



THE BUDIMEX GROUP

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

for the first half of 2023

TABLE OF CONTENTS

1	BUSINESS ENVIRONMENT	3
1.1	General market condition	3
1.2	Market development prospects	3
2	SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2023	5
2.1	Major construction contracts concluded by the Budimex Group companies	5
2.2	Risk factors	5
3	FINANCIAL SITUATION	6
3.1	Key economic-financial data of the Budimex Group	6
3.2	Statement of Cash Flows	9
3.3	Finance management in the Budimex Group	9
3.4	Contingent liabilities and contingent receivables of the Budimex Group	10
4	OTHER INFORMATION	11
4.1	The shareholding structure	11
4.2	The Management and Supervisory Board	11
5	REPRESENTATIONS OF MANAGEMENT BOARD	12

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

1 BUSINESS ENVIRONMENT

1.1 General market condition

The 2020 pandemic outbreak crisis and the effects of the outbreak of conflict in Ukraine continue to affect the picture of global economies, where the common denominator is positive macroeconomic data in services and negative indicators in industry. The trend of a shift in consumption from durable goods to services is also evident. Successive deflationary processes are noticeable, with CPI dynamics gradually moving away from the record levels of recent quarters. Commodity markets are stabilising and have returned to state before the start of the conflict in Ukraine. The major central banks are finalising the monetary tightening cycle, although within the framework of uncertainties regarding global growth, the direction of monetary policy may vary across regions.

The expected slowdown in the domestic economy continues into early 2023, as evidenced by the decline in annual GDP growth below zero (-0.3% y/y) in the first quarter of 2023. Economists expect negative growth to extend throughout the first half of the year, after which each subsequent quarter should bring a gradual recovery of the domestic economy. However, it should be noted that data published recently have been worse than expected. In June, the PMI fell sharply from May's 47.0 to 45.1 points, suggesting a deterioration in the health of the manufacturing sector and indicating the worst index reading since November last year. At the same time, the rate of decline in activity in June was the strongest since November 2022. The main factors determining the decline in the PMI were a reduction in new orders and lower production and inventory levels.

The annual dynamics in the industrial sector remained at negative levels, which was responsible, among other things, for weaker demand from construction and the rebound of one-off increases in energy production costs from the end of last year. Admittedly, construction and assembly production dynamics were 3.8% higher in the first half of the year compared to the same period last year. Nonetheless, the individual components indicate a diversification of trends in the sector, as the construction of buildings fell by 5.3% y/y, while on the other hand, both specialised construction (+6.6% y/y) and civil engineering construction (+10.8% y/y) maintained a positive trend.

Since the beginning of this year, the weakening of labour demand has continued, with unemployment falling to a record low 5% in June. Employment dynamics in the business sector slowed significantly to 0.2% y-o-y in June, coming significantly closer to negative figures. According to CSO data, many companies are still reporting a significant problem in obtaining qualified employees. In the first half of 2023 the inflow of workers from Ukraine has gradually slowed down, with foreigners from other destinations, including mainly Belarus, but also India or the Philippines, responsible for most of the growth. The wage growth rate maintains double-digit levels year-on-year, but a slowdown is noticeable (+11.9 % y/y in June 2023).

According to published by the National Bank of Poland CPI inflation is heading towards single-digit levels, indicating a consolidation of disinflationary trends in the economy. The trend will be mainly determined by declining food, energy and fuel price dynamics. The rate of growth in producer prices is also slowing significantly, as producer price inflation (PPI) has been in single digits since April at 0.5%. Against this backdrop, financial markets are making a scenario plausible that the first interest rate cut should still take place in the fourth quarter of this year.

1.2 Market development prospects

The main sources of uncertainty regarding economic forecasts in Poland concerning the evolution of inflation, real household income, the scale of the inflow of funds from the European Union and the course and impact of the conflict in Ukraine. According to the macroeconomic forecasts published in July 2023 by the National Bank of Poland (NBP), the domestic economy will depend on the path of consumption in the current year. NBP economists forecast GDP growth of 0.6% y/y in the current year, 2.4% y/y in 2024 and 3.3% y/y in 2025. Average annual inflation is forecast at the levels of 11.9%, 5.2% and 3.2% respectively.

The process of development of the road network in Poland looks promising in the coming years. The General Directorate for National Roads and Motorways (GDDKiA) plans to spend PLN 17.9 billion on road construction this year, almost PLN 24 billion next year, and PLN 31.3 billion in 2025. Over the last three years, capital expenditures on the implementation of tasks from government road construction programs, 100 ring roads, activities on the existing network and preparatory works remained at the level of PLN 15 billion.

Since the beginning of the year, 8 contracts have been signed for sections with a total length of 94 km and a value of over PLN 3.5 billion. Tenders for 8 tasks with a total length of almost 142 km were also announced. Currently 17 tenders are being considered for sections with a total length of approx. 230 km. As part of the government's National Roads Construction Program, tenders will be announced for the implementation of road sections with a total length of 351 km, and a total of 85 km from the Program for the Construction of 100 ring roads this year. Among them will be: S8 in the dolnoslaskie voivodeship, S10 from Szczecinek to Pila, S11 in the wielkopolskie and opolskie voivodeships, S12 in the mazowieckie voivodeship, S16 and S19 in the podlaskie voivodeship. By the end of the year, GDDKiA plans to sign contracts for road sections with a total length of nearly 240 km, including the S7 north of Warsaw, the S8 south of Wroclaw, the S11 in the zachodniopomorskie voivodeship, the S16 near Olsztyn, the S17 in the lubelskie voivodeship, the S19 in the podkarpackie voivodeship and the S74 in the swietokrzyskie voivodeship.

The National Railway Program until 2030 with a perspective until 2032 (KPK) is a response to the challenges related to the adoption by the European Union and Poland of ambitious goals in the field of railway infrastructure and ensuring sustainable economic development. The pending change of the KPK results mainly from the development of projects which will be implemented in the 2021-2027 perspective. In particular, actions which will be taken to continue: phasing and staging investment projects between the 2014-2020 and 2021-2027 perspectives, the need to enable the submission of applications under the Connecting Europe Facility 2021-2027 (CEF 2), recommendations of the mid-term evaluation study of the KPK conducted in 2019 at the request of the Ministry of Infrastructure. The budget of the planned KPK is over PLN 90 billion, which is financed by the KPO program in the amount of PLN 11 billion in 2023-2026 and by the FENIKS, CEF, FE PW programs, Regional and National

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

Programs and the Defence Program (written in the 2021-2027 perspective) in the amount of PLN 80 billion. At the beginning of June 2023, the government completed public consultations on the planned railway investments until 2032.

Polish industry is facing an inevitable energy transformation, which will be a great challenge, but also an opportunity for many companies to grow. Despite the energy crisis and rising prices of raw materials, the demand for electricity remains high. The main reason for this situation is the insufficient increase in new capacity compared to the shutdowns planned in the National Power System (KSE) (old coal-fired units) and non-optimal use of the existing generation infrastructure. Bearing in mind the above, in the coming years (2021-2027) Poland will become the largest beneficiary among EU countries in terms of financial resources for energy transformation – EUR 26.6 billion (24% of all EU funds allocated for this purpose for member states). In the context of the conflict in Ukraine, which resulted in the introduction of sanctions on Russian coal, natural gas and oil through the European Union countries, the REPowerEU Plan program to accelerate the energy transition will be introduced, complementing the Ready for the 55th package.

Moreover, the biggest change in the revised KPO will be the allocation of almost 16.6 billion euros to the "energy support fund". The investment will be implemented through the recapitalization of a dedicated zero-emission energy fund, and within it financial instruments. As a result of the revision in the KPO, more funds are to be allocated to offshore wind farms. It is also planned to create an "offshore wind energy support fund". The investment was transferred from the loan part of the KPO to the loan part of REPowerEU, with an increase from EUR 3.25 billion to almost EUR 4.8 billion. The grant part of RePowerEU includes EUR 972 million for the development of the electricity grid in rural areas. Its aim is to reinforce the process in connecting RES installations. The budget for the development of transmission networks and smart systems has been doubled to EUR 600 million. The budget for energy clusters and communities has also been doubled. Also EUR 1.15 billion have been reserved from the loan part for the FSRU floating gas terminal in Gdansk, the gas interconnector with the Czech Republic and the repurposing of the Yamal gas pipeline.

Expenditures on the transformation of the energy sector by 2030 may amount to up to EUR 135 billion (taking into account protective measures of the mining sector related to the power and heating sector). According to URE data, energy companies plan to put into operation 22.2 GW of new energy capacity by 2036. The largest investments are planned in generating units based on natural gas (9.8 GW), photovoltaics (5.7 GW), offshore wind farms (5.2 GW). The total installed capacity of renewable energy sources in Poland was 24.3 GW in April this year, accounting for 39% of all electricity sources. The structure of installed capacity was dominated by photovoltaics, which accounted for approximately 55% of all renewable energy capacity

Another key project necessary for the proper energy transformation in Poland are PSE's investments. The updated program includes investments in power grids, the value of which is expected to amount to almost PLN 62 billion by 2036. The program includes the construction of: 5 225 km of 400 kV line tracks; 27 new stations and 775 km of DC lines. Among the selected investment objectives, PSE indicates the following: transport of power from Polish offshore wind farms in the Baltic Sea, transport of power from nuclear power plants, integration of onshore RES sources from the National Power System (KSE), connection of new stable generation sources and energy storages, increasing the potential of national networks for transporting energy through Poland as a transit hub, supplying electricity to new industrial customers, including in special economic zones, support for the development of electromobility and electrification of heating, supplying the CPK, including high-speed rail.

The Master Plan, one of the key documents necessary to establish the airport and the construction of the Central Communication Port (CPK), was approved by the Minister of Infrastructure in June 2023. The document defines a plan for the development of the new airport by the end of 2060. The approved Master Plan is a condition for applying to the Civil Aviation Authority (ULC) for the so-called promise of permission to establish an airport. The promise will be one of the attachments to the application for a location decision, which follows the receipt of the environmental decision and precedes the application for a building permit.

In July 2023, the CPK published a "Master Plan", i.e. a long-term concept for the development of the airport containing a plan for the expansion of the node, which will integrate air, rail and road traffic. The "Master Plan" presents the stages of development of the CPK airport, from its planned launch in 2028, through subsequent phases, until 2060 – the forecast cut-off date. In July this year, the Regional Director for Environmental Protection in Warsaw issued an environmental decision for the construction of the airport and the railway junction of the Central Communication Port. Now the company has an open way to apply for a location decision, and then a building permit.

The current conflict in Ukraine has changed the paradigm of the attitude of NATO countries towards Russia. Moreover, Sweden and Finland applied for accession to the North Atlantic Alliance. Poland as a country that is currently the main logistics hub for the transport of weapons, medical supplies, construction materials for Ukraine, as well as a country directly bordering the territory of Belarus and Russia, in 2023 intends to spend 4% of GDP on defence, which puts us at the forefront of NATO. Currently, in the budget act, defence spending amounts to almost PLN 97 billion, i.e. 3% of GDP, but to this amount should be added tens of billions of PLN from the Armed Forces Support Fund. It is likely that this year Polish defence spending will exceed PLN 130 billion. For comparison, in 2022 these expenses amounted to less than PLN 28 billion, and in 2019 PLN 9 billion.

Port investments are another important pillar of Polish infrastructural development. In autumn 2019, the Council of Ministers adopted a resolution defining key investments for the program called: "Program for the development of Polish seaports until 2030". The implementation of the program will ensure the smooth functioning and development of Polish seaports, as well as contribute to the full use of their potential. The implementation of the investments indicated in the program is extremely important for the further dynamic development of ports and for maintaining and strengthening their position among European ports. The value of the program until 2030 has been estimated at about PLN 30 billion.

Currently, investments are being carried out consisting in the modernization and deepening of the Świnoujście-Szczecin fairway to a depth of 12.5 meters worth almost PLN 2 billion, modernization of the system of protective breakwaters in the Northern Port in Gdansk worth almost PLN 800 million, deepening of the approach fairway and internal reservoirs, reconstruction of quays at the Port of Gdynia for almost PLN 600 million, construction of a protective breakwater at the Port of Gdansk worth PLN 850 million.

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

The program was prepared in order to implement the "Strategy for Responsible Development until 2020 (with a perspective until 2030)".

2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2023

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
2023-05-11	PKP Polskie Linie Kolejowe SA	339 017	Demolition, reconstruction, expansion and construction of a building facility entitled: railway line No 104 Chabówka – Nowy Sącz
2023-03-30	PKP Polskie Linie Kolejowe SA	275 445	Construction works at Gdynia Port railway station as part of the Project entitled "Improvement of railway access to the sea port in Gdynia" - signature of annex 5 to the contract
2023-05-17	City of Rybnik	218 012	Construction of the Racibórz-Pszczyna Regional Road – completion of the southern bypass of Rybnik along provincial road DW935 in Rybnik
2023-03-21	Gaz-System SA	188 700	Construction of the DN700 MOP 8.4 MPa gas pipeline between Rembelszczyzna and Mory together with the infrastructure necessary for its operation

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 2023, compared to 31 December 2022, are presented in the table below:

ASSETS	30.06.2023	31.12.2022	Change	Change %
Non-current assets	1 807 860	1 818 134	(10 274)	(0.6%)
Property, plant and equipment	660 208	640 734	19 474	3.0%
Intangible assets	135 950	145 094	(9 144)	(6.3%)
Goodwill of subordinated entities	187 020	178 198	8 822	5.0%
Investments in equity accounted entities	2 611	2 405	206	8.6%
Investments in equity instruments	3 989	7 545	(3 556)	(47.1%)
Retentions for construction contracts	63 655	83 393	(19 738)	(23.7%)
Trade and other receivables	24 173	24 441	(268)	(1.1%)
Receivables from service concession agreement	46 390	46 511	(121)	(0.3%)
Other financial assets	21 271	4 777	16 494	345.3%
Deferred tax assets	662 593	685 036	(22 443)	(3.3%)
Current assets	5 492 354	5 569 074	(76 720)	(1.4%)
Inventories	633 300	743 778	(110 478)	(14.9%)
Trade and other receivables	1 088 124	952 515	135 609	14.2%
Retentions for construction contracts	92 274	83 120	9 154	11.0%
Valuation of construction contracts	802 488	532 484	270 004	50.7%
Current tax assets	25 690	1 957	23 733	1 212.7%
Other financial assets	17 268	5 851	11 417	195.1%
Cash and cash equivalents	2 833 210	3 249 369	(416 159)	(12.8%)
TOTAL ASSETS	7 300 214	7 387 208	(86 994)	(1.2%)

As at 30 June 2023, consolidated total assets decreased by PLN 86 994 thousand compared to 31 December 2022, mainly due to a 1.4% decrease in the current assets (PLN 76 720 thousand) and a 0.6% decrease in the value of non-current assets (PLN 10 274 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2023 compared to 31 December 2022 was caused mainly by:

- a decrease in the balance of intangible assets by PLN 9 144 thousand, including: an increase in the balance of intangible assets in the amount of PLN 1 062 thousand due to the purchase of new components and a decrease due to the amortization of tangible assets in the amount of PLN 9 777 thousand,
- an increase in the balance of property, plant and equipment by PLN 19 474 thousand, mainly due to the purchase and lease of property, plant and equipment in the amount of PLN 79 071 thousand. On the other hand, the decrease in the balance was due to the depreciation of property, plant and equipment in the amount of PLN 67 664 thousand.
- a decrease in the balance of non-current retentions for construction contracts by PLN 19 738 thousand, mainly as a result of earlier returns of the retentions by investors,
- an increase in the balance of non-current other financial assets by PLN 16 494 thousand, mainly as a result of positive valuation of currency derivatives in their non-current part,
- a decrease in the balance of deferred tax assets by PLN 22 443 thousand, mainly due to a decrease in negative temporary differences due to settlements of construction contracts.

Current assets:

Simultaneously, current assets decreased by PLN 76 720 thousand, mainly due to a decrease in the balance of cash and cash equivalents by PLN 416 159 thousand, predominantly as a result of the payment of dividends and due to an decrease in inventories by PLN 110 478 thousand.

Other changes in the current assets related to:

- an increase in the balance of trade and other receivables by PLN 135 609 thousand mainly as a result of seasonal, greater involvement in contracts with a non-standard invoicing scheme,
- an increase in valuation of construction contracts by PLN 270 004 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,
- an increase in current income tax receivables by PLN 23 733 thousand due to CIT settlement for 2022 and for the current year.

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

EQUITY AND LIABILITIES	30.06.2023	31.12.2022	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	1 070 771	1 258 384	(187 613)	(14.9%)
Issued capital	145 848	145 848	-	0.0%
Share premium	80 199	80 199	-	0.0%
Other reserves	56 413	56 413	-	0.0%
Cumulative translation differences	4 094	7 092	(2 998)	(42.3%)
Retained earnings	784 217	968 832	(184 615)	(19.1%)
Equity attributable to non-controlling interests	46 544	41 071	5 473	13.3%
Total equity	1 117 315	1 299 455	(182 140)	(14.0%)
Non-current liabilities	1 038 066	1 029 009	9 057	0.9%
Loans, borrowings and other external sources of finance	135 729	148 706	(12 977)	(8.7%)
Retentions for construction contracts	226 878	229 963	(3 085)	(1.3%)
Provisions for long-term liabilities and other charges	651 240	626 314	24 926	4.0%
Retirement benefits and similar obligations	10 293	10 070	223	2.2%
Other financial liabilities	12 824	12 807	17	0.1%
Deferred tax liabilities	1 102	1 149	(47)	(4.1%)
Current liabilities	5 144 833	5 058 744	86 089	1.7%
Loans, borrowings and other external sources of finance	71 918	76 435	(4 517)	(5.9%)
Trade and other payables	1 731 095	1 516 956	214 139	14.1%
Retentions for construction contracts	216 832	218 039	(1 207)	(0.6%)
Provisions for construction contract losses	908 471	803 263	105 208	13.1%
Valuation of construction contracts	1 258 710	1 493 517	(234 807)	(15.7%)
Deferred income	607 708	578 658	29 050	5.0%
Provision for short-term liabilities and other charges	341 843	337 818	4 025	1.2%
Current tax liability	3 284	29 245	(25 961)	(88.8%)
Retirement benefits and similar obligations	2 102	1 578	524	33.2%
Other financial liabilities	2 870	3 235	(365)	(11.3%)
Total liabilities	6 182 899	6 087 753	95 146	1.6%
TOTAL EQUITY AND LIABILITIES	7 300 214	7 387 208	(86 994)	(1.2%)

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 459 286 thousand,
- a increase in the balance of non-current liabilities by PLN 9 057 thousand, mainly as a result of:
 - a decrease in the balance of loans, borrowings and other external sources of finance by PLN 12 977 thousand as a result of repayment of liabilities and reclassification to short-term liabilities,
 - an increase in the balance of non-current financial liabilities in the amount of PLN 24 926 thousand, mainly as a result of creating provisions for warranty repairs,
- an increase in the balance of current liabilities by PLN 86 089 thousand, where the most important changes referred to:
 - an increase in the balance of trade liabilities and other liabilities by PLN 214 139 thousand, mainly as a result of seasonality of construction activity (the highest revenues, and therefore costs, are realized in the second and third quarter),
 - a decrease in the valuation of construction contracts by PLN 234 807 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 105 208 thousand due to the newly identified risk including an increase in cost of materials.

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

Consolidated income statement of the Budimex Group

CONSOLIDATED INCOME STATEMENT	01.01 - 30.06.2023	01.01 - 30.06.2022	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	4 317 944	3 998 229	319 715	8.0%
Cost of finished goods, services, goods for resale and raw materials sold	(3 916 551)	(3 602 241)	(314 310)	8.7%
Gross profit on sales	401 393	395 988	5 405	1.4%
Selling expenses	(6 273)	(6 335)	62	(1.0%)
Administrative expenses	(165 070)	(145 588)	(19 482)	13.4%
Other operating income	68 784	21 882	46 902	214.3%
Other operating expenses	(26 199)	(31 247)	5 048	(16.2%)
Operating profit	272 635	234 700	37 935	16.2%
Finance income	112 283	48 579	63 704	131.1%
Finance costs	(28 451)	(21 239)	(7 212)	34.0%
Shares in profits of equity accounted companies	207	44	163	370.5%
Profit before tax	356 674	262 084	94 590	36.1%
Income tax	(75 893)	(53 434)	(22 459)	42.0%
Net profit for the period	280 781	208 650	72 131	34.6%
<i>of which:</i>				
Attributable to the shareholders of the Parent	274 671	201 238	73 433	36.5%
<i>Attributable to non-controlling interests</i>	<i>6 110</i>	<i>7 412</i>	<i>(1 302)</i>	<i>(17.6%)</i>

In the 6-month period ended 30 June 2023 the Budimex Group earned sales revenue of PLN 4 317 944 thousand which means an 8.0% increase on the corresponding period of 2022.

In the first half of 2023 construction-assembly production in Poland expressed in current prices increased by 15.5% compared to the same period last year (increase by 3.8% in constant prices), while sales of the construction segment of the Budimex Group on the domestic market increased 8.3% on the corresponding period.

Gross profit on sales in the first half of 2023 was PLN 401 393 thousand, while in the corresponding period of the prior year it amounted to PLN 395 988 thousand. The gross sales profitability ratio was therefore 9.3% in the first half of 2023, while in the first half of 2022 it was 9.9%.

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 2023, the balance of the provision for contract losses amounted to PLN 908 471 thousand. In the first half of 2023, the balance of provision for construction contract losses increased by PLN 105 208 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2023 the provision for warranty amounted to PLN 666 641 thousand. In the 6-month period ended 30 June 2023 the balance of the provision for warranty repairs increased by PLN 30 671 thousand.

Selling expenses decreased in the first half of 2023 by PLN 62 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 19 482 thousand higher than expenses incurred in the corresponding period of 2022. The share of selling and administrative expenses in total sales was 4.0% in the first half of 2023, while in the corresponding period of 2022 it was 3.8%.

Other operating income for the first half of 2023 was PLN 68 784 thousand (PLN 21 882 thousand in the corresponding period of the prior year) included among others penalties and compensations awarded in the amount of PLN 14 859 thousand and reversal of impairment write-downs against receivables amounting to PLN 12 469 thousand. The gain on settlement and valuation of FX forward and option contracts (made with a view to limiting the FX risk on foreign currency construction contracts) amounted to PLN 36 290 thousand. Additionally, in the period of six months of 2023 the Group companies disposed of non-financial non-current assets, of which they earned PLN 2 119 thousand of profit.

Other operating expenses for the first half of 2023 amounted to PLN 26 199 thousand (PLN 31 247 thousand in the corresponding period of the prior year) and comprised among others: PLN 13 474 thousand related to compensations and contractual penalties paid out, PLN 9 211 thousand related to write-off for receivables created, PLN 1 114 thousand related to legal provisions created, and PLN 794 thousand – to donations given.

The reported operating profit of the Group in the first half of 2023 was PLN 272 635 thousand, while it amounted to PLN 234 700 thousand in the first half of 2022. The operating profit for the first half of 2023 represented 6.3% of sales revenue, while for the corresponding period of the prior year – 5.9% of sales revenue.

In the 6-month period ended 30 June 2023 the Group reported a profit on finance activities in the amount of PLN 83 832 thousand, while in the same period of the prior year – the Group incurred a gain in the amount of PLN 27 340 thousand. Finance income in the first half of 2023 represented mainly interest of PLN 104 419, foreign exchange gains of PLN 5 897 thousand, valuation of receivables from service concession agreement of PLN 1 434 thousand and gain on settlement of interest rate swap amounted to PLN 323 thousand.

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

Finance costs in the first half of 2023 represented, among others, interest costs of PLN 6 511 thousand, bank commissions on guarantees and loans of PLN 14 316 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 6 279 thousand. During the first half of 2023 the Group incurred a loss on valuation of interest rate swap derivative instrument in the amount of PLN 823 thousand.

In the first half of 2023, the Group reported a profit before tax of PLN 356 674 thousand, while in the corresponding period of the prior year – a gross profit of PLN 262 084 thousand.

Income tax for the 6-month period ended 30 June 2023 was PLN 75 893 thousand (PLN 53 434 thousand for the first half of 2022), of which:

- current tax was PLN 53 598 thousand,
- deferred tax in the amount of PLN 22 295 thousand.

The net profit attributable to the shareholders of the Budimex SA for the first half of 2023 was PLN 274 671 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2022 was PLN 201 238 thousand.

The net profit attributable to non-controlling interest for the first half of 2023 amounted to PLN 6 110 thousand. In the corresponding period of 2022, the net profit attributable to non-controlling interest amounted to PLN 7 412 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 2023 with cash on hand and cash at bank amounting to a total of PLN 3 249 369 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 27 959 thousand. Net cash flow for the first half of 2023 was negative and amounted to PLN 404 170 thousand. As at 30 June 2023 cash balance was PLN 2 833 210 thousand, of which cash of restricted use was PLN 20 900 thousand.

In the first half of 2023 the cash flows from operating activities showed a positive balance of PLN 165 986 thousand.

Cash flow from investing activities showed a negative balance of PLN 62 891 thousand, mainly as a result of expenses related to the acquisition of intangible assets and property, plant and equipment.

Cash flow from financing activities for the first half of 2023 showed a negative balance of PLN 507 265 thousand and resulted mainly from dividend paid by Budimex SA and leasing liabilities paid.

3.3 Finance management in the Budimex Group

Net cash flows of the Budimex Group in the first half of 2023 were negative, despite high operating profitability in all segments of the Group. 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 459 286 thousand by Budimex in June 2023 significantly contributed to the decrease in the cash balance in the first half of the year 2023. Net cash flows in the FBŚerwis Group companies (service segment) were negative in the first half of 2023, mainly due to capital expenditures related to the purchase of vehicles and necessary equipment for service segment operations.

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 reported external financial debt of PLN 207 647 thousand as of 30 June 2023, including PLN 124 857 thousand as a result of the MSSF 16 adjustment. External financial debt, excluding the aforementioned MSSF 16 adjustment, totalled PLN 82 790, a decrease of PLN 10 869 thousand as compared to the balance as at 31 December 2022 (table below).

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);
- debt 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 financing an investment related to waste management projects.

In the first half of 2023, Budimex SA did not use its available credit lines.

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

High interest rates in Poland in the first half of 2023 have not and will not have a significant negative impact on the Budimex Group's financial results due to rising interest costs because of:

- significant reduction of the external debt of the Budimex Group by more than half over the last 3 years to a relatively low level of PLN 82 790 thousand (table below),
- approximately half of the Group's external financial debt is in the form of leasing transactions with relatively short maturity structure,
- fixed interest rate in the aforementioned loan from the National Fund for Environmental Protection,
- interest rate risk hedging in place, in Budimex Parking Wrocław Sp. z o.o.

Bank loans and borrowings and other external sources of financing:	30.06.2023	31.12.2022	30.06.2022
- long-term	52 323	61 743	73 407
- long-term (lease liabilities - IFRS 16 adjustment)	83 406	86 963	58 227
- short-term	30 467	31 916	37 702
- short-term (lease liabilities - IFRS 16 adjustment)	41 451	44 519	40 393
Total	207 647	225 141	209 729

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

Ratio	30.06.2023	31.12.2022	30.06.2022
Equity to total assets ratio (asset coverage): (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.15	0.17	0.13
Equity to non-current assets ratio (non-current asset coverage): (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)	0.59	0.69	0.53
Debt ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.85	0.83	0.87
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)	5.82	4.87	6.46

As at 30 June 2023, compared to both the corresponding period of the previous year and the end of 2022, the Group's financing structure and liquidity ratios remain at similar levels.

Ratio	30.06.2023	31.12.2022	30.06.2022
Current Ratio (current assets)/(current liabilities)	1.07	1.10	1.05
Quick Ratio (current assets - inventory)/(current liabilities)	0.94	0.95	0.91

The financial situation of the Budimex Group in terms of liquidity and access to external sources of financing is currently good and in the second half of 2023 the Management Board sees no threats related to Group's ability to finance business activity.

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 2023 was as follows:

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Ferrovia Construction International SE	ordinary	12 801 654	50.14%	12 801 654	50.14%
Allianz OFE	ordinary	2 551 331	9.99%	2 551 331	9.99%
Nationale-Nederlanden OFE	ordinary	2 371 487	9.29%	2 371 487	9.29%
Other shareholders	ordinary	7 805 626	30.58%	7 805 626	30.58%
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 18 May 2023, taking into account the information contained in the current report no 39/2023 of 13 June 2023.

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

As at 30 June 2023, the Management Board of Budimex SA consisted of the following persons:

- Artur Popko President of the Management Board, General Director
- Anna Karyś-Sosińska Board Member, Chief HR Officer
- Jacek Daniewski Board Member, Chief Legal and Organizational Officer
- Cezary Łysenko Board Member, Chief Operational Officer of Infrastructure
- Maciej Olek Board Member, Chief Operational Officer of Railway, Energy and Industrial
- Marcin Węglowski Board Member, Chief Financial Officer

In the period from 1 January 2023 to 30 June 2023, the composition of the Management Board changed as follows:

- Members of the Management Board: Mrs. Anna Karyś-Sosińska, Mr. Cezary Łysenko and Mr. Maciej Olek started performing their functions in the Management Board of Budimex SA as of 1 January 2023,
- as of 30 March 2023, Mr Artur Pielech was dismissed from the Management Board of Budimex SA

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 2023.

b) Composition of the Supervisory Board

As at 30 June 2023, the Supervisory Board of Budimex SA consisted of the following persons:

- Marek Michałowski Chairman of the Supervisory Board
- Juan Ignacio Gaston Najarro Deputy Chairperson of the Supervisory Board
- Igor Adam Chalupec Supervisory Board Secretary
- Danuta Dąbrowska Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Silvia Rodriguez Hueso Supervisory Board Member
- Ignacio Aitor Garcia Bilbao Supervisory Board Member
- Mario Manuel Menendez Montoya Supervisory Board Member
- Artur Kucharski Supervisory Board Member

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

In the period from 1 January 2023 to 30 June 2023, the composition of the Supervisory Board changed as follows:

- on 30 March 2023, the Supervisory Board, exercising the right indicated in § 16 sec. 3 of the Articles of Association of Budimex SA due to Mr. Mario Mostoles Nieto's earlier resignation from the Supervisory Board of Budimex SA, decided to co-opt Ms. Silvia Rodriguez Hueso to the Supervisory Board from 1 April 2023. The co-opting of Ms. Silvia Rodriguez Hueso was subsequently approved on 18 May 2023 by the Ordinary General Meeting,
- on 27 April 2023, Mr. Dariusz Blocher resigned from membership in the Supervisory Board.

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 2023, 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		Anna Karyś-Sosińska Board Member	
Jacek Daniewski Board Member		Cezary Łysenko Board Member	
Maciej Olek 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