

Budimex SA

Condensed financial statements

for I half of 2014

prepared in accordance with
International Financial Reporting Standards

BUDIMEX SA

Condensed financial statements for the 6-month period from 1 January to 30 June 2014 prepared in accordance with IFRS

Statement of financial position

ASSETS	30 June 2014	31 December 2013	1 January 2013
	(PLN thousands)	(PLN thousands)	(PLN thousands)
Non-current assets			
Property, plant and equipment	56 991	62 713	84 079
Investment properties	1 866	3 124	3 368
Intangible assets	3 693	2 886	1 210
Investments in subsidiaries	712 940	712 940	763 401
Investments in associates	9 796	9 796	18 596
Other financial assets	11 111	8 445	21 498
Retentions for construction contracts	29 682	29 813	25 919
Long-term prepayments and deferred costs	4 757	4 392	4 096
Deferred tax asset	309 786	320 564	293 757
Total non-current assets	1 140 622	1 154 673	1 215 924
Current assets			
Inventories	104 969	84 850	118 793
Trade and other receivables	711 405	461 292	332 423
Retentions for construction contracts	23 676	29 850	67 211
Amounts due and receivable from customers (investors) under construction contracts	270 830	137 441	222 889
Current tax receivable	-	-	651
Derivative financial instruments	26	29	1 460
Investments in related parties	-	238 600	-
Other financial assets	12 177	3 164	-
Cash and cash equivalents	641 909	1 112 254	1 038 436
Short-term prepayments and deferred costs	9 952	12 820	8 255
Total current assets	1 774 944	2 080 300	1 790 118
TOTAL ASSETS	2 915 566	3 234 973	3 006 042

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EQUITY AND LIABILITIES	30 June 2014	31 December 2013	1 January 2013
	(PLN thousands)	(PLN thousands)	(PLN thousands)
Shareholders' equity			
Share capital	145 848	145 848	145 848
Share premium	80 199	80 199	227 835
Other reserves	58 867	58 867	56 899
Foreign exchange differences on translation of foreign operations	5 477	5 486	5 492
Retained earnings	46 124	297 435	(42 573)
Total shareholders' equity	336 515	587 835	393 501
Liabilities			
Non-current liabilities			
Loans, borrowings and other external sources of finance	11 930	17 044	27 740
Retentions for construction contracts	156 104	152 294	155 387
Provision for long-term liabilities and other charges	124 619	125 307	113 930
Long-term retirement benefits and similar obligations	3 264	3 264	2 542
Total non-current liabilities	295 917	297 909	299 599
Current liabilities			
Loans, borrowings and other external sources of finance	18 668	18 165	17 695
Trade and other payables	1 104 888	1 115 719	1 202 122
Retentions for construction contracts	174 175	179 697	218 454
Amounts due and payable to customers (investors) under construction contracts	619 500	688 159	549 447
Prepayments received	83 957	59 346	55 341
Provision for short-term liabilities and other charges	124 145	115 746	106 757
Current tax payable	-	15 478	-
Short-term retirement benefits and similar obligations	879	879	741
Derivative financial instruments	274	440	243
Short-term accruals	152 048	150 194	156 005
Short-term deferred income	4 600	5 406	6 137
Total current liabilities	2 283 134	2 349 229	2 312 942
Total liabilities	2 579 051	2 647 138	2 612 541
TOTAL EQUITY AND LIABILITIES	2 915 566	3 234 973	3 006 042

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Income statement

	6-month period ended 30 June	
	2014	2013
	(PLN thousands)	(PLN thousands)
Continuing operations		
Net sales of finished goods, goods for resale, raw materials and services	1 879 993	1 713 675
Cost of finished goods, goods for resale, raw materials and services sold	(1 728 556)	(1 586 456)
Gross profit on sales	151 437	127 219
Selling expenses	(5 168)	(4 669)
Administrative expenses	(78 047)	(67 190)
Other operating income	18 555	13 688
Other operating expenses	(18 689)	(15 982)
Gains/ (losses) on derivative financial instruments	(251)	(637)
Operating profit	67 837	52 429
Finance income	11 918	55 662
Finance costs	(14 414)	(10 724)
Profit before tax	65 341	97 367
Income tax	(14 121)	(12 505)
Net profit from continuing operations	51 220	84 862
Net profit for the period	51 220	84 862
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (in PLN)	2.01	3.32

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Statement of comprehensive income

	6-month period ended 30 June	
	2014	2013
	(PLN thousands)	(PLN thousands)
Net profit for the period previously reported	51 220	84 366
IFRS adjustments	-	496
Net profit for the period according to IFRS	51 220	84 862
 Other comprehensive income (loss) for the period, which:		
<i>Will be subsequently reclassified to profit or loss:</i>		
Foreign exchange differences on translation of foreign operations	(9)	80
Deferred tax related to components of other comprehensive income which will be subsequently reclassified to profit or loss	-	-
<i>Will not be subsequently reclassified to profit or loss:</i>		
Actuarial gains/(losses)	-	-
Deferred tax related to components of other comprehensive income which will not be subsequently reclassified to profit or loss	-	-
Other comprehensive income (loss), net of tax	(9)	80
Total comprehensive income for the period	51 211	84 942

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Statement of changes in equity

	Share capital	Share premium	Other reserves – share-based payments	Foreign exchange differences on translation of foreign operations	Retained earnings	Total
	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)
Balance as at 1 January 2014 previously reported	127 650	78 119	60 096	5 486	302 599	573 950
IFRS adjustments	18 198	2 080	(1 229)	-	(5 164)	13 885
Balance as at 1 January 2014 according to IFRS	145 848	80 199	58 867	5 486	297 435	587 835
Profit for the period	-	-	-	-	51 220	51 220
Other comprehensive income	-	-	-	(9)	-	(9)
Total comprehensive income for the period	-	-	-	(9)	51 220	51 211
Dividends	-	-	-	-	(302 531)	(302 531)
Balance as at 30 June 2014	145 848	80 199	58 867	5 477	46 124	336 515

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Statement of changes in equity (cont.)

	Share capital	Share premium	Other reserves – share-based payments	Foreign exchange differences on translation of foreign operations	Retained earnings	Total
	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)	(PLN thousands)
Balance as at 1 January 2013 previously reported	127 650	225 755	57 259	5 492	(35 387)	380 769
IFRS adjustments	18 198	2 080	(360)	-	(7 186)	12 732
Balance as at 1 January 2013 according to IFRS	145 848	227 835	56 899	5 492	(42 573)	393 501
Profit for the period	-	-	-	-	84 862	84 862
Other comprehensive income	-	-	-	80	-	80
Total comprehensive income for the period	-	-	-	80	84 862	84 942
Dividends	-	-	-	-	(112 077)	(112 077)
Coverage of prior years' losses	-	(147 636)	-	-	147 636	-
Balance as at 30 June 2013	145 848	80 199	56 899	5 572	77 848	366 366
Profit for the period	-	-	-	-	219 587	219 587
Other comprehensive income	-	-	(697)	(86)	-	(783)
Total comprehensive income for the period	-	-	(697)	(86)	219 587	218 804
Share-based payments	-	-	2 665	-	-	2 665
Balance as at 31 December 2013	145 848	80 199	58 867	5 486	297 435	587 835

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Statement of cash flow

	6-month period ended 30 June	
	2014	2013
	(PLN thousands)	(PLN thousands)
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before tax	65 341	97 367
Adjustments for:		
Depreciation/ amortization	10 468	12 347
Foreign exchange (gains)/ losses	(177)	97
Interest and shares in profits (dividends)	187	(44 448)
(Profit)/ loss on disposal of investments	(964)	32
Change in valuation of derivative financial instruments	(163)	1 089
Operating profit before changes in working capital	74 692	66 484
Change in receivables and retentions for construction contracts	(243 687)	(69 419)
Change in inventories	(20 119)	1 774
Change in provisions and liabilities arising from retirement benefits and similar obligations	7 711	(6 385)
Change in retentions for construction contracts and in liabilities, except for loans and borrowings	(13 351)	(144 070)
Change in accruals and accrued income	3 551	(29 349)
Change in amounts due and receivable under construction contracts	(202 048)	(321 315)
Change in prepayments received	24 611	46 393
Change in cash and cash equivalents of restricted use	3 967	915
Other adjustments	(367)	288
Cash generated from operations	(365 040)	(454 684)
Income tax paid	(18 823)	(3 873)
NET CASH USED IN OPERATING ACTIVITIES	(383 863)	(458 557)

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Statement of cash flow (cont.)

	6-month period ended 30 June	
	2014	2013
	(PLN thousands)	(PLN thousands)
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of intangible assets and tangible fixed assets	481	1 239
Purchase of intangible assets and tangible fixed assets	(4 098)	(2 978)
Sale of investment properties	1 530	-
Proceeds from redemption of share capital in related entities	238 600	6 000
Purchases of shares in related entities	-	(6 559)
Loans granted	(20 485)	(1 000)
Loans repaid	8 820	-
Dividends received	-	44 428
Interests received	351	-
NET CASH USED IN INVESTING ACTIVITIES	225 199	41 130
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(302 530)	(112 077)
Payment of finance lease liabilities	(4 888)	(4 745)
Interest paid	(499)	(907)
NET CASH USED IN FINANCING ACTIVITIES	(307 917)	(117 729)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(466 581)	(535 156)
Foreign exchange differences, net	203	382
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (note 1.5)	1 076 157	1 004 338
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (note 1.5)	609 779	469 564

1. Principles applied for the purpose of preparation of financial statements**1.1. Accounting policies applied**

The financial statements of Budimex SA for the 6-month period of 2014 together with comparative data were prepared in accordance with IAS 34 "Interim Financial Reporting" and appropriate accounting standards applicable for preparation of the interim financial statements adopted by the European Union issued and effective when preparing the interim financial statements. The accounting policies adopted by the Company are the same like those adopted by the Budimex Group and were described in details in the consolidated financial statements of the Group for the year ended 31 December 2013, published on 12 March 2014.

The consolidated financial statements of the Budimex Group for 6-month period of 2014 include additional information related to Budimex SA.

The financial statements and the comparative data contain aggregate data of the reporting organizational branches acting as at 30 June 2014, 31 December 2013 and 1 January 2013, prepared in foreign currencies and translated into Polish zloty using the rate of exchange presented in the note 1.4 of herein condensed financial statements.

The financial statements and the comparative data contain also assets, liabilities, revenue and costs corresponding to Budimex SA share in jointly controlled entities (treated as joint operations under IFRS 11): Budimex SA Sygnity SA Sp. j., Budimex SA Ferrovia Agroman SA Sp. j., Budimex SA Ferrovia Agroman SA S.C., Budimex SA – Budimex Budownictwo Sp. z o.o. SC, Budimex SA – Cadagua SA SC and Budimex SA – Cadagua II SC.

1.2. Changes in the method of preparation of financial statements

As at 24 April 2014 the Ordinary Shareholding Meeting of Budimex made the resolution on preparing standalone financial statements of Budimex SA from 1 January 2014 in accordance with the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and the related interpretations announced as the regulations of the European Commission.

The hereby condensed financial statements for I half of 2014 are the first financial statements prepared in accordance with the above described standards, hereinafter called "IFRS". Due to that the Company implemented regulations of IFRS 1 "First-time adoption of IFRSs" as well. Up to 31 December 2013, the financial statements of Budimex were prepared in accordance with Polish accounting standards based on the Polish Accounting Act, which are different than IFRS.

As at the date of transition to IFRS, e.i. 1 January 2013, the Company valued assets and liabilities in the amounts recognised in the consolidated financial statements of the Group, for which the transition date was 1 January 2004.

Below, there are described significant differences between IFRS and the Polish accounting standards.

a) Discount of non-current receivables and liabilities

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" non-current receivables and liabilities which are free of interest are discounted and disclosed in the financial statements at current value. Sales revenue and operating expenses are adjusted by the differences arising in the period between nominal and current value of non-current receivables and non-current liabilities, respectively. The discount value which decreases the nominal value of non-current receivables and liabilities is settled against finance costs or income in the subsequent years.

Previously, the Company recognised receivables and liabilities related to retentions for construction contracts at amount due i.e. at nominal value.

b) Translation of non-current financial assets denominated in foreign currencies

In accordance with IAS 39, where fair value cannot be reliably estimated, available-for-sale financial assets are valued at historical costs.

Previously, the Company valued the non-current financial assets covering the shares in foreign operations and denominated in foreign currencies using the rate prevailing at the reporting date. Foreign exchange differences on the translation are appropriately allocated to equity (in case the value was higher than historical one) or to the financial result (in case the value was lower than historical one).

At the date of transition to IFRS, the Company recognised the shares in foreign currencies at historical value and differences on the translation were adjusted in equity.

c) Adjustment to equity due to hyperinflation

In accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", for the period, in which economy is hyperinflationary, assets and liabilities should be valued at current prices as at the balance sheet date, being the basis for valuation in the following periods.

According to the Polish accounting standards, hyperinflationary effects are not recognised in the financial statements.

As at the date of transition to IFRS, the Company adjusted shareholders' equity and share premium for the period, in which Polish economy was hyperinflationary. The effects of translation and reconciliation of balances shown in the corporate records of the Company to the amount recognised in the financial statements of the Budimex were presented in the table below.

	30 June 2014	1 January 2013
<u>Share capital</u>		
Registered capital	127 650	127 650
Translation of capital due to hyperinflation	18 198	18 198
Value disclosed in the financial statements	145 848	145 848
<u>Share premium</u>		
Registered capital	78 119	225 755
Translation of capital due to hyperinflation	2 080	2 080
Value disclosed in the financial statements	80 199	227 835

The value by which the share capital and share premium were adjusted in connection with hyperinflation was recognised in equity under "Retained earnings" in the financial statements.

d) Employee benefits

In accordance with IAS 19 "Employee benefits", actuarial gains/losses are recognised in the statement of comprehensive income.

Previously, the Company recognised actuarial gains/losses in the income statement.

e) Perpetual usufruct

In accordance with IFRS, perpetual usufruct received from a community council should be recognised as an operating lease (IAS 17 "Leases") or as an investment property (IAS 40 "Investment property").

At the date of transition to IFRS, the Company classified the perpetual usufruct received from a community council as an operating lease and recognised it as the contingent item.

Previously, the Company recognised the perpetual usufruct received from a community council as the investment property and accrued income.

f) Deferred tax

Differences in the accounting policies prevailing in Poland and IFRS have an impact on the deferred income tax computation.

Significant changes in preparing of the statement of cash flow

The most significant change in preparation of the statement of cash flow in accordance with IFRS comparing to previous rules is the adjustment of cash balance at the beginning and at the end of the reporting period by cash of restricted use. It is described in details in the note 1.5 hereinafter condensed financial statements.

1.3. Differences between current and comparative data reported in the herein condensed financial statements and the data contained in the prior period condensed financial statements

Due to changes in the method of preparation of financial statements described in the note 1.2 the data as at the date of transition to IFRS, i.e. 1 January 2013 as well as the comparative data as at 31 December 2013 and 31 March 2013 was converted in such a way to reflect those changes. Below, it is presented impact of those changes on shareholders' equity and net result.

Shareholders' equity

	31 December 2013	30 June 2013	1 January 2013
Shareholders' equity according to PAS	573 950	353 138	380 769
Adjustments:			
Valuation of non-current financial assets	22	22	22
Discount of non-current receivables and liabilities	17 120	16 309	15 697
Deferred tax calculated on above adjustments	(3 257)	(3 103)	(2 987)
Shareholders' equity according to IFRS	587 835	366 366	393 501

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Net result

	2013	6-month period ended 30 June 2013
Net result according to PAS	302 599	84 366
Adjustments:		
Discount of non-current receivables and liabilities	1 423	612
Actuarial gains/losses*	860	-
Deferred tax calculated on above adjustments	(433)	(116)
Result according to IFRS	304 449	84 862

*the amount presented in the statement of comprehensive income is reduced by deferred tax

1.4. The principles of translation of selected financial data into euro

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

- individual asset and liability items – using the average exchange rate prevailing as at 30 June 2014 – 4.1609 PLN/EUR,
- individual profit and loss account and cash flow statement items for the first half of 2014 – using the exchange rate being an arithmetic average of average exchange rates established by the National Bank of Poland for the last day of each ended month for the period from 1 January 2014 to 30 June 2014 – 4.1784 PLN/EUR,
- individual asset and liability items of comparative financial data for the year 2013 – using the average exchange rate prevailing as at 31 December 2013 – 4.1472 PLN/EUR
- individual profit and loss account and cash flow statement items of comparative financial data for the first half of 2013 - using the exchange rate being an arithmetic average of average exchange rates established by the National Bank of Poland for the last day of each ended month for the period from 1 January 2013 to 30 June 2013 – 4.2140 PLN/EUR.

1.5. Cash recognised in the statement of cash flow

The Company presents cash of restricted use including cash of consortia in the part attributable to the consortium members in the statement of financial position under cash and cash equivalents. For the purpose of the statement of cash flow – the balance of cash at the beginning and at the end of the reporting period is reduced by cash of restricted use, and its change in the statement of financial position is presented under cash flow from operating activities.

	30 June 2014 (in PLN thousands)	1 January 2014 (in PLN thousands)	30 June 2013 (in PLN thousands)	1 January 2013 (in PLN thousands)
Cash presented in the statement of financial position	641 909	1 112 254	502 747	1 038 436
Cash and cash equivalents of restricted use	(32 130)	(36 097)	(33 183)	(34 098)
Cash presented in the statement of cash flow	609 779	1 076 157	469 564	1 004 338

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1.6. Going concern

These financial statements were prepared on the assumption that the Company will be going concern during the period of 12 months from 30 June 2014 without a significant limitation in its activities. As at the date of signing the financial statements, the Management Board of the Company is not aware of any facts or circumstances that would indicate a threat to the Company's continued activities after 30 June 2014, due to an intended or compulsory withdrawal from or a significant limitation in its activities.

As at 30 June 2014 the excess of the current liabilities over the current assets amounted to PLN 508 190 thousand. Taking into consideration very good financial position of the Budimex Group in terms of liquidity, of which the excess of current assets over current liabilities as at 30 June 2014 amounted to PLN 170 575 thousand, the Company's Management Board does not state as at the date of signing the financial statements any threat to Company's ability to continue as a going concern.

2. Changes in the shareholding structure

According to the information held by Budimex SA, the shareholding structure of Budimex SA as at the moment of issuing the hereinafter condensed financial statements 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 (Holandia) - Spółka z Grupy Ferrovial SA (Hiszpania)	ordinary	15 078 159	59,06%	15 078 159	59,06%
Aviva OFE Aviva BZ WBK	ordinary	1 820 426	7,13%	1 820 426	7,13%
Other shareholders	ordinary	8 631 513	33,81%	8 631 513	33,81%
Total		25 530 098	100,00%	25 530 098	100,00%

There have not been any changes in the shareholders' structure since the report for the first quarter of 2014 was published on 29 April 2014.

3. Transactions with related parties

The Company has not concluded transactions with related entities on the basis other than arms' length.

	Receivables as at 30 June 2014	Liabilities as at 30 June 2014	Revenue on sales of products in 2014	Purchases of finished goods and services in 2014	Financial income in 2014	Financial cost in 2014
The parent company and related entities of the parent	21 709	97 335	2 071	18 570	-	154
Budimex Nieruchomości Sp. z o.o.	31 094	673	49 256	1 029	-	-
Budimex Budownictwo Sp. z o.o.	12 596	408	34 876	119	-	32
Mostostal Kraków SA	564	14 902	2 867	13 120	-	-
FBService SA	69	80	275	-	298	-
Budimex SA Ferrovial Agroman SA S. j.	395	67	316	-	-	-
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	2	-	12	-	-	-
Budimex Kolejnictwo SA	4	218	17	1 323	-	-
Budimex SA Sygnity SA Sp. j	50	660	30	-	-	-
Elektromontaż Poznań SA	2	8 735	10	11 670	-	-
Budimex A Sp. z o.o.	2	-	12	-	-	-
Budimex B Sp. z o.o.	2	-	12	-	-	-
Budimex C Sp. z o.o.	2	-	12	-	-	-
Budimex D Sp. z o.o.	2	-	12	-	-	-
Budimex F Sp. z o.o.	2	-	4	-	-	-
Budimex G Sp. z o.o.	2	-	4	-	-	-
FB Service A Sp. z o.o.	2	-	12	-	-	-

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	Receivables as at 30 June 2014	Liabilities as at 30 June 2014	Revenue on sales of products in 2014	Purchases of finished goods and services in 2014	Financial income in 2014	Financial cost in 2014
Budimex PPP SA	2	-	12	-	-	-
Budimex Autostrada SA	2	-	12	-	-	-
Budimex Most Wschodni SA	2	-	12	-	-	-
Budimex Parking Wrocław Sp. z o.o.	1 521	3	18 556	122	74	-
Budimex Autostrada 1 SA	2	-	12	-	-	-
Budimex Bau GmbH	4	-	-	-	-	-
Autostrada Południe SA	45	-	-	-	-	-
PPHU Promos Sp. z o.o.	-	-	-	78	-	-
SPV-BN 1 Sp. z o.o.	-	-	1	-	-	-
SPV-BN 2 Sp. z o.o.	-	-	1	-	-	-
PMB Nadolnik Sp. z o.o.	-	-	2	-	-	-
Budimex SA – Cadagua SA II S.C.	3 048	-	436	-	-	-
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in bankruptcy open to arrangements	31	26 776	70	8 860	-	-
Total transactions with related entities	71 156	149 857	108 912	54 891	372	186
transactions with other related parties	(10)	10 219	-	16 069	-	-
Total transactions with related parties	71 146	160 076	108 912	70 960	372	186

In the table above, included under "Parent company and related entities of the parent" there is financial data relating to transactions with Ferrovial Agroman SA (the sole owner of the Parent Company of Budimex SA, i.e. Valivala Holdings BV), including with Ferrovial Agroman SA Oddział w Polsce [Branch in Poland] and other Ferrovial Group companies: Cintra Infraestructuras SA, Tecpresa SA, Cadagua SA and Cadagua SA Oddział w Polsce [Branch in Poland]. The amount of liabilities includes the liability under loan agreement from Ferrovial Infraestructuras SA in the amount of PLN 8 412 thousand. The above transactions were described in detail in the financial statements of the Company for the year 2013.

Other related parties comprise: members of the management or supervisory bodies of the Company or the Company's affiliates, their spouses or life partners, direct relatives or persons who are relations by marriage or who are connected by a guardianship, adoption or wardship relationship with a person who is a member of managing or supervisory bodies of the Company, controlled or jointly controlled companies, or other entities on which the persons listed above have direct or indirect significant influence or hold significant amount of votes.

4. Description of factors and events which had a material effect on a financial result of Budimex SA

4.1. Business operation of the Company in the 1st half of 2014

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

In the period of six months of 2014 Budimex SA earned sales revenue in the amount of PLN 1 879 993 thousand, mainly related to sales of construction services (99.03%) amounted to PLN 1 861 749 thousand.

In the comparative period of the year 2013, sales revenue amounted to PLN 1 713 675 thousand, mainly related to sales of construction services (98.97%) amounted to PLN 1 695 978 thousand. The difference in the amount of sales revenue recognised in the condensed financial statements for 1st half of 2013 related to adjustment of discounted retentions for construction contracts.

Gross profit on sales for the 6-month period of 2014 amounted to PLN 151 437 thousand and was higher by PLN 24 218 thousand (19.04%) than in the comparative period of the previous year.

Total amount of administrative and selling expenses in the 1st half of 2014 amounted to PLN 83 215 thousand, while in the 1st half of 2013 amounted to PLN 71 859 thousand. The share of selling and administrative expenses in total sales was equal to 4.43% (in the 1st half of 2013 to 4.19%).

In the 1st half of 2014, the result from the other operating activity was negative and amounted to PLN 385 thousand (in the 1st half of 2013 it was negative and amounted to PLN 2 931 thousand). The above was related mainly to recognition of provisions for penalties and legal proceedings accordingly in the amounts of PLN 6 854 thousand and 3 524 thousand, reversal of the above accordingly in the amounts of PLN 7 846 thousand and 769 thousand, write-downs of receivables in the net amount of PLN 4 935 thousand as well as revenue from penalties and fines received in the amount to PLN 4 989 thousand and profit on sales of fixed assets and property investment in the amount of PLN 964 thousand.

In the 1st half of 2014 the operating profit amounted to PLN 67 837 thousand and was higher of PLN 15 408 thousand (29.39%) compared to the same period of the year 2013. In the 1st half of 2014, the operating margin was equal to 3.61%, while in the comparative period of 2013 was equal to 3.06%.

In the 1st half of 2014, the result from financial activity was negative and amounted to PLN 2 496 thousand, mainly due to excess of receivables and liabilities discounting costs in the amount of PLN 6 417 thousand and guarantee costs in the amount of PLN 6 308 thousand over interest revenue in net amount of PLN 10 216 thousand. In the comparative period of 2013, the result was positive and amounted to PLN 44 938 thousand mainly due to dividends received in that period.

Profit before tax for the period of 6-month of 2014 amounted to PLN 65 341 thousand, while in the comparative period of 2013 amounted to PLN 97 367 thousand.

In the period of six months of 2014 the Company reported a net profit of PLN 51 220 thousand gaining net profit margin of 2.72%.

4.2. Changes of estimates

Provisions for expected contract losses

In accordance with accounting policies adopted, the Company creates provisions for expected contract losses if budgeted contract costs exceed the entire expected contract revenue. As at 30 June 2014, the balance of the provision for contract losses amounted to PLN 210 667 thousand, while as at 30 June 2013 amounted to PLN 205 398 thousand. In the 6-month period of 2014 the balance of provision increased by PLN 1 642 thousand.

Provision for legal proceedings

The Company recognises provisions for legal proceedings when it is suited and the probability of an unfavourable court judgement is higher than the probability of a favourable one. An estimation of that result is made on the basis of analysis of a legal proceedings progress as well as lawyers' opinions. As at 30 June 2014, the balance of the provision in this respect amounted to PLN 38 240 thousand, while as at 30 June 2013 amounted to PLN 35 506 thousand. In the 6-month period of 2014 the balance of provision increased by 2 537 thousand.

Provision for penalties

The Company recognises provisions for penalties related to the realization of construction contracts. A provision is recognised only when the Company has a present obligation as a result of past event, the settlement of that obligation is highly probable and a reliable estimate can be made of the amount of the obligation. As at 30 June 2014, the balance of the provision in this respect amounted to PLN 35 618 thousand, while as at 30 June 2013 amounted to PLN 27 260 thousand. In the 6-month period of 2014 the balance of provision decreased by PLN 3 387 thousand.

Costs of future warranty repairs

The Company is required to issue guarantees for its construction services. It is accepted that the provision between 0.15%-1.4% of revenue from the given contract is made what depends on particular construction segment. This general value is assessed on an individual basis and may

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be increased or reduced, as appropriate. As at 30 June 2014, the balance of the provision in this respect amounted to PLN 172 137 thousand, while as at 30 June 2013 amounted to PLN 148 483 thousand. In the 6-month period of 2014 the balance of provision increased by PLN 8 561 thousand.

Deferred tax asset and liability

As at 30 June 2014, the balance of deferred tax asset (reduced by deferred tax liability) amounted to PLN 309 786 thousand, while as at 30 June 2013 amounted to PLN 285 125 thousand. In the 6-month period of 2014 the balance of deferred tax asset decreased by PLN 10 778 thousand.

Impairment write-downs against receivables

As at 30 June 2014, the balance of recognized impairment write-downs against receivables amounted to PLN 133 293 thousand, while as at 30 June 2013 amounted to PLN 127 480 thousand. In the 6-month period of 2014 the Company recognized impairment write-downs in the amount of PLN 6 587 thousand and reversed it in the amount of PLN 2 293 thousand. The difference to the amount presented in the condensed financial statements for the 1st half of 2013 of PLN 30 058 thousand relates to impairment of prepayment recognised previously as "Inventory".

Impairment write-downs against inventory

As at 30 June 2014 and 30 June 2013, the balance of recognised impairment write-downs against inventory amounted to PLN 385 thousand. In the 6-month period of 2014 the balance of recognised impairment write-downs remained unchanged.

4.3. Material changes of the legal proceedings pending in 1st half of 2014

As at 30 June 2014, the total value of the proceedings relating to the Company's liabilities and claims accordingly amounted to PLN 279 726 thousand and PLN 236 929 thousand, and as at 31 December 2013 accordingly PLN 295 277 thousand and PLN 203 854 thousand.

4.4. Contingent liabilities and contingent receivables

	30 June 2014	31 December 2013
	(in PLN thousands)	(in PLN thousands)
<u>Contingent receivables</u>		
From related parties, of which:		
– guarantees and suretyships received	880	880
– bills of exchange received as security	2 964	1 092
– other	10 793	10 793
From related parties, total	14 637	12 765
From other entities		
– guarantees and suretyships received	322 302	338 524
– bills of exchange received as security	2 018	1 978
From other entities, total	324 320	340 502
– other contingent receivables	-	-
Total contingent receivables	338 957	353 267
To related parties, of which:		
– guarantees and suretyships issued	163 634	138 657
To related parties, total	163 634	138 657
To other entities, of which:		
– guarantees and suretyships issued	1 358 368	1 348 669
– bills of exchange issued as performance bond	2 985	5 905
To other entities, total	1 524 987	1 354 574
Other contingent liabilities	135 480	143 180
Total contingent liabilities	1 660 467	1 636 411
Total off-balance sheet items	(1 321 510)	(1 283 144)

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

Contingent liabilities represent guarantees and suretyships issued by banks to business partners of the Company as security for the potential claims they may be filed against the Company in respect of the construction contracts in progress. Banks are entitled to recourse the underlying claims to the Company.

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

Other contingent liabilities include among others voluntary acceptance of enforcement constituting a security of payment up to the amount of PLN 135 010 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.

4.5. Bank guarantees and insurance agreements signed in the 1st half of 2014 and after 30 June 2014

Date	Business partner	Contract value in PLN thousand	Description
24.01.2014	Towarzystwo Ubezpieczeń Euler Hermes SA	50 000	Annex to the Contract Guarantee Agreement within the renewable limit of 28 August 2008 Pursuant to the annex, the deadline within which Budimex SA may order the Insurance Company to issue contract insurance guarantees was prolonged until 22 December 2014. Other provisions of the agreement remain unchanged.
5.02.2014	Bank Handlowy w Warszawie SA	50 000	Promised standby overdraft of up to PLN 50 000 thousand until 4 February 2015. Interest will amount to WIBOR 1M plus margin.
10.02.2014	Bank Societe Generale SA Polish branch	165 000	Annex to the bank guarantee agreement. Pursuant to the annex, the limit up to which Budimex may order the Bank to issue guarantees was increased from PLN 115 000 thousand to PLN 165 000 thousand and the agreement was extended until 28 November 2014. Other provisions of the agreement remained unchanged.
19.02.2014	ING Bank Śląski SA	n/a	Annex to the confirmed short-term loan agreement, in which the bank has extended the agreement until 18 February 2015. Other provisions of the agreement remained unchanged.
27.02.2014	Credit Agricole Bank Polska SA	152 000	Annex to the bank guarantee agreement which specifies the new expiry date for the agreement as 29 August 2014 and increases the amount of the available guarantee limit from PLN 102 000 thousand to PLN 152 000 thousand. Other provisions of the agreement remained unchanged.
12.03.2014	Bank Zachodni WBK SA	n/a	Annex to the standby overdraft agreement, which extended the agreement until 3 March 2015. Other provisions of the agreement remained unchanged.
13.03.2014	Bank Zachodni WBK SA	316 000	Annex to the bank guarantee limit agreement, according to which the bank increased the bank guarantee limit by PLN 100 000 thousand i.e. up to PLN 316 000 thousand. Other provisions of the agreement remained unchanged.
5.06.2014	Bank Zachodni WBK SA	n/a	Annex to the bank guarantee limit agreement, in which the bank extended the agreement until 31 March 2015. Other provisions of the agreement remained unchanged.
9.06.2014	ING Bank Śląski SA	256 000	Annex to the framework bank guarantee agreement, pursuant to which the available guarantee limit was increased from PLN 176 000 thousand to PLN 256 000 thousand. Other provisions of the agreement remained unchanged.
13.06.2014	Bank Handlowy w Warszawie SA & BNP Paribas Bank Polska SA	180 000	Bank guarantee agreement, based on which till 29 August 2014 performance bonds and guarantees of prepayment return might be issued up to the total amount of PLN 180 000 thousand.

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26.06.2014	Banco Espirito Santo de Investimento SA Polish Branch	n/a	Annex to credit agreement, destined for issuing bank guarantees. Pursuant to the annex the agreement was extended till 20 June 2015. Other provisions of the agreement remained unchanged.
30.06.2014	Towarzystwo Ubezpieczeń i Reasekuracji WARTA SA	80 000	Annex to the insurance guarantee agreement, pursuant to which the limit of insurance guarantees was increased from PLN 40 000 thousand to PLN 80 000 thousand.
30.06.2014	Bank Gospodarstwa Krajowego SA	200 000	Bank guarantee agreement, pursuant to which bank guarantees might be issued up to the total amount of PLN 200 000 thousand. The agreement was concluded until 29 June 2015.
15.07.2014	Bank PEKAO SA	n/a	Annex to credit agreement of 12 August 2008, pursuant to which the agreement was extended until 30 June 2015. Other provisions of the agreement remained unchanged.
31.07.2014	Credit Agricole Bank Polska SA	200 000	Annex to credit agreement which extended the agreement until 31 August 2015 and increased the available limit to PLN 200 000 thousand. Other provisions of the agreement remained unchanged.
7.08.2014	Alior Bank SA	n/a	Annex to bank guarantee agreement which extended the agreement until 20 August 2015. Other provisions of the agreement remained unchanged.

4.6. Other material events in the 1st half of 2014 and after 30 June 2014

On 7 February 2014, 24 April 2014, 29 April 2014 and 30 June 2014, another tranches of the loan were provided by Budimex SA to FB Serwis SA (an associate of Budimex SA) accordingly in the amount of PLN 6 370 thousand, PLN 1 225 thousand, PLN 8 820 thousand and PLN 1 470 thousand, on the base of the loan agreement signed on 24 September 2013. In accordance to that agreement the loan was granted by Budimex to FBSerwis SA in the amount up to PLN 19 600 thousand. The loan interest was agreed as 3-m WIBOR + margin. Additionally, on 5 May 2014 FBSerwis SA repaid the loan in the amount of PLN 8 820 thousand.

On 24 April 2014 the Ordinary General Meeting of Budimex SA adopted resolution on dividend payout. Pursuant to the resolution, net profit for the period from 1 January 2013 to 31 December 2013 in the amount of PLN 302 532 thousand has been allocated to the dividend payout in the amount of PLN 11.85 gross per share. The dividend payout covered all Budimex SA shares, i.e. 25 530 098 shares. The dividend was paid out on 21 May 2014.

On 24 April 2014, 29 May 2014 and 24 June 2014, another tranches of the loan were provided by Budimex SA to Budimex Parking Wrocław Sp. z o. o. (a subsidiary of Budimex SA) accordingly in the amount of PLN 1 000 thousand, PLN 700 thousand, PLN 900 thousand, on the base of the loan agreement signed on 19 December 2012. The loan interest was agreed as 1-m WIBOR + margin. The loan repayment period is 20 years.

On 28 April 2014 Budimex SA received from Budimex B Sp. z o. o. (a subsidiary of Budimex SA) the amount of PLN 238 600 thousand due to registration of the company's share capital redemption up to the amount of PLN 75 thousand.