-	96	150 225	150 321
Dividends	-	-	-	-	(155 989)	(155 989)
Share-based payment	-	-	468	-	-	468
Previous periods loss offset	-	-	(5 808)	-	5 808	0
Balance as at 30 September 2015	145 848	80 199	54 180	5 603	150 970	436 800
Profit for the period	-	-	-	-	57 783	57 783
Other comprehensive income	-	-	(441)	27	-	(414)
Total comprehensive income for the period	-	-	(441)	27	57 783	57 369
Share-based payment	-	-	170	-	-	170
Balance as at 31 December 2015	145 848	80 199	53 909	5 630	208 753	494 339

Cash flow statement

	9-month period ended 30 September	
	2016 (PLN thousands)	2015 (PLN thousands)
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	297 443	186 750
Adjustments for:		
Depreciation/ amortization	16 901	14 563
Foreign exchange (gains)/ losses	(147)	(114)
Interest and shares in profits (dividends)	(36 429)	(12 998)
(Profit)/ loss on disposal of investments	1 310	(11 444)
Change in valuation of derivative financial instruments	366	(1 237)
Change in provisions and liabilities arising from retirement benefits and similar obligations	65 377	38 757
Other adjustments	(77)	509
Operating profit before changes in working capital	344 744	214 787
Change in receivables and retentions for construction contracts	(237 565)	(213 375)
Change in inventories	(56 012)	(36 832)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	359 617	304 936
Change in amounts due and receivable under construction contracts	(242 235)	(63 867)
Change in deferred income	(78 475)	158 624
Change in cash and cash equivalents of restricted use	(4 780)	(33 178)
Cash used /from operations	85 294	331 095
Income tax paid	(80 522)	(60 599)
NET CASH GENERATED FROM OPERATING ACTIVITIES	4 772	270 496
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of intangible assets and tangible fixed assets	417	1 310
Purchase of intangible assets and tangible fixed assets	(23 809)	(12 237)
Sale of assets held for sale	-	14 000
Share capital decrease in related entities	-	1 911
Purchase of shares and share capital increase in related entities	(150)	(193)
Loans granted	(6 860)	(21 302)
Dividend received	31 007	9 628
Interest received	1 802	299
NET CASH GENERATED FROM / USED IN INVESTING ACTIVITIES	2 407	(6 585)

Cash flow statement (cont.)

	9-month period ended 30 September	
	2016	2015
	(PLN thousands)	(PLN thousands)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends	(207 815)	(155 989)
Payment of finance lease liabilities	(8 527)	(9 219)
Interest paid	(564)	(517)
NET CASH USED IN FINANCING ACTIVITIES	(216 906)	(165 725)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(209 727)	98 186
Foreign exchange differences, net	250	67
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (note 1.4)	1 935 366	1 361 934
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 1.4)	1 725 889	1 460 187

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

1.1. 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 2015, published on 14 March 2016.

The financial statements and the comparative data contain data of the Company's German branch translated into Polish zloty using the rates of exchange presented in the point 1.3 of herein condensed financial statements.

The financial statements and the comparative data contain also attributable to Budimex SA share in jointly controlled entities that constitute joint operations as per IFRS 11: Budimex SA Sygnity SA Sp. j., Budimex SA Ferrovia Agroman SA Sp. j., Budimex SA Ferrovia Agroman SA S.C., Budimex SA Budimex Budownictwo Sp. z o.o. S.C., Budimex SA Cadagua SA S.C. (dissolved in 2016), Budimex SA Cadagua SA II S.C., Budimex SA Tecnicas Reunidas SA – Turów S.C., Budimex SA Ferrovia Agroman (UK) Limited - Metro II Sp.j (dissolved in 2016), Budimex SA Energetyka 1 Sp. j., Budimex SA Energetyka 2 Sp. j., Budimex SA Energetyka 3 Sp. j., Budimex SA Cadagua SA III s.c. (established in 2016) and Budimex SA Cadagua SA IV s.c. (established in 2016).

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 Company'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 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 Company 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 Company’s net result. The remaining standards and amendments or improvements would not have any material impact on the condensed financial statements, had these been used by the Company 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 Company’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 balance sheet date.

1.2. 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 financial statements of the Company for the financial year 2015, published on 14 March 2016.

1.3. Translation of selected financial data into euro

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

- individual asset, equity 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 nine 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 nine 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.

1.4. Cash recognised in the cash flow statement

The Company recognises cash of restricted use including cash of the consortia in the portion attributable to other consortium members in the statement of financial position under cash and cash equivalents. For the purpose of the statement of cash flow – the balance of cash at the beginning and at the end of the reporting period is reduced by cash of restricted use and its change in the statement of financial position is recognised under cash flow from

operating activities.

	30 September 2016	31 December 2015	30 September 2015
	PLN thousands		
Cash recognised in the statement of financial position	1 778 439	1 983 136	1 535 401
Cash and cash equivalents of restricted use	(52 550)	(47 770)	(75 214)
Cash recognised in the statement of cash flow	1 725 889	1 935 366	1 460 187

1.5. 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 30 September 2016 the excess of the current liabilities over the current assets amounted to PLN 457 070 thousand. Taking into consideration very good financial position of Budimex Group related to liquidity, of which the excess of current assets over current liabilities as at 30 September 2016 amounted to PLN 265 725 thousand, the Company's Management Board does not state as at the date of signing the financial statements any threat to Company's ability to continue as a going concern.

2. Shareholders of the Company

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at date of this report release is 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) - the Company from the Ferrovia Group (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 shareholding structure has not changed since the publication date of the half-year report on 30 August 2016.

3. Descriptions of factors and events which had a material effect on the financial result of the Company for three quarters of 2016

3.1. Business operation of the Company for 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 period of nine months of 2016 Budimex SA earned sales revenue in the amount of PLN 3 876 916 thousand (in the third quarter PLN 1 609 627 thousand), mainly related to sales of construction services amounting to PLN 3 838 023 thousand.

In the comparative period of the year 2015, sales revenue amounted to PLN 3 518 588 thousand (in the third quarter PLN 1 418 166 thousand), mainly related to sales of construction services amounting to PLN 3 510 196 thousand.

Gross profit on sales for the 9-month period of 2016 amounted to PLN 418 163 thousand and was by PLN 110 109 thousand (35.74%) higher than in the comparative period of the previous year.

Total amount of administrative and selling expenses for three quarters of 2016 was PLN 142 824 thousand, while in corresponding period of 2015 amounted to PLN 129 539 thousand. The share of selling and administrative expenses in total sales was for three quarters of 2016 equal to 3.68% (for three quarters of 2015 also to 3.68%).

For the 9-month period of 2016, the result from the other operating activity including financial result from derivative instruments was negative and amounted to PLN 15 828 thousand (in the same period of 2015 it was negative and amounted to PLN 3 032 thousand). Other operating income comprised mainly: revenue from received penalties and fines in the amount PLN 16 657 thousand, released provision for penalties in the amount of PLN 6 189 thousand, reversal of impairment write-downs against doubtful debts in the amount of PLN 3 238 thousand and released provision for legal proceedings amounting to PLN 2 766 thousand.

Other operating expenses comprised mainly: provisions for compensation payments and contractual penalties of PLN 17 656 thousand, penalties and fines paid in the amount of PLN 10 578 thousand, impairment write-downs against doubtful debts in the amount of PLN 11 672 thousand, loss on valuation and realization of derivative instrument contracts of PLN 2 553 thousand and impairment of fixed asset in the amount of PLN 1 677 thousand.

All valued derivative instrument contracts were classified as level 2 in the fair value hierarchy. During nine 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.

For three quarters of 2016 the operating profit amounted to PLN 259 511 thousand and was higher by PLN 84 028 thousand (47.88%) compared to the similar period of the year 2015. The operating margin for three quarters of 2016 was equal to 6.69%, while in the comparative period of 2015 was equal to 4.99%.

In the 9-month period of 2016, the result from financial activity was positive and amounted to PLN 37 932 thousand mainly due to dividends received from related entities. In the comparative period of 2015 the result was lower by PLN 26 665 thousand.

Financial income, besides received dividends in the amount of 36 571 thousand, comprised mainly interest amounting to PLN 24 914 thousand. Financial expenses comprised mainly costs of bank guarantees and commissions in the amount of 17 543, costs of long-term retention receivables and liabilities discounting of PLN 5 178 thousand and costs of interest in the amount of PLN 1 148 thousand.

Profit before tax for the period of nine months of 2016 amounted to PLN 297 443 thousand, while in the comparative period of 2015 amounted to PLN 186 750 thousand.

In the period of nine months of 2016 the Company reported net profit of PLN 245 428 thousand gaining net profit margin of 6.33% while in the same period of 2015 net profit margin was equal to 4,27%.

In the period of three quarters of 2016, the Company purchased or started to lease property, plant and equipment, intangible assets and investment property with a total value of PLN 42 452 thousand, of which plant and machinery accounted for PLN 23 083 thousand.

3.2. Changes of estimates

Provisions for expected contract losses

In accordance with accounting policies adopted, the Company creates provisions for expected contract losses if budgeted contract costs exceed the entire expected contract revenue. As at 30 September 2016, the balance of the provision for contract losses amounted to PLN 523 896 thousand, while as at 31 December 2015 amounted to PLN 629 426 thousand. Due to that, in the 9-month period of 2016 the balance of provision decreased by PLN 105 530 thousand and decrease of PLN 45 783 thousand was reported in the third quarter.

Provision for legal proceedings

The Company recognises provisions for legal proceedings when it is suited and the probability of an unfavourable court judgement is higher than the probability of a favourable one. An estimation of that result is made on the basis of analysis of a legal proceedings progress as well as lawyers' opinions. As at 30 September 2016, the balance of the provision in this respect amounted to PLN 23 562 thousand, while as at 31 December 2015 amounted to PLN 26 090 thousand. Due to that, in the 9-month period of 2016 the balance of provision decreased by 2 528 thousand while increase of PLN 83 thousand was reported in the third quarter.

Provision for penalties

The Company recognises provisions for penalties related to the realisation of construction contracts. A provision is recognised only when the Company has a present obligation as a result of past event, the settlement of that obligation is highly probable and a reliable estimate can be made of the amount of the obligation. As at 30 September 2016, the balance of the provision in this respect amounted to PLN 57 022 thousand, while as at 31 December 2015 amounted to PLN 45 555 thousand. Due to that, in the 9-month period of 2016 the balance of provision increased by PLN 11 467 thousand and increase of PLN 6 177 thousand was reported in the third quarter.

Costs of future warranty repairs

The Company is required to issue guarantees for its construction services. It is accepted that the provision between 0.3%-1.4% of revenue from the given contract is made what depends on particular construction segment. This general value is assessed on an individual basis and may be increased or reduced, as appropriate. As at 30 September 2016, the balance of the provision in this respect amounted to PLN 269 252 thousand, while as at 31 December 2015 amounted to PLN 212 814 thousand. Due to that, in the 9-month period of 2016 the balance of provision increased by PLN 56 438 thousand and increase of PLN 42 080 thousand was reported in the third quarter.

Deferred tax asset and liability

As at 30 September 2016, the balance of deferred tax asset (reduced by deferred tax liability) amounted to PLN 435 521 thousand, while as at 31 December 2015 amounted to PLN 401 824 thousand. Due to that, in the 9-month period of 2016 the balance of deferred tax asset increased by PLN 33 697 thousand and only in the third quarter it increased by PLN 33 828 thousand.

Fixed assets impairment

As at 30 September 2016, the balance of fixed assets impairment amounted to PLN 1 677 thousand and represented impairment in the value of the Company's land recognised in the third quarter of 2016.

Impairment write-downs against receivables and retentions

As at 30 June 2016, the balance of recognised impairment write-downs against receivables and retentions amounted to PLN 129 837 thousand, while as at 31 December 2015 amounted to PLN 123 503 thousand. In the 9-month period of 2016 the Company recognized impairment write-downs in the amount of PLN 11 672 thousand, increased this impairment amount by PLN 156 thousand due to exchange differences, reversed it increasing other operating income in the amount of PLN 3 238 thousand and in the same time the Company utilized impairment write-downs in the amount of PLN 2 256 thousand. In the third quarter of 2016 the Company reversed impairment write-downs against receivables and retentions in the amount of PLN 1 949 thousand and decreased it by PLN 219 thousand of exchange differences.

Impairment write-downs against inventory

As at 30 September 2016 the balance of recognised impairment write-downs against inventory amounted to PLN 918 thousand while as at 31 December 2015 it equaled 1 717 thousand. In the 9-month period of 2016 the Company recognised impairment write-downs against inventory in the amount of PLN 176 thousand and in the same period reversed it by PLN 975 thousand. In the third quarter of 2016 the Company reversed impairment write-downs against inventory in the amount of PLN 83 thousand.

3.3. Material changes of the legal proceedings pending in the third quarter of 2016

As at 30 September 2016, the total value of the proceedings relating to the Company's liabilities and claims amounted to PLN 284 602 thousand and PLN 162 198 thousand accordingly, and as at 30 June 2016 PLN 288 718 thousand and PLN 178 316 thousand accordingly. In the period of three quarters of 2016 there was no significant outcome of the proceedings that could have material impact on the financial situation of the Company.

4. Other events in the third quarter of 2016 and significant events after 30 September 2016

On 1 August 2016 a new civil law partnership was formed: Budimex SA Cadagua SA IV s.c. Budimex SA holds 60% of shares in the company.

5. Related party transactions

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

	amounts in PLN thousands			
	Receivables		Liabilities	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Parent Company and related parties (the Ferrovia Group)	20 335	22 111	98 288	100 925
Subsidiary companies	70 374	62 763	16 342	19 013
Associates	131	210	107	118
Jointly controlled entities	841	1 197	668	833
Other related parties*	8	3	-	-
Total	91 689	86 284	115 405	120 889

	amounts in PLN thousands			
	Loans granted		Loans taken out	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Parent Company and related parties (the Ferrovia Group)	-	-	8 917	8 760
Subsidiary companies	6 493	6 270	-	-
Associates	6 860	1 549	-	-
Total	13 353	7 819	8 917	8 760

	amounts in PLN thousands			
	Sales of finished goods and services		Purchase of finished goods and services	
	9-month period ended 30 September		9-month period ended 30 September	
	2016	2015	2016	2015
Parent Company and related parties (the Ferrovia Group)	6 939	47 449	31 925	69 591
Subsidiary companies	237 708	323 286	30 235	23 625
Associates	488	494	212	224
Jointly controlled entities	499	535	-	-
Other related parties*	-	-	15	-
Total transactions with related parties	245 634	371 764	62 387	93 440

	amounts in PLN thousands			
	Finance income		Finance costs	
	9-month period ended 30 September		9-month period ended 30 September	
	2016	2015	2016	2015
Parent Company and related parties (the Ferrovia Group)	-	-	54	297
Subsidiary companies	36 787	12 236	-	256
Associates	252	1 347	-	-
Total transactions with related parties	37 039	13 583	54	553

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

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

6. Contingent receivables and contingent liabilities

	30 September 2016	31 December 2015
	(in PLN thousands)	(in PLN thousands)
Contingent receivables		
From related parties, of which:	15 654	12 128
– guarantees and suretyships received	-	-
– bills of exchange received as security	5 016	1 490
– other contingent receivables	10 638	10 638
From other entities	431 312	328 443
– guarantees and suretyships received	422 826	327 738
– bills of exchange received as security	8 486	705
Other contingent receivables	4 119	1 350
Total contingent receivables	451 085	341 921
Contingent liabilities		
To related parties, of which:	88 761	117 435
– guarantees and suretyships issued	88 761	117 435
To other entities, of which:	2 697 342	2 564 147
– guarantees and suretyships issued	2 695 567	2 562 552
– bills of exchange issued as performance bond	1 775	1 595
Other contingent liabilities	133 554	133 554
Total contingent liabilities	2 919 657	2 815 136
Total off-balance sheet items	(2 468 572)	(2 473 215)

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

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

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

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

President of the Management Board

Management Board Member

Dariusz Blocher

Marcin Węglowski

Warsaw, 26 October 2016