



THE BUDIMEX GROUP

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

for the first half of 2018

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1 BUSINESS ENVIRONMENT

1.1 General market condition

The economic recovery observed in Poland in 2017 continued in the first months of 2018. According to the estimate of Central Statistical Office, year on year GDP growth in the first quarter of 2018 amounted to 5.2%. Improvement of the economic growth rate is accompanied by the fall of unemployment rate that amounted to 5.9% in June 2018 compared to 7.0% in the same period of the last year. In June 2018 inflation rate reached 2.0% year on year and remained within the range of the mid-term inflation target of National Bank of Poland (NBP).

In the first half of 2018 the volume of construction works in Poland increased significantly. The value of construction and assembly production sold (in current prices) in the first half of 2018 was higher by 26.3% than the year earlier. Increase in production resulted from the improving situation in all construction segments. Civil engineering segment increased by 28.4% year on year, which was mainly driven by significant growth in road and bridge sub-segment (25.5% year on year). Sale of construction and assembly production in the residential construction recorded a rise by 22.0% compared to the first half of 2017. Positive growth was also recorded in the non-residential construction (rise by 26.2% compared to the first half of 2017). In the first two quarters of 2018 higher construction output was accompanied by improvement in the overall business climate index in the construction industry, which in June 2018 stood at plus 7.3 points compared to 6.4 points year earlier and minus 1.4 points in June 2016.

In the first half of 2018 new investments in the residential development sector continued to increase. In this time amounts of dwellings completed hiked significantly and reached the level of 83.2 thousands (rise by 6.3% year on year). A positive trend in the development market is confirmed by a number of dwellings for which building permit was issued (rise by 1.4% year on year to the level of 132,2 thousands). After presales record in 2017, year on year dynamics of units presold by the top developers dropped in the first half of 2018.

1.2 Market development prospects

According to the draft of state budget for 2019, GDP growth in 2018 will reach the level of 3.8% and will be lower in comparison to the rise in 2017 which amounted to 4.6%. Macroeconomic forecasts of the Ministry of Finance assume maintenance of the economic growth at the level of 3.8% in 2019. The average annual inflation is estimated at the level of 2.3% in 2018 the same as in the following year. The forecasted unemployment rate is expected to reach 6.2% at the end of 2018 and 5.6% at the end of the following year.

The Ministry of Entrepreneurship and Technology estimates that in 2018 the value of construction and assembly production generated by companies employing over 9 people will rise by 16.5% compared to the previous year (fixed prices) and will be higher in comparison to the rise by 12.1% in 2017.

In the following years EU funds will be the essential driver of investments dynamics on construction market. On 29th May 2018 European Commission published proposal for a distribution of EU funds as part of the long-term budget 2021-2027. According to the budget draft, Poland will receive 72.2 billion euro within cohesion policy, which represents 20% of the whole budget for cohesion policy in 2021-2027. Compared to 2014-2020 financial perspective, in 2021-2027 the funds allocated to Poland will decrease by 12%, but Poland will maintain the position of the biggest beneficiary in EU. As at June 2018, share of funds for infrastructure investment in Poland within new budget proposal is still unknown.

As a result of decline in number of tenders in 2016, in 2017 expenditures on road investments reached relatively low level of 16.1 billion zlotys, which was only slightly above analogical expenditures in 2016 (15.8 billion zlotys). However, investment prospects for big road projects are optimistic. Ongoing road investments executed within the "National Road Construction Program for 2014-2023, with perspective to 2025" (NRCP) puts further challenges ahead the road segment. The list of projects in NRCP approved in September 2015 included tasks of total length of 4 783 kilometers, as compared to 3 005 kilometers, covered by the draft version of the program from 2014 (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 107.1 billion zlotys reserved for the execution of NRCP was insufficient. In July 2017 the Council of Ministers approved the change of the resolution on long-term national road construction program, which assumes in particular increase of the financing limit to 135.2 billion zlotys. It is planned to complete 117 road investments which cover 3 268 kilometers within the budget. The reserve list of investment projects, not covered by the budget, includes 40 tasks of total length of 1 911 kilometers. The whole scope of the updated NRCP amounts to 5 179 kilometers i.e. 396 kilometers more than in the NRCP approved in 2015. Further execution of Via Carpatia route within S61 and S19 national roads is one of the priorities of the government.

In the first half of 2018, General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad - GDDKiA), announced only two tenders for construction of express roads of 18 kilometers length within NRCP. The pace at which new tenders were announced in the first half of the year was relatively lower than in the same period of the prior year when tenders were announced for 154 kilometers of express roads. At the end of June 2018, as a consequence of reduced number of tenders, GDDKiA was not conducting any tender procedure for projects placed on the basic list of NRCP that was in phase before placing offers by general contractors. In the first half of 2018, the gross value of offers opened by GDDKiA amounted to almost PLN 4.1 billion which was significantly lower than in the whole 2017 when the total value of opened bids amounted to 7.1 billion zlotys. Besides, the average ratio of the lowest bid to investor budget, increased significantly from 80% in the first half of 2017 to above 90% in the same period in 2018. From the beginning of NRCP i.e. between 2013-2017 GDDKiA announced tenders under NRCP for tasks of the length of almost 2 186 kilometers among which approximately 74% were in the design & build formula. From the beginning of 2014 to the end of the first half of 2018, the gross value of bids opened by GDDKiA under NRCP amounted to approximately 66.5 billion zlotys. In this period, the value of contracts signed for the construction works amounted to 53.0 billion zlotys. As at the end of June 2018, 24 road investments are placed on list of contracts waiting to be signed, including 17 investments in which bids for general construction were opened in 2017. Estimated financial progress of the current budget

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

program i.e. 135.2 billion zlotys exceeded 62% (as at the half of 2018). The bids were opened for 165 sections of the total length of approximately 2 186 kilometres, which is 67% of general material scope included on NRCP basic list.

Railway segment is currently entering a phase of intensive execution of construction contracts signed in 2016-2017. Long-term prospects for railway market development are optimistic. According to the plan, in 2017 investment expenditures of PKP PLK amounted to approximately 5.5 billion zlotys compared to about 4.1 billion zlotys in 2016. According to statement of PKP PLK, in 2018 investment expenditures will exceed 10.0 billion zlotys reaching the highest value in history. In accordance with the National Railway Program (Krajowy Program Kolejowy, KPK) financing plan, in years 2015 - 2023 PKP PLK will execute projects with a value of 63.8 billion zlotys within about 220 investments included on the basic list. Additionally, the reserve list includes more than 70 projects with a value of approximately 34.4 billion zlotys, the execution of which depends on potential savings generated in the course of the implementation of KPK. After a period of increased activity in launching tenders under KPK in 2015-2016 and decline in the activity in 2017, in 2018 PKP PLK again intensified efforts in the area of announcing new tenders for modernization of railway. In the first half of 2018, tenders for projects of a total estimated net value of 4.1 billion zlotys were announced and this value was substantially higher than value of significant tenders announced by PKP PLK in the first half of 2017 (2.7 billion zlotys). In the first half of 2018, the value of the lowest bids placed within significant tenders announced by PKP PLK for railway construction works (i.e. excluding orders for ERTMS systems) amounted to above 6.2 billion zlotys net (as at the end of June 2017) and this value was lower than in the first half of previous year when the respective value amounted to 9.1 billion zlotys net. The average ratio of the lowest tender to investor budget increased significantly, from 80% in the first half of 2017 to above 150% in the same period of 2018. This phenomenon could result in cancelling tenders by PKP PLK. At the end of June 2018, the investor decided to cancel two significant tenders for the modernization of the railway number 131, where ratio of the value of lowest bid to investor budget amounted to 188%. In the first half of 2018, the value of construction agreements signed within significant railway contracts amounted to 0.9 billion zlotys net and this value was significantly lower than value of contracts signed in the first half of 2017 (9.4 billion zlotys net). From the beginning of 2016, the value of the lowest bids placed within significant tenders announced by PKP PLK for railway construction works (i.e. excluding orders for ERTMS systems) amounted to 23.0 billion zlotys net (as at the end of June 2018). The value of the respective agreements signed by PKP PLK from the beginning of 2016 amounted to 16.6 billion zlotys net. The financial progress of KPK is estimated at around 50-60% (as at the end of June 2018).

The accumulation of construction works on road and railway market in 2018-2020 sets difficult challenges for general contractors. The list of risk includes i.a. unpredictable rise of material prices, salaries and prices of subcontracting services, extremely limited availability of workforce and subcontractors, long time between placing an offer and signing a construction contract, out of date investor budgets and lack of valorisation of construction contracts.

In 2018, the level of flats presold by the biggest residential developers is expected to be reduced. However low interest rates, the level of which should not change till the end of 2019 (according to the statement of the President of National Bank of Poland), generate the stable growth of mortgage credits granted, which is a short-term driver of growth on the residential development market. High volume of flats presold achieved with a relatively low developers market offer means that after a period of slow increase in prices of dwellings in 2016-2017, the increase in 2018 will be stronger.

2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2018

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 |
|---------------|--|--|---|
| 2018-05-08 | KGHM Polska Miedź SA | 578 000 | Construction of the Southern Section of Żelazny Most Waste Treatment Facility - Stage I (Phase 1,2,3) |
| 2018-05-30 | Muzeum Historii Polski | 459 740 | Construction of the Polish History Museum in Warsaw |
| 2018-06-11 | General Directorate for National Roads and Motorways | 273 068 | Construction of S6 Słupsk - Gdańsk express road on the Łębork (including Łębork bypass) - Trójmiasto bypass section |
| 2018-06-08 | Zarząd Morskiego Portu Gdańsk SA | 153 707 | Expansion of the Dworzec Drzewny Quay at the Port of Gdańsk |

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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,
- unfavorable 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 2018, compared to 31 December 2017, are presented in the table below:

| ASSETS | 30.06.2018 | 31.12.2017 | Change | Change % |
|---|-------------------|-------------------|------------------|-----------------|
| Non-current assets | 938 466 | 927 334 | 11 132 | 1.2% |
| Property, plant and equipment | 174 996 | 162 422 | 12 574 | 7.7% |
| Investment properties | 24 845 | 24 623 | 222 | 0.9% |
| Intangible assets | 27 716 | 30 163 | (2 447) | (8.1%) |
| Goodwill of subordinated entities | 73 237 | 73 237 | - | 0.0% |
| Investments in equity accounted entities | 35 555 | 39 228 | (3 673) | (9.4%) |
| Investments in equity instruments | 9 501 | 9 501 | - | 0.0% |
| Retentions for construction contracts | 36 257 | 30 138 | 6 119 | 20.3% |
| Trade and other receivables | 41 271 | 39 341 | 1 930 | 4.9% |
| Receivables from service concession agreement | 46 294 | 46 440 | (146) | (0.3%) |
| Other financial assets | 70 776 | 67 033 | 3 743 | 5.6% |
| Deferred tax assets | 398 018 | 405 208 | (7 190) | (1.8%) |
| Current assets | 4 287 384 | 5 070 022 | (782 638) | (15.4%) |
| Inventories | 1 542 872 | 1 425 100 | 117 772 | 8.3% |
| Trade and other receivables | 823 100 | 689 939 | 133 161 | 19.3% |
| Retentions for construction contracts | 26 284 | 27 812 | (1 528) | (5.5%) |
| Valuation of long-term construction contracts | 959 180 | 483 501 | 475 679 | 98.4% |
| Current tax assets | 9 251 | 30 298 | (21 047) | (69.5%) |
| Other financial assets | 6 357 | 286 533 | (280 176) | (97.8%) |
| Cash and cash equivalents | 920 340 | 2 126 839 | (1 206 499) | (56.7%) |
| TOTAL ASSETS | 5 225 850 | 5 997 356 | (771 506) | (12.9%) |

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

| EQUITY AND LIABILITIES | 30.06.2018 | 31.12.2017 | Change | Change % |
|--|------------------|------------------|------------------|----------------|
| Shareholders' equity attributable to the shareholders of the Parent Company | 561 507 | 881 443 | (319 936) | (36.3%) |
| Issued capital | 145 848 | 145 848 | - | 0.0% |
| Share premium | 87 163 | 87 163 | - | 0.0% |
| Other reserves | 2 557 | 2 557 | - | 0.0% |
| Foreign exchange differences on translation of foreign operations | 6 944 | 5 342 | 1 602 | 30.0% |
| Retained earnings | 318 995 | 640 533 | (321 538) | (50.2%) |
| Equity attributable to non-controlling interests | 592 | 685 | (93) | (13.6%) |
| Total shareholders' equity | 562 099 | 882 128 | (320 029) | (36.3%) |
| Liabilities | 4 663 751 | 5 115 228 | (451 477) | (8.8%) |
| Non-current liabilities | 641 753 | 614 923 | 26 830 | 4.4% |
| Loans, borrowings and other external sources of finance | 109 151 | 92 086 | 17 065 | 18.5% |
| Retentions for construction contracts | 212 442 | 203 643 | 8 799 | 4.3% |
| Provisions for long-term liabilities and other charges | 307 644 | 305 858 | 1 786 | 0.6% |
| Retirement benefits and similar obligations | 11 086 | 11 086 | - | 0.0% |
| Other financial liabilities | 1 430 | 2 250 | (820) | (36.4%) |
| Current liabilities | 4 021 998 | 4 500 305 | (478 307) | (10.6%) |
| Loans, borrowings and other external sources of finance | 37 584 | 30 324 | 7 260 | 23.9% |
| Trade and other payables | 1 667 043 | 1 697 984 | (30 941) | (1.8%) |
| Retentions for construction contracts | 203 526 | 217 193 | (13 667) | (6.3%) |
| Provisions for construction contract losses | 163 986 | 243 829 | (79 843) | (32.7%) |
| Valuation of long-term construction contracts | 568 238 | 783 209 | (214 971) | (27.4%) |
| Deferred income | 1 161 375 | 1 345 267 | (183 892) | (13.7%) |
| Provision for short-term liabilities and other charges | 210 930 | 170 762 | 40 168 | 23.5% |
| Current tax liability | 6 035 | 3 404 | 2 631 | 77.3% |
| Retirement benefits and similar obligations | 1 537 | 1 537 | - | 0.0% |
| Other financial liabilities | 1 744 | 6 796 | (5 052) | (74.3%) |
| TOTAL EQUITY AND LIABILITIES | 5 225 850 | 5 997 356 | (771 506) | (12.9%) |

As at 30 June 2018, consolidated total assets decreased by PLN 771 506 thousand compared to 31 December 2017, mainly due to a 15.4% decrease in the current assets (PLN 782 638 thousand) and a 1.2% slight increase in the value of non-current assets (PLN 11 132 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2018 compared to 31 December 2017 was caused mainly by:

- an increase in the balance of property, plant and equipment by PLN 12 574 thousand mainly due to capital expenditures and new finance lease contracts in the amount of PLN 42 281 thousand. In turn, depreciation in the amount of PLN 20 850 thousand decreased the balance of property, plant and equipment,
- a decrease in the balance of deferred tax assets in the amount of PLN 7 190 thousand, mainly due to a decrease in balance of negative temporary differences referring to liabilities,
- granting long-term loans to an associate, FBSerwis SA in the amount of PLN 6 860 thousand.

Current assets:

Simultaneously, current assets decreased by PLN 782 638 thousand, mainly due to a decrease in the balance of cash and cash equivalents by PLN 1 206 499 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 133 161 thousand and an increase in valuation of long-term construction contracts by PLN 475 679 thousand, as a result of larger scale of activity and bigger involvement in contracts with non-standard invoicing cycle,
- an increase in the balance of inventories by PLN 117 772 thousand, mainly due to the developer activity (i.a. purchase of new plots for residential construction) and a higher material stocks collected on railway contracts,
- a decrease in the balance of other financial assets by PLN 280 176 thousand, out of which PLN 278 972 thousand was the settlement of short-term bonds of some Polish mortgage banks.

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Equity and liabilities:

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

- a decrease in retained earnings as a result of dividend payment,
- an increase in the balance of non-current liabilities by PLN 26 830 thousand, mainly due to an increase in the balance of loans, borrowings and other sources of finance by PLN 17 065 thousand (the new leasing liabilities), as well as an increase in the balance of retentions for construction contracts in the amount of PLN 8 799 thousand (as a result of a larger scale of activity),
- a decrease in the balance of current liabilities by PLN 478 307 thousand, where the most important changes referred to:
 - a decrease in the value of provisions for construction contract losses by PLN 79 843 thousand,
 - a decrease in the valuation of long-term construction contracts by PLN 214 971 thousand which is a seasonal fluctuation observed every year, connected with the intensified settlement of budgets at the end of each financial year by public clients,
 - a decrease in the balance of deferred income by PLN 183 892 thousand, including PLN 92 290 thousand due to settlement of advance payments received at the time of notarial sale of apartments in the developer segment and PLN 96 180 thousand due to settlement of advances received for construction and assembly works,
 - an increase in the provision for short-term liabilities by PLN 40 168 thousand, including an increase by PLN 31 987 thousand referring to provisions for warranty repairs.

Consolidated Profit and Loss Account of the Budimex Group

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 01.01 - 30.06.2018 | 01.01 - 30.06.2017 | Change | Change % |
|--|-----------------------|-----------------------|-----------------|----------------|
| Net sales of finished goods and services, goods for resale and raw materials | 3 302 661 | 2 721 772 | 580 889 | 21.3% |
| Cost of finished goods, services, goods for resale and raw materials sold | (3 016 170) | (2 369 678) | (646 492) | 27.3% |
| Gross profit on sales | 286 491 | 352 094 | (65 603) | (18.6%) |
| Selling expenses | (14 870) | (16 303) | 1 433 | (8.8%) |
| Administrative expenses | (110 538) | (102 322) | (8 216) | 8.0% |
| Other operating income | 24 264 | 20 415 | 3 849 | 18.9% |
| Other operating expenses | (15 223) | (4 730) | (10 493) | 221.8% |
| Operating profit | 170 124 | 249 154 | (79 030) | (31.7%) |
| Finance income | 17 288 | 18 655 | (1 367) | (7.3%) |
| Finance costs | (20 378) | (20 470) | 92 | (0.5%) |
| Shares in net results of equity accounted companies | (3 673) | (3 650) | (23) | 0.6% |
| Gross profit | 163 361 | 243 689 | (80 328) | (33.0%) |
| Income tax | (35 273) | (48 908) | 13 635 | (27.9%) |
| Net profit for the period | 128 088 | 194 781 | (66 693) | (34.2%) |
| <i>of which:</i> | | | | |
| <i>attributable to the shareholders of the Company</i> | <i>128 047</i> | <i>194 638</i> | <i>(66 591)</i> | <i>(34.2%)</i> |
| <i>attributable to non-controlling interests</i> | <i>41</i> | <i>143</i> | <i>(102)</i> | <i>(71.3%)</i> |

In the 6-month period ended 30 June 2018, the Budimex Group earned sales revenue of PLN 3 302 661 thousand which means a 21.3% increase on the corresponding period of 2017.

In the first half of 2018 construction-assembly production in Poland expressed in current prices increased by 26.3% (an increase by 23.7% 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 17.2% on the corresponding period.

Gross profit on sales in the first half of 2018 was PLN 286 491 thousand, while in the corresponding period of the prior year it amounted to PLN 352 094 thousand. The gross sales profitability ratio was therefore 8.7% in the first half of 2018, while in the first half of 2017 was 12.9%.

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 2018, the balance of the provision for contract losses amounted to PLN 163 986 thousand. In the first half of 2018, the balance of provision for contract losses decreased by PLN 79 843 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2018 the provision for warranty amounted to PLN 386 610 thousand. In the 6-month period ended 30 June 2018 the balance of the provision for warranty increased by PLN 31 987 thousand.

Selling expenses decreased in the first half of 2018 by PLN 1 433 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 8 216 thousand higher than expenses incurred in the corresponding period of 2017. The share of selling and administrative expenses in total sales was 3.8% in the first half of 2018 compared to 4.4% in the corresponding period of 2017.

Other operating income for the first half of 2018 was PLN 24 264 thousand (PLN 20 415 in the corresponding period of the prior year) and comprised: gain from reversal of provisions for penalties in the amount of PLN 6 080 thousand, income from compensations and contractual penalties in the amount of PLN 14 241 thousand, and reversal of write-offs for receivables due to repayment by debtors amounting to PLN 509 thousand. The overdue and expired liabilities amounting to PLN 944 thousand were also written off. 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 96 thousand. Additionally, in the period of six months of 2018 Group companies disposed of property, plant and equipment and investment properties with a net value of PLN 8 638 thousand and reported a gain on sale of PLN 1 754 thousand.

Other operating expenses for the first half of 2018 amounted to PLN 15 223 thousand (PLN 4 730 thousand in the corresponding period of the prior year) and comprised: PLN 4 898 thousand related to creation of write-off for receivables, PLN 5 089 thousand related to compensations and contractual penalties paid out and PLN 853 thousand – to donations. The costs of provisions creating for compensations and contractual penalties amounted to PLN 2 274 thousand. The loss on valuation of FX forward derivative instrument contracts amounted to PLN 1 161 thousand.

The reported operating profit of the Group in the first half of 2018 was PLN 170 124 thousand (PLN 249 154 thousand in the first half of 2017). The operating profit for the first half of 2018 represented 5.2% of sales revenue value, while for the corresponding period of the prior year – 9.2% of sales revenue.

In the 6-month period ended 30 June 2018 the Group incurred a loss on finance activities in the amount of PLN 3 090 thousand, while in the same period of the prior year – a loss in the amount of PLN 1 815 thousand. Finance income in the first half of 2018 represented mainly interest of PLN 15 994 thousand and valuation of receivables from service concession agreement of PLN 1 089 thousand.

Finance costs in the first half of 2018 represented, among others, interest costs of PLN 3 174 thousand, bank commissions on guarantees and loans of PLN 12 070 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 4 550 thousand. During the first half of 2018 the Group incurred a loss on valuation and realization of interest rate swap derivative instrument in the amount of PLN 324 thousand. Surplus of negative exchange rate differences over positive differences in the amount of PLN 185 thousand was also recognized in the finance costs.

In the first half of 2018, the Group reported a gross profit of PLN 163 361 thousand, while in the corresponding period of the prior year – a gross profit of PLN 243 689 thousand.

Income tax for the 6-month period ended 30 June 2018 was PLN 35 273 thousand (PLN 48 908 thousand for the first half of 2017), of which:

- current tax was PLN 28 068 thousand,
- deferred tax in the amount of PLN 7 205 thousand.

As at 30 June 2018, the Group recognized a deferred tax asset in the amount of PLN 398 018 thousand, while as at 31 December 2017 – PLN 405 208 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 2018 was PLN 128 047 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2017 was PLN 194 638 thousand.

The net profit attributable to non-controlling interest for the first half of 2018 amounted to PLN 41 thousand. In the corresponding period of 2017, the net profit attributable to non-controlling interest amounted to PLN 143 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 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 2018 with cash on hand and cash at bank amounting to a total of PLN 2 126 839 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 164 990 thousand. Net cash flow for the first half of 2018 was negative and amounted to PLN 1 213 202 thousand. As at 30 June 2018 cash balance was PLN 920 340 thousand, of which cash of restricted use was PLN 170 284 thousand.

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

In the first half of 2018 the cash flows from operating activities showed a negative balance of PLN 1 027 039 thousand.

Cash flow from investing activities showed a positive balance of PLN 277 117 thousand, that resulted mainly from the settlement of short-term bonds of mortgage banks.

Cash flow from financing activities for the first half of 2018 showed a negative balance of PLN 463 280 and resulted mainly from the 2017 dividend payment.

3.3 Finance management in the Budimex Group

In the first half of 2018 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 2018, negative cash flow from operating activity mainly results from the working capital adjustments in the first quarter of 2018. These adjustments were as a result of significant cash surpluses generated in the fourth quarter of 2017 in the construction activity.

The following factors contributed to the decrease of the cash balance in the first half of 2018: payout of historically high dividend in the amount of PLN 449 585 thousand in June 2018, expenses on land purchases in the developer activity in the amount of PLN 60 million, net capital expenditures, mainly for road and railway works in the amount of PLN 32 516 thousand, as well as lower operating profitability in the construction activity. As a result, the balance of cash and liquid financial assets of the Budimex Group as at June 30, 2018 was significantly lower than at the end of the first half of the previous year and amounted to PLN 920 340 thousand.

In accordance with the Group policy, any periodic surpluses of cash were invested mainly in bank deposits and debt securities with 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 2018 was PLN 146 735 thousand and was higher by PLN 60 607 thousand than as at 30 June 2017 (see table below). The indebtedness mainly comprised of: lease liabilities of Budimex SA, Budimex Kolejnictwo SA and of Mostostal Kraków SA (concluded in order to finance purchases of tangible fixed assets – in case of Budimex SA and Budimex Kolejnictwo SA mainly plant and machinery for the purposes of road and railway contracts realization with accordance with Group strategy), 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 2018, Budimex SA had no credit lines used.

| Bank loans and borrowings and other external sources of finance: | 30.06.2018 | 31.12.2017 | 30.06.2017 |
|---|-------------------|-------------------|-------------------|
| - long-term | 109 151 | 92 086 | 63 162 |
| - short-term | 37 584 | 30 324 | 22 966 |
| Total | 146 735 | 122 410 | 86 128 |

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

| Ratio | 30.06.2018 | 31.12.2017 | 30.06.2017 |
|--|-------------------|-------------------|-------------------|
| Equity to assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets) | 0.11 | 0.15 | 0.12 |
| Equity to non-current assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets) | 0.60 | 0.95 | 0.68 |
| Debt ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets) | 0.89 | 0.85 | 0.88 |
| Assets to equity ratio: (total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company) | 8.31 | 5.80 | 7.41 |

As at 30 June 2018 the debt ratio and assets to equity ratio increased, while at the same time equity to assets ratios dropped. Changes in the above ratios have diminished the sustainability of the Group's financing structure.

| Ratio | 30.06.2018 | 31.12.2017 | 30.06.2017 |
|--|-------------------|-------------------|-------------------|
| Current Ratio (current assets)/(current liabilities) | 1.07 | 1.13 | 1.06 |
| Quick Ratio (or Acid Test) (current assets - inventory)/(current liabilities) | 0.68 | 0.81 | 0.70 |

The current ratio as at 30 June 2018 improved slightly in comparison to the corresponding period of the previous year. At the same time, the quick liquidity ratio decreased, which was caused by a significant increase in the inventory balance another year

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

in a row. The growth is due to both the increase in inventories as part of development activities (purchase of land) as well as construction activities (inventory of materials on infrastructure contracts).

The current 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 2018.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables:

| | 30.06.2018 | 31.12.2017 |
|--|--------------------|--------------------|
| Contingent receivables | 634 610 | 607 458 |
| From related parties, of which: | - | - |
| - guarantees and sureties received | - | - |
| - bills of exchange received as security | - | - |
| From other entities, of which: | 622 610 | 592 690 |
| - guarantees and sureties received | 619 404 | 589 062 |
| - bills of exchange received as security | 3 206 | 3 628 |
| Other contingent receivables, of which: | 12 000 | 14 768 |
| - other off-balance-sheet receivables | 12 000 | 14 768 |
| Contingent liabilities | 3 983 423 | 3 975 165 |
| To related parties, of which: | 2 814 | 2 814 |
| - guarantees and sureties issued | 2 814 | 2 814 |
| - promissory notes issued as security | - | - |
| To other entities, of which: | 3 846 228 | 3 837 970 |
| - guarantees and sureties issued | 3 822 534 | 3 821 829 |
| - promissory notes issued as security | 23 694 | 16 141 |
| Other contingent liabilities, of which: | 134 381 | 134 381 |
| - other off-balance-sheet liabilities | 134 381 | 134 381 |
| Total contingent liabilities and contingent receivables | (3 348 813) | (3 367 707) |

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.

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

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 2018:

| 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 | 184 826 | 2025-08-13 | against payment | subsidiary |
| Budimex SA | Budimex Budownictwo Sp. z o.o. | 116 249* | 2026-12-23 | free of charge | subsidiary |
| Budimex SA | Budimex Nieruchomości Sp. z o.o. | 12 181 | 2020-02-17 | against payment | subsidiary |
| Budimex SA | Budimex Bau GmbH | 84 | 2018-12-31 | free of charge | subsidiary |
| Budimex SA | Budimex Kolejnictwo SA | 15 126 | 2025-10-31 | against payment | subsidiary |
| Budimex SA | FBSerwis SA | 1 551 | 2020-10-30 | against payment | associate |
| Budimex Budownictwo Sp. z o.o. | FBSerwis SA | 1 263 | 2018-11-16 | against payment | associate |
| TOTAL | | 331 280 | | | |

* 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 2018 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 | 2 490 000 | 9.8% | 2 490 000 | 9.8% |
| Nationale Nederlanden OFE | ordinary | 1 360 000 | 5.3% | 1 360 000 | 5.3% |
| Other shareholders | ordinary | 7 601 939 | 29.8% | 7 601 939 | 29.8% |
| 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 2018, 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

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 2018.

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

b) Composition of the Supervisory Board

As at 30 June 2018, 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 2018 to 30 June 2018.

| | | | | | |
|----------------------------------|--|-----------|------------------|--------------|-----------|
| 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 2018 | | | | | |