

THE BUDIMEX GROUP

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

for the first half of 2012

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1. BUSINESS ENVIRONMENT

1.1 General market condition

The first half of 2012 brought economic slowdown and a significant deterioration in the investment climate, especially in the construction sector.

The Polish economy still maintains a relatively high development rate. According to the estimates of the Main Statistical Office (GUS), in the first quarter of the current year GDP was 3.5% higher (in constant average prices of the previous year) compared to the corresponding period of the prior year. However, due to expected fall in the growth dynamics in the next quarters the Ministry of Economy forecasts that GDP will rise by 3.0% in the whole year (in comparison to the 4.3% growth in 2011). The forecasted inflation rate will be 3.7% (4.3% in 2011) and the public finance deficit will fall below 3% (5.1% last year).

In the first half of 2012 the construction industry increased by 8.0% (in fixed prices) compared to the corresponding period of the prior year. In case of civil engineering the production rose by 8.7% in comparison with the first half of the previous year. The construction-assembly production in the buildings' segment (residential and non-residential ones) recorded a similar dynamics by growing by 8.8% compared to the first half of 2011. However, the growth of the construction-assembly production was accompanied by a significant deterioration in the investment climate. As of the end of the first half of 2012 the indicator of general business tendency climate in construction published by the Main Statistical Office fell to -14 points (historically low June reading).

The last six months were a very difficult period for construction companies. The realization of unprofitable infrastructure contracts caused financial problems to many entrepreneurs, as a consequence problems with obtaining bank financing for companies from the construction sector emerged. An event that made the aversion to the industry even deeper, was the composition bankruptcy of one of the key players on the market – PBG SA and also other companies from PBG Group. Liquidity problems also affected Polimex-Mostostal SA, the company was forced to negotiate holding back the execution of the liabilities with its creditors.

The deterioration of the business climate is also visible in the residential construction segment. The record level of the new apartments' offer, which is an effect of the acceleration of project presale due to introduction of the developer act, aggravated the competition and decreased the dynamics of the apartments' presale by developers. In the first half of this year the developer companies started building 34.8 thousand of new apartments, which is a 21.9% increase compared to the corresponding period last year. A more restrictive policy of loan granting and a gradual expiration of the "Rodzina na Swoim" program also act to the disadvantage of the developers.

1.2 Market development prospects

Market conditions in the second half of 2012 will depend strongly on the situation development in the Euro zone. The European Commission's forecasts regarding the growth of Polish economy are slightly less optimistic this year than the estimates by the Ministry of Economy and assume dynamics of 2.7%. Next year, in 2013, the European Commission assumes a growth of 2.6%.

The prospects of the construction market development are diverse, depending on the segment. The Ministry of Economy estimates that in 2012 the construction-assembly production will grow by 7.0% compared to 2011.

The road-building sector will face the biggest challenges. Although the General Directorate of National Roads and Motorways estimates that in 2012 it will spend PLN 29.3 billion, a limitation in the number of new tenders is clearly visible, which will have a direct impact on the fall in the value of the road-building market in the years 2013 – 2014. However, the effect might not be so strong due to expected delays which are a consequence of the financial problems of subcontractors and the necessity of selecting new construction companies for the contracts which had been previously broken (the case of A4 motorway).

Rail investments gather momentum. According to the data of the Ministry of Transport, Construction and Maritime Economy the expenditures of PKP PLK (the main investor in this segment) amounted to PLN 3.7 billion in 2011, and in the current year, according to Long-term Rail Investment Program till 2013 with perspective till 2015, the expenditures should reach the record-high PLN 6 billion. Resolutions of tenders for building of power generation units (e.g. in Turów and Koźienice) and for garbage incinerators are expected in 2012.

The record-high market supply and the hampered financing conditions of individual clients can influence further growth in the competition on the developer market. However, in the long run, this segment has a significant growth potential, mainly due to a relatively low housing resources compared to highly developed European Union countries.

In the perspective of the next quarters an escalation of problems related to financial liquidity and increasing payment hold-ups might be expected. Financial institutions have an increasingly less favourable attitude towards the construction sector, which exacerbates the contractors' problems. The difficult situation in the industry might become a chance for companies with firm foundations and a stable financial situation.

In the long-term perspective the 2014 – 2020 final budget of European Union's aid for Poland will be of key importance to the construction market. A substantial part of the funds is designated to infrastructure investments, including road and railway construction. The project prepared by the European Commission stipulates ca. PLN 80 billion for Poland, which is more than the allocation for the years 2007 – 2013.

2. SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2012

2.1 Major construction contracts concluded by the Budimex Group companies

Contract date	Contract value for the Budimex Group (in PLN '000)	Customer	Type of construction
30.01.2012	173 000	Powisłe Park Sp. z o.o.	Construction of an office and residential building at 2 Kruczkowskiego Street in Warsaw
8.03.2012	77 100	Centrum Biurowe Neptun Sp. z o.o.	Construction of the Office Center NEPTUN in Gdańsk – a 19-storey office building with a 3-storey underground garage

2.2 Risk factors

The main type of business of Group companies, i.e. performance of construction contracts, is burdened with currency risk if contracts are denominated in foreign currencies. Group companies actively manage their foreign exchange risk by entering into appropriate contracts with subcontractors or financial institutions. Exchange rate fluctuations affect sales revenue, operating expenses or the result from valuation and settlement of currency derivative contracts.

An inherent risk of conducting business activities is the credit risk of business partners. Despite implementation of restrictive control procedures for receivables in the Group, the risk of investor insolvency still exists. Delays in timely payments by customers (investors) may have adverse effects on the financial result of the Group and result in the necessity to create impairment write-downs against receivables or to finance business from external debt.

The construction contracts are performed in specific technical and economic conditions which has effect on the level of margin. Budimex Group companies which render construction services monitor technical, organizational, legal and financial risks related to contract works planning and progress. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors may occur that will cause that contracts will be performed with a lower margin than initially planned. Such factors mainly concern:

- increase in prices of construction materials, energy and oil-derivatives
- delays in timely performance or insufficient quality of subcontracted works,

and furthermore:

- increase in costs of subcontractor services,
- increase in employment costs,
- delays in obtaining relevant administrative decisions,
- changes in the scope of work or technologies as agreed in the contracts,
- unfavourable weather or land conditions.

3. FINANCIAL SITUATION

3.1 Key economic – financial data of the Budimex Group

Consolidated Statement of Financial Position

The main items of the consolidated statement of financial position of the Budimex Group as at 30 June 2012, compared to 31 December 2011, are presented in the table below:

	30.06.2012	31.12.2011	Change	% Change
ASSETS				
Non-current assets	683 380	801 210	(117 830)	-14,7%
Property, plant and equipment	239 851	274 001	(34 150)	-12,5%
Investment properties	3 186	3 278	(92)	-2,8%
Intangible assets	3 613	7 489	(3 876)	-51,8%
Goodwill	89 356	134 356	(45 000)	-33,5%
Equity accounted investments	12 722	13 503	(781)	-5,8%
Available-for-sale financial assets	11 398	12 146	(748)	-6,2%
Retentions for construction contracts	38 451	37 883	568	1,5%
Other long-term receivables	-	24	(24)	-100%
Long-term prepayments and deferred costs	4 867	6 498	(1 631)	-25,1%
Deferred tax assets	279 936	312 032	(32 096)	-10,3%
Current assets	3 230 202	3 661 350	(431 148)	-11,8%
Inventories	1 153 813	1 115 558	38 255	3,4%
Trade and other receivables	904 500	511 961	392 539	76,7%
Retentions for construction contracts	34 747	22 394	12 353	55,2%
Amounts due and receivable from customers under construction contracts	644 085	229 762	414 323	180,3%
Current tax receivable	4 652	5 985	(1 333)	-22,3%
Derivative financial instruments	875	141	734	520,6%
Cash and cash equivalents	445 576	1 761 630	(1 316 054)	-74,7%
Short-term prepayments and deferred costs	14 089	13 919	170	1,2%
Non-current assets classified as held for sale	27 865	-	27 865	100,0%
TOTAL ASSETS	3 913 582	4 462 560	(548 978)	-12,3%

As at 30 June 2012, total consolidated assets decreased by PLN 548 978 thousand compared to 31 December 2011, mainly due to a 11.8% (PLN 431 148 thousand) decrease in the current assets and a 14.7% (PLN 117 830 thousand) decrease in the non-current assets.

Non-current assets:

Decrease in the value of non-current assets at 30 June 2012 as compared to 31 December 2011 was caused mainly by the following:

- reclassification of some tangible fixed assets as held for sale in the amount of PLN 27 865 thousand,
- impairment of goodwill, which was recognized on the acquisition of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. ("PNI Sp. z o.o."), in the amount of PLN 45 000 thousand,
- the full depreciation during the 6 months of 2012 of the fair value of backlog identified at the acquisition date of PNI Sp. z o.o. amounting to PLN 3 218 thousand,
- decrease in the balance of deferred tax assets by PLN 32 096 thousand.

Current assets:

Current assets decreased by PLN 431 148 thousand due to the following:

- decrease in the balance of cash and cash equivalents by PLN 1 316 054 thousand, mainly due its use to finance operating activities and payment of dividend,
- increase in the balance of trade and other receivables by PLN 392 539 thousand and
- increase in the balance of amounts due and receivable from customers under construction contracts (valuation of construction contracts) by PLN 414 323 thousand.

EQUITY AND LIABILITIES	30.06.2012	31.12.2011	Change	% Change
Shareholders' equity attributable to the shareholders of the Parent Company	267 709	525 830	(258 121)	-49,1%
Share capital	145 848	145 848	-	0,0%
Share premium	234 799	234 799	-	0,0%
Other reserve	1 283	1 283	-	0,0%
FX differences on translation of foreign operations	2 086	2 229	(143)	-6,4%
Retained earnings/ (losses)	(116 307)	141 671	(257 978)	-182,1%
Non-controlling interests	-	-	-	0,0%
Total shareholders' equity	267 709	525 830	(258 121)	-49,1%
Liabilities	3 645 873	3 936 730	(290 857)	-7,4%
Non-current liabilities	370 995	360 153	10 842	3,0%
Loans, borrowings and other external sources of finance	76 487	73 981	2 506	3,4%
Retentions for construction contracts	144 595	150 122	(5 527)	-3,7%
Provision for long-term liabilities and other charges	138 528	124 665	13 863	11,1%
Retirement benefits and similar obligations	11 385	11 385	-	0,0%
Current liabilities	3 274 878	3 576 577	(301 699)	-8,4%
Loans, borrowings and other external sources of finance	33 286	37 753	(4 467)	-11,8%
Trade and other liabilities	1 519 013	1 698 239	(179 226)	-10,6%
Retentions for construction contracts	192 012	153 436	38 576	25,1%
Amounts due and payable to customers under construction contracts	844 816	1 037 987	(193 171)	-18,6%
Prepayments received	382 939	357 956	24 983	7,0%
Provision for short-term liabilities and other charges	135 663	105 529	30 134	28,6%
Current tax payable	677	-	677	100,0%
Retirement benefits and similar obligations	5 045	5 044	1	0,0%
Derivative financial instruments	5 223	12 330	(7 107)	-57,6%
Short-term accruals	148 228	162 231	(14 003)	-8,6%
Short-term deferred income	7 976	6 072	1 904	31,4%
TOTAL EQUITY AND LIABILITIES	3 913 582	4 462 560	(548 978)	-12,3%

Equity and liabilities:

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

- decrease in the balance of amounts due and payable to customers under construction contracts by PLN 193 171 thousand, related to re-valuation of construction contracts and a decrease in the balance of provisions for contract losses,
- increase in the balance of provisions for short-term liabilities and other charges by PLN 30 134 thousand, mainly due to created provisions for restructuring in the amount of PLN 28 133 thousand,
- increase in the value of short-term retentions for construction contracts by PLN 38 576 thousand,
- decrease in the value of short-term trade and other liabilities by PLN 179 226 thousand.

Consolidated Profit and Loss Account

	01.01- 30.06.2012	01.01- 30.06.2011	Change	% Change
Net sales of finished goods, services, goods for resale and raw materials	2 883 765	2 248 888	634 877	28,23%
Cost of finished goods, services, goods for resale and raw materials sold	(2 654 455)	(2 044 596)	(609 859)	29,83%
Gross profit on sales	229 310	204 292	25 018	12,25%
Selling expenses	(11 359)	(10 990)	(369)	3,36%
Administrative expenses	(96 660)	(68 438)	(28 222)	41,24%
Other operating income	18 795	44 088	(25 293)	-57,37%
Other operating expenses	(87 971)	(24 075)	(63 896)	265,40%
Gains on derivative financial instruments	4 325	545	3 780	693,58%
Operating profit	56 440	145 422	(88 982)	-61,19%
Finance income	25 169	27 218	(2 049)	-7,53%
Finance costs	(22 262)	(22 135)	(127)	0,57%
Share in net (losses) of equity accounted subordinates	(760)	(2 346)	1 586	-67,60%
Gross profit on ordinary activities	58 587	148 159	(89 572)	-60,46%
Income tax	(36 500)	(28 369)	(8 131)	28,66%
Net profit for the period	22 087	119 790	(97 703)	-81,56%
<i>Of which:</i>				
Attributable to the shareholders of the Parent Company	22 087	119 790	(97 703)	-81,56%
<i>non-controlling interests</i>	-	-	-	-

In the 6-month period ended 30 June 2012, the Budimex Group earned sales revenue of PLN 2 883 765 thousand which means a 28.23% increase compared to the corresponding period of 2011.

In the first half of 2012 construction-assembly production in Poland expressed in current prices increased by 8.8% compared to the corresponding period of the prior year (an increase by 8.0% in fixed prices), while sales of the construction segment of the Budimex Group on the home market were up 34.22% compared to the corresponding periods.

Gross profit on sales in the first half of 2012 was PLN 229 310 thousand, while in the corresponding period of the prior year it amounted to PLN 204 292 thousand. The gross sales profitability ratio was therefore 7.95% in the first half of 2012, while in the first half of 2011 it amounted to 9.08%. In the first half of 2012 gross profit on sales in the construction segment amounted to PLN 204 837 thousand and was higher by PLN 38 003 thousand compared to the corresponding period of the prior year, albeit gross sales profitability ratio of construction segment for the first half of 2012 was 7.43% (8.10% in the first half of 2011). In turn, gross profit on sales in the developer segment in the 6-month period of 2012 was PLN 19 036 thousand, while in the corresponding period of the prior year it amounted to PLN 32 888 thousand. Gross sales profitability ratio of the developer segment increased from 18.27% in the first half of 2011 to 22.84% in the corresponding period of the current year.

In accordance with the accounting policies adopted, when budgeted contract costs exceed the entire expected contract revenue, Group companies create provisions for expected contract losses and recognize them under „Amounts due and payable to customers under construction contracts”. In the subsequent periods, a part of the created provision is released in proportion to the percentage of contract completion, after taking into account total negative margin on the entire contract. As at 30 June 2012, the balance of the provision for contract losses amounted to PLN 425 377 thousand. In the first half of 2012, the balance of provision for contract losses decreased by PLN 70 434 thousand, taking into consideration the provisional accounting adjustment of the net assets' fair value of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. The adjusted value of provision for contract losses as of 31 December 2011 is PLN 495 811 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2012 the provision for warranty amounted to PLN 167 212 thousand. In the 6-month period ended 30 June 2012 the balance of the provision for warranty increased by PLN 16 816 thousand.

Selling expenses increased in the first half of 2012 by PLN 369 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 28 222 thousand higher than expenses incurred in the corresponding period of 2011, out of which PLN 12 243 thousand refer to Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. The share of selling and administrative expenses in total sales increased from 3.53% in the first half of 2011 to 3.75% in the first half of the current year.

Other operating income for the first half of 2012 was PLN 18 795 thousand (PLN 44 088 thousand for the first half of 2011) and comprised income from received compensations and contractual penalties in the amount of PLN 8 771 thousand and reversal of provision for liabilities in dispute in the amount of PLN 1 516 thousand. Additionally, in the period of six months of 2012 Group companies disposed of tangible fixed assets and investment properties and earned sales profit of PLN 961 thousand. The net book value of the tangible fixed assets and investment properties sold in the first half of 2012 was PLN 119 thousand.

Other operating expenses for the first half of 2012 amounted to PLN 87 971 thousand (PLN 24 075 thousand for the first half of 2011), of which PLN 5 927 thousand related to impairment write-downs against receivables, PLN 28 133 thousand related to creating a restructuring provision and PLN 1 198 thousand related to provisions created for legal proceedings. The value of compensations and contractual penalties paid and charged to the Group result in the period discussed was PLN 1 866 thousand and the costs of court fees, judicial execution and court proceedings amounted to PLN 1 267 thousand. The Group also created an impairment write-down against goodwill recognized on the purchase of PNI Sp. z o.o. in amount of PLN 45 000 thousand.

During the first half of 2012 the Group reported gains on valuation and realization of derivative financial instruments contracts (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 4 325 thousand, while in the corresponding period of the prior year – gain in the amount of PLN 545 thousand.

The reported operating profit of the Group in the first half of 2012 was PLN 56 440 thousand, while in the first half of 2011 it amounted to PLN 145 422 thousand (decrease by 61.19%). The operating profit for the first half of 2012 represented 1.96% of sales revenue value, while for the corresponding period of the prior year it represented 6.47% of sales revenue.

In the 6-month period ended 30 June 2012 the Group generated profit on financing activities in the amount of PLN 2 907 thousand, compared to a profit of PLN 5 083 thousand in the corresponding period of the prior year. Finance income in the first half of 2012 represented mainly interest of PLN 23 258 thousand. Finance costs in the first half of 2012 represented, among others, interest costs of PLN 4 814 thousand, bank commissions on guarantees and loans of PLN 7 173 thousand paid by Group companies, costs relating to impairment write-downs against the value of shares in the company Autopistas del Levante S.L. in the amount of PLN 4 916 thousand and costs from discount of long-term retention receivables and liabilities of PLN 5 350 thousand.

In the first half of 2012, the Group reported a gross profit of PLN 58 587 thousand, while in the corresponding period of the prior year – a gross profit of PLN 148 159 thousand (decrease by 60.46%).

Income tax for the 6-month period ended 30 June 2012 was PLN 36 500 thousand (PLN 28 369 thousand for the 6-month period of 2011), of which:

- current tax was PLN 4 286 thousand,
- deferred tax was PLN 32 214 thousand.

As at 30 June 2012, the Group recognized a deferred tax asset in the amount of PLN 279 936 thousand, while as at 31 December 2011 – PLN 312 032 thousand. The items of deferred tax asset in the reported statement of financial position 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. In the 6-month period ended 30 June 2012, due to a conservative estimate of the realisability of the temporary differences decreasing the income tax base in Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in the coming years, the Group did not recognize deferred tax assets amounting to PLN 12 000 thousand, which has a negative impact on the Group's net profit in the same amount.

The net profit attributable to the shareholders of the Budimex Group for the first half of 2012 was PLN 22 087 thousand, while the net profit attributable to the shareholders of the Budimex Group for the corresponding period of 2011 was PLN 119 790 thousand (decrease by 81.56%).

Statement of Cash Flow

The Budimex Group entered the year 2012 with cash on hand and cash at bank amounting to a total of PLN 1 761 630 thousand. For the purpose of the Statement of Cash Flow this amount was reduced by the amount of cash of restricted use of PLN 21 142 thousand. Net cash flow for the first half of 2012 was negative and amounted to PLN 1 304 025 thousand. As at 30 June 2012, cash balance was PLN 445 576 thousand, of which cash of restricted use was PLN 9 075 thousand.

In the first half of 2012, the cash flows from operating activities showed a negative balance of PLN 1 002 740 thousand.

Cash flow from investing activities showed a negative balance of PLN 13 222 thousand that resulted mainly from the expenditures on intangibles and tangible fixed assets.

Cash flow from financing activities for the first half of 2012 showed a negative balance of PLN 288 063 thousand and was caused mainly by payment of dividends.

3.2 Managing of finance at the Budimex Group

Cash flow from operating activities of the Budimex Group in the first half of 2012 were negative, which is due to the type of the business conducted, where significant cash inflows from operating activities are realized at the year-end, while in the first two quarters of the year cash is rather engaged in current operating activities. Higher negative cash flow from operating activities in the period of first half of 2012 compared to comparative data for the first half of 2011 mainly resulted from adjustments in the level of working capital in the first quarter of 2012, which were the consequence of significant cash surplus achieved in the fourth quarter of 2011 by construction business. Decrease in the balance of cash in the period of first half of 2012 was also caused by dividend payment, which took place in May 2012.

In accordance with the Group policy, any periodic surpluses of cash were used to finance the activities of Group companies, mainly through bank deposits or invested in treasury bills or short-term securities of issuers with good financial standing and 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 2012 was PLN 109 773 thousand and was PLN 1 961 thousand lower than as at 31 December 2011 (see table below). The indebtedness mainly comprised of: lease liabilities of Budimex SA and of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (concluded in order to finance purchases of tangible fixed assets – mainly plant and machinery for the purposes of road and rail contracts realization), but also due to indebtedness of Budimex Nieruchomości Sp. z o.o. concerning bank loans financing the developer activities and indebtedness of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. regarding the loan in the current account.

THE BUDIMEX GROUP	30.06.2012	31.12.2011	30.06.2011
Long-term bank loans and borrowings and other external sources of finance	76 487	73 981	30 128
Short-term bank loans and borrowings and other external sources of finance	33 286	37 753	20 903
Total bank loans and borrowings and other external sources of finance	109 773	111 734	51 031

The following ratios show the structure of finance at the Budimex Group:

Ratio	30.06.2012	31.12.2011	30.06.2011
Equity to assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.07	0.12	0.17
Equity to non-current assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)</i>	0.39	0.66	0.96
Debt ratio: <i>(total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.93	0.88	0.83
Assets to equity ratio: <i>(total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)</i>	13.62	7.49	4.98

The structure of finance ratios as at 30 June 2012 changed compared to the values as at 31 December 2011. The 28.2% increase of sales revenue realized by the Group in the first half of 2012 compared to the first half of 2011 caused the 15.1% increase in the value of assets and liabilities in the consolidated statement of financial position as at 30 June 2012. At the same time, the value of shareholders' equity of the Group decreased, mainly due to impairment of goodwill, recognized on the acquisition of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. Consequently, the debt and assets to equity ratio increased as at 30 June 2012 compared to 30 June of the prior year and equity to assets and equity to non-current assets ratios were lower.

Ratio	30.06.2012	31.12.2011	30.06.2011
Current Ratio <i>(current assets)/(current liabilities)</i>	0.99	1.02	1.10
Quick Ratio (or Acid Test) <i>(current assets - inventory)/(current liabilities)</i>	0.63	0.71	0.70

The liquidity ratios as of 30 June 2012 decreased slightly in comparison to their values as of 31 December 2011 and 30 June 2011, mainly due to a decrease in the cash balances used in the operating and financing activities.

The current financial standing of the Budimex Group as regards its liquidity and access to external sources of finance does not indicate any threat to its ability to finance business activities in the second half of 2012.

3.3 Off-balance sheet items of the Budimex Group

The table below shows guarantees, suretyships and other contingent liabilities of the Budimex Group:

	30.06.2012	31.12.2011	30.06.2011
Contingent receivables			
From related parties, of which:			
– guarantees and suretyships received	-	-	-
– bills of exchange received as security	-	-	-
From related parties, total	-	-	-
From other entities			
– guarantees and suretyships received	426 403	358 041	312 250
– bills of exchange received as security	17 293	20 228	21 375
From other entities, total	443 696	378 269	333 625
Other contingent receivables	3 000	-	-
Total contingent receivables	446 696	378 269	333 625
Contingent liabilities			
To related parties, of which:			
– guarantees and suretyships issued	332	503	506
– promissory notes issued as security	-	-	-
To related parties, total	332	503	506
To other entities, of which:			
– guarantees and suretyships issued	1 854 916	1 801 518	1 649 469
– promissory notes issued as security	32 088	30 613	14 779
To other entities, total	1 887 004	1 832 131	1 664 248
Other contingent liabilities	17 259	3 709	
Total contingent liabilities	1 904 595	1 836 343	1 664 754
Total off-balance sheet items	(1 457 899)	(1 458 074)	(1 331 129)

Contingent receivables represent guarantees issued by banks and other financial institutions to the companies of the Budimex Group as security for the potential claims the Group may file against its business partners in respect of the construction contracts in progress.

Contingent liabilities represent guarantees and suretyships issued by banks to business partners of the Group as security for the potential claims they may be filed against the Group in respect of the construction contracts in progress. Banks are entitled to recourse the underlying claims to Group companies. Guarantees issued to the Group's customers represent an alternative, to the retentions held, method of securing potential claims of customers.

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 (receivables) represent security for the repayment by the Group customers of the amounts due to the Group.

The composition of the Management Board was subject to the following changes in the period from 1 January 2012 to 30 June 2012:

- On 8 May 2012 Ms Joanna Makowiecka handed in her resignation from the function of Board Member, Chief HR Officer and therefore, pursuant to article 369 par. 5 of the Code of Commercial Companies, her mandate of the Budimex SA Board Member expired.
- On 25 May 2012 the Supervisory Board of Budimex SA, by the resolution no. 201, appointed Mr Andrzej Artur Czynczyk a Board Member of Budimex SA for the function of Board Member, Chief HR Officer. Mr Andrzej Czynczyk was appointed for the VII common term of office encompassing the years 2011, 2012 and 2013.

Rules of appointing and recalling members of the Management Board, and their rights, in particular the right to resolve about the issue or buyout of shares, included in the Company's statute, have not changed during 2012.

As at 30 June 2012, the Supervisory Board of Budimex SA consisted of the following persons:

- | | |
|--|--|
| • Marek Michałowski | Chairman of the Supervisory Board |
| • Alejandro de la Joya Ruiz de Velasco | Vice-Chairman of the Supervisory Board |
| • Tomasz Paweł Sielicki | Secretary of the Supervisory Board |
| • Marzenna Anna Weresa | Member of the Supervisory Board |
| • Igor Adam Chalupiec | Member of the Supervisory Board |
| • Javier Galindo Hernandez | Member of the Supervisory Board |
| • Jose Carlos Garrido-Lestache Rodriguez | Member of the Supervisory Board |
| • Piotr Kamiński | Member of the Supervisory Board |
| • Maciej Stańczuk | Member of the Supervisory Board. |

The composition of the Supervisory Board in the period from 1 January 2012 to 30 June 2012 was not subject to any changes.

As at 30 June 2012, the following persons of the key management and supervisory personnel held shares in Budimex SA:

Marcin Węglowski	2 830 shares
Marek Michałowski	3 900 shares

The above mentioned persons do not hold share options. The remaining members of the Management or Supervisory Board of Budimex SA do not hold Company's shares or share options as at 30 June 2012.

Dariusz Blocher	President of the Management Board	.....	Henryk Urbański	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Ignacio Botella Rodriguez	Vice-President	.....	Marcin Węglowski	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Andrzej Artur Czynczyk	Board Member	.....	Jacek Daniewski	Board Member	.....
name and surname	position	signature	name and surname	position	signature
Warsaw, 27 August 2012					