



THE BUDIMEX GROUP

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

for the first half of 2017

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1 BUSINESS ENVIRONMENT

1.1 General market condition

After a significant slowdown of the economic growth in the last two quarters of 2016, macroeconomic situation improved in the first months of 2017. According to the estimates by the Central Statistical Office, GDP growth in the first quarter of 2017 amounted to 4% whereas in the second quarter of this year it amounted to 3.9% (quick estimates by the Central Statistical Office). Improvement of the economic growth rate is accompanied by the fall in unemployment rate that amounted to 7.1% in June 2017 compared to 8.7% in the same period of the last year. In June 2017 inflation rate reached 1.5% year to year and remained within the range of the mid-term inflation target of National Bank of Poland (NBP).

In the first half of 2017 situation of the Polish construction industry improved in comparison to 2016. The value of construction and assembly production sold (in current prices) in the first half of 2017 was higher by 8.0% than the year earlier. Increase in the production resulted mainly from the improved situation in the civil engineering segment (rise by 7.5% compared to the first half of the previous year). It was the significant growth of construction and assembly production sold in the road and bridge sub-segment (increase by 18.4% year to year) that boosted civil engineering segment. Sale of construction and assembly production in the residential construction recorded a rise by 13.2% compared to the first half of 2016. Positive growth was also recorded in the non-residential construction (rise by 6.1% compared to the first half of 2016). In the first two quarters of 2017 higher construction output was accompanied by improvements in the overall business climate indicator in the construction industry, which reached a positive value in April 2017, for the first time since 2011. In June 2017 it stood at plus 6.4 points compared to minus 1.4 point year earlier and minus 2.0 points in June 2015.

In the first half of 2017 new investments in the housing development sector continued to increase. According to the data reported, the construction of 53 786 dwellings for sale or rental was started, which is 26.1% more than in the corresponding period of the previous year. A positive trend in the development market is confirmed by a number of dwellings for sale or rental for which building permit was issued (rise by 44.5% year to year to the level of 71 198) as well as high number of units presold by the top developers within six months of the current year. They recorded increase of presales exceeding 20% compared to the same period of the last year which was then stated as a record-breaking.

1.2 Market development prospects

According to the draft state budget for 2018, GDP growth in 2017 will reach the level of 3.6% and will be significantly higher in comparison to the rise in 2016 which amounted to 2.7%. Macroeconomic forecasts of the Ministry of Finance assume improvement of the economic growth to the level of 3.8% in 2018. The average annual inflation is estimated at the level of 1.8% in 2017 and at the level of 2.3% in the following year. The projected unemployment rate is expected to reach 7.2% at the end of 2017 and 6.4% at the end of the following year.

Prospects for the development of the construction industry vary, depending on the segment. The Ministry of Economy estimates that in 2017 the value of construction and assembly production made by companies employing over 9 people will rise by 7.0% compared to the previous year.

Further implementation of road investments within the "National Road Construction Programme for 2014-2023, with perspective until 2025" (NRCP) poses further challenge to the road segment. The list of investments in NRCP approved in September 2015 comprised 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). In the opinion of the Ministry of Infrastructure and Construction (MIB) the amount of PLN 107.1 billion reserved for the realization of NRCP was insufficient. In July 2017 the Council of Ministers approved the change of the resolution on long-term national road construction programme which assumes in particular increase of the financing limit to PLN 135.2 billion. It is planned to realize 117 road investments which cover 3 268 kilometers within the increased limit. Additional list of investment projects, not covered by the financing limit, includes 40 tasks with the total length of 1 911 kilometers. The whole range of tasks of the updated NRCP amounts to 5 179 kilometers i.e. by 396 kilometers more than in the NRCP approved in 2015. Further realization of Via Carpatia route within S61 and S19 national roads is one of the priorities of the government. Sources of financing of NRCP are currently a matter of debate. Credits and loans granted by international financial institutions, issue of bonds and extension of roads covered by electronic fee are listed as potential additional sources of the NRCP financing. Moreover, the Ministry of Infrastructure and Construction (MIB) has been requested to prepare a separate long-term national road pavement reinforcement programme so that the carrying capacity of national roads is in line with the UE requirements.

In the first half of 2017 General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad-GDDKiA), announced tenders for road tasks with length of about 240 kilometers. The pace at which new tenders were announced in the first half of the year was relatively higher than in the same period of the prior year when tenders were announced for 94 kilometers of freeways. As opposed to the tenders announced by the GDDKiA in the years 2014-2016, tenders are announced in a single-stage mode (without pre-selection) and emphasize adoption of non-price criteria. At the end of June 2017, the GDDKiA conducted tender proceedings under the NRCP for sections with a total length of 600 kilometres.

In the first half of 2017, the gross value of bids opened by the GDDKiA amounted to almost PLN 7.0 billion which was significantly higher than in the whole 2016 when the total value of opened bids amounted to PLN 1.2 billion. However, a long break resulted in a significant increase of price competition on the market. From the beginning of the activity of the NRCP i.e. between 2013-2017 the GDDKiA announced tenders under the NRCP for tasks with the length of almost 2 260 kilometers among which approx. 77 per cent were in the design & build formula. From the beginning of 2014 to the end of the first half of 2017, the gross value of bids opened by the GDDKiA under the NRCP amounted to approximately PLN 47.4 billion. In this period, the value of contracts signed for the construction works amounted to PLN 44.0 billion. In value term, estimated utilization

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

of the current budget programme i.e. PLN 135.2 billion exceeded 44 per cent (as at the half of 2017). In material terms, the bids were opened for 126 sections with the total length of approx. 1 660 kilometers.

Railway segment is currently in the phase of investment recovery and Long-term perspectives for railway market development are optimistic. According to the MIB, in 2017 capital expenditures of PKP PLK will amount to approx. PLN 5.5 billion compared to about PLN 4.1 billion in 2016. In accordance with the National Railway Programme (Krajowy Program Kolejowy, KPK) financing plan, in years 2015 - 2023 PKP PLK will implement projects with a value of PLN 63.7 billion within about 220 investments included in the basic list. Additionally, the reserve list includes more than 70 projects with a value of approx. PLN 34.4 billion, the execution of which depends on potential savings generated in the course of the implementation of the KPK. The value of the lowest bids within significant tenders announced by PKP PLK in the first half of 2017 amounted to more than PLN 9.0 billion of net value (excluding orders for ERTMS systems) and was many times higher than in the same period of the prior year when PKP PLK did not open bids in any significant railway tender (in the whole 2016 the value of bids opened in significant railway tenders amounted to PLN 5.9 billion of net value). After a period of intensified announcement of new tenders between 2015 – 2016, in 2017 PKP PLK plans to focus on signing contracts on construction works. In the first half of 2017, the value of agreements signed within significant railway contracts amounted to PLN 9.4 billion of net value (excluding orders for ERTMS systems). From the beginning of 2016, the value of the lowest bids placed within significant tenders announced by PKP PLK for railway construction works (excluding orders for ERTMS systems) amounted to PLN 14.9 billion of net value (reported as at the end of June 2017). The value of the relative agreements signed by PKP PLK from the beginning of 2016 amounted to PLN 10.4 billion of net value. The completion of the National Railway Programme (KPK) in value terms is estimated at more than 30 per cent (as at the end of June 2017). As announced by PKP PLK, the value of all contracts signed within KPK in 2017 will exceed PLN 20.0 billion. Intensified work focused on announcing new tenders for railway construction works is scheduled for 2018. Moreover, PKP PLK plans to sign all contracts for construction works which are included in KPK till the end of 2019.

In the second half of 2017, the sound trend on the residential construction market is expected to be maintained. The programme "Flat Plus" (Mieszkanie Plus) introduced by MIB does not significantly impact growth of sale of flats recorded by developers. Low interest rates, the level of which should not change till the end of 2018 according to the announcement of the President of the NBP, influence the stable growth of mortgage credits granted that in turn enable further development of the residential market in the short term.

2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2017

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
2017-03-17	652 194	Trasa Łagiewnicka SA	Construction of Łagiewnicka Route in Kraków from the junction of Grota – Roweckiego St. to the junction with Beskidzka St. and Halszki St. along with construction of section of a tram line
2017-05-29	393 484	PKP Polskie Linie Kolejowe SA	Execution of works on railway line no. 7 Warszawa Wschodnia Osobowa – Dorohusk at the section Warszawa – Otwock Dęblin – Lublin, section Otwock – Lublin in km 26,050 – 175,850. Partial order B
2017-06-05	334 644	PKP Polskie Linie Kolejowe SA	Execution of works on railway line no. 7 Warszawa Wschodnia Osobowa – Dorohusk at the section Warszawa – Otwock Dęblin – Lublin, section Otwock – Lublin in km 26,050 – 175,850. Partial order A
2017-04-05	163 684	PKP Polskie Linie Kolejowe SA	Execution of construction works in LCS Kutno - section Żychlin-Barłogi within project "Works on railway line E20 section Warszawa - Poznań – other works, section Sochaczew - Swarzędz"

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,
- unfavourable 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 2017, compared to 31 December 2016, are presented in the table below:

ASSETS	30.06.2017	31.12.2016	Change	Change %
Non-current assets	898 487	856 936	41 551	4.9%
Property, plant and equipment	116 943	114 674	2 269	2.0%
Investment properties	24 901	25 581	(680)	(2.7%)
Intangible assets	28 125	29 926	(1 801)	(6.0%)
Goodwill of subsidiaries	73 237	73 237	0	0.0%
Investments in equity accounted companies	39 777	43 427	(3 650)	(8.4%)
Financial assets available for sale	9 396	9 396	0	0.0%
Retentions for construction contracts	26 990	23 333	3 657	15.7%
Trade and other receivables	36 766	36 256	510	1.4%
Concession agreement receivables	46 265	46 096	169	0.4%
Other financial assets	65 185	10 035	55 150	549.6%
Deferred tax assets	430 902	444 975	(14 073)	(3.2%)
Current assets	4 265 338	4 736 729	(471 391)	(10.0%)
Inventories	1 455 381	1 183 649	271 732	23.0%
Trade and other receivables	613 111	516 720	96 391	18.7%
Retentions for construction contracts	36 984	30 818	6 166	20.0%
Amounts due and receivable from customers under construction contracts	749 302	288 456	460 846	159.8%
Current tax assets	1 067	194	873	450.0%
Other financial assets	181 833	1 758	180 075	10 243.2%
Cash and cash equivalents	1 227 660	2 715 134	(1 487 474)	(54.8%)
TOTAL ASSETS	5 163 825	5 593 665	(429 840)	(7.7%)

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

EQUITY AND LIABILITIES	30.06.2017	31.12.2016	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	613 692	801 377	(187 685)	(23.4%)
Share capital	145 848	145 848	0	0.0%
Share premium	87 163	87 163	0	0.0%
Other reserves	4 725	4 725	0	0.0%
Foreign exchange differences on translation of foreign operations	5 236	5 525	(289)	(5.2%)
Retained earnings	370 720	558 116	(187 396)	(33.6%)
Non-controlling interests	1 506	4 443	(2 937)	(66.1%)
Total shareholders' equity	615 198	805 820	(190 622)	(23.7%)
Liabilities	4 548 627	4 787 845	(239 218)	(5.0%)
Non-current liabilities	506 564	488 704	17 860	3.7%
Loans, borrowings and other external sources of finance	63 162	62 333	829	1.3%
Retentions for construction contracts	216 174	206 147	10 027	4.9%
Provisions for non-current liabilities and other charges	216 080	210 303	5 777	2.8%
Retirement benefits and similar obligations	7 937	7 937	0	0.0%
Other financial liabilities	3 211	1 984	1 227	61.8%
Current liabilities	4 042 063	4 299 141	(257 078)	(6.0%)
Loans, borrowings and other external sources of finance	22 966	20 276	2 690	13.3%
Trade and other liabilities	1 464 283	1 520 870	(56 587)	(3.7%)
Retentions for construction contracts	196 296	186 244	10 052	5.4%
Amounts due and payable to customers under construction contracts	1 110 932	1 352 639	(241 707)	(17.9%)
Deferred income	1 064 330	1 002 017	62 313	6.2%
Provisions for current liabilities and other charges	173 633	161 835	11 798	7.3%
Current tax liability	3 948	52 820	(48 872)	(92.5%)
Retirement benefits and similar obligations	1 422	1 422	0	0.0%
Other financial liabilities	4 253	1 018	3 235	317.8%
TOTAL EQUITY AND LIABILITIES	5 163 825	5 593 665	(429 840)	(7.7%)

As at 30 June 2017, consolidated total assets decreased by PLN 429 840 thousand compared to 31 December 2016, mainly due to a 10.0% decrease in the current assets (PLN 471 391 thousand) and a 4.9% increase in the value of non-current assets (PLN 41 551 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2017 compared to 31 December 2016 was caused mainly by:

- an increase in the balance of property, plant and equipment by PLN 2 269 thousand mainly due to capital expenditures and new finance lease contracts in the amount of PLN 18 447 thousand. Moreover, depreciation in the amount of PLN 14 658 decreased the balance of property, plant and equipment,
- a decrease in the balance of deferred tax assets in the amount of PLN 14 073 thousand,
- granting long-term loans to an associate, FBSerwis SA in the amount of PLN 49 046 thousand.

Current assets:

Simultaneously, current assets decreased by PLN 471 391 thousand, mainly due to a decrease in the balance of cash and cash equivalents by PLN 1 487 474 thousand, as a result of dividend payment and a higher 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 96 391 thousand, as a result of invoicing cycle of construction works,
- an increase in the balance of amounts due and receivable from customers under construction contracts by PLN 460 846 thousand, mainly due to discrepancies between the actual works carried out and invoicing and due to general business growth,
- an increase in the balance of inventories by PLN 271 732 thousand, mainly due to the developer activity (mainly purchase of new plots),
- an increase in the balance of other financial assets by PLN 180 075 thousand, out of which PLN 179 640 thousand was the purchase of short-term bonds of some Polish mortgage banks and interests accrued on them.

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Equity and liabilities:

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

- a decrease of retained earnings as a result of dividend payment,
- an increase in the balance of non-current liabilities by PLN 17 860 thousand, mainly due to an increase in the balance of provisions for non-current liabilities by PLN 5 777 thousand, as well as an increase in the balance of retentions for construction contracts in the amount of PLN 10 027 thousand,
- a decrease in the balance of current liabilities by PLN 257 078 thousand, where the most important changes refer to:
 - a decrease in the value of short-term trade and other liabilities by PLN 56 587 thousand due to a seasonal fall in the balance of contract valuation (overbilling),
 - a decrease in the balance of amounts due and payable to customers under construction contracts by PLN 241 707 thousand,
 - an increase in the balance of deferred income by PLN 62 313 thousand, mainly due 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 - 30.06.2017	01.01 - 30.06.2016	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	2 721 772	2 429 700	292 072	12.0%
Cost of finished goods, services, goods for resale and raw materials sold	(2 369 678)	(2 129 426)	(240 252)	11.3%
Gross profit on sales	352 094	300 274	51 820	17.3%
Selling expenses	(16 303)	(14 747)	(1 556)	10.6%
Administrative expenses	(102 322)	(99 261)	(3 061)	3.1%
Other operating income	20 415	26 906	(6 491)	(24.1%)
Other operating expenses	(4 730)	(34 902)	30 172	(86.5%)
Operating profit	249 154	178 270	70 884	39.8%
Finance income	18 655	23 674	(5 019)	(21.2%)
Finance costs	(20 470)	(18 476)	(1 994)	10.8%
Shares in net results of equity accounted companies	(3 650)	(524)	(3 126)	596.6%
Gross profit	243 689	182 944	60 745	33.2%
Income tax	(48 908)	(36 426)	(12 482)	34.3%
Net profit for the period	194 781	146 518	48 263	32.9%
<i>of which:</i>				
<i>attributable to the shareholders of the Company</i>	<i>194 638</i>	<i>146 067</i>	<i>48 571</i>	<i>33.3%</i>
<i>attributable to non-controlling interests</i>	<i>143</i>	<i>451</i>	<i>(308)</i>	<i>(68.3%)</i>

In the 6-month period ended 30 June 2017, the Budimex Group earned sales revenue of PLN 2 721 772 thousand which means a 12.0% increase on the corresponding period of 2016. Sales revenue of the Budimex Group for the second quarter of 2017 only amounted to PLN 1 669 032 thousand and was PLN 226 986 thousand higher (15.7%) than in the corresponding period of the previous year.

In the first half of 2017 construction-assembly production in Poland expressed in current prices increased by 8.0% (an increase by 7.6% 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 8.84% on the corresponding period.

Gross profit on sales in the first half of 2017 was PLN 352 094 thousand, while in the corresponding period of the prior year it amounted to PLN 300 274 thousand. The gross sales profitability ratio was therefore 12.9% in the first half of 2017, while in the first half of 2016 was 12.4%. On the other hand the gross profitability ratio was 11.3% in the second quarter of 2017 compared to 12.9% in the corresponding period of 2016.

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 2017, the balance of the provision for contract losses amounted to PLN 407 277 thousand. In the first half of 2017, the balance of provision for contract losses decreased by PLN 1 178 thousand, while only in the second quarter of 2017 the balance of provision for contract losses increased by PLN 15 578 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2017 the provision for warranty amounted to PLN 298 656 thousand. In the 6-month period ended 30 June 2017 the balance of the

provision for warranty increased by PLN 19 949 thousand, while in the second quarter of 2017 the increase was PLN 13 371 thousand.

Selling expenses increased in the first half of 2017 by PLN 1 556 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 3 061 thousand higher than expenses incurred in the corresponding period of 2016. The share of selling and administrative expenses in total sales was 4.4% in the first half of 2017 compared to 4.7% in the corresponding period of 2016.

Other operating income for the first half of 2017 was PLN 20 415 thousand and comprised: gain on valuation and realization of FX forward and FX option derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 2 996 thousand (a loss in the second quarter of 2017 only was PLN 73 thousand), income from compensations and contractual penalties in the amount of PLN 8 617 thousand (PLN 4 783 thousand in the second quarter of 2017 only) and reversal of provisions for lawsuits in the amount of PLN 2 583 thousand (entirely reversed in the first quarter of 2017). Reversed write-off for receivables due to repayment by debtors amounted to PLN 2 503 thousand (PLN 287 thousand in the second quarter of 2017 only). The write-off for overdue liabilities amounted to PLN 1 895 thousand (PLN 683 thousand in the second quarter of 2017 only). Additionally, in the period of six months of 2017 Group companies disposed of property, plant and equipment and investment properties and reported a gain on sale of PLN 1 370 thousand, at the same time incurring a loss on liquidation of plant, property and equipment of PLN 580 thousand. The net book value of the property, plant and equipment and investment properties sold amounted to PLN 1 579 thousand.

Other operating expenses for the first half of 2017 amounted to PLN 4 730 thousand, of which PLN 1 338 thousand related to creation of write-off for receivables (minus PLN 3 245 thousand only in the second quarter of 2017), PLN 1 135 thousand related to compensations and contractual penalties paid out (PLN 375 thousand in the second quarter of 2017 only) and PLN 992 thousand – to donations (PLN 493 thousand in the second quarter of 2017 only).

The reported operating profit of the Group in the first half of 2017 was PLN 249 154 thousand (PLN 138 804 thousand in the second quarter of 2017 only), while in the first half of 2016 it amounted to PLN 178 270 thousand (PLN 115 375 thousand in the second quarter of 2016 only). The operating profit for the first half of 2017 represented 9.2% of sales revenue value (8.3% in the second quarter of 2017 only), while for the corresponding period of the prior year – 7.3% of sales revenue (8.0% in the second quarter of 2016 only).

In the 6-month period ended 30 June 2017 the Group incurred a loss on finance activities in the amount of PLN 1 815 thousand (a loss amounted to PLN 810 thousand in the second quarter of 2017 only), while in the same period of the prior year – gain in the amount of PLN 5 198 thousand (a gain amounted to PLN 746 thousand in the second quarter of 2016 only). Finance income in the first half of 2017 represented mainly interest of PLN 16 992 thousand (PLN 7 664 thousand in the second quarter of 2017), valuation of receivables from service concession agreement of PLN 1 463 thousand (PLN 732 thousand in the second quarter of 2017 only), reversal of discounting of long-term receivables in the amount of PLN 200 thousand (PLN 98 thousand in the second quarter of 2017 only).

Finance costs in the first half of 2017 represented, among others, interest costs of PLN 2 205 thousand (PLN 1 145 thousand in the second quarter of 2017 only), bank commissions on guarantees and loans of PLN 11 802 thousand paid by Group companies (PLN 6 002 thousand in the second quarter of 2017 only) and costs from discounting of long-term retention receivables and liabilities of PLN 4 481 thousand (PLN 2 111 thousand in the second quarter of 2017 only). During the first half of 2017 the Group incurred a loss on valuation and realization of interest rate swap derivative instrument in the amount of PLN 603 thousand (PLN 442 thousand in the second quarter of 2017 only). Surplus of negative exchange rate differences over positive differences in the amount of PLN 1 362 thousand was also recognized in the finance costs.

In the first half of 2017, the Group reported a gross profit of PLN 243 689 thousand, while in the corresponding period of the prior year – a gross profit of PLN 182 944 thousand.

Income tax for the 6-month period ended 30 June 2017 was PLN 48 908 thousand (PLN 36 426 thousand for the first half of 2016), of which:

- current tax was PLN 34 819 thousand,
- deferred tax in the amount of PLN 14 089 thousand.

As at 30 June 2017, the Group recognized a deferred tax asset in the amount of PLN 430 902 thousand, while as at 31 December 2016 – PLN 444 975 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 2017 was PLN 194 638 thousand (PLN 109 480 thousand in the second quarter of 2017), while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2016 was PLN 146 067 thousand (PLN 94 525 thousand in the second quarter of 2016 only).

The net profit attributable to non-controlling interest for the first half of 2017 amounted to PLN 143 thousand (PLN 48 thousand in the second quarter of 2017 only). In the corresponding period of 2016, the net profit attributable to non-controlling interest amounted to PLN 451 thousand (PLN 76 thousand in the second quarter of 2016).

(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:

- security for bank guarantees,
- funds gathered at open housing escrow accounts,
- cash at escrow accounts and current accounts in the part due to construction contract contractors together with a Group company.

The Budimex Group entered the year 2017 with cash on hand and cash at bank amounting to a total of PLN 2 715 134 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 191 101 thousand. Net cash flow for the first half of 2017 was negative and amounted to PLN 1 460 598 thousand. As at 30 June 2017 cash balance was PLN 1 227 660 thousand, of which cash of restricted use was PLN 164 949 thousand.

In the first half of 2017 the cash flows from operating activities showed a negative balance of PLN 832 845 thousand.

Cash flow from investing activities showed a negative balance of PLN 237 396 thousand, that resulted mainly from the purchase of property, plant and equipment, purchase of intangible assets and short-term bonds of some Polish mortgage banks and loans granted.

Cash flow from financing activities for the first half of 2017 showed a negative balance of PLN 390 357 and resulted mainly from the 2016 dividend payment.

3.3 Finance management in the Budimex Group

In the first half of 2017 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 2017, negative cash flow from operating activity mainly results from the working capital adjustments in the first quarter of 2017. These adjustments were as a result of significant cash surpluses generated in the fourth quarter of 2016 in the construction activity.

The following factors contributed to the decrease of the cash balance: payout of historically highest dividend in the amount of PLN 382 696 thousand in June 2017, expenses on land purchases in the developer activity in the amount of PLN 180 700 thousand, as well as long-term financial investment of Budimex SA in the service activity according to the Group strategy carried out by an associate FB Serwis SA in the amount of PLN 49 046 thousand. Therefore, the balance of cash and liquid financial assets held by the Budimex Group was lower as at 30 June 2017 than at the end of the half-year of the previous year and amounted to PLN 1 407 300 thousand.

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 2017 was PLN 86 128 thousand and was slightly higher than as at 31 December 2016 (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 and railway 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 2017, Budimex SA had no credit lines used.

Bank loans and borrowings and other external sources of finance:	30.06.2017	31.12.2016	30.06.2016
- long-term	63 162	62 333	49 218
- short-term	22 966	20 276	18 342
Total	86 128	82 609	67 560

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

Ratio	30.06.2017	31.12.2016	30.06.2016
Equity to assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.12	0.14	0.11
Equity to non-current assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)	0.68	0.94	0.63
Debt ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.88	0.86	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)	7.41	5.98	8.15

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

As at 30 June 2017, all of the aforementioned ratios, presenting financing structure of non-current assets and debt, were at a similar level in comparison to the corresponding periods.

Ratio	30.06.2017	31.12.2016	30.06.2016
Current Ratio (current assets)/(current liabilities)	1.06	1.10	1.04
Quick Ratio (or Acid Test) (current assets - inventory)/(current liabilities)	0.70	0.83	0.79

The current ratio as at 30 June 2017 improved slightly in comparison to the corresponding period of the previous year. At the same time, the quick ratio decreased significantly due to a significant increase in the inventory balance in the last 12 months. Almost 75% of the increase corresponds to an increase in inventories of the developer activity, mainly due to intense spending on purchases of land and due to an increase in the value of the carried out development projects.

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 2017.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables:

	30.06.2017	31.12.2016
Contingent receivables	552 178	503 591
From related parties, of which:	-	-
- guarantees and sureties received	-	-
- bills of exchange received as security	-	-
From other entities, of which:	517 260	487 474
- guarantees and sureties received	512 409	475 101
- bills of exchange received as security	4 851	12 373
Other contingent receivables, of which:	34 918	16 117
- other off-balance-sheet receivables	34 918	16 117
Contingent liabilities	3 464 007	3 169 442
To related parties, of which:	2 827	5 037
- guarantees and sureties issued	2 827	5 037
- bills of exchange issued as security	-	-
To other entities, of which:	3 326 799	3 030 851
- guarantees and sureties issued	3 311 844	3 028 156
- bills of exchange issued as security	14 955	2 695
Other contingent liabilities, of which:	134 381	133 554
- other off-balance-sheet liabilities	134 381	133 554
Total contingent liabilities and contingent receivables	(2 911 829)	(2 665 851)

Contingent receivables arising from guarantees and sureties issued, represent guarantees issued by banks or other entities in favour of the 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 134 381 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)

Guarantees and sureties issued by Budimex SA and its subsidiaries as at 30 June 2017:

Name of the company which issued a guarantee or surety	Name of the (company) entity which received a surety or a guarantee	Total value of guarantees or sureties issued	Period of guarantees or sureties issuance	Financial conditions in respect of guarantees and sureties issued	Type of relations between Budimex SA and the entity which took out a guarantee or surety
Budimex SA	Mostostal Kraków SA	149 887	2025-08-13	against payment	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	64 950*	2026-08-20	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	10 110	2020-02-17	against payment	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	206	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Kolejnictwo SA	7 332	2025-07-31	against payment	subsidiary
Budimex SA	Budimex Bau GmbH	82	2017-12-31	free of charge	subsidiary
Budimex SA	FBSerwis SA	1 564	2020-10-30	against payment	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	against payment	associate
OGÓŁEM		235 394			

* surety was granted to contracts realized by Budimex SA

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 2017 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) - Ferrovial SA Group company (Spain)	ordinary	14 078 159	55.1%	14 078 159	55.1%
Aviva OFE Aviva BZ WBK	ordinary	2 344 000	9.2%	2 344 000	9.2%
Nationale Nederlanden OFE	ordinary	1 376 939	5.4%	1 376 939	5.4%
Other shareholders	ordinary	7 731 000	30.3%	7 731 000	30.3%
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 2017, the Management Board of Budimex SA consisted of the following persons:

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

On 28 March 2017, the Supervisory Board of Budimex SA appointed the President of the Management Board and then at the request of the President of the Management Board it appointed the Vice-President of the Management Board and Board

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

Members for the IX period of term of office. All the above stipulated persons were appointed to the composition of the Management Board.

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 2017.

b) Composition of the Supervisory Board

As at 30 June 2017, 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 Deputy Chairperson of the Supervisory Board
- Igor Adam Chalupec Supervisory Board secretary
- Marzenna Anna Weresa Supervisory Board Member
- Ignacio Clopes Estela Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Javier Galindo Hernandez Supervisory Board Member
- Jose Carlos Garrido-Lestache Rodríguez Supervisory Board Member
- Piotr Kamiński Supervisory Board Member

There were no changes to the composition of the Supervisory Board in the period from 1 January 2017 to 30 June 2017.

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, 28 August 2017					