



**THE BUDIMEX GROUP**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE BUDIMEX GROUP**

**for the first half of 2019**

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## 1 BUSINESS ENVIRONMENT

### 1.1 General market condition

According to the estimate of Central Statistical Office, year on year GDP growth in the first quarter of 2019 amounted to 4.7% and was significantly lower than in the respective period of 2018, when it reached 5.3%. Deterioration of the economic growth rate is accompanied by the fall of unemployment rate that amounted to 5.3% in June 2019 compared to 5.9% in the same period of the last year. The inflation rate in Poland has recently risen and in June 2019 reached 2.6% year on year and remained within the range of the mid-term inflation target of National Bank of Poland (NBP).

In the first half of 2019 the volume of construction works in Poland increased. The value of construction and assembly production sold (in current prices) in the first half of 2019 was higher by 10.5% than the year earlier. Increase in production resulted from the improving situation in all construction segments. Civil engineering segment increased by 10.5% year on year, which was mainly driven by significant growth in railway sub-segment (28.8% year on year) and pipelines and electricity lines sub-segment (23.2% year on year). Sale of construction and assembly production in the residential construction recorded a rise by 8.3% compared to the first half of 2018. Positive growth was also recorded in the non-residential construction (rise by 11.5% compared to the first half of 2018). In the first two quarters of 2019 higher construction output was accompanied by slight improvement in the overall business climate index in the construction industry, which in June 2019 stood at plus 7.8 points compared to 7.3 points year earlier and 6.4 points in June 2017.

In the first half of 2019 new investments in the residential development sector continued to increase, in recent months there has been significant improvement in the area of investments handed over to clients. The amount of dwellings completed boosted significantly and reached the level of 58.8 thousands (rise by 22.4% year on year). At the same time the number of dwellings, for which building permit was issued, amounted to 77.7 thousands (fall by 5.5% year on year). The number of dwellings, for which construction was started in the first half of 2019, confirms the good climate on residential market (rise by 0.3% year on year to the level of 66.6 thousands). After presales record in 2017, and fall of presales in 2018, in the first half of 2019 top developers kept the trend, and noted a negative dynamics of presales. A positive signal coming from the market is the rebound of market offer in the largest Polish agglomerations after a significant drop in the first half of 2018.

### 1.2 Market development prospects

According to the macroeconomic forecast published in July 2019 by NBP, GDP growth in 2019 and 2020 will reach the level of 4.5% and 4.0% respectively and will be lower in comparison to the rise in 2018 which amounted to 5.1%. A more conservative scenario was prepared in the Ministry of Finance (MF). According to the draft of state budget for 2020 published in June 2019, in 2019 GDP growth will fall to 4.0% and the trend will be also kept in 2020, in which GDP growth should amount to 3.7%. According to the inflation forecast published by NBP, the average annual inflation is estimated at the level of 2.0% in 2019 and 2.9% in 2020. The forecasted unemployment rate is expected to reach 5.5% at the end of 2019 and 5.1% at the end of the following year.

The Ministry of Entrepreneurship and Technology estimates that in 2019 the value of construction and assembly production, generated by companies employing over 9 people, will rise by ca. 10.0% compared to the previous year (fixed prices) and probably will be lower in comparison to the rise by 17.9% in 2018.

In the following years EU funds will be the essential driver of investments dynamics on construction market. On 29 May 2018 European Commission published proposal for a distribution of EU funds as part of the long-term budget 2021-2027. According to the budget draft, Poland will receive 72.2 billion euro within cohesion policy, which represents 20% of the whole budget for cohesion policy in 2021-2027. Compared to 2014-2020 financial perspective, in 2021-2027 the funds allocated to Poland will decrease by 12%, but Poland will maintain the position of the biggest beneficiary in EU. As at June 2019, share of funds for infrastructure investment in Poland within new budget proposal is still unknown. Unofficially, according to the government representatives, it is probable that the scale of investments on the railway market in next financial framework will be maintained, while support available for big road projects market could be limited. The factor supporting the development of more environment-friendly transport branches is the obligation of EU countries to transfer 30% of goods transport from road infrastructure to, inter alia, railway lines until 2030.

Investment prospects for big road projects are optimistic. Ongoing road investments executed within the "National Road Construction Program for 2014-2023, with perspective to 2025" (NRCP) puts further challenges ahead the road segment. The list of projects in NRCP approved in September 2015 included tasks of total length of 4 783 kilometers, as compared to 3 005 kilometers, covered by the draft version of the program from 2014 (2 228 kilometers on the basic list and 777 kilometers on the reserve list). In the opinion of the Ministry of Infrastructure and Construction (MIB) the amount of PLN 107.1 billion reserved for the execution of NRCP was insufficient. In July 2017 the Council of Ministers approved the change of the resolution on long-term national road construction program, which assumes in particular increase of the financing limit to PLN 135.2 billion. It is planned to complete 117 road investments which cover 3 268 kilometers within the budget. The reserve list of investment projects, not covered by the budget, includes 40 tasks of total length of 1 911 kilometers. The whole scope of the updated NRCP amounts to 5 179 kilometers i.e. 396 kilometers more than in the NRCP approved in 2015. Further execution of Via Carpatia route within S61 and S19 national roads is one of the priorities of the government.

According to the official information published in January 2019, in years 2013-2018, the General Directorate for National Roads and Highways (GDDKiA) announced 176 tenders under NRCP for tasks amounting to approximately 2 260 kilometers, of which 80% of contracts will be executed in the "design and build" formula. In January 2019 GDDKiA presented a tenders announcing plan, which assumed launching proceedings for 435 kilometers of roads in 2019. In the first half of 2019, GDDKiA announced only six tenders for construction of express roads of 86 kilometers length within NRCP. At the end of June 2019, as a consequence of a weak pace of tenders announcing, GDDKiA was not conducting any tender procedure for projects placed on the basic list of NRCP that was in phase before placing offers by general contractors. Current plan of GDDKiA, published at the end of June, assumes launching new tenders for tasks of 251 kilometers in the second half of 2019. Together with projects already announced,

GDDKiA plan for 2019 covers road sections of 337 km in total, which means that scope of original plan has been reduced by more than 20%.

In the first half of 2019, the gross value of offers opened by GDDKiA amounted to almost PLN 6.1 billion which was significantly higher than in respective period of 2018 when total value of opened bids amounted to PLN 4.7 billion. Besides, the average ratio of the lowest bid to investor budget, increased significantly from 104% in the first half of 2018 to above 111% in the same period in 2019. From the beginning of 2014 to the end of the first half of 2019, the gross value of bids opened by GDDKiA under NRCP amounted to approximately PLN 70.2 billion. In this period, the value of contracts signed for the construction works amounted to PLN 66.8 billion. As at the end of June 2019, 4 road investments are placed on list of contracts waiting to be signed. Estimated financial progress of the current budget program i.e. PLN 135.2 billion exceeded 65% (as at the half of 2019). The bids were opened for over 170 sections of the total length of approximately 2 260 kilometres, which is 69% of general scope included on NRCP basic list.

Due to a significant cost inflation over the last 2-3 years, the profitability of many large long-term contracts in the road segment remained under high pressure. The lack of real indexation of contracts remuneration, the increase of prices of materials, labour, subcontracting services as well as unfair allocation of contracts risks resulted in termination of several major GDDKiA's contracts. Since the beginning of 2019, 9 large road projects with a total gross value of PLN 4.1 billion were terminated. In the current market situation, further cases of withdrawal from contract are still possible. In July 2019, GDDKiA conducted four proceedings for completion of works after contractors that failed to finish the contracted projects.

Railway segment is currently in the phase of execution of construction contracts signed in 2017-2018. Long-term prospects for railway market development are optimistic. In 2018 investment expenditures of PKP PLK amounted to approximately PLN 9.8 billion compared to about PLN 5.5 billion in 2017. According to PKP PLK plan, in 2019 and 2020 investment expenditures will exceed 2018 level and in the following years should reach the annual value of PLN 10.0 billion – PLN 12.0 billion. In accordance with the National Railway Program (Krajowy Program Kolejowy, KPK) financing plan updated in June 2019, in years 2015 - 2023 PKP PLK will execute projects with a value of PLN 67.3 billion within about 230 investments included on the basic list. Additionally, the reserve list includes ca. 65 projects with a value of approximately PLN 33.8 billion, the execution of which depends on potential savings generated in the course of the implementation of KPK and availability of EU funds for railway during next financial framework. After a period of increased activity in launching tenders under KPK in 2015-2016 and decline in the activity in 2017, in 2018 and in the first half of 2019 PKP PLK again intensified efforts in the area of announcing new tenders for modernization of railway. In the first half of 2019, the value of the lowest bids placed within significant tenders announced by PKP PLK for railway construction works (i.e. excluding orders for ERTMS systems) amounted to above PLN 5.5 billion net and this value was lower than in the first half of previous year when the respective value amounted to PLN 6.2 billion net. The average ratio of the lowest tender to investor budget increased significantly, from 130% in the first half of 2018 to above 150% in the same period of 2019. This phenomenon could result in cancelling tenders by PKP PLK. In the first half of 2019, the value of construction agreements signed within significant railway contracts amounted to PLN 5.2 billion net and this value was significantly higher than value of contracts signed in the first half of 2018 (PLN 0.9 billion net). From the beginning of 2016, the value of the lowest bids placed within significant tenders announced by PKP PLK for railway construction works (i.e. excluding orders for ERTMS systems) amounted to PLN 30.3 billion net (as at the end of June 2019). The value of the respective agreements signed by PKP PLK from the beginning of 2016 amounted to PLN 24.2 billion net. The financial progress of KPK is estimated at around 50-60% (as at the end of June 2019).

The accumulation of construction works on road and railway market in 2018-2020 sets difficult challenges for general contractors. The list of risk includes i.a. unpredictable rise of some material prices, salaries and prices of subcontracting services, extremely limited availability of workforce and subcontractors, long time between placing an offer and signing a construction contract, out of date investor budgets and lack of valorisation of construction contracts signed in 2016-2018.

At the begin of 2019, GDDKiA and PKP PLK modified the rules of new contracts indexation. In new tenders, both investors use the method based on analysis of basket of assortments/indicators (including fuel, aggregate, cement, steel, labour, inflation). In each case, the indexation is limited to 5% of the contract value (both up and down). The investors also established a 50% share in the basket of the fixed element, which means that only half of contract value is effectively indexed. Nevertheless, the solution proposed by GDDKiA and PKP PLK seems to be a step in the right direction, while a reliable assessment of the effectiveness of the mechanism will be carried out after some period of time.

In 2019, the level of flats presold by the biggest residential developers is expected to fall slightly or stabilize. However low interest rates, the level of which should not change till the end of 2019 (according to the statement of the President of National Bank of Poland), generate the stable growth of mortgage credits granted, which is a short-term driver of growth on the residential development market. High volume of flats presold achieved with a relatively low developers market offer resulted in the increase of flats prices in 2018, which according to the NBP data amounted to ca. 10%. At the begin of 2019 this trends was kept.

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

## 2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2019

### 2.1 Major construction contracts concluded by the Budimex Group companies

Contract date	Customer	Contract value for the Budimex Group (in PLN thousand)	Type of construction
2019-06-24	PKP Polskie Linie Kolejowe SA	1 366 068	The construction works at Gdynia Port railway station as part of the Project entitled "Improvement of railway access to the sea port in Gdynia"
2019-03-29	PKP Polskie Linie Kolejowe SA	556 417	Implementation of modernization works on the No.7 railway line on the section Dęblin - Nałęczów from 107.283 km to 146.320 km (initially LOT C - section from Dęblin - Lublin)
2019-04-04	Gmina Wałbrzych and General Directorate for National Roads and Motorways	249 638	Construction of the Wałbrzych ring road within the national road No. 35
2019-04-24	Polski Koncern Naftowy ORLEN SA	167 000	Construction of the Research and Development Center for PKN Orlen SA in Plock

### 2.2 Risk factors

The Budimex Group is exposed to various types of financial risk: currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The inherent risk of conducting business activities is the credit risk. Despite implementation of restrictive control procedures for evaluation and monitoring of the financial standing of contractors, the risk of investors insolvency still exists.

Delays in timely repayment of debt may have adverse effects on the financial results of the Group and result in necessity to create impairment write-downs against receivables or to finance business from external debt.

The construction contracts are performed in specific technical and economic conditions which have an effect on the level of margin realized. The Budimex Group companies which render construction services, monitor technical, organizational, legal and financial risks related to planning process and progress on respective contract works. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors may occur that will cause that contracts will be performed with a lower margin than initially planned. Such factors mainly concern:

- increase in prices of construction materials, energy and oil-derivatives,
- increase in costs of subcontractor services,
- delays in timely performance or insufficient quality of subcontracted works,
- lack of qualified employees and increase in employment costs,
- delays in obtaining relevant administrative decisions,
- changes in the scope of work or technologies as agreed in the contracts,
- unfavorable weather or land conditions.

### 3 FINANCIAL SITUATION

#### 3.1 Key economic-financial data of the Budimex Group

##### Consolidated statement of financial position of the Budimex Group

The main items of the consolidated statement of financial position of the Budimex Group as at 30 June 2019, compared to 31 December 2018, are presented in the table below:

ASSETS	30.06.2019	31.12.2018	Change	Change %
<b>Non-current assets</b>	<b>969 084</b>	<b>988 641</b>	<b>(19 557)</b>	<b>(2.0%)</b>
Property, plant and equipment	278 544	258 123	20 421	7.9%
Investment properties	34 844	28 365	6 479	22.8%
Intangible assets	26 065	28 389	(2 324)	(8.2%)
Goodwill of subordinated entities	73 237	73 237	-	0.0%
Investments in equity accounted entities	42 187	37 427	4 760	12.7%
Investments in equity instruments	9 778	9 778	-	0.0%
Retentions for construction contracts	43 497	49 103	(5 606)	(11.4%)
Trade and other receivables	23 252	21 807	1 445	6.6%
Receivables from service concession agreement	46 496	46 416	80	0.2%
Other financial assets	13 137	74 145	(61 008)	(82.3%)
Deferred tax assets	378 047	361 851	16 196	4.5%
<b>Current assets</b>	<b>4 223 871</b>	<b>4 467 710</b>	<b>(243 839)</b>	<b>(5.5%)</b>
Inventories	1 835 762	1 611 813	223 949	13.9%
Trade and other receivables	988 043	819 300	168 743	20.6%
Retentions for construction contracts	37 479	28 311	9 168	32.4%
Valuation of construction contracts	795 762	561 537	234 225	41.7%
Current tax assets	18 523	33 102	(14 579)	(44.0%)
Other financial assets	62 493	4 495	57 998	1290.3%
Cash and cash equivalents	485 809	1 409 152	(923 343)	(65.5%)
<b>TOTAL ASSETS</b>	<b>5 192 955</b>	<b>5 456 351</b>	<b>(263 396)</b>	<b>(4.8%)</b>

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

EQUITY AND LIABILITIES	30.06.2019	31.12.2018	Change	Change %
<b>Shareholders' equity attributable to the shareholders of the Parent Company</b>	<b>654 719</b>	<b>743 341</b>	<b>(88 622)</b>	<b>(11.9%)</b>
Issued capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	1 600	1 600	-	0.0%
Foreign exchange differences on translation of foreign operations	7 060	6 947	113	1.6%
Retained earnings	413 048	501 783	(88 735)	(17.7%)
<b>Equity attributable to non-controlling interests</b>	<b>7 565</b>	<b>7 136</b>	<b>429</b>	<b>6.0%</b>
<b>Total equity</b>	<b>662 284</b>	<b>750 477</b>	<b>(88 193)</b>	<b>(11.8%)</b>
<b>Liabilities</b>	<b>4 530 671</b>	<b>4 705 874</b>	<b>(175 203)</b>	<b>(3.7%)</b>
<b>Non-current liabilities</b>	<b>796 634</b>	<b>788 821</b>	<b>7 813</b>	<b>1.0%</b>
Loans, borrowings and other external sources of finance	196 596	184 110	12 486	6.8%
Trade and other payables	25	-	25	-
Retentions for construction contracts	203 400	222 751	(19 351)	(8.7%)
Provisions for long-term liabilities and other charges	381 256	367 306	13 950	3.8%
Retirement benefits and similar obligations	12 639	12 639	-	0.0%
Other financial liabilities	2 718	2 015	703	34.9%
<b>Current liabilities</b>	<b>3 734 037</b>	<b>3 917 053</b>	<b>(183 016)</b>	<b>(4.7%)</b>
Loans, borrowings and other external sources of finance	154 751	54 823	99 928	182.3%
Trade and other payables	1 514 376	1 720 438	(206 062)	(12.0%)
Retentions for construction contracts	212 248	214 866	(2 618)	(1.2%)
Provisions for construction contract losses	188 259	158 035	30 224	19.1%
Valuation of construction contracts	535 636	575 183	(39 547)	(6.9%)
Deferred income	930 439	996 224	(65 785)	(6.6%)
Provision for short-term liabilities and other charges	190 356	187 938	2 418	1.3%
Current tax liability	4 924	6 846	(1 922)	(28.1%)
Retirement benefits and similar obligations	1 412	1 412	-	0.0%
Other financial liabilities	1 636	1 288	348	27.0%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5 192 955</b>	<b>5 456 351</b>	<b>(263 396)</b>	<b>(4.8%)</b>

As at 30 June 2019, consolidated total assets decreased by PLN 263 396 thousand compared to 31 December 2018, mainly due to a 5.5% decrease in the current assets (PLN 243 839 thousand) and a 2.0% slight decrease in the value of non-current assets (PLN 19 557 thousand).

#### Non-current assets:

Change in the value of non-current assets at 30 June 2019 compared to 31 December 2018 was caused mainly by:

- reclassification of long-term loans granted to an associate, FBSerwis SA, in the amount of PLN 61 424 thousand to short-term investments,
- an increase in the balance of property, plant and equipment by PLN 20 421 thousand including: PLN 48 790 thousand due to the first application of IFRS 16, PLN 10 735 thousand due to purchase and lease of property, plant and equipment (as defined in IAS 17 so far) and PLN (36 114) thousand due to depreciation,
- an increase in the balance of investment property by PLN 6 479 thousand, including PLN 10 199 thousand as a result of the first application of IFRS 16 and PLN (3 140) thousand due to sales. In turn, depreciation reduced the balance of investment property by PLN 426 thousand,
- increase in the balance of deferred tax assets by PLN 16 196 thousand, mainly as a result of an increase in negative temporary differences on uninvoiced liabilities and tax production in progress.

#### Current assets:

Simultaneously, current assets decreased by PLN 243 839 thousand, mainly due to a decrease in the balance of cash and cash equivalents by PLN 923 343 thousand, as a result of dividend payment and increased financial commitment in the current operating activity.

Other changes in the current assets related to:

- an increase in the balance of trade and other receivables by PLN 168 743 thousand and an increase in valuation of construction contracts by PLN 234 225 thousand, as a result of seasonally larger scale of activity in the second and third quarters, which translates into a need for a temporary commitment of own funds due to a later moment of invoicing the works to investors,
- an increase in the balance of inventories by PLN 223 949 thousand mainly related to the first application of IFRS 16 (increase by PLN 109 829 thousand) and increases in development activities (e.g. purchase of new plots for housing construction) and a higher level of materials collected on rail and road contracts,



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- a increase in the balance of other financial assets by PLN 57 998 thousand, of which PLN 61 424 thousand concerned the reclassification of a loan to an associate, FBSerwis SA, from long-term assets,
- a decrease in the balance of current tax assets by PLN 14 579 thousand.

Equity and liabilities:

On the equity and liabilities' side, the main changes related to the following:

- a decrease in retained earnings as a result of dividend payment,
- an increase in the balance of non-current liabilities by PLN 7 813 thousand, mainly due to an increase in the balance of loans, borrowings and other sources of finance by PLN 12 486 thousand (new leasing liabilities), as well as an decrease in the balance of retentions for construction contracts in the amount of PLN 19 351 thousand,
- a decrease in the balance of current liabilities by PLN 183 016 thousand, where the most important changes referred to:
  - a decrease in the balance of trade liabilities and other liabilities by PLN 206 062 thousand, mainly as a result of making payments to business partners earlier than before,
  - a decrease in the balance of deferred income by PLN 65 785 thousand, including PLN 59 715 thousand due to settlement of advances received at the time of notary sale of apartments in the development segment, and PLN 5 903 thousand due to settlement of advances received for construction and assembly works,
  - a decrease in the valuation of construction contracts by PLN 39 547 thousand, which is a seasonal fluctuation observable every year, due to the intensification of budget settlements at the end of each financial year by public clients,
  - an increase in the balance of loans, borrowings and other external sources of finance by PLN 99 928 thousand, mainly as a result of the first application of IFRS 16 in the amount of PLN 109 056 thousand, and repayment of loans and borrowings in the amount of PLN 9 548 thousand.
  - an increase in provisions for construction contract losses by PLN 30 224 thousand.

Income statement of the Budimex Group

INCOME STATEMENT	01.01 - 30.06.2019	01.01 - 30.06.2018	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	3 248 421	3 302 661	(54 240)	(1.6%)
Cost of finished goods, services, goods for resale and raw materials sold	(3 039 040)	(3 016 170)	(22 870)	0.8%
<b>Gross profit on sales</b>	<b>209 381</b>	<b>286 491</b>	<b>(77 110)</b>	<b>(26.9%)</b>
Selling expenses	(14 088)	(14 870)	782	(5.3%)
Administrative expenses	(107 088)	(110 538)	3 450	(3.1%)
Other operating income	40 483	24 264	16 219	66.8%
Other operating expenses	(17 306)	(15 223)	(2 083)	13.7%
<b>Operating profit</b>	<b>111 382</b>	<b>170 124</b>	<b>(58 742)</b>	<b>(34.5%)</b>
Finance income	12 842	17 288	(4 446)	(25.7%)
Finance costs	(21 040)	(20 378)	(662)	3.2%
Shares in profits/(losses) of equity accounted companies	4 760	(3 673)	8 433	(229.6%)
<b>Gross profit</b>	<b>107 944</b>	<b>163 361</b>	<b>(55 417)</b>	<b>(33.9%)</b>
Income tax	(35 411)	(35 273)	(138)	0.4%
<b>Net profit for the period</b>	<b>72 533</b>	<b>128 088</b>	<b>(55 555)</b>	<b>(43.4%)</b>
<i>of which:</i>				
<i>attributable to the shareholders of the Parent</i>	<i>72 104</i>	<i>128 047</i>	<i>(55 943)</i>	<i>(43.7%)</i>
<i>attributable to non-controlling interests</i>	<i>429</i>	<i>41</i>	<i>388</i>	<i>946.3%</i>

In the 6-month period ended 30 June 2019, the Budimex Group earned sales revenue of PLN 3 248 421 thousand which means a 1.6% decrease on the corresponding period of 2018.

In the first half of 2019 construction-assembly production in Poland expressed in current prices increased by 10.5% (an increase by 6.6% 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 1.39% on the corresponding period.

Gross profit on sales in the first half of 2019 was PLN 209 381 thousand, while in the corresponding period of the prior year it amounted to PLN 286 491 thousand. The gross sales profitability ratio was therefore 6.4% in the first half of 2019, while in the first half of 2018 was 8.7%.



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

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In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Provisions for construction contract losses“. As at 30 June 2019, the balance of the provision for contract losses amounted to PLN 188 259 thousand. In the first half of 2019, the balance of provision for construction contract losses increased by PLN 30 224 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2019 the provision for warranty amounted to PLN 434 818 thousand. In the 6-month period ended 30 June 2019 the balance of the provision for warranty repaired increased by PLN 16 960 thousand.

Selling expenses decreased in the first half of 2019 by PLN 782 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 3 450 thousand lower than expenses incurred in the corresponding period of 2018. The share of selling and administrative expenses in total sales was 3.7% in the first half of 2019 compared to 3.8% in the corresponding period of 2018.

Other operating income for the first half of 2019 was PLN 40 483 thousand (PLN 24 264 in the corresponding period of the prior year) and comprised: gain from reversal of provisions for penalties in the amount of PLN 7 271 thousand, income from compensations and contractual penalties in the amount of PLN 13 834 thousand and reversal of write-offs for receivables due to repayment by debtors amounting to PLN 7 319 thousand. The overdue and expired liabilities amounting to PLN 4 378 thousand were also written off. The gain on settlement of FX forward derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 3 575 thousand. Additionally, in the period of six months of 2019 the Group companies disposed of non-financial non-current assets, of which they earned PLN 3 273 thousand of profit.

Other operating expenses for the first half of 2019 amounted to PLN 17 306 thousand (PLN 15 223 thousand in the corresponding period of the prior year) and comprised: PLN 3 438 thousand related to creation of write-off for receivables, PLN 4 165 thousand related to compensations and contractual penalties paid out, court fees and costs of court proceedings in the amount of PLN 1 134 thousand and PLN 433 thousand – to donations. The costs of created provisions for compensations and contractual penalties amounted to PLN 4 594 thousand. The loss on valuation of FX forward derivative instrument contracts amounted to PLN 3 419 thousand.

The reported operating profit of the Group in the first half of 2019 was PLN 111 382 thousand (PLN 170 124 thousand in the first half of 2018). The operating profit for the first half of 2019 represented 3.4% of sales revenue value, while for the corresponding period of the prior year – 5.2% of sales revenue.

In the 6-month period ended 30 June 2019 the Group incurred a loss on finance activities in the amount of PLN 8 198 thousand, while in the same period of the prior year – a loss in the amount of PLN 3 090 thousand. Finance income in the first half of 2019 represented mainly interest of PLN 9 750 thousand and valuation of receivables from service concession agreement of PLN 1 434 thousand.

Finance costs in the first half of 2019 represented, among others, interest costs of PLN 5 442 thousand, bank commissions on guarantees and loans of PLN 10 891 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 3 597 thousand. During the first half of 2019 the Group incurred a loss on realization and valuation of interest rate swap derivative instrument in the amount of PLN 960 thousand.

In the first half of 2019, the Group reported a gross profit of PLN 107 944 thousand, while in the corresponding period of the prior year – a gross profit of PLN 163 361 thousand.

Income tax for the 6-month period ended 30 June 2019 was PLN 35 411 thousand (PLN 35 273 thousand for the first half of 2018), of which:

- current tax was PLN 51 607 thousand,
- deferred tax in the amount of PLN (16 196) thousand.

As at 30 June 2019, the Group recognized a deferred tax asset in the amount of PLN 378 047 thousand, while as at 31 December 2018 – PLN 361 851 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 half of 2019 was PLN 72 104 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2018 was PLN 128 047 thousand.

The net profit attributable to non-controlling interest for the first half of 2019 amounted to PLN 429 thousand. In the corresponding period of 2018, the net profit attributable to non-controlling interest amounted to PLN 41 thousand.

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

### 3.2 Statement of Cash Flows

Cash and cash equivalents presented in the cash flow statement comprise cash on hand, a-vista deposits and these bank deposits which can easily be changed into known amount of cash and which incur insignificant risk of price fluctuations.

The Group recognizes the following positions as cash of restricted use:

- split payment accounts,
- funds gathered at open housing escrow accounts,
- cash at escrow accounts and current accounts in the part due to consortium partners.

The Budimex Group entered the year 2019 with cash on hand and cash at bank amounting to a total of PLN 1 409 152 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 141 124 thousand. Net cash flow for the first half of 2019 was negative and amounted to PLN 886 061 thousand. As at 30 June 2019 cash balance was PLN 485 809 thousand, of which cash of restricted use was PLN 104 071 thousand.

In the first half of 2019 the cash flows from operating activities showed a negative balance of PLN 680 691 thousand.

Cash flow from investing activities showed a positive balance of PLN 4 495 thousand.

Cash flow from financing activities for the first half of 2019 showed a negative balance of PLN 209 865 and resulted mainly from the 2018 dividend payment.

### 3.3 Finance management in the Budimex Group

In the first half of 2019 Budimex Group's operating activity cash flow was negative, which is typical for construction activity, where significant incomes from operating activity occur at the end of the year, whereas during first two quarters cash is being engaged in current operating activity. In the first half of 2019, negative cash flow from operating activity mainly resulted from the working capital adjustments in the first quarter of 2019. These adjustments are a result of cash surpluses generated in the fourth quarter of 2018 within the construction activity.

The following factors also contributed to the decrease of the cash balance in the first half of 2019: dividend payout in the amount of PLN 160 839 thousand in June 2019, Group companies' financial debt service expenses in the amount of PLN 48 708 thousand, expenses on land purchases within the developer activity in the amount of PLN 36 000 thousand as well as lower than in previous years operating profitability in the construction segment. As a result, the balance of cash and liquid financial assets of Budimex Group as of June 30<sup>th</sup>, 2019 was significantly lower than at the end of the first half of the previous year and amounted to PLN 485 809 thousand.

In accordance with the Group's policy, any periodic surpluses of cash were invested in bank deposits and debt securities from investment grade rated issuers. In addition, Budimex SA used cash surpluses to finance its suppliers and subcontractors, which had positive effect on their financial liquidity and generated extra financial income for Budimex SA (discounting interest).

At the same time, the Budimex Group reported external bank and leasing debt which as of 30 June 2019 amounted to PLN 351 347 thousand, including PLN 138 836 thousand as a result of the application of the MSSF 16 for the first time in the first half of 2019. External bank and leasing debt amount excluding the aforementioned MSSF 16 adjustment, and thus comparable to the figures reported in previous periods, was PLN 212 511 thousand and was lower by PLN 26 422 thousand as compared to December 31<sup>st</sup> 2018 figures (see table below). The indebtedness mainly comprised of: lease liabilities of Budimex SA, Budimex Kolejnictwo SA and Mostostal Kraków SA (concluded in order to finance purchases of tangible fixed assets – in case of Budimex SA and Budimex Kolejnictwo SA mainly plant and machinery for the purposes of road and railway contracts realization in line with the Group's strategy), but also due to indebtedness of Budimex Parking Wrocław Sp. z o.o. concerning bank loan financing the concession project carried out by the company. During the first half of 2019, Budimex SA and Budimex Nieruchomości Sp. z o.o. did not use the credit lines both companies have access to.

<b>Bank loans and borrowings and other external sources of finance:</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>
- long-term	166 816	184 110	109 151
- long-term (MSSF 16 Adjustment)	29 780	-	-
- short-term	45 695	54 826	37 584
- short-term (MSSF 16 adjustment)	109 056	-	-
<b>Total</b>	<b>351 347</b>	<b>238 933</b>	<b>146 735</b>

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

The following ratios present the finance structure in the Budimex Group:

Ratio	30.06.2019	31.12.2018	30.06.2018
<b>Equity to total assets ratio (asset coverage):</b> (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0,13	0,14	0,11
<b>Equity to non-current assets ratio (non-current asset coverage):</b> (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)	0,68	0,75	0,60
<b>Debt ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0,87	0,86	0,89
<b>Total assets to equity ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)	6,93	6,34	8,31

As of 30 June 2019 as compared to the previous year the debt ratio and asset to equity ratio dropped and at the same time the asset coverage ratios increased. That means an improvement of the sustainability of the Group's financing structure and is directly related to the smaller than in previous years dividend payout, which allowed the shareholders' equity to increase vs. June 30th 2018.

Ratio	30.06.2019	31.12.2018	30.06.2018
Current Ratio (current assets)/(current liabilities)	1,13	1,14	1,07
Quick Ratio (current assets - inventory)/(current liabilities)	0,64	0,73	0,68

The current ratio as of 30 June 2019 improved slightly in comparison to the corresponding period of the previous year. At the same time, the quick ratio decreased and is now lower than in previous periods. This was mainly due to a significant decrease in the cash balance described above.

The currently good financial standing of Budimex Group in terms of liquidity and access to external sources of funds is the reason why there are no threats to the Group's ability to finance its business activities in the second half of 2019.

### 3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables, as well as sureties and guarantees granted by Budimex SA or its subsidiaries are described in note 17 of the condensed consolidated financial statements of the Budimex Group.

## 4 OTHER INFORMATION

### 4.1 The shareholding structure

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at 30 June 2019 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) - Ferrovia SA Group company (Spain)	ordinary	14 078 159	55.1%	14 078 159	55.1%
Aviva OFE Aviva BZ WBK	ordinary	2 552 000	10,0%	2 552 000	10,0%
Nationale Nederlanden OFE	ordinary	1 360 000	5.3%	1 360 000	5.3%
Other shareholders	ordinary	7 539 939	29.5%	7 539 939	29.5%
<b>Total</b>		<b>25 530 098</b>	<b>100.0%</b>	<b>25 530 098</b>	<b>100.0%</b>

## 4.2 The Management and Supervisory Board

### a ) Composition of the Management Board

As at 30 June 2019, the Management Board of Budimex SA consisted of the following persons:

- Dariusz Jacek Blocher President of the Management Board, General Director
- Artur Popko Vice-President of the Management Board, Chief Operating Officer,
- Jacek Daniewski Board Member, Chief Legal and Organizational Officer
- Cezary Mączka Board Member, Chief HR Officer
- Henryk Urbański Board Member, Chief Property Officer
- Marcin Węglowski Board Member, Chief Financial Officer

In the period from 1 January 2019 to 30 June 2019, there were the following changes in composition of the Management Board:

- as of 18 June 2019, Mr. Radosław Górski resigned from membership of the Management Board,
- on 18 June 2019 Supervisory Board appointed Mr. Artur Popko, who was previously a member of the Management Board, for the function of Vice-President of the Management Board – Chief Operating Officer.

The policies concerning the appointment or removal of members of the Management Board, and their rights, including the right to take decision on issuance or redemption of the Company shares, included in the Company's statute, did not change during the first half of 2019.

### b ) Composition of the Supervisory Board

As at 30 June 2019, the Supervisory Board of Budimex SA consisted of the following persons:

- Marek Michałowski Chairman of the Supervisory Board
- Juan Ignacio Gaston Najarro Deputy Chairperson of the Supervisory Board
- Igor Adam Chalupec Supervisory Board secretary
- Danuta Dąbrowska Supervisory Board Member
- Agnieszka Słomka-Gołębiowska Supervisory Board Member
- Marzenna Anna Weresa Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Javier Galindo Hernandez Supervisory Board Member
- Jose Carlos Garrido-Lestache Rodríguez Supervisory Board Member
- Fernando Luis Pascual Larragoiti Supervisory Board Member

On 16 May 2019, in connection with the expiration of the mandates of the members of the Supervisory Board of the ninth term, the Ordinary General Meeting of Budimex SA appointed the Supervisory Board of the tenth term determining its composition as above. Thus, the composition of the Supervisory Board in the period from 1 January 2019 to 30 June 2019 has undergone the following changes:

- on 16 May 2019, in connection with the expiration of the mandate of a member of the Supervisory Board and the lack of appointment by the General Meeting to perform the function in the Supervisory Board of the new term, Mr. Piotr Kamiński ceased to be a member of the Supervisory Board,

- on 16 May 2019, the Ordinary General Meeting appointed new members to the Supervisory Board in the persons of Ms. Danuta Dąbrowska and Mrs. Agnieszka Słomka-Gołębiowska.

Dariusz Blocher		Artur Popko	
President of the		Vice-President of the	
Management Board		Management Board	
Henryk Urbański		Marcin Węglowski	
Board Member		Board Member	
Jacek Daniewski		Cezary Mączka	
Board Member		Board Member	