



THE BUDIMEX GROUP

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

for the first half of 2016

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1 BUSINESS ENVIRONMENT

1.1 General market condition

The first half of 2016 brought slight slowdown of the economic growth. According to estimates by the Central Statistical Office, GDP growth in the first and second quarter of this year amounted to 3.0% and 3.1% compared to the corresponding quarter of the previous year.

The first half of 2016 compared with the same period of the previous year resulted in significant decrease of the construction and assembly production. The value of the construction output (in current prices) in the first mid- 2016 was about 12.5% lower than the year earlier. The drop in production was mainly due to decrease in the value of production generated in the civil engineering segment (decrease by 21.6% compared to the first half of the previous year). Lower production resulted mainly from decrease in the scale of the investments in transmission and railway construction, while scale of the road construction increased. Whereas, positive growth was recorded in residential construction (growth by 9.9% compared to the same period in 2015). Sale of the construction output in the non-residential construction recorded decline by 9.2% compared to the first half of 2015. Lower construction output in the first two quarters of 2016 was accompanied by improvements in the overall business climate indicator in the construction industry, which in June 2016 stood at minus 1.4 points compared to minus 2.0 points a year earlier and minus 4.5 points in June 2014.

In the first half of 2016 there was an increase in new investments in the housing market. According to the data reported, the construction of 86.3 thousand dwellings started, which is 7.5% more than in the corresponding period of the previous year. High positive growth rate of number of dwellings, for which building permits were issued, was maintained (98.1 thousand dwellings, i.e. by 13.6% more than year before, when the growth rate amounted to 13.0% compared to the corresponding period of 2014). A boom in the development market is also confirmed by the number of units pre-sold within six months of the year by the largest developers, best of them recorded the growth in excess of 20% compared to the same period last year, which was estimated as record at that time.

1.2 Market development prospects

Most market forecasts predict that in 2016 Polish economy will face a similar grow rate compared to previous year, when GDP grew in real terms by 3.6%. The latest European Commission forecasts assume GDP growth at 3.7% in the current year and slight slowdown of GDP growth to 3.6% in 2017. According to the draft state budget for 2017, GDP growth is projected at 3.8% in 2016, at 3.9% in 2017. Average annual inflation is estimated at -0.4% in 2016 and 1.3% in the following year. The projected unemployment rate is expected to fall to 9.1% at the end of the 2016 and 8.1% at the end of the following year.

Prospects for the development of the construction market vary, depending on the segment. The Ministry of Economy estimates that the value of construction and assembly production made by companies employing over 9 people will increase by 0.5% in 2016 compared to the previous year.

The main factor in improving the business climate in the construction industry is that public tenders co-financed with resources from the EU budget under the new financial perspective 2014-2020 are being executed (under the new financial perspective for the years 2014-2020, Poland will receive EUR 82.5 billion, and the largest operational programme will remain Infrastructure and Environment Programme with allocation at the level of EUR 27.4 billion).

Undoubtedly, further challenges are associated with the road segment. The "National Road Construction Programme for 2014-2023, with perspective until 2025" (NRCP), approved in September 2015, assumes that PLN 107.1 billion will be spent on investment projects indicated in the appendix 1 to NRCP. The investment list comprises tasks with the total length of 4 783 kilometers, as compared to 3 005 kilometers, covered by the draft version of the programme from 2014 (including 2 228 kilometers on the basic list and 777 kilometers on the reserve list). According to the post-election analysis of NRCP, adopted by the previous government, the Ministry of Infrastructure and Construction, assumed the actual cost of the programme at the level of PLN 198 billion. At the moment, the government works on the cost optimization programme, with a view to executing the whole range of tasks within NRCP (4 783 kilometers). Publication of the revised NRCP, is planned in the second half of 2016. In 2013-2016 General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad- GDDKiA), announced tenders within the NRCP for the tasks with the length above 2 000 kilometers (94 kilometers in the first half of 2016), among which about 70% of contracts will be executed in design & build formula. The gross value of the bids opened by GDDKiA under NRCP in 2014-2016 amounted to almost PLN 40 billion. In 2016 the offers were opened only within one tender in the total gross value of PLN 1 billion. In terms of value, the estimated utilisation of the current budget of the programme is reaching 38% (as for the half of 2016). In material terms, the bids opened cover the implementation of 94 tasks with the total length of 1 300 kilometers. At the end of June 2016, GDDKiA conducts tendering procedure under NRCP for the sections with a total length of 765 kilometers. Nevertheless, the number of currently opened procedures is significantly lower than in the previous years.

Currently, the railway market is facing investment standstill. According to the Ministry of Infrastructure and Construction, PKP PLK expenditures will amount to PLN 4.2-4.3 billion in 2016, as compared to almost PLN 5.4 billion, planned for 2016 in National Railway Programme until 2023 (NRP). The main source of delays in the investment programme execution are organizational issues in PKP PLK (replacement of senior management), as well as, substantial delays in preparation of project documentation (for part of tasks). Despite the current problems, the long-term development perspectives for the railway market are optimistic. According to the NRP financing plan between 2015 and 2023, PKP PLK will implement projects with a value of PLN 67.5 billion allocated to 197 investments tasks included in the basic list of the programme. In addition, the reserve list includes 70 projects with a value of PLN 27.4 billion, the execution of which depends on potential savings, generated during NRP realization. Currently, the government works on NRP revision (project was addressed to the public consultation in July

2016). The acceleration of the railway investment execution will be achieved by introducing suitable legal changes. In July 2016, Sejm (the lower house of Polish parliament) adopted law amendment concerning railway transport, the aim of which is to simplify and accelerate works on preparation and execution of the railway infrastructure investments.

According to the PKP PLK data, the value of the tenders within actual NRP, announced from January 2015 till 2016, amounted to PLN 18.5 billion. However, only 2% (in terms of value) of tendering procedures were concluded by signing contract with contractor (as at 14 June 2016). The value of the tenders, planned to be announced between June and December 2016, is estimated by PKP PLK in the amount of PLN 7.5 billion and the schedule of tenders announcement for years 2017-2021 assumes their total value at the level of PLN 25.6 billion. Despite the relative progress, the settlement effectiveness of tendering procedures concerning investment projects of high value, within the new financial perspective is below the market expectations.

The second half of 2016 will likely bring a continuation of good conditions on the housing market. Low interest rates, resulting in relatively low-cost loans, as well as, stable economic growth, will still remain main drivers on the developer market. On the other hand, it is difficult to assess the influence of the government programme "Flats for the Young" (Mieszkanie dla Młodych, MdM) on the developer market, since the draft of the programme was presented and further details remain unknown.

2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2016

2.1 Major construction contracts concluded by the Budimex Group companies

Contract date	Contract value for the Budimex Group (in PLN thousand)	Customer	Type of construction
2016-03-29	742 291	General Directorate for National Roads and Motorways branch in Olsztyn	Construction of S51 road from Olsztyn to Olsztynek at the section from Olsztyn-Wschód to Olsztyn-Południe (formerly: Construction of the Olsztyn ring road as part of the national road No 16 — Task No 2: from approx. km 10+000 to the end of the prepared area on approx. km 24+701 (behind the Olsztyn-Wschód junction)
2016-04-13	292 102	General Directorate for National Roads and Motorways branch in Poznań	Design and build of S5 Poznań-Wrocław express road at the Wronczyn-Kościan Południe
2016-06-06	285 673	Medical University of Gdańsk	Construction of Non Invasive Medicine Center in Gdańsk – stage 1
2016-01-27	235 750	General Directorate for National Roads and Motorways branch in Lublin	Design and build of S17 express road Warsaw (Zakręt junction) – Garwolin at the section of "Lubelska" junction (without the junction) – Garwolin (start of the ring road), divided into three parts: Part No 3: at the section from Koźmiel (end of the ring road) to Garwolin (start of the ring road), from approx. km 27+900 to approx. km 40+915, with a length of approx. 13.015 km
2016-05-05	189 145	General Directorate for National Roads and Motorways branch in Poznań	Construction of S5 Poznań-Wrocław express road at the Radomicko-Kaczkowo section, stage II of the Leszno Pld. (with junction) – Kaczkowo section
2016-02-05	153 224	General Directorate for National Roads and Motorways branch in Zielona Góra	Construction of second carriageway of express road S3 at Sulechów–Nowa Sól section – third section from km 299+350 to km 316+640
2016-06-10	118 907	Lidl Sp. z o.o. Sp. k.	Construction of Będzin Distribution Center
2016-06-14	118 000	"Mlekpól" Dairy Cooperative	Construction of a group of production facilities for assembly of installations for milk and whey drying and storage located on a plot at ul. Kormoranów 29/5 in Mragowo
2016-06-01	81 800	BZ WBK Leasing SA	Construction of office building in Wrocław, on Robotnicza 11
2016-06-07	76 999	IKEA Centres Polska SA in Janki	Construction of a Convenience Center with offices and an underground garage within the Retail Park Franowo in Poznań
2016-03-18	69 704	Comarch SA	Construction of SSE7 office building in Kraków, with an underground garage, along with roads, footpaths and parking places, landscaping features, networks and systems

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 result of the Group and result in the necessity to create impairment write-downs against receivables or to finance business from external debt.

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

The construction contracts are performed in specific technical and economic conditions which have an effect on the level of realized margin. Budimex Group companies which render construction services monitor technical, organizational, legal and financial risks related to contract works planning and progress. 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,
- unfavourable weather or land conditions.

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

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 2016, compared to 31 December 2015, are presented in the table below:

ASSETS	30.06.2016	31.12.2015	Change	Change %
Non-current assets	846 411	821 207	25 204	3.1%
Property, plant and equipment	94 447	83 248	11 199	13.5%
Investment properties	63 184	63 410	-226	-0.4%
Intangible assets	4 533	4 000	533	13.3%
Goodwill of subsidiaries	73 237	73 237	0	0.0%
Investments in equity accounted companies	45 238	45 762	-524	-1.1%
Financial assets available for sale	9 396	9 247	149	1.6%
Retentions for construction contracts	21 471	20 388	1 083	5.3%
Trade and other receivables	37 618	34 909	2 709	7.8%
Concession agreement receivables	45 889	45 688	201	0.4%
Other financial assets	7 173	396	6 777	1711.4%
Deferred tax assets	444 225	440 922	3 303	0.7%
Current assets	4 067 834	3 892 157	175 677	4.5%
Inventories	998 092	867 581	130 511	15.0%
Trade and other receivables	750 890	420 558	330 332	78.5%
Retentions for construction contracts	20 723	16 276	4 447	27.3%
Amounts due and receivable from customers under construction contracts	374 063	171 763	202 300	117.8%
Current tax assets	32	421	-389	-92.4%
Other financial assets	901	2 432	-1 531	-63.0%
Cash and cash equivalents	1 923 133	2 413 126	-489 993	-20.3%
TOTAL ASSETS	4 914 245	4 713 364	200 881	4.3%

EQUITY AND LIABILITIES	30.06.2016	31.12.2015	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	537 317	599 206	-61 889	-10.3%
Share capital	145 848	145 848	0	0.0%
Share premium	87 163	87 163	0	0.0%
Other reserves	4 623	4 801	-178	-3.7%
Foreign exchange differences on translation of foreign operations	5 462	5 425	37	0.7%
Retained earnings	294 221	355 969	-61 748	-17.3%
Non-controlling interests	4 369	3 918	451	11.5%
Total shareholders' equity	541 686	603 124	-61 438	-10.2%
Liabilities	4 372 559	4 110 240	262 319	6.4%
Non-current liabilities	471 524	444 226	27 298	6.1%
Loans, borrowings and other external sources of finance	49 218	44 563	4 655	10.4%
Retentions for construction contracts	215 532	207 239	8 293	4.0%
Provisions for non-current liabilities and other charges	195 929	181 691	14 238	7.8%
Retirement benefits and similar obligations	7 657	7 657	0	0.0%
Other financial liabilities	3 188	3 076	112	3.6%
Current liabilities	3 901 035	3 666 014	235 021	6.4%
Loans, borrowings and other external sources of finance	18 342	19 778	-1 436	-7.3%
Trade and other liabilities	1 335 832	1 135 894	199 938	17.6%
Retentions for construction contracts	153 619	168 033	-14 414	-8.6%
Amounts due and payable to customers under construction contracts	1 225 422	1 239 940	-14 518	-1.2%
Deferred income	998 335	896 448	101 887	11.4%
Provisions for current liabilities and other charges	137 038	135 565	1 473	1.1%
Current tax liability	28 180	67 568	-39 388	-58.3%
Retirement benefits and similar obligations	1 350	1 350	0	0.0%
Other financial liabilities	2 917	1 438	1 479	102.9%
TOTAL EQUITY AND LIABILITIES	4 914 245	4 713 364	200 881	4.3%

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

As at 30 June 2016, consolidated total assets increased by PLN 200 881 thousand compared to 31 December 2015, mainly due to a 3.1% increase in the value of non-current assets (PLN 25 204 thousand) and a 4.5% increase in the current assets (PLN 175 677 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2016 compared to 31 December 2015 was caused mainly by the following:

- increase in the balance of property, plant and equipment by PLN 11 199 thousand mainly due to capital expenditures and new finance lease contracts in the amount of PLN 22 843 thousand. Moreover, depreciation in the amount of PLN 11 290 decreased property, plant and equipment,
- increase in the balance of deferred tax assets in the amount of PLN 3 303 thousand,
- granting a long-term loan to an associate, FBSerwis SA in the amount of PLN 6 860 thousand.

Current assets:

Simultaneously, current assets increased by PLN 175 677 thousand, due to the following:

- increase in the balance of trade and other receivables by PLN 330 332 thousand, as a result of invoicing cycle for construction works,
- increase in the balance of amounts due and receivable from customers under construction by PLN 202 300 thousand, caused mainly by discrepancies between the actual works carried out and invoicing,
- increase in the balance of inventories by PLN 130 511 thousand, mainly due to the developer activity.
- decrease in the balance of cash and cash equivalents by PLN 489 993 thousand, as a result of dividend payment and expenditures incurred on construction and developer contracts.

Equity and liabilities:

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

- increase in the balance of non-current liabilities by PLN 27 298 thousand, due to the increase in the balance of provisions for non-current liabilities by PLN 14 238 thousand, as well as, in the balance of retentions for construction contracts in the amount of PLN 8 293 thousand,
- increase in the balance of current liabilities by PLN 235 021 thousand, where the most important changes refer to:
 - increase in the value of short-term trade and other liabilities by PLN 199 938 thousand, which results from seasonality of construction works (the highest revenues and costs are realized in the second and third quarter),
 - increase in the balance of deferred income by PLN 101 887 thousand, related to the advance payments for apartments in developer activity.

Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01 - 30.06.2016	01.01 - 30.06.2015	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	2 429 700	2 268 240	161 460	7.1%
Cost of finished goods, services, goods for resale and raw materials sold	-2 129 426	-2 054 178	-75 248	3.7%
Gross profit on sales	300 274	214 062	86 212	40.3%
Selling expenses	-14 747	-13 897	-850	6.1%
Administrative expenses	-99 261	-91 538	-7 723	8.4%
Other operating income	26 906	28 619	-1 713	-6.0%
Other operating expenses	-34 902	-8 470	-26 432	312.1%
Operating profit	178 270	128 776	49 494	38.4%
Finance income	23 674	21 824	1 850	8.5%
Finance costs	-18 476	-12 933	-5 543	42.9%
Shares in net results of equity accounted companies	-524	-3 068	2 544	-82.9%
Gross profit	182 944	134 599	48 345	35.9%
Income tax	-36 426	-27 534	-8 892	32.3%
Net profit for the period	146 518	107 065	39 453	36.8%
<i>of which:</i>				
<i>attributable to the shareholders of the Company</i>	<i>146 067</i>	<i>106 595</i>	<i>39 472</i>	<i>37.0%</i>
<i>attributable to non-controlling interests</i>	<i>451</i>	<i>470</i>	<i>-19</i>	<i>-4.0%</i>

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

In the 6-month period ended 30 June 2016, the Budimex Group earned sales revenue of PLN 2 429 700 thousand, which represents a 7.1% increase compared to the result for 2015.

Gross profit on sales in the first half of 2016 was PLN 300 274 thousand, while in the corresponding period of the prior year it amounted to PLN 214 062 thousand. The gross sales profitability ratio was therefore 12.4% in the first half of 2016, while in the first half of 2015 was 9.4%.

In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Amounts due and payable to customers under construction contracts“. As at 30 June 2016, the balance of the provision for contract losses amounted to PLN 569 725 thousand. In the first half of 2016, the balance of provision for contract losses decreased by PLN 59 964 thousand.

Selling expenses increased in the first half of 2016 by PLN 850 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 7 723 thousand higher than expenses incurred in the corresponding period of 2015. The share of selling and administrative expenses in total sales increased from 4.6% in the first half of 2015 to 4.7% in the first half of the current year.

Other operating income for the first half of 2016 was PLN 26 906 thousand and comprised, among others, gain on compensations and contractual penalties in the amount of PLN 14 149 thousand, income from the reversal of provisions for penalties amounted to PLN 5 510 thousand, income from the reversal of provision for lawsuits in the amount of PLN 2 611 thousand, income from reversal of impairment write-downs against doubtful debts in the amount of PLN 2 379 thousand, as well as, write-downs against inventories value in the amount of PLN 893 thousand. Additionally, in the period of six months of 2016 Group companies disposed of property, plant and equipment and reported a gain on sale of PLN 334 thousand. The net book value of the property, plant and equipment amounted to PLN 0 thousand, while net value of liquidated fixed assets was PLN 37 thousand.

Other operating expenses for the first half of 2016 amounted to PLN 34 902 thousand, of which PLN 10 800 thousand related to creation of provisions for compensations and contractual penalties, PLN 3 512 thousand – to loss on settlement and valuation of FX forward and FX option derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts), PLN 12 571 thousand related to impairment write-downs against receivables and PLN 5 717 thousand related to compensations and contractual penalties paid out.

The reported operating profit of the Group in the first half of 2016 was PLN 178 270 thousand, while in the first half of 2015 it amounted to PLN 128 776 thousand. The operating profit for the first half of 2016 represented 7.3% of sales revenue value, while for the corresponding period of the prior year - 5.7% of sales revenue.

In the 6-month period ended 30 June 2016, the Group generated a gain on finance activities in the amount of PLN 5 198 thousand, while in the same period of the prior year – gain in the amount of PLN 8 891 thousand. Finance income in the first half of 2016 represented mainly interest of PLN 21 365 thousand, valuation of concession receivables of PLN 1 450 thousand, reversal of non-current receivables discount in the amount of PLN 250 thousand, as well as, positive exchange differences amounting to PLN 608 thousand.

Finance costs in the first half of 2016 represented mainly, interest costs of PLN 1 631 thousand, bank commissions on guarantees and loans of PLN 11 996 thousand paid by Group companies and costs from discount of long-term retention receivables and liabilities of PLN 4 379 thousand. During the first half of 2016, the Group incurred a loss on valuation and realization of interest rate swap derivative instrument contracts in the amount of PLN 446 thousand (made with a view to limiting the interest rate risk).

All of the valued derivative instruments (presented both in operating and financial activity), were classified as Level 2 in fair value hierarchy. In the 6-month period ended 30 June 2016, no movements between Level 1 and Level 2, as well as, from/to Level 3 in the fair value hierarchy occurred.

In the first half of 2016, the Group reported a gross profit of PLN 182 944 thousand, while in the corresponding period of the prior year – a gross profit of PLN 134 599 thousand.

Income tax for the 6-month period ended 30 June 2016 was PLN 36 426 thousand, of which:

- current tax was PLN 39 740 thousand,
- deferred tax in the amount of PLN (3 314) thousand.

As at 30 June 2016, the Group recognized a deferred tax asset in the amount of PLN 444 225 thousand, while as at 31 December 2015 - PLN 440 922 thousand. The reported statement of financial position items of deferred tax asset result mainly from a special method of settlement of construction contracts, under which the moment of recognition of costs as incurred and revenue as realized are different from the tax and accounting perspectives.

The net profit attributable to the shareholders of the Budimex SA for the first half of 2016 was PLN 146 067 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2015 was 106 595 thousand, which means increase at the level of 37%.

The net profit attributable to non-controlling interest for the first half of 2016 amounted to PLN 451 thousand. In the corresponding period of 2015, the net profit attributable to non-controlling interest amounted to PLN 470 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 comprises of cash in hand and bank deposits with maturity which does not exceed 3 months, which were not included in the investing activity.

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

- cash representing security for bank guarantees,
- funds kept in escrow by developer companies,
- cash of the consortia in the portion attributable to other consortium members,

provided their maturity does not exceed 3 months.

The Budimex Group entered the year 2016, with cash on hand and cash at bank amounting to a total of PLN 2 413 126 thousand. For the purpose of the Statement of Cash Flow this amount was reduced by the amount of cash of restricted use of PLN 229 049 thousand. Net cash flow for the first half of 2016 was negative and amounted to PLN 427 393 thousand. As at 30 June 2016 cash balance was PLN 1 923 133 thousand, of which cash of restricted use was PLN 166 022 thousand.

In the first half of 2016 the cash flows from operating activities showed a negative balance of PLN 193 449 thousand.

Cash flow from investing activities showed a negative balance of PLN 18 142 thousand, that resulted mainly from the purchase of property, plant and equipment, purchase of intangible assets and loans given.

Cash flow from financing activities for the first half of 2016 showed a negative balance of PLN 215 802 and resulted mainly from the 2015 dividend payment.

3.3 Finance management in the Budimex Group

In the period of 6 months of 2016, cash flow from the Budimex Group operating activity was negative, which is typical for construction activity, where significant incomes from operating activity occur at the end of the year, while during first two quarters cash is being engaged in current operating activity. In the first half of 2016, negative cash flow from operating activity mainly results from the working capital adjustments in the first quarter of 2016. These adjustments were as a result of significant cash surpluses generated in the fourth quarter of 2015 in the construction activity. In addition, in May 2016 the dividend was paid out in the amount of PLN 207 815 thousand, which had an impact on decreasing balance of cash and cash equivalents in the first half of 2016. Despite aforementioned decrease, as at 30 June 2016 the balance of cash and cash equivalents maintained at the high level, close to PLN 2 billion.

In accordance with the Group policy, any periodic surpluses of cash were invested mainly in bank deposits in banks of high financial rating. In addition, Budimex SA used cash surpluses to finance its suppliers of services and raw materials. This had a positive effect on the financial liquidity of these suppliers, and generated extra finance income (discounting) for Budimex SA.

At the same time, the Budimex Group reported an external debt regarding bank loans and borrowings and lease which as at 30 June 2016 was PLN 67 560 thousand and was slightly higher than as at 31 December 2015 (see table below). The indebtedness mainly comprised of: lease liabilities of Budimex SA and of Mostostal Kraków SA (concluded in order to finance purchases of tangible fixed assets – in case of Budimex SA mainly plant and machinery for the purposes of road contracts realization), 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. In the first half of 2016, Budimex SA had no credit lines used.

Bank loans and borrowings and other external sources of finance:	30.06.2016	31.12.2015	30.06.2015
- long-term	49 218	44 563	42 347
- short-term	18 342	19 778	20 836
Total	67 560	64 341	63 183

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

Ratio	30.06.2016	31.12.2015	30.06.2015
Equity to assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.11	0.13	0.11
Equity to non-current assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)	0.63	0.73	0.66
Debt ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.89	0.87	0.89
Assets to equity ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)	8.15	6.87	7.94

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

As at 30 June 2016, all of the aforementioned ratios, presenting financing structure of non-current assets and debt, maintained at the similar level in comparison to the corresponding period of the prior year.

Ratio	30.06.2016	31.12.2015	30.06.2015
Current Ratio (current assets)/(current liabilities)	1.04	1.06	1.05
Quick Ratio (or Acid Test) (current assets - inventory)/(current liabilities)	0.79	0.83	0.81

Liquidity ratios as at 30 June 2016 decreased slightly in comparison to the values reported in the previous periods which is related to the increase in the balance of trade and other liabilities and the decrease in the cash balance, which was caused, among others, by dividend payment made by Budimex SA.

The current very good financial standing of the Budimex Group in terms of liquidity and access to external sources of finance is the reason why there are no threats to the Group's ability to finance its business activities in the second half of 2016.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables:

	30.06.2016	31.12.2015
Contingent receivables	423 870	355 386
From related parties, of which:	-	-
- guarantees and sureties received	-	-
- bills of exchange received as security	-	-
From other entities, of which:	420 718	354 036
- guarantees and sureties received	407 788	348 558
- bills of exchange received as security	12 930	5 478
Other contingent receivables, of which:	3 152	1 350
- other off-balance-sheet receivables	3 152	1 350
Contingent liabilities	3 025 230	2 864 132
To related parties, of which:	5 139	5 286
- guarantees and sureties issued	5 139	5 286
- bills of exchange issued as security	-	-
To other entities, of which:	2 886 537	2 725 292
- guarantees and sureties issued	2 884 506	2 722 682
- bills of exchange issued as security	2 031	2 610
Other contingent liabilities, of which:	133 554	133 554
- other off-balance-sheet liabilities	133 554	133 554
Total contingent liabilities and contingent receivables	(2 601 360)	(2 508 746)

Contingent receivables arising from guarantees and sureties issued, represent guarantees issued by banks or other entities in favour of Budimex Group companies serving as security for the Group's claims against business partners in connection with executed construction contracts.

Contingent liabilities arising from guarantees and sureties issued, comprise mainly guarantees issued by banks to business partners of the Group companies to secure their claims against the Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees.

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

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

The table below shows loan guarantees and sureties issued by Budimex SA or its subsidiaries as at 30 June 2016:

Name of the company granting a surety for a loan or borrowing or granting a guarantee	Name of the (company) entity to which sureties or guarantees were granted	Total amount of loans or borrowings that has been duly guaranteed to the extent specified	Term for which sureties or guarantees were granted	Financial terms on which a surety or guarantee were granted	The nature of the relationship existing between BUDIMEX SA and the entity that incurred the loan or borrowing
Budimex SA	Mostostal Kraków SA	67 396	2019-09-30	against payment	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	20 453	2024-03-31	free of charge	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	206	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	86	2016-08-31	free of charge	subsidiary
Budimex SA	FBSerwis SA	3 875	2021-06-16	against payment	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 264	2018-11-16	against payment	associate
TOATL		93 280			

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 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	15 078 159	59.1%	15 078 159	59.1%
Aviva OFE Aviva BZ WBK	ordinary	1 720 000	6.7%	1 720 000	6.7%
Other shareholders	ordinary	8 731 939	34.2%	8 731 939	34.2%
Total		25 530 098	100.0%	25 530 098	100.0%

4.2 The Management and Supervisory Board

a) Composition of the Management Board

As at 30 June 2016, the Management Board of Budimex SA consisted of the following persons:

- Dariusz Jacek Blocher President of the Management Board, Chief Executive Officer
- Fernando Luis Pascual Larragoiti Vice-President of the Management Board
- Jacek Daniewski Board Member, Chief Legal Officer
- Radosław Górski Board Member, Chief General Construction
- Cezary Mączka Board Member, Chief HR Officer
- Artur Popko Board Member, Chief Infrastructure
- Henryk Urbański Board Member, Chief Property Officer
- Marcin Węglowski Board Member, Chief Financial Officer

Composition of the Management Board in the period from 1 January 2016 to 30 June 2016 has changed, as follows:

- on 14 March 2016, Supervisory Board of Budimex SA appointed Mr Radosław Górski and Mr Artur Popko to the position of the Board Members.

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 2016.

b) Composition of the Supervisory Board

As at 30 June 2016, the Supervisory Board of Budimex SA consisted of the following persons:

- Marek Michałowski Chairman of the Supervisory Board
- Alejandro de la Joya Ruiz de Velasco Vice-Chairman of the Supervisory Board
- Igor Adam Chalupec Secretary of the Supervisory Board
- Marzenna Anna Weresa Member of the Supervisory Board
- Ignacio Clopes Estela Member of the Supervisory Board
- Janusz Dedo Member of the Supervisory Board
- Javier Galindo Hernandez Member of the Supervisory Board
- Jose Carlos Garrido-Lestache Rodríguez Member of the Supervisory Board
- Piotr Kamiński Member of the Supervisory Board

Due to the Supervisory Board of VIII tenure mandate expiry, on 26 April 2016, the Ordinary General Meeting of Budimex SA, appointed Supervisory Board of IX tenure, in the above mentioned composition. On 26 April 2016, Supervisory Board was constituted, appointing Supervisory Board presidium as above.

Dariusz Blocher	President of the Management Board	.....	Henryk Urbański	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	.....	Marcin Węglowski	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Jacek Daniewski	Board Member	.....	Artur Popko	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Cezary Mączka	Board Member	.....	Radosław Górski	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Warsaw, 25 August 2016					