



THE BUDIMEX GROUP

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for 1 quarter of 2018

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

The BUDIMEX Group

The condensed consolidated financial statements for I quarter of 2018
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(all amounts are expressed in PLN thousand)

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Consolidated statement of financial position

ASSETS	31 March 2018	31 December 2017
Non-currents (long-term) assets		
Property, plant and equipment	160 816	162 422
Investment properties	25 001	24 623
Intangible assets	28 906	30 163
Goodwill of subordinated entities	73 237	73 237
Investments in equity accounted entities	36 393	39 228
Investments in equity instruments	9 401	9 501
Retentions for construction contracts	33 620	30 138
Trade and other receivables	41 038	39 341
Receivables from service concession agreement	46 507	46 440
Other financial assets	71 660	67 033
Deferred tax assets	405 917	405 208
Total non-current (long-term) assets	932 496	927 334
Current (short-term) assets		
Inventories	1 501 001	1 425 100
Trade and other receivables	678 781	689 939
Retentions for construction contracts	25 495	27 812
Valuation of long-term construction contracts	599 583	483 501
Current tax assets	43 424	30 298
Other financial assets	248 783	286 533
Cash and cash equivalents	1 480 006	2 126 839
Total current (short-term) assets	4 577 073	5 070 022
TOTAL ASSETS	5 509 569	5 997 356

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Consolidated statement of financial position (cont.)

EQUITY AND LIABILITIES	31 March 2018	31 December 2017
Equity		
Issued capital	145 848	145 848
Share premium	87 163	87 163
Other reserves	2 557	2 557
Foreign exchange differences on translation of foreign operations	6 219	5 342
Retained earnings	703 853	640 533
Shareholders' equity attributable to the shareholders of the Parent	945 640	881 443
Equity attributable to non-controlling interests	708	685
Total equity	946 348	882 128
Liabilities		
Non-current (long-term) liabilities		
Loans, borrowings and other external sources of finance	98 350	92 086
Retentions for construction contracts	208 062	203 643
Provision for long-term liabilities and other charges	312 198	305 858
Retirement benefits and similar obligations	11 086	11 086
Other financial liabilities	2 212	2 250
Total non-current (long-term) liabilities	631 908	614 923
Current (short-term) liabilities		
Loans, borrowings and other external sources of finance	33 205	30 324
Trade and other payables	1 411 844	1 697 984
Retentions for construction contracts	201 759	217 193
Provisions for construction contract losses	166 435	243 829
Valuation of long-term construction contracts	700 035	783 209
Deferred income	1 217 264	1 345 267
Provision for short-term liabilities and other charges	189 866	170 762
Current tax liability	4 990	3 404
Retirement benefits and similar obligations	1 537	1 537
Other financial liabilities	4 378	6 796
Total current (short-term) liabilities	3 931 313	4 500 305
Total liabilities	4 563 221	5 115 228
TOTAL EQUITY AND LIABILITIES	5 509 569	5 997 356

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Consolidated income statement

	3-month period ended 31 March	
	2018	2017
Continuing operations		
Net sales of finished goods, goods for resale, raw materials and services	1 338 831	1 052 740
Cost of finished goods, goods for resale, raw materials and services sold	(1 198 590)	(889 730)
Gross profit on sales	140 241	163 010
Selling expenses	(7 362)	(7 624)
Administrative expenses	(53 603)	(52 767)
Other operating income	11 732	14 170
Other operating expenses	(7 091)	(6 439)
Operating profit	83 917	110 350
Finance income	10 145	10 202
Finance costs	(10 328)	(11 207)
Share in net (losses) of equity accounted subordinates	(2 835)	(2 482)
Gross profit	80 899	106 863
Income tax	(17 556)	(21 610)
Net profit from continuing operations	63 343	85 253
Net profit for the period	63 343	85 253
<i>of which:</i>		
Attributable to the shareholders of the Parent	63 320	85 158
Attributable to non-controlling interests	23	95
<i>Basic and diluted earnings per share attributable to the shareholders of the Parent (in PLN)</i>	<i>2.48</i>	<i>3.34</i>

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Consolidated statement of comprehensive income

	3-month period ended 31 March	
	2018	2017
Net profit for the period	63 343	85 253
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	877	(429)
Income tax related to components of other comprehensive income	-	-
<i>Items not to be subsequently reclassified to profit or loss:</i>		
Actuarial gains/(losses)	-	-
Income tax related to components of other comprehensive income	-	-
Other comprehensive income	877	(429)
Total comprehensive income for the period	64 220	84 824
<i>Of which:</i>		
Attributable to the shareholders of the Parent	64 197	84 729
<i>Attributable to non-controlling interests</i>	23	95

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Consolidated statement of changes in equity

	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 2018	145 848	87 163	7 171	(4 614)	5 342	640 533	881 443	685	882 128
Profit for the period	-	-	-	-	-	63 320	63 320	23	63 343
Other comprehensive income	-	-	-	-	877	-	877	-	877
Total comprehensive income for the period	-	-	-	-	877	63 320	64 197	23	64 220
Balance as at 31 March 2018	145 848	87 163	7 171	(4 614)	6 219	703 853	945 640	708	946 348

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Consolidated statement of changes in equity (cont.)

	Equity attributable to the shareholders of the Parent Company						Total	Non-controlling interests	Total equity
	Issued capital	Share premium	Other reserves		Foreign exchange differences on translation of foreign operations	Retained earnings			
			Share-based payments	Actuarial gains/(losses)					
Balance as at 1 January 2017	145 848	87 163	7 171	(2 446)	5 525	558 116	801 377	4 443	805 820
Profit for the period	-	-	-	-	-	85 158	85 158	95	85 253
Other comprehensive income	-	-	-	-	(429)	-	(429)	-	(429)
Total comprehensive income for the period	-	-	-	-	(429)	85 158	84 729	95	84 824
Increase in interest in subsidiary company	-	-	-	-	-	662	662	(3 080)	(2 418)
Balance as at 31 March 2017	145 848	87 163	7 171	(2 446)	5 096	643 936	886 768	1 458	888 226
Profit for the period	-	-	-	-	-	379 250	379 250	91	379 341
Other comprehensive income	-	-	-	(2 168)	246	-	(1 922)	1	(1 921)
Total comprehensive income for the period	-	-	-	(2 168)	246	379 250	377 328	92	377 420
Dividends	-	-	-	-	-	(382 696)	(382 696)	-	(382 696)
Increase in interest in subsidiary company	-	-	-	-	-	43	43	(865)	(822)
Balance as at 31 December 2017	145 848	87 163	7 171	(4 614)	5 342	640 533	881 443	685	882 128

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Consolidated statement of cash flows

	3-month period ended 31 March	
	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	80 899	106 863
Adjustments for:		
Depreciation/ amortization	11 693	8 502
Share in net losses of equity accounted companies	2 835	2 482
Foreign exchange (gains)/ losses	(559)	930
Interest and shares in profits (dividends)	(1 415)	(39)
(Profit)/ loss on investing activities	148	144
Change in valuation of derivative financial instruments	(149)	(2 517)
Change in provisions and liabilities arising from retirement benefits and similar obligations	25 444	3 745
Other adjustments	887	(303)
Operating profit/ (loss) before changes in working capital	119 783	119 807
Change in receivables and retentions for construction contracts	7 088	(3 543)
Change in inventories	(75 901)	(161 175)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	(297 236)	(212 869)
Change in deferred income	(128 003)	80 386
Change in valuation of construction contracts and in provision for losses	(276 650)	(317 075)
Change in cash and cash equivalents of restricted use	7 290	(48 988)
Cash flow used in operating activities	(643 629)	(543 457)
Income tax paid	(29 732)	(79 239)
NET CASH USED IN OPERATING ACTIVITIES	(673 361)	(622 696)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of intangible assets and property, plant and equipment	8 645	36
Purchase of intangible assets and property, plant and equipment	(3 329)	(3 696)
Purchase of shares in subsidiaries and associates	-	(1 520)
Purchase of bonds issued by banks	(238 868)	(98 965)
Proceeds from bonds issued by banks	278 009	-
Loans granted	(6 860)	-
Interest received	1 991	129
NET CASH FROM/ USED IN INVESTING ACTIVITIES	39 588	(104 016)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of loans and borrowings	(242)	(256)
Payment of liabilities under finance lease	(5 072)	(4 670)
Interest paid	(932)	(573)
Other finance expenditure	(161)	(161)
NET CASH USED IN FINANCING ACTIVITIES	(6 407)	(5 660)
TOTAL NET CASH FLOW	(640 180)	(732 372)
Foreign exchange differences on cash and cash equivalents, net	637	(1 353)
CASH AND CASH EQUIVALENTS - OPENING BALANCE (note 3.3)	1 961 849	2 524 033
CASH AND CASH EQUIVALENTS - CLOSING BALANCE (note 3.3)	1 322 306	1 790 308

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

1.1. The Parent Company

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

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

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

1.2. Entities subject to consolidation

As at 31 March 2018, 31 December 2017 and 31 March 2017 the following subsidiaries were subject to consolidation:

Company name	Registered office	% in the share capital as at		
		31 March 2018	31 December 2017	31 March 2017
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	100.00%
Mostostal Kraków Energetyka Sp. z o.o.	Cracow / Poland	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 Inwestycje „Grunwald” SA	Warsaw / Poland	100.00%	-	-
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
SPV-PIM 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	100.00%
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	100.00%
Elektromontaż Poznań SA Group	Poznań / Poland	98.95%	98.95%	97.53%

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:

Joint operation	share
Budimex SA Budimex Budownictwo Sp. z o.o. s.c.	100,00%
Budimex SA Energetyka 1 Sp.j.	100,00%
Budimex SA Ferrovial Agroman SA s.c.	99,98%
Budimex SA Ferrovial Agroman SA 2 s.c.	95,00%
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 Cadagua SA V s.c.	60,00%
Budimex SA Ferrovial 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%

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As at 31 March 2018, 31 December 2017 and 31 March 2017 equity accounted companies included:

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

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

On 1 February 2018, the court of registration registered division of Elektromontaż Poznań SA effected by spinning-off property management operations and transferring them to Budimex Inwestycje "Grunwald" SA. Following this division, the issued capital of Elektromontaż Poznań SA decreased from PLN 54 082 thousand to PLN 18 388 thousand (following decrease in the nominal value of shares from PLN 10.00 to PLN 3.40), while the issued capital of Budimex Inwestycje "Grunwald" SA was increased from PLN 100 thousand to 35 794 thousand (by way of the issue of new shares with a nominal value of PLN 0.10 each). Thereby, as of 1 February 2018, consolidation covered Budimex Inwestycje "Grunwald" SA, which - to date - had no significant assets and was treated as a non-material entity from the Budimex Group perspective. The above spin-off based division did not have any material impact on the consolidated financial statements other than change in the structure of operating segments – prior to the division, the Elektromontaż Poznań SA Group companies were all presented under other operating activities, while after the division, the operations relating to property management transferred to Budimex Inwestycje "Grunwald" SA were allocated to the segment of development activities and property management. Due to the changes in the structure described above the comparable data was restated – please see the details in notes 5 and 6.

In the 3-month period ended 31 March 2018 there were no other changes in the Group structure.

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

2. Shareholders of the Parent Company

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

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Valivala Holdings B.V. Amsterdam (the Netherlands) - Ferroviol Group company (Spain)	ordinary	14 078 159	55.14%	14 078 159	55.14%
Aviva OFE Aviva BZ WBK	ordinary	2 344 000	9.18%	2 344 000	9.18%
Nationale-Nederlanden OFE	ordinary	1 376 939	5.39%	1 376 939	5.39%
Other shareholders	ordinary	7 731 000	30.29%	7 731 000	30.29%
Total		25 530 098	100.00%	25 530 098	100.00%

The shareholders' structure has not changed compared to data presented in the consolidated financial statements of the Group for the year ended 31 December 2017, published on 22 March 2018.

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

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described in the consolidated financial statements of the Group for the year ended 31 December 2017, published on 22 March 2018.

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

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

- IFRS 9 „Financial Instruments”,
- Explanations to IFRS 15 „Revenue from Contracts with Customers”,
- Amendments to IFRS 2 „Share-based Payment” – Classification and Measurement of Share-based Payment Transactions,
- Amendments to IFRS 4 „Insurance Contracts” – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts,
- Amendments to 40 “Investment Property” - Transfers of Investment Property,
- Annual Improvements to IFRSs (Cycle 2014-2016) – annual improvements to IFRS 1, IFRS 12 and IAS 28, mainly with a view to removing inconsistencies and ensuring wording clarification,
- IFRIC 22 „Foreign Currency Transactions and Advance Consideration”.

Details on the implementation of IFRS 9 are included in note 3.2.

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

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

- IFRS 16 „Leases”, endorsed in the UE on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 „Financial Instruments” – “Prepayment option with negative compensation” (effective for annual periods beginning on or after 1 January 2019).

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

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

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

- IFRS 17 „Insurance contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IAS 19 „Employee benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 „Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Annual Improvements to IFRSs (Cycle 2015-2017), effective for annual periods beginning on or after 1 January 2019,
- Amendments to References to the Conceptual Framework in IFRS Standards, effective for annual periods beginning on or after 1 January 2019,
- IFRIC 23 „Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

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

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

In the period covered by the report for the Budimex Group applied for the first time IFRS 9 „Financial Instruments”. The Group decided to apply the standard retrospectively. The Group decided not to restate data of the previous periods and to present any possible impact of the first application in the opening balance of the retained earnings. Despite that, according to the Group’s best estimates, the application of IFRS 9 did not have any material impact on the previous years’ consolidated financial statements. That is why as at 31 March 2018 no adjustment was made which would be recognised in the retained earnings.

In the reporting period there were no other 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 2017, published on 22 March 2018.

Main assumptions of the accounting principles applied by the Group as at the date of the first application of IFRS 9 are presented below.

Financial instruments

Classification and measurement

Financial assets and financial liabilities are recognised in the statement of financial position of Budimex Group entities when the entities become party to the contractual provisions of the instrument. At first recognition financial assets and financial liabilities are recognised at fair value (in case of assets/ liabilities subsequently measured at amortised cost transaction costs should be added/deducted to/from the initial value).

At initial recognition trade receivables which do not contain significant financing component (according to IFRS 15) are measured at their transaction price.

Classification of financial assets is based on Budimex Group entities’ business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

In the subsequent periods after the initial recognition the financial assets are measured at:

- amortised cost,
- at fair value through other comprehensive income,
- at fair value through profit or loss.

A financial asset is measured at amortised cost if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Furthermore, Budimex Group entities may make an irrevocable election at initial recognition for investments in equity instruments not held for trading that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. The amounts accumulated in other comprehensive income cannot be reclassified to profit or loss, even at derecognition. Such an investment is a non-monetary item. Any related foreign exchange component is also presented in other comprehensive income.

A financial asset is measured at fair value through profit and loss in all other cases.

Financial assets are derecognised when contractual rights to the cash flows from the financial asset expire or when they were transferred and substantially all risks and rewards of ownership of the financial asset were transferred as well.

All financial liabilities are classified as measured at amortised cost after the initial recognition, except for financial liabilities measured at fair value through profit or loss (meeting the definition of held for trading) – these instruments are

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measured at fair value after the initial recognition.

A special subcategory of financial assets and liabilities held for trading are *derivatives*. Derivative transactions are concluded to hedge cash flows against foreign exchange and interest rate risk.

Derivative instruments are measured as at the balance sheet date at a reliably determined fair value. The fair value of derivative instruments is estimated using a model based, inter alia, on exchange rates (average NBP rates) as at the balance sheet date or differences in interest rate levels of the quoted and base currencies.

The effects of periodic valuation of derivative instruments hedging exchange rate fluctuations on construction contracts denominated in foreign currencies and gains and losses as at the settlement date are recognized in the profit and loss account under "Other operating income (expenses)" under operating activities.

The effects of periodic valuation of derivative instruments hedging interest rate fluctuations or foreign exchange rates of items classified as financial activities and gains and losses as at the date of their settlement are shown in the profit and loss account under "Finance income (costs)" as part of financing activities.

Budimex Group entities do not apply hedge accounting.

Impairment of financial assets

Budimex Group entities recognise a loss allowance for expected credit losses on a financial asset. Credit losses are the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive, taken into consideration all expected shortfalls (i.e. lack of payments). If the impaired financial assets are long-term, the loss allowance for expected credit losses should be discounted according to the original effective interest rate (i.e. the rate as at the asset recognition).

The amount of the loss allowance for expected credit losses

In case of trade receivables and financial assets within IFRS 15 scope (i.e. valuation of long-term construction contracts and receivables from service concession arrangement) Budimex Group entities measure the loss allowance in the amount of the lifetime expected credit losses.

In case of other financial assets outside IFRS 15 scope (i.e. investments in equity instruments, retentions for construction contracts, loans granted and other financial assets not measured at fair value) the loss allowance should be measured at an amount equal to the lifetime expected credit losses, if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument should be measured at an amount equal to 12-month expected credit losses.

In case of other financial assets outside IFRS 15 scope, if Budimex Group entities have measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, and then, at the current reporting date, they determine that the credit risk is not significantly increased anymore, they shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

3.3. Cash recognised in the cash flow statement

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

	31 March 2018	31 December 2017	31 March 2017
Cash recognised in the statement of financial position	1 480 006	2 126 839	2 030 397
Cash and cash equivalents of restricted use	(157 700)	(164 990)	(240 089)
Cash recognised in the statement of cash flow	1 322 306	1 961 849	1 790 308

4. Descriptions of factors and events which had a material effect on the financial result of the Budimex Group for the first quarter of 2018

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

In the 3-month period ended 31 March 2018, the Budimex Group earned sales revenue of PLN 1 338 831 thousand which means a 27.18% increase on the corresponding period of 2017.

In the first quarter of 2018 construction-assembly production in Poland expressed in current prices increased by 28.2% (an increase by 26.1% in fixed prices) compared to the corresponding period of the prior year, while sales of the construction segment of the Budimex Group on the home market were up 18.03% on the corresponding period.

Gross profit on sales in the first quarter of 2018 was PLN 140 241 thousand, while in the corresponding period of the prior year it amounted to PLN 163 010 thousand. The gross sales profitability ratio was therefore 10.47% in the first quarter of 2018, while in the first quarter of 2017 was 15.48%.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 31 March 2018 the provision for warranty amounted to PLN 371 730 thousand. In the 3-month period ended 31 March 2018 the balance of the provision for warranty increased by PLN 17 107 thousand.

Selling expenses decreased in the first quarter of 2018 by PLN 262 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 836 thousand higher than expenses incurred in the corresponding period of 2017. The share of selling and administrative expenses in total sales decreased from 5.74% in the first quarter of 2017 to 4.55% in the first quarter of 2018.

Other operating income for the first quarter of 2018 was PLN 11 732 thousand and comprised: gain on reversal of provisions for penalties in the amount of PLN 5 745 thousand, income from compensations and contractual penalties in the amount of PLN 4 202 thousand, reversed write-off for receivables due to repayment by debtors amounting to PLN 451 thousand and the write-off for overdue liabilities amounting to PLN 930 thousand. The gain on valuation of FX forward derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 304 thousand. Additionally, in the period of three months of 2018 Group companies disposed of property, plant and equipment and reported a gain on sale of PLN 8 thousand. The net book value of the property, plant and equipment sold amounted to PLN 8 637 thousand.

Other operating expenses for the first quarter of 2018 amounted to PLN 7 091 thousand, of which PLN 2 115 thousand related to creation of write-off for receivables, PLN 4 047 thousand to compensations and contractual penalties paid out and PLN 316 thousand – to donations. The loss on realization of FX forward derivative instrument contracts amounted to PLN 302 thousand.

In turn, other operating income for the first quarter of 2017 was PLN 14 170 thousand and comprised: gain on valuation of FX forward and FX option derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 3 069 thousand, income from compensations and contractual penalties in the amount of PLN 3 834 thousand and reversal of provisions for lawsuits in the amount of PLN 2 583 thousand. Reversed write-off for receivables due to repayment by debtors amounted to PLN 2 216 thousand. The write-off for overdue liabilities amounted to PLN 1 212 thousand. Additionally, in the period of three months of 2017 Group companies disposed of property, plant and equipment and reported a gain on sale of PLN 36 thousand. The net book value of the property, plant and equipment sold amounted to PLN 0 thousand.

In comparison, other operating expenses for the first quarter of 2017 amounted to PLN 6 439 thousand, of which PLN 4 583 thousand related to creation of write-off for receivables, PLN 760 thousand to compensations and contractual penalties paid out and PLN 499 thousand – to donations.

The reported operating profit of the Group in the first quarter of 2018 was PLN 83 917 thousand, while in the first quarter of 2017 it amounted to PLN 110 350 thousand. The operating profit for the first quarter of 2018 represented 6.27% of sales revenue value, while for the corresponding period of the prior year – 10.48% of sales revenue.

In the 3-month period ended 31 March 2018 the Group incurred a loss on finance activities in the amount of PLN 183 thousand while in the same period of the prior year – a loss in the amount of PLN 1 005 thousand. Finance income in the first quarter of 2018 represented mainly interest of PLN 9 334 thousand, valuation of receivables from service concession agreement of PLN 736 thousand and surplus of positive exchange rate differences over negative differences in the amount of PLN 74 thousand.

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Finance costs in the first quarter of 2018 represented, among others, interest costs of PLN 1 232 thousand, bank commissions on guarantees and loans of PLN 6 156 thousand paid by Group companies and costs from discount of long-term retention receivables and liabilities of PLN 2 549 thousand. During the first quarter of 2018 the Group incurred a loss on valuation and realization of interest rate swap derivative instrument in the amount of PLN 316 thousand.

Finance income in the first quarter of 2017 represented mainly interest of PLN 9 328 thousand, valuation of receivables from service concession agreement of PLN 731 thousand, reversal of discount of long-term receivables in the amount of PLN 102 thousand and gain on valuation of interest rate swap derivative instrument contracts in the amount of PLN 41 thousand.

Finance costs in the first quarter of 2017 represented, among others, interest costs of PLN 1 060 thousand, bank commissions on guarantees and loans of PLN 5 800 thousand paid by Group companies and costs from discount of long-term retention receivables and liabilities of PLN 2 370 thousand. During the first quarter of 2017 the Group incurred a loss on realization of interest rate swap derivative instrument in the amount of PLN 161 thousand. Surplus of negative exchange rate differences over positive differences in the amount of PLN 1 816 thousand was also recognized in the finance costs.

All valued derivative instrument contracts (presented both in the operating and financing activity) were classified as level 2 in the fair value hierarchy. During the 3 months ended 31 March 2018, there was no transfer between Level 1 and Level 2 of fair value measurements, and no transfer into and out of Level 3 of fair value measurement.

In the first quarter of 2018, the Group reported a gross profit of PLN 80 899 thousand, while in the corresponding period of the prior year – a gross profit of PLN 106 863 thousand.

Income tax for the 3-month period ended 31 March 2018 was PLN 17 556 thousand, of which:

- current tax was PLN 18 250 thousand,
- deferred tax in the amount of PLN (694) thousand.

As at 31 March 2018, the Group recognized a deferred tax asset in the amount of PLN 405 917 thousand, while as at 31 December 2017 – PLN 405 208 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 net profit attributable to the shareholders of the Budimex SA for the first quarter of 2018 was PLN 63 320 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2017 was PLN 85 158 thousand.

The net profit attributable to non-controlling interest for the first quarter of 2018 amounted to PLN 23 thousand. In the corresponding period of 2017, the net profit attributable to non-controlling interest amounted to PLN 95 thousand.

In the 3-month period of 2018 the Group reversed the write-off for inventory in the amount of PLN 4 265 thousand. The reversal decreased the costs of finished goods, goods for resale, raw materials and services sold. At the same time the Group did not create any new write-offs for inventory.

In the 3-month period of 2017 the Group reversed the write-off for inventory in the amount of PLN 3 175 thousand. The reversal decreased the costs of finished goods, goods for resale, raw materials and services sold. At the same time the Group did not create any new write-offs for inventory.

Another transaction of significant value during the 3-month period ended 31 March 2018 was the purchase of short-term bonds of some Polish mortgage banks amounting to PLN 238 868 thousand. At the same time, bonds previously purchased amounting to PLN 278 009 thousand were already settled. Their fair value is similar to the value presented in the consolidated statement of financial position as these are short-term instruments.

In the first quarter of 2018, the Group purchased or started to lease property, plant and equipment and intangible assets with a total value of PLN 17 757 thousand, of which plant and machinery accounted for PLN 15 264 thousand. In the first quarter of 2017, the Group purchased or started to lease property, plant and equipment and intangible assets with a total value of PLN 30 344 thousand, of which plant and machinery accounted for PLN 9 071 thousand.

There were no contractual obligations made by the Group for the purchase of property, plant and equipment as at 31 March 2018. Contractual obligations made by the Group for the purchase of property, plant and equipment as at 31 December 2017 amounted to PLN 51 385 thousand.

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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 realised by the following Group companies:

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

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

- Budimex Nieruchomości Sp. z o.o.
- SPV-PIM 1 Sp. z o.o.
- Budimex Inwestycje „Grunwald” SA
- 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 results of segments for the first quarter of 2018 are presented in the table below:

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated value
External sales	1 097 960	210 564	30 307	-	1 338 831
Inter-segment sales	61 505	217	6 880	(68 602)	-
Total sales of finished goods, goods for resale and raw materials	1 159 465	210 781	37 187	(68 602)	1 338 831
Gross profit	99 134	37 320	6 242	(2 455)	140 241
Selling expenses	(2 376)	(3 608)	(1 378)	-	(7 362)
Administrative expenses	(49 554)	(6 807)	(1 569)	4 327	(53 603)
Other operating income/ (expenses), net	4 700	(115)	31	25	4 641
Operating profit	51 904	26 790	3 326	1 897	83 917
Finance income/(costs), net	(1 199)	767	333	(84)	(183)
Shares in (losses) of equity accounted subordinates	-	-	(2 835)	-	(2 835)
Income tax expense	(11 333)	(5 291)	(587)	(345)	(17 556)
Net profit for the period	39 372	22 266	237	1 468	63 343

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The results of segments for the first quarter of 2017 are presented in the table below:

Segment name	Construction business	Property management and developer business (restated)	Other business (restated)	Consolidation adjustments	Consolidated value
External sales	921 104	102 017	29 619	-	1 052 740
Inter-segment sales	69 462	281	10 640	(80 383)	-
Total sales of finished goods, goods for resale and raw materials	990 566	102 298	40 259	(80 383)	1 052 740
Gross profit	140 117	20 127	4 786	(2 020)	163 010
Selling expenses	(2 447)	(3 967)	(1 224)	14	(7 624)
Administrative expenses	(49 003)	(4 933)	(1 410)	2 579	(52 767)
Other operating income, net	6 792	504	435	-	7 731
Operating profit	95 459	11 731	2 587	573	110 350
Finance income/ (costs), net	(1 842)	830	7	-	(1 005)
Shares in (losses) of equity accounted subordinates	-	-	(2 482)	-	(2 482)
Income tax expense	(18 612)	(2 392)	(497)	(109)	(21 610)
Net profit/ (loss) for the period	75 005	10 169	(385)	464	85 253

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

6.1. Sales revenue, by type of good or service

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

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Sales of construction and assembly services	1 142 425	-	34 359	(64 171)	1 112 613
Sales of other services	4 012	1 858	1 299	(4 431)	2 738
Sales of finished goods	11 020	207 065	1 488	-	219 573
Sales of goods for resale and raw materials	2 008	1 858	41	-	3 907
Total sales of finished goods, goods for resale and raw materials	1 159 465	210 781	37 187	(68 602)	1 338 831

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In the first quarter of 2017 net sales of finished goods, services, goods for resale and raw materials, by type of good or service, were as follows:

Segment name	Construction business	Property management and developer business (restated)	Other business (restated)	Consolidation adjustments	Consolidated financial data
Sales of construction and assembly services	969 423	-	39 088	(77 753)	930 758
Sales of other services	4 748	2 256	805	(2 630)	5 179
Sales of finished goods	15 394	100 042	357	-	115 793
Sales of goods for resale and raw materials	1 001	-	9	-	1 010
Total sales of finished goods, goods for resale and raw materials	990 566	102 298	40 259	(80 383)	1 052 740

6.2. Sales revenue, by geographical area

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

Segment name	Construction business	Property management and developer business	Other business	Consolidation adjustments	Consolidated financial data
Poland	1 100 482	210 781	35 408	(68 602)	1 278 069
Germany	45 582	-	158	-	45 740
Other EU countries	13 329	-	1 474	-	14 803
Other countries*	72	-	147	-	219
Total sales of finished goods, goods for resale and raw materials	1 159 465	210 781	37 187	(68 602)	1 338 831

*other countries are Ukraine and Russia

In the first quarter of 2017 net sales of finished goods, services, goods for resale and raw materials, by geographical area, were as follows:

Segment name	Construction business	Property management and developer business (restated)	Other business (restated)	Consolidation adjustments	Consolidated financial data
Poland	932 359	102 298	39 356	(80 383)	993 630
Germany	47 860	-	88	-	47 948
Other EU countries	9 431	-	-	-	9 431
Other countries*	916	-	815	-	1 731
Total sales of finished goods, goods for resale and raw materials	990 566	102 298	40 259	(80 383)	1 052 740

*other countries are Ukraine and Russia

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

Net sales of finished goods, services, goods for resale and raw materials of the „Construction business” as the most significant Budimex Group operating segment were additionally analysed by type of construction objects. Data for the first quarter of 2018 and the first quarter of 2017 were as follows:

Type of construction	Sales revenue for a 3-month period ended:	
	31 March 2018	31 March 2017
Land-engineering	317 568	374 554
Railway	101 955	26 005
General construction, of which:	739 942	590 007
- non-residential	556 554	415 901
- residential	183 388	174 106
Net sales of finished goods, goods for resale and raw materials –Construction business segment	1 159 465	990 566

7. Related party transactions

Transactions with related parties made in the first quarter of 2018 and in the first quarter of 2017 and unsettled balances of receivables and liabilities as at 31 March 2018 and 31 December 2017 are presented in the tables below:

	Receivables		Liabilities	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Parent and it related parties (the Ferrovial Group)	20 718	20 679	83 861	73 553
Jointly controlled entities	6 895	13 820	796	744
Associates	115	304	822	1 635
Other related entities – non-consolidated subsidiaries*	5 074	26	50	387
Other related entities – other*	19	11	-	-
Other related entities – through key personnel*	-	-	5 898	5 091
Total settlements with related parties	32 821	34 840	91 427	81 410

	Loans granted / acquired debt securities		Loans taken out / issued debt securities	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Parent and it related parties (the Ferrovial Group)	-	-	8 789	8 698
Jointly controlled entities	-	-	-	-
Associates	70 226	62 451	-	-
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total settlements with related parties	70 226	62 451	8 789	8 698

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	Sales of finished goods and services		Purchase of finished goods and services	
	3-month period ended 31 March		3-month period ended 31 March	
	2018	2017	2018	2017
Parent and it related parties (the Ferrovia Group)	50	19	(11 373)	(11 032)
Jointly controlled entities	10 047	7 042	(83)	(10)
Associates	78	321	(1 261)	(1 287)
Other related entities – non-consolidated subsidiaries*	12	60	(45)	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total transactions with related parties	10 187	7 442	(12 762)	(12 329)

	Finance income		Finance costs	
	3-month period ended 31 March		3-month period ended 31 March	
	2018	2017	2018	2017
Parent and it related parties (the Ferrovia Group)	-	-	(12)	(15)
Jointly controlled entities	-	-	-	-
Associates	915	129	-	-
Other related entities – non-consolidated subsidiaries*	-	-	-	-
Other related entities – other*	-	-	-	-
Other related entities – through key personnel*	-	-	-	-
Total transactions with related parties	915	129	(12)	(15)

*) 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.

8. 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:

- higher demand for subcontractors' services, which might have influence on quality and timeliness of the works performed,
- price level of materials and construction services affecting the amount of direct costs of realised contracts,
- availability of qualified employees,
- intensification of construction works related to the implementation of large public investment programs, which causes problems related to logistics and transport of construction materials,
- level of competition in public tenders,
- intensification of actions aimed at recovery of overdue debts, which were provided for and strengthening the operational and financial control in respect of contracts realised,
- results of the pending legal proceedings, described in more detail in note 13 to these consolidated financial statements,
- changes of tax regulations affecting the construction sector,
- instability on the financial markets,
- fluctuations of exchange rates, which have the impact on the sales revenue, operating costs and result of the valuation and realization of derivative financial instrument contracts.

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As at 31 March 2018 the backlog was PLN 10 385 530 thousand. The value of contracts signed between January and March 2018 was PLN 1 059 842 thousand. The number of pre-sold apartments in the period from January - March 2018 (without booking) is 270 units.

9. The main events in the first quarter of 2018 and significant events after 31 March 2018

In the first quarter of 2018 the Budimex Group companies were notified about the selection of their offer of significant value or entered into the following significant contracts:

Significant contracts:

Date of the first current report	Customer	Contract value	Description
13.02.2018	General Directorate for National Roads and Motorways Branch in Olsztyn	393 730	Selection of the bid as the most advantageous one in the procurement procedure for the "Design and construction of the S61 express road between Szczuczyn and Budzisko (state border) divided into tasks: Task 3: section between Wysokie junction and Raczki".
13.02.2018	PKP PLK SA	128 743 (102 994)*	Selection of the bid of the consortium of Budimex SA (consortium leader, 80%) and KZA Przedsiębiorstwo Automatyki i Telekomunikacji SA (consortium partner) as the most advantageous bid in the procurement procedure for "Design and performance of construction works at the Idzikowice station under the project named Modernisation of the railway line No. 4 – Central Rail Line. Stage II". The contract was signed on 28 February 2018.
21.02.2018	Dom Development SA	112 200	Conclusion of an annex to the agreement of 27 June 2017 for construction, as a general contractor, of the I stage of the housing project "Marina Mokotów II" in Warsaw. Under the said annex, the remuneration for completion of the aforementioned agreement was established as PLN 112 200 thousand.
21.02.2018	Dom Development SA	125 882	Conclusion of an agreement for construction, as a general contractor, of the II stage of the housing project "Marina Mokotów II" in Warsaw.
5.03.2018	Dyrekcja Rozbudowy Miasta Gdańska	116 785	Conclusion of a contract for the construction of the Biskupia Górka flyover. Budimex SA informed about the selection of the bid as the most advantageous one on 30 October 2017.
7.03.2018	Mareckie Inwestycje Miejskie Sp. z o.o.	84 745 (contract no. 1) 27 229 (contract no. 2)	Conclusion of a contract for the implementation of the first stage of Education and Recreation Centre in Marki, encompassing the construction of Junior High School and High School at Wspólna street in Marki (contract no.1) and selection of the offer as the most advantageous one in the tender procedure for "Expansion, reconstruction and renovation of primary school no. 2 in Marki. The contract no. 2 was concluded on 20 March 2018.
14.03.2018	General Directorate for National Roads and Motorways Branch in Łódź	456 749 (228 375)*	Budimex SA received a letter informing that the consortium's bid of Budimex SA – the consortium leader (50%) and Strabag Sp. z o. o. – the consortium partner (50%) was considered the most advantageous in the tender procedure concerning: The design and construction of the S14 express road of the West Ring Road of Łódź. Ex. A – Section I junction "Łódź Lublinek" – junction "Łódź Teofilów" Ex. B – Section II junction "Łódź Teofilów" (without a junction) – N91 in Słowik in the scope of part No 1 of the order: "The design and construction of the S14 express road of the West Ring Road of Łódź Ex. A – Section I junction "Łódź Lublinek" – junction "Łódź Teofilów".
20.03.2018	Zarząd Morskiego Portu Gdańsk SA	153 707	Budimex SA received a letter informing that the bid was considered the most advantageous in the tender procedure concerning: "Expansion of the Dworzec Drzewny Quay at the Port of Gdańsk". The bid was selected on 19 April 2018.

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Date of the first current report	Customer	Contract value	Description
29.03.2018	General Directorate for National Roads and Motorways Branch in Rzeszów	271 155	Selection of the bid as the most advantageous one in the tender for "Design and construction of the S19 express road on the section from the Nisko Południe junction (without junction) to the Sokółów Małopolski Północ junction (including the junction), divided into three lots. Lot B from the Podgórze junction (including the junction) to the Kamień junction (without the junction) with the length of approx. 10.5 km."
11.04.2018	KGHM Polska Miedź SA	578 000	Selection of the bid as the most advantageous one in the tender for the construction of the Southern Section of Żelazny Most Waste Treatment Facility - Stage I (Phase 1,2,3).
17.04.2018	General Directorate for National Roads and Motorways Branch in Gdańsk	273 068	Selection of the bid as the most advantageous one in the tender for the construction of S6 Słupsk-Gdańsk express road on the Lębork (including Lębork bypass) - Trójmiasto bypass section, broken down into 2 parts: part 1 Construction of S6 Słupsk-Gdańsk express road on the Lębork (including Lębork bypass) - Trójmiasto bypass section Task 3 Luzino junction (without a junction) - Szemud junction (with a junction).

* share of the Budimex Group

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

In the first quarter of 2018 Budimex SA and Group companies did not issue, redeem or repay debt or equity securities.

11. 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.

12. Statement of ownership of shares of Budimex SA or rights to such shares (options) held by the managing or supervisory persons of Budimex SA as at the date of publication of this report together with indication of changes in the ownership in the I quarter of 2018

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

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

Above mentioned members of the Management Board and Supervisory Board do not own share options of the company. As at the date of publication of this report other managing and supervisory persons of Budimex SA do not hold its shares or share options. There was no change in the status of ownership from the date of publication of the annual report for the year 2017, i.e. 22 March 2018.

13. Proceedings pending as at 31 March 2018 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 31 March 2018 was PLN 439 207 thousand. Excess of the value of proceedings against Group companies over proceedings relating to claims of Group companies amounted to PLN 186 847 thousand.

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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 31 March 2018 was PLN 313 027 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 consortium members: Ferrovial Agroman SA, Budimex SA and Estudio Lamela S.L. (the 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 Chopin 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 was finally resolved by a 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 now 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 the counter-claim, changing the original amount of counter-claim from PLN 135 719 thousand to PLN 280 894 thousand. As a result of subsequent procedural steps, in August 2012, the PPL's claim was raised to PLN 298 892 thousand. According to the value of the shares set forth in the consortium agreement, the risk allocated to Budimex SA does not exceed the total of PLN 119 556 thousand.

Regardless of the PPL's counter-claim and in accordance with former announcements, on 27 February 2009 the FBL Consortium submitted a statement of claim including an extension of the main claim by the amount of PLN 216 458 thousand, covering: remuneration for the works performed, but not paid by the Investor, remuneration for additional works, and reimbursement for the retained amounts and interest on late payments. Under the consortium contract, the share of Budimex SA in this claim amounts to PLN 86 583 thousand. According to Budimex SA, all claims under the PPL's 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, and hence the statement on the groundlessness of PPL's claims.

Until now, during several hearings, the court has examined all witnesses for the claimant and the counter-claimant with respect to the circumstances included in PPL's counter-claim. Additionally, at the beginning of 2018, the hearing of evidence was completed, including three expert opinions on the claims of the FBL Consortium concluded in the extended principal claim. Consequently, the last remaining evidence to be heard in the case is the expert's opinion on the amount of PPL's claims. The scope of this application will be decided by the Arbitration Court at the hearing in June 2018, and the basis of this decision will be the conclusions of the previous expert opinions (regarding the claims of the PPL Consortium and the assessment of the claims of the plaintiff), the content of which affects the scope of PPL's claims. According to the first expert opinion (BS Consulting Group) - the FBL Consortium had the right to extend the time to complete the works, while the next two opinions confirmed that the claims of the FBL Consortium are justified for the most part. Although experts' opinions do not determine the formal assessment of the validity of claims of the FBL Consortium (this is done by the Arbitration Court), but in a situation where the Arbitrator Team would also share the FBL Consortium's position, there would be no room for recognizing the legitimacy of PPL's claims.

As part of a summary of the parties' positions - the purpose of which is to close the stage regarding the claims of the FBL consortium at the beginning of 2018, PPL submitted to members of the Consortium a deduction statement and a possible charge of deduction in the proceedings. This step resulted in a change of the previous Arbitration Court decision, which intended to issue another partial verdict encompassing the plaintiff's claims after the hearing of evidence had been completed. Currently, the hearing of evidence concerning the opinion of experts on PPL claims submitted in a counterclaim will be continued - but only to the extent that will be determined by the Arbitration Court at the hearing at the beginning of June 2018. This stage will probably not end earlier than in the first half of 2019 .

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

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

In the opinion of the Management Board of Budimex SA, the claim is unjustified. The irregularities, if any, which the claimant names as the basis for its action do not result from contract performance or undue performance by the consortium. In addition, due contract performance was confirmed by the claimant by the issued Certificate of Acquisition and Certificate of Completion of premises of Muzeum Śląskie in Katowice. In the opinion of the Management Board, the reported provisions cover the risks related to contract performance. Budimex SA filed its reply to said claim on 31 October 2017. It was supplemented by Budimex SA in January 2018. At the same time, the court attempted to deliver a copy of the claim to Ferrovia Agroman SA. Due to the non-translation of all documents into Spanish, Ferrovia Agroman SA refused to accept the parcel. As at the date of the report, it was not possible to successfully deliver a copy of the claim to Ferrovia Agroman SA.

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

As at the date of the preparation of these consolidated financial statements, the final outcome of the remaining proceedings is not known.

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 126 180 thousand as at 31 March 2018. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. Apart from the case brought to court by the FBL Consortium against PPL, the value of no other proceedings concerning claims is material. As at the date of these consolidated financial statements, the final outcome of the proceedings is not known.

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13. Contingent assets and contingent liabilities

	31 March 2018	31 December 2017
<u>Contingent assets</u>		
From related parties, of which:		
– guarantees and sureties received	-	-
– bills of exchange received as security	-	-
From related parties, total	-	-
From other entities		
– guarantees and sureties received	602 922	589 062
– bills of exchange received as security	3 918	3 628
From other entities, total	606 840	592 690
Other contingent assets	14 768	14 768
Total contingent assets	621 608	607 458
<u>Contingent liabilities</u>		
To related parties, of which:		
– guarantees and sureties issued	2 814	2 814
– bills of exchange issued as performance bond	-	-
To related parties, total	2 814	2 814
To other entities, of which:		
– guarantees and sureties issued	3 665 820	3 821 829
– bills of exchange issued as performance bond	24 225	16 141
To other entities, total	3 690 045	3 837 970
Other contingent liabilities	134 381	134 381
Total contingent liabilities	3 827 240	3 975 165
Total contingent items	(3 205 632)	(3 367 707)

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

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Guarantees and sureties issued by Budimex SA and its subsidiaries as at 31 March 2018:

Name of the company which issued a guarantee or surety	Name of the (company) entity which received a surety or a guarantee	Total value of guarantees or sureties issued	Period of guarantees or sureties issuance	Financial conditions in respect of guarantees and sureties issued	Type of relations between Budimex SA and the entity which took out a guarantee or surety
Budimex SA	Mostostal Kraków SA	192 520	2025-08-13	against payment	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	112 792*	2026-12-23	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	12 108	2020-02-17	against payment	subsidiary
Budimex SA	Budimex Bau GmbH	81	2018-12-31	free of charge	subsidiary
Budimex SA	Budimex Kolejnictwo SA	15 619	2025-10-31	against payment	subsidiary
Budimex SA	FBSerwis SA	1 551	2020-10-30	against payment	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	against payment	associate
TOTAL		335 934			

*sureties were issued for contracts realised by Budimex SA

President of the Management Board

Management Board Member

Dariusz Blocher

Marcin Węglowski

Warsaw, 27 April 2018

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