



THE BUDIMEX GROUP

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

for the first half of 2022

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1 BUSINESS ENVIRONMENT

1.1 General market condition

After a period of visible recovery in business situation, economic activity began to slow down with the outbreak of war in Ukraine at the end of February this year. The global economies, including the Polish economy, were adversely affected by, among other things, restriction of gas supplies to Europe by Russia, trade disruptions with Ukraine, Russia and Belarus, and a marked increase in uncertainty, visible in the decisions of economic entities. The low value of the PMI index for domestic manufacturing, which fell to 44.4 points in June 2022, compared to a record high of 59.4 points a year earlier, suggests the beginning of a recession in the economy. The economic situation in the coming months will be strongly correlated with the further course of Russia's invasion of Ukraine and the epidemic regulation decisions taken in connection with the COVID-19.

According to an estimate prepared by the Central Statistical Office, gross domestic product (GDP) growth in the first quarter of 2022 was 5.9% (y/y), as opposed to a decline of 0.9% recorded in the same period last year. In June 2022, the unemployment rate was 4.9%, compared to 5.9% in the corresponding month of the previous year. In addition, recent months have seen a marked increase in the consumer price index, which stood at 15.5% (y/y) in June 2022, significantly exceeding the National Bank of Poland's (NBP) medium-term inflation target.

The value of construction and assembly production sold (at constant prices) in the first half of 2022 increased by 12% compared to the corresponding period of the previous year. The civil engineering facilities segment recorded an increase of 5.9% compared to last year. The same growth also occurred in the specialised construction works segment. However, for companies involved in the construction of buildings, the value of construction and assembly production increased by 24.6% in the first half of 2022 compared to the corresponding period of the previous year. The construction business climate index deteriorated significantly in June 2022, reaching the value of -15.5 points compared to -5.5 points a year earlier.

Low level of interest rates observed in recent years (and therefore the low cost of capital) was favourable for the construction market but a cycle of increases announced by the Monetary Policy Council brought the reference rate to 6.5% in July this year. This translates into a significant decrease in the number of loans granted (the number of applicants for a housing loan in June 2022 was 59.7% lower compared to the corresponding month last year).

High interest rates are affecting investors and individual clients, who struggle with deteriorating creditworthiness and higher mortgage costs, cause weaker residential construction results.

The total installed capacity of renewable energy sources in Poland was 19.7 GW in May this year, representing 34.1% of all electricity sources at that time. The structure of installed capacity was dominated by photovoltaics (approximately 52% of all renewable capacity), with an installed capacity at the end of May this year was 10.22 GW (compared to 4.98 GW in the corresponding month of 2021).

1.2 Market development prospects

The future economic situation in Poland depends primarily on the further development of the geopolitical situation in connection with the conflict in Ukraine and its consequences regarding the disruption of the global economy. According to macroeconomic forecasts published in July 2022 by the National Bank of Poland (NBP), the domestic economy will still be influenced by a negative supply shock, as a consequence of which the development of the Polish economy will slow down. After a period of visible recovery in economic activity in 2021, GDP growth will slow down in the coming months. GDP growth in Poland in 2022 and 2023 will reach 4.7% and 1.4% year on year, respectively. According to the NBP projection, average annual inflation is estimated at 14.2% and 12.3% in 2022 and 2023 respectively. The average unemployment rate estimated by the NBP is expected to reach 3.1% in 2022 and 3.9% in 2023. The projections indicate that unemployment is expected to rise steadily in the subsequent quarters of 2024, reaching 4.7% in Q4.

The Ministry of Climate and Environment considers some of the most important targets for the energy sector in the coming years to be those concerning the development of renewable energy sources and the energy transition. Strategies implemented as part of Poland's Energy Policy until 2040 (PEP2040) include systematic increase in the share of RES in gross final energy consumption in the electricity, transport and heating and cooling sectors. Planned activities include the commissioning of the first offshore wind power plant (around 2024/2025) as well as enabling and facilitating continuous technological progress. Investment programmes such as TSOs and DSOs aimed at supporting the development of the RES sector in the coming years are also worth noting. In the long term, these measures are expected to increase energy security, improve the competitiveness of the economy or reduce the costs associated with pollutant emissions, among other things.

The value of tenders announced in the infrastructure market is highly dependent on the level of funding received from the European Union. The value of the new EU perspective for 2021-2027 is EUR 1 074 billion and will be further enriched by funding related to the special recovery package for Member States affected by the COVID-19 pandemic. The fund, called NextGenerationEU, is a temporary economic recovery instrument worth more than EUR 800 billion, which consists of both a grant form and a loan part. The value of the allocation of EU funds to Poland under the 2021-2027 budget will be almost EUR 108 billion, compared to the EUR 117 billion (in constant 2018 prices) that Poland received under the previous perspective. Moreover, the European Commission on 1 June 2022 approved an EUR 36 billion National Reconstruction Plan (KPO) (EUR 23.85 billion in grants and EUR 12.11 billion in loans). Estimates by the Polish Economic Institute indicate that KPO will increase GDP growth by 1 percentage point in 2023 and 1.3 percentage points in 2024. However, before Poland receives the funds from the individual tranches, the country is obliged to achieve a number of milestones related to the introduction of socio-economic reforms compatible with the principles of the European Union. At the same time, the Polish Development Fund announced that it will be

fully ready to launch investments as early as Q3 2022, and those projects that are already at an advanced stage of work will be pre-financed with domestic funds.

The mood among contractors in the area of large road projects is rather pessimistic. Despite the fact that road construction plans for the coming years are very ambitious, contractors are struggling with difficulties in recruiting employees and a continuous increase in the cost of raw materials and materials. Due to the rapid increase in costs, contractors submit bids significantly exceeding the budgets of the General Directorate for National Roads and Motorways (GDDKiA). Public consultations are currently underway as part of the Strategic Environmental Impact Assessment - they are necessary for the adoption of the PBDK 2030 resolution (with an outlook up to 2030). The investments included in the new version of the programme cannot start until it is approved. The plans envisage the construction of motorways and expressways with a length of around 2,000 kilometres and the construction of 28 ring roads. The National Road Fund's expenditures on investment tasks are to amount to PLN 258 billion. GDDKiA signed contracts for the creation of a technical-economic-environmental study for two western sections of the Warsaw Agglomeration Ring Road, which will connect the S10 expressway with the S7 road. Completion of the design works is scheduled for 2026. The most favourable corridor of the planned investment (S10, S50 and A50) is 363 kilometres long, while the estimated cost of implementation will exceed PLN 23 billion.

In the first half of 2022, the General Directorate for National Roads and Motorways (GDDKiA) signed eight large contracts for the implementation of investments from the Programme for the Construction of National Roads (PBDK) with a net value of PLN 4.3 billion. At the end of the first half of 2022, 101 tasks from the programme (PBDK) with a total length of 1,342.5 km and a value of PLN 52 billion were in progress. In addition, work is underway on the construction of 15 ring roads from the Programme for the Construction of 100 Ring roads (PB100) with a total length of 115.6 km and a value of PLN 2 billion. The effect of the increase in the prices of construction materials and the uncertainty as to their further changes can be seen in the average value of the lowest bids in tender procedures. The average value of the lowest bids in procedures opened in the first half of 2022 represents 101% against the budget, compared to 76% recorded in the corresponding period of the previous year. For 2022, the General Directorate for National Roads and Motorways (GDDKiA) has planned to announce tenders for the construction of 475 kilometres of roads worth PLN 22.5 billion, while 346 kilometres of new roads are to be put into service. Design documentation for 650 kilometres of roads is in the preparation process.

Due to the significant increase in raw material prices, the General Directorate for National Roads and Motorways (GDDKiA) has decided to increase the contract valorisation limit to 10% of its value. The new limit also includes contracts already signed, which did not have any valorisation. By the end of August, the GDDKiA intends to conclude 100 annexes with contractors increasing the valorisation limit to 10%. The total value of these annexes is PLN 2.7 billion.

The prospects for the development of the railway market are optimistic. In 2022, PKP PLK planned to announce tenders with a maximum value of PLN 12 billion. In the first half of 2022, the value of open bids in infrastructure tenders of significant value amounts to PLN 13.6 billion. During this period, one contract for the realisation of an investment worth PLN 300 million was concluded. For comparison, in the first half of 2021, 2 agreements worth a total of PLN 240 million were signed under major railway contracts. The investment expenditure that PKP PLK intends to incur this year is several billion PLN. The budget of the „Kolej Plus” programme has been increased from PLN 5.6 billion to over PLN 11 billion. Under the programme, 34 projects are to be completed by 2028. The government has announced that another National Railway Programme (KPK) will not be created, while the current KPK programme, planned until 2023, will be extended to include projects planned for implementation until 2030. Proceedings worth PLN 20 billion, for which the source of funding is to be the National Reconstruction Plan (KPO), still cannot be announced due to the uncertain fate of Poland obtaining the said funds. As part of the CEF „Connecting Europe” programme, Poland has received funding in the amount of approximately EUR 1.3 billion. The largest project will be the modernisation of the E65 Tychy - Most Vistula railway line, with a funding of EUR 937 million.

Despite the outbreak of war in Ukraine, the General Directorate for National Roads and Motorways (GDDKiA) upholds its plans for tenders in 2022. This will include, among others, 340 km of expressways and more than 30 km of ring roads. Due to the indirect side effects of the military action in Ukraine, the construction industry has felt significant pressure from rising raw material prices. In response to the risks occurring, the government has decided to redirect PLN 2.7 billion to national roads. The funds will be used to increase the financial limit of the National Roads Construction Programme (PBDK) (PLN 2.6 billion) and the Programme for the Construction of 100 ring roads (PB100) (PLN 115 million). The Ministry of Development and Technology is preparing a draft of a special act to facilitate the valorisation of contracts in all categories of contracts covered by public procurement. For contracts concluded before 1 January 2021, it will be possible to introduce valorisation clauses, and in contracts concluded after that date, it will be possible to raise valorisation limits. The increase in the valorisation limits from 5% to 10% also covers road contracts concluded with GDDKiA before 2022. A novelty is the extension of valorisation to contracts for preparatory and maintenance works.

After the Solidarity Transport Hub Poland (CPK) company signed a strategic consultancy agreement with Incheon Airport in 2020 and several important tenders were awarded in 2021, the time has come for the next steps in the development of the project. Market consultations with potential contractors for rail routes connecting Baranów Airport with various regions of Poland are currently underway. More significantly, CPK has signed framework agreements with eight contractors for construction work on the site of the future airport. The estimated value of the contract is more than PLN 1.7 billion.

Another key investment project in the coming years is the updated plan of Polskie Sieci Energetyczne (PSE), which plans to allocate PLN 32.2 billion for investments as part of its 'Development Plan for Meeting Current and Future Demand for Electricity for 2023-2032'. The planned financial outlays include not only the investments included in the previous plan (PLN 13.8 billion), but also new investments of PLN 13.3 billion. The operator estimates that in the next 10 years there could be 20GW from photovoltaic sources, more than 14GW in onshore wind power plants and almost 11GW in offshore wind power plants, which

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

means the possibility of producing more than 100 TWh of electricity per year after 2030. This year, the company has already announced more than 19 tenders for the supply of apparatus and materials worth more than PLN 1 billion.

2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2022

2.1 Major construction contracts concluded by the Budimex Group companies

| Contract date | Customer | Contract value for the Budimex Group (in PLN thousand) | Type of construction |
|---------------|---|--|--|
| 2022-01-04 | Komenda Główna Straży Granicznej | 326 248 | Construction of the protection of the state border on the section of the Podlasie Border Guard Division, consisting in the design and construction of a physical barrier, hereinafter: "barrier" on section No. 1 (section length approx. 54.82 km) and section No. 2 (section length approx. 50.73 km) of the Podlasie Border Guard Division. |
| 2022-02-14 | Skarb Państwa – Minister Obrony Narodowej, Zakład Inwestycji Organizacji Traktatu Północnoatlantyckiego | 215 527 | Execution of construction and assembly works as part of the extension of the military complex in Siedlce, including, inter alia, the construction of a sports hall building, a warehouse and staff building, a sports field complex, the construction of a military kitchen and canteen, two multi-branch warehouses, workshop building, wash and fuel station for military motor vehicles and accompanying infrastructure, including land development |
| 2022-03-29 | Tramwaje Warszawskie Sp. z o.o. | 557 255 | Design and execution of works as part of the investment project titled: "Construction of a fast tram route from Kasprzaka street to Wilanów on the following sections: from Puławska street to Św. Bonifacego street and the Stegny loop, and from Św. Bonifacego street to Branickiego street |

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.

(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 2022, compared to 31 December 2021, are presented in the table below:

| ASSETS | 30.06.2022 | 31.12.2021 | Change | Change % |
|---|------------------|------------------|-----------------|---------------|
| Non-current assets | 1 726 960 | 1 672 413 | 54 547 | 3.3% |
| Property, plant and equipment | 548 330 | 538 612 | 9 718 | 1.8% |
| Intangible assets | 143 938 | 150 579 | (6 641) | (4.4%) |
| Goodwill of subordinated entities | 185 749 | 168 508 | 17 241 | 10.2% |
| Investments in equity accounted entities | 2 314 | 2 270 | 44 | 1.9% |
| Investments in equity instruments | 8 112 | 8 670 | (558) | (6.4%) |
| Retentions for construction contracts | 80 734 | 87 264 | (6 530) | (7.5%) |
| Trade and other receivables | 23 371 | 27 475 | (4 104) | (14.9%) |
| Receivables from service concession agreement | 46 575 | 46 638 | (63) | (0.1%) |
| Other financial assets | 3 613 | 24 | 3 589 | 14 954.2% |
| Deferred tax assets | 684 224 | 642 373 | 41 851 | 6.5% |
| Current assets | 5 149 082 | 5 190 905 | (41 823) | (0.8%) |
| Inventories | 651 393 | 428 960 | 222 433 | 51.9% |
| Trade and other receivables | 1 186 518 | 1 217 862 | (31 344) | (2.6%) |
| Retentions for construction contracts | 90 959 | 97 263 | (6 304) | (6.5%) |
| Valuation of construction contracts | 1 097 934 | 729 415 | 368 519 | 50.5% |
| Current tax assets | 494 | 114 | 380 | 333.3% |
| Other financial assets | 1 907 | 1 496 | 411 | 27.5% |
| Cash and cash equivalents | 2 119 877 | 2 715 795 | (595 918) | (21.9%) |
| TOTAL ASSETS | 6 876 042 | 6 863 318 | 12 724 | 0.2% |

As at 30 June 2022, consolidated total assets increased by PLN 12 724 thousand compared to 31 December 2021, mainly due to a 0.8% decrease in the current assets (PLN 41 823 thousand) and a 3.3% increase in the value of non-current assets (PLN 54 547 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2022 compared to 31 December 2021 was caused mainly by:

- a decrease in the balance of intangible assets by PLN 6 641 thousand, including: an increase in the balance of intangible assets in the amount of PLN 2 638 thousand due to the purchase of new components and a decrease due to the redemption of tangible assets in the amount of PLN 9 287 thousand,
- an increase in the balance of property, plant and equipment by PLN 9 718 thousand, mainly due to the purchase and lease of property, plant and equipment in the amount of PLN 53 547 thousand and settlement of the purchase of Magnolia Energy Sp. z o.o. in the amount of PLN 20 956 thousand. On the other hand, the decrease in the balance was due to the redemption of property, plant and equipment in the amount of PLN 64 475 thousand.
- a decrease in the balance of retentions for construction contracts by PLN 6 530 thousand, mainly as a result of earlier returns of the retentions by investors,
- an increase in the balance of deferred tax assets by PLN 41 851 thousand, mainly due to an increase in negative temporary differences due to settlements of construction contracts.

Current assets:

Simultaneously, current assets decreased by PLN 41 823 thousand, mainly due to a decrease in the balance of cash and cash equivalents by PLN 595 918 thousand, predominantly as a result of the payment of dividends and due to an increase in inventories by PLN 222 433 thousand as a result of increased purchase of construction materials.

Other changes in the current assets related to:

- a decrease in the balance of trade and other receivables by PLN 31 344 thousand mainly as a result of their faster payment, mainly by public investors,
- an increase in valuation of construction contracts by PLN 368 519 thousand, as a result of seasonally larger scale of activity in the second quarter, which translates into a need for a temporary commitment of own funds due to a later moment of invoicing the works to investors.

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

| EQUITY AND LIABILITIES | 30.06.2022 | 31.12.2021 | Change | Change % |
|--|------------------|------------------|------------------|----------------|
| Shareholders' equity attributable to the shareholders of the Parent Company | 921 936 | 1 319 240 | (397 304) | (30.1%) |
| Issued capital | 145 848 | 145 848 | - | 0.0% |
| Share premium | 80 199 | 80 199 | - | 0.0% |
| Other reserves | 53 324 | 53 324 | - | 0.0% |
| Cumulative translation differences | 6 938 | 6 289 | 649 | 10.3% |
| Retained earnings | 635 627 | 1 033 580 | (397 953) | (38.5%) |
| Equity attributable to non-controlling interests | 36 022 | 41 767 | (5 745) | (13.8%) |
| Total equity | 957 958 | 1 361 007 | (403 049) | (29.6%) |
| Non-current liabilities | 1 001 968 | 1 023 841 | (21 873) | (2.1%) |
| Loans, borrowings and other external sources of finance | 131 634 | 155 269 | (23 635) | (15.2%) |
| Retentions for construction contracts | 227 827 | 236 588 | (8 761) | (3.7%) |
| Provisions for long-term liabilities and other charges | 617 450 | 616 498 | 952 | 0.2% |
| Retirement benefits and similar obligations | 12 580 | 12 580 | - | 0.0% |
| Other financial liabilities | 12 361 | 2 076 | 10 285 | 495.4% |
| Deferred tax liabilities | 116 | 830 | (714) | (86.0%) |
| Current liabilities | 4 916 116 | 4 478 470 | 437 646 | 9.8% |
| Loans, borrowings and other external sources of finance | 78 095 | 83 777 | (5 682) | (6.8%) |
| Trade and other payables | 1 666 862 | 1 396 300 | 270 562 | 19.4% |
| Retentions for construction contracts | 202 978 | 209 962 | (6 984) | (3.3%) |
| Provisions for construction contract losses | 746 689 | 514 787 | 231 902 | 45.0% |
| Valuation of construction contracts | 1 458 350 | 1 588 487 | (130 137) | (8.2%) |
| Deferred income | 436 200 | 291 860 | 144 340 | 49.5% |
| Provision for short-term liabilities and other charges | 296 979 | 302 474 | (5 495) | (1.8%) |
| Current tax liability | 20 745 | 67 658 | (46 913) | (69.3%) |
| Retirement benefits and similar obligations | 1 846 | 1 846 | - | 0.0% |
| Other financial liabilities | 7 372 | 21 319 | (13 947) | (65.4%) |
| Liabilities | 5 918 084 | 5 502 311 | 415 773 | 7.6% |
| TOTAL EQUITY AND LIABILITIES | 6 876 042 | 6 863 318 | 12 724 | 0.2% |

Equity and liabilities:

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

- a decrease in the value of retained earnings, mainly due to the payment of a dividend in the amount of PLN 599 191 thousand,
- a decrease in the balance of non-current liabilities by PLN 21 873 thousand, mainly as a result of:
 - a decrease in the balance of loans, borrowings and other external sources of finance by PLN 23 635 thousand as a result of repayment of liabilities and reclassification into short-term liabilities,
 - a decrease in the balance of retentions for construction contracts by PLN 8 761 thousand,
 - an increase in the balance of non-current financial liabilities due to deferred payments for the purchased companies in the amount of PLN 12 361 thousand,
- an increase in the balance of current liabilities by PLN 437 646 thousand, where the most important changes referred to:
 - an increase in the balance of trade liabilities and other liabilities by PLN 270 562 thousand, mainly as a result of seasonality of construction activity (the highest revenues, and therefore costs, are realized in the second and third quarter),
 - an increase in the balance of deferred income by PLN 144 340 thousand, mainly as a result of receiving advances for construction and assembly works,
 - a decrease in the valuation of construction contracts by PLN 130 137 thousand, which is the result of the differences between the degree of invoicing of contract works and the degree of sales recognition,
 - an increase in the balance of provisions for construction contract losses by PLN 231 902 thousand due to the newly identified risk including an increase in cost of materials,
 - a decrease in the balance of current tax liabilities by PLN 46 913 thousand as a result of the final tax settlement for 2021.

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

Consolidated income statement of the Budimex Group

| CONSOLIDATED INCOME STATEMENT | 01.01 - 30.06.2022 | 01.01 - 30.06.2021 | Change | Change % |
|--|-----------------------|-----------------------|------------------|----------------|
| Net sales of finished goods and services, goods for resale and raw materials | 3 998 229 | 3 241 092 | 757 137 | 23.4% |
| Cost of finished goods, services, goods for resale and raw materials sold | (3 602 241) | (2 865 447) | (736 794) | 25.7% |
| Gross profit on sales | 395 988 | 375 645 | 20 343 | 5.4% |
| Selling expenses | (6 335) | (5 086) | (1 249) | 24.6% |
| Administrative expenses | (145 588) | (120 010) | (25 578) | 21.3% |
| Other operating income | 21 882 | 43 907 | (22 025) | (50.2%) |
| Other operating expenses | (31 247) | (18 066) | (13 181) | 73.0% |
| Operating profit | 234 700 | 276 390 | (41 690) | (15.1%) |
| Finance income | 48 579 | 5 271 | 43 308 | 821.6% |
| Finance costs | (21 239) | (22 130) | 891 | (4.0%) |
| Shares in profits of equity accounted companies | 44 | 67 | (23) | (34.3%) |
| Gross profit | 262 084 | 259 598 | 2 486 | 1.0% |
| Income tax | (53 434) | (51 154) | (2 280) | 4.5% |
| Net profit from continuing operations | 208 650 | 208 444 | 206 | 0.1% |
| Net profit/ (loss) from discontinued operations | - | 520 508 | (520 508) | (100.0%) |
| Net profit for the period | 208 650 | 728 952 | (520 302) | (71.4%) |
| <i>of which:</i> | | | | |
| Attributable to the shareholders of the Parent, of which: | 201 238 | 721 205 | (519 967) | (72.1%) |
| from continuing operations | 201 238 | 200 697 | 541 | 0.3% |
| from discontinued operations | - | 520 508 | (520 508) | (100.0%) |
| Attributable to non-controlling interests, of which | 7 412 | 7 747 | (335) | (4.3%) |
| from continuing operations | 7 412 | 7 747 | (335) | (4.3%) |
| from discontinued operations | - | - | - | - |

In the 6-month period ended 30 June 2022 the Budimex Group earned sales revenue of PLN 3 998 229 thousand which means an 23.4% increase on the corresponding period of 2021.

In the first half of 2022 construction-assembly production in Poland expressed in current prices increased by 24.6% compared to the same period last year (increase by 12.0% in constant prices), while sales of the construction segment of the Budimex Group on the domestic market increased 19.8% on the corresponding period.

Gross profit on sales in the first half of 2022 was PLN 395 988 thousand, while in the corresponding period of the prior year it amounted to PLN 375 645 thousand. The gross sales profitability ratio was therefore 9.9% in the first half of 2022, while in the first half of 2021 was 11.6%.

In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Provisions for construction contract losses“. As at 30 June 2022, the balance of the provision for contract losses amounted to PLN 746 689 thousand. In the first half of 2022, the balance of provision for construction contract losses increased by PLN 231 902 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2022 the provision for warranty amounted to PLN 609 259 thousand. In the 6-month period ended 30 June 2022 the balance of the provision for warranty repairs decreased by PLN 8 350 thousand.

Selling expenses increased in the first half of 2022 by PLN 1 249 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 25 578 thousand higher than expenses incurred in the corresponding period of 2021. The share of selling and administrative expenses in total sales was 3.8% in the first half of 2022, while in the corresponding period of 2021 was 3.9%.

Other operating income for the first half of 2022 was PLN 21 882 thousand (PLN 43 907 thousand in the corresponding period of the prior year) included among others penalties and compensations awarded in the amount of PLN 16 217 thousand and reversal of impairment write-downs against receivables amounting to PLN 2 806 thousand. The gain on settlement of FX forward derivative instrument contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 206 thousand. Additionally, in the period of six months of 2022 the Group companies disposed of non-financial non-current assets, of which they earned PLN 742 thousand of profit.

Other operating expenses for the first half of 2022 amounted to PLN 31 247 thousand (PLN 18 066 thousand in the corresponding period of the prior year) and comprised among others: PLN 12 262 thousand related to legal provisions created, PLN 8 840 thousand related to write-off for receivables created, PLN 3 718 thousand related to compensations and contractual penalties paid out and PLN 1 819 thousand – to donations given. The loss on valuation of FX forward derivative instrument contracts amounted to PLN 798 thousand.

The reported operating profit of the Group in the first half of 2022 was PLN 234 700 thousand, while it amounted to PLN 276 390 thousand in the first half of 2021. The operating profit for the first half of 2022 represented 5.9% of sales revenue, while for the corresponding period of the prior year – 8.5% of sales revenue.

In the 6-month period ended 30 June 2022 the Group reported a profit on finance activities in the amount of PLN 27 340 thousand, while in the same period of the prior year – the Group incurred a loss in the amount of PLN 16 859 thousand. Finance income in

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

the first half of 2022 represented mainly interest of PLN 41 691, profit from valuation of interest rate swap amounted to PLN 3 261 thousand, valuation of receivables from service concession agreement of PLN 1 439 thousand and foreign exchange gains of PLN 791 thousand.

Finance costs in the first half of 2022 represented, among others, interest costs of PLN 4 744 thousand, bank commissions on guarantees and loans of PLN 12 832 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 3 355 thousand. During the first half of 2022 the Group incurred a loss on realization of interest rate swap derivative instrument in the amount of PLN 45 thousand.

In the first half of 2022, the Group reported a gross profit of PLN 262 084 thousand, while in the corresponding period of the prior year – a gross profit of PLN 259 598 thousand.

Income tax for the 6-month period ended 30 June 2022 was PLN 53 434 thousand (PLN 51 154 thousand for the first half of 2021), of which:

- current tax was PLN 95 861 thousand,
- deferred tax in the amount of PLN (42 427) thousand.

The net profit attributable to the shareholders of the Budimex SA for the first half of 2022 was PLN 201 238 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2021 was PLN 721 205 thousand, including PLN 200 697 thousand from continuing operations.

The net profit attributable to non-controlling interest for the first half of 2022 amounted to PLN 7 412 thousand. In the corresponding period of 2021, the net profit attributable to non-controlling interest amounted to PLN 7 747 thousand.

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 fluctuations of value.

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

- securing bank guarantees,
- split payment accounts,
- cash at escrow accounts and current accounts in the part due to consortium partners.

The Budimex Group entered the year 2022 with cash on hand and cash at bank amounting to a total of PLN 2 715 795 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 30 910 thousand. Net cash flow for the first half of 2022 was negative and amounted to PLN 611 776 thousand. As at 30 June 2022 cash balance was PLN 2 119 877 thousand, of which cash of restricted use was PLN 46 326 thousand.

In the first half of 2022 the cash flows from operating activities showed a positive balance of PLN 140 331 thousand.

Cash flow from investing activities showed a negative balance of PLN 95 042 thousand, mainly as a result of expenses related to the acquisition of intangible assets and property, plant and equipment and with the purchase of shares in companies.

Cash flow from financing activities for the first half of 2022 showed a negative balance of PLN 657 065 thousand and resulted mainly from dividend paid by Budimex SA and leasing liabilities paid.

3.3 Finance management in the Budimex Group

Despite continued high operating profitability in all segments of the Group, the Budimex Group net cash flow was negative in the first half of 2022. Because of the construction industry's unique characteristics, significant cash inflows from operating activity are typically realized at the end of the year, while cash is consumed by operating expenses during the first two quarters of the year. The payment of a dividend of PLN 599 199 thousand by Budimex SA in June 2022 significantly contributed to the decrease in the cash balance in the first half of the year 2022. Net cash flows in the FBŚerwis Group companies (service segment) were negative in the first half of 2022, mainly due to capital expenditures related to the purchase of vehicles and necessary equipment for service segment operations, as well as the completed acquisition.

In accordance with the Group's policy, periodic cash surpluses were held on bank deposits, resulting in an increase in the Group's interest income as interest rates in Poland rose. Furthermore, Budimex SA used excess cash to finance its suppliers, thereby improving their financial liquidity and generating additional financial revenues.

The Budimex Group reported external financial debt of PLN 209 729 thousand as of 30 June 2022, including PLN 98 620 thousand as a result of the MSSF 16 adjustment. External financial debt, excluding the aforementioned MSSF 16 adjustment, amounted to PLN 111 109 thousand, a PLN 19 440 thousand decrease from 31 December 2021. The Budimex Group's total external financial debt consists primarily of:

- debt of Budimex SA, Budimex Kolejnictwo SA, Mostostal Kraków SA and FBŚerwis Group companies (leasing debt financing purchases of tangible fixed assets);
- indebtedness of Budimex Parking Wrocław Sp. z o.o. related to bank loan financing of the concession project and a subordinated loan granted by a minority shareholder;
- debt of FBŚerwis Kamieński Sp. z o.o. from investment loan granted by the National Fund for Environmental Protection and Water Management for waste management projects.

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

Budimex SA did not use its available credit lines in the first half of 2022.

Rapidly rising interest rates in Poland in the first half of 2022 have not and will not have a significant negative impact on the Budimex Group's financial results due to rising interest costs because of:

- reduction of the Budimex Group's external debt by more than half in the last 18 months to a relatively low level of PLN 111 109 thousand (table below),
- approximately two-thirds of the Group's external financial debt is in the form of leasing transactions with relatively short maturity structure (only about one-third of this debt has a repayment horizon that extends beyond 2022),
- a fixed interest rate in the aforementioned loan from the National Fund for Environmental Protection and Water Management
- interest rate risk hedging in place, in Budimex Parking Wrocław Sp. z o.o.

| Bank loans and borrowings and other external sources of financing: | 30.06.2022 | 31.12.2021 | 30.06.2021 |
|--|----------------|----------------|----------------|
| - long-term | 73 407 | 89 797 | 107 479 |
| - long-term (lease liabilities - IFRS 16 adjustment) | 58 227 | 65 472 | 74 101 |
| - short-term | 37 702 | 40 752 | 47 508 |
| - short-term (lease liabilities - IFRS 16 adjustment) | 40 393 | 43 025 | 40 941 |
| Total | 209 729 | 239 046 | 270 029 |

The Budimex Group's financing structure is represented by the ratios listed below:

| Ratio | 30.06.2022 | 31.12.2021 | 30.06.2021 |
|--|------------|------------|------------|
| Equity to total assets ratio (asset coverage): (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets) | 0,13 | 0,19 | 0,21 |
| Equity to non-current assets ratio (non-current asset coverage): (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets) | 0,53 | 0,79 | 0,93 |
| Debt ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets) | 0,87 | 0,81 | 0,79 |
| Total 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) | 6,46 | 4,20 | 3,69 |

Indicators of the Group's financing structure returned to natural levels as of 30 June 2022, compared to the corresponding period of the previous year and the end of 2021, as observed in earlier reporting periods preceding the sale of shares in Budimex Nieruchomości Sp. z o.o. As a result, total assets to equity ratios fell while debt ratios rose.

| Ratio | 30.06.2022 | 31.12.2021 | 30.06.2021 |
|---|------------|------------|------------|
| Current Ratio (current assets)/(current liabilities) | 1,05 | 1,16 | 1,23 |
| Quick Ratio (current assets - inventory)/(current liabilities) | 0,91 | 1,06 | 1,13 |

The liquidity ratios of the Budimex Group as at 30 June 2022 returned to their normal levels as of 30 June 2022, following a significant increase as of 30 June 2021 and 31 December 2021, due to settlement of the sale transaction by Budimex SA of shares in Budimex Nieruchomości Sp. z o.o., as described in the half-year report for the first half of 2021 and in the annual report for 2021. The decrease in liquidity ratios was caused by a decrease in the Group's cash balance as a result of the above mentioned seasonal changes in working capital, as well as dividend payments.

Budimex Group's current financial position in terms of liquidity and access to external sources of financing is strong. As a result, the Management sees no threats to the Group's ability to finance business activity in the second half of fiscal year 2022.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

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

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

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 2022 was as follows:

| Shareholder | Type of shares | Number of shares | % of the share capital | Number of votes | % of voting rights at the AGM |
|---|----------------|-------------------|------------------------|-------------------|-------------------------------|
| Ferrovial Construction International SE | ordinary | 12 801 654 | 50.14% | 12 801 654 | 50.14% |
| Nationale-Nederlanden OFE | ordinary | 2 353 889 | 9.22% | 2 353 889 | 9.22% |
| Aviva OFE Aviva Santander | ordinary | 2 172 000 | 8.51% | 2 172 000 | 8.51% |
| Other shareholders | ordinary | 8 202 555 | 32.13% | 8 202 555 | 32.13% |
| Total | | 25 530 098 | 100.00% | 25 530 098 | 100.00% |

The above data presents the shareholding structure as at the last General Meeting of Shareholders of 19 May 2022.

4.2 The Management and Supervisory Board**a) Composition of the Management Board**

As at 30 June 2022, the Management Board of Budimex SA consisted of the following persons:

- Artur Popko President of the Management Board, General Director,
- Jacek Daniewski Board Member, Chief Legal and Organizational Officer,
- Artur Pielech Board Member,
- Marcin Węglowski Board Member, Chief Financial Officer

In the period from 1 January 2022 to 30 June 2022 there were no changes in 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 2022.

b) Composition of the Supervisory Board

As at 30 June 2022, the Supervisory Board of Budimex SA consisted of the following persons:

- Marek Michałowski Chairman of the Supervisory Board
- Juan Ignacio Gaston Najarro Deputy Chairperson of the Supervisory Board
- Igor Adam Chalupiec Supervisory Board Secretary
- Danuta Dąbrowska Supervisory Board Member
- Dariusz Blocher Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Mario Mostoles Nieto Supervisory Board Member
- Ignacio Aitor Garcia Bilbao Supervisory Board Member
- Mario Manuel Menendez Montoya Supervisory Board Member
- Artur Kucharski Supervisory Board Member

In the period from 1 January 2022 to 30 June 2022, there were the following changes in composition of the Supervisory Board:

- on the date of the Ordinary General Meeting of Budimex SA, i.e. on May 19, 2022, Mr. Jose Carlos Garrido-Lestache Rodriguez ceased to perform the function of a member of the Supervisory Board, which results from the expiry of the mandate of the above-mentioned person, due to the lack of appointment by the Ordinary General Meeting to the Supervisory Board for a new term of office,
- on 19 May 2022 the Ordinary General Meeting of Budimex SA appointed new member of the Supervisory Board in the person of Mr. Mario Manuel Menendez Montoya,

Also on 19 May 2022 the Ordinary General Meeting of Budimex SA approved cooptation of Mr. Mario Mostoles Nieto which took place on 23 September 2021.

5 REPRESENTATIONS OF MANAGEMENT BOARD

In accordance with our best knowledge, we hereby represent that the half-year condensed consolidated financial statements of the Budimex Group and condensed separate financial statements of Budimex SA for the 6-month period ended 30 June 2022,

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

and the comparative data were prepared in accordance with the binding accounting principles and present truly and fairly the financial position and the financial result of the Budimex Group and those of the Parent Company. The half-year Directors' Report on the activities of the Group reflects a true and fair picture of the development, achievements, risks and threats and of the financial standing of the Budimex Group and Budimex SA.

| | | | |
|---|--|----------------------------------|--|
| Artur Popko President of the Management Board | | Artur Pielech Board Member | |
| Jacek Daniewski Board Member | | Marcin Węglowski Board Member | |

This is a translation of Directors' Report originally issued in Polish. In case of any inconsistencies between the Polish and English version, the Polish version shall prevail