

budimex

THE BUDIMEX GROUP

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

for the first half of 2020

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

1 BUSINESS ENVIRONMENT

1.1 General market condition

At the beginning of this year, the economic situation remained relatively good. However, in mid-March, there was a strong reduction in economic activity due to the COVID-19 pandemic and its negative impact on the sentiment of economic entities, as well as on activities undertaken in the world and in Poland to limit its spread.

According to the estimation of Central Statistical Office, year on year GDP growth in the first quarter of 2020 amounted to 2.0% and it was significantly lower than in the respective period of 2019, when it reached 4.8%. In June 2020, the unemployment rate was 6.1% compared to 5.3% in the corresponding period of the previous year. In addition, there has been a significant decrease in the consumer price index in recent months. In June 2020, it amounted to 3.3% year on year compared to 4.7% year on year in February 2020 and remained within the range of the mid-term inflation target of the National Bank of Poland (NBP).

In comparison with other sectors of the economy, restrictions related to the COVID-19 pandemic had a relatively slight impact on economic activity in the construction industry. The value of construction and assembly production sold (in current prices) in the first half of 2020 was higher by 5.2% than the year earlier. The increase in production resulted from the improvement of the situation in the infrastructure and residential segment. Civil engineering segment increased by 9.6% year on year. The boom in this segment was a consequence of a significant increase in sale of construction and assembly production in the railway sub-segment (increase by 23.1% year on year) and in the road and bridge sub-segment (increase by 17.3% year on year). In addition, sale of construction and assembly production in the residential construction segment increased by 9.4% compared to the first half of 2019. The negative growth dynamics was recorded by non-residential construction (a decrease by 2.7% compared to the same period in 2019). Contrary to the slight fluctuations in construction output in the first two quarters of 2020, the business climate index in construction deteriorated drastically. In June 2020, it reached the value of -25.9 compared to 7.8 points in a previous year and 7.3 points in June 2018.

In the first quarter of this year, an activity on the residential market remained high. Until mid-March 2020, the demand for flats was supported by a very promising situation of employees on the labor market and stable interest rates of mortgage loans. As a result, the increase in the demand for flats remained slightly faster than the increase in the supply of flats. According to the data of the National Bank of Poland, an offer and transaction prices of flats increased, both in the primary market (11.5% and 10.7% year on year, respectively) and in the secondary market (11.5% and 10.9% year on year, respectively in the first quarter of 2020). Data for the second quarter of 2020, published by the National Bank of Poland in August 2020, indicate a slight decrease in average transaction prices quarter-on-quarter. The reason for the correction of the average price of flats was most probably a drop in demand on the housing market related to the introduced state of epidemic.

The COVID-19 pandemic has significantly limited activities on the residential market due to restrictions in interpersonal contacts. The number of flats for sale and rent amounted to 62.4 thousand (an increase by 6.1% compared to the same period in 2019) in the first half of 2020. At the same time, the number of flats for sale or rent for which building permits were issued, reached the level of 74.2 thousand (a decrease by 5.8% year on year). The number of flats which construction began in the first six months of 2020 confirms the deterioration of the economic situation on the residential market (decline by 19.6% year on year to 53.5 thousand). After the very positive results of pre-sale of flats achieved by developers in 2017-2019, the negative dynamics of pre-sale of flats were noticeable in the first half of 2020.

1.2 Market development prospects

The future economic situation in Poland is strongly connected with the further development of the COVID-19 pandemic. In accordance with the macroeconomic forecasts published by the NBP in July 2020, Polish economy will experience a state of recession in 2020. The GDP growth will reach the value of -5.4% and 4.9% respectively in 2020 and in 2021. According to the NBP projection, the average annual inflation rate is estimated at 3.3% and 1.5% in 2020 and 2021 respectively. The average unemployment rate predicted by the National Bank of Poland is to reach 6.4% in the fourth quarter of 2020. In the following quarters, the unemployment rate should be gradually decreased.

In the following years, European Union (EU) funds will be essential drivers, shaping the dynamics of investments in construction sector. In July 2020, EU leaders reached an agreement under which the value of the EU budget in 2021-2027 will amount to EUR 1 074 billion. Moreover, a special Reconstruction Fund was created and its total value will amount to EUR 750 billion, including EUR 390 billion in the form of grants. The total value of money proposed for Poland under the new budget is amounted approximately to EUR 160 billion, including nearly EUR 125 billion in the form of grants. The scale of support for Poland compared to the current EU perspective 2014-2020, in which the value of allocations for Poland in constant prices from 2018 amounts to almost PLN 117 billion, will be slightly higher. As of July 2020, the share of funds supporting infrastructure investments in Poland under the new EU perspective is still unknown.

Investment prospects for big road projects are optimistic. Ongoing road investments executed within the "National Road Construction Program for 2014-2023, with the perspective to 2025" (NRCP) puts further challenges ahead the road segment. In June 2020, the Council of Ministers adopted an amendment to the resolution by establishing a multi-annual program for the construction of national roads. It provides, inter alia, increasing the financial limit to almost PLN 164 billion. Under the increased limit, 126 road investment projects have been planned, the material scope of which will amount to 3 768 kilometers. The additional list of investment projects which is not covered by the financing limit includes 32 tasks. One of the government's priorities is the further implementation of the Via Carpatia route along the S61 and S19 national roads. In the course of updating work of the NRCP, the implementation of several road investments in the PPP formula (parts of S6 and S10) was also abandoned. Thus, they were included on the list of tasks financed by the National Road Fund. In the years 2021-2030, the supply of orders on the road market will be also supported by the "100 Ring Road Construction Program", which was published in February 2020. The value of the planned investments has been estimated at approximately PLN 28 billion. The material scope will include the construction of 820 kilometers of roads. A potential source of orders on the road market may be also the concept of building

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a bypass for the Warsaw Agglomeration which is planned for the years 2025-2030. The investment expenditures under the project may reach PLN 25-30 billion.

According to the official information published in January 2020, the General Directorate for National Roads and Highways (GDDKiA) announced 192 tenders under NRCP for tasks amounting to approximately 2 530 kilometers for years 2013-2019. According to GDDKiA data, tenders were announced for 71% of the tasks indicated in the NRCP. Moreover, the list of orders planned to be accepted by GDDKiA in January 2020, predicts tenders for construction works this year for 25 sections with a total length of 353 kilometers and a value exceeding PLN 12.0 billion. It includes 15 sections of the planned S19 expressway with a total length of approximately 200 kilometers. The before mentioned plan was upheld by GDDKiA in April 2020, i.e. after the outbreak of the COVID-19 pandemic. In the first half of 2020, offers in GDDKiA tenders under NRCP were opened with a gross value of PLN 8.0 billion, i.e. more than in the corresponding period of 2019. The gross value of bids opened by GDDKiA from the beginning of 2014 to the end of the first half of 2020 under large road tasks, excluding canceled tenders, amounted to approximately PLN 92 billion gross. The value of signed contracts for construction works in the same period amounted to over PLN 84 billion gross.

Due to the significant increase in construction costs, the profitability of many large long-term contracts in the road segment was under considerable pressure in 2017-2019. The lack of real valorization of contracts, the increase in the prices of materials, labor and subcontracting services, as well as the unfair division of contractual risks contributed to the cancellation of several large contracts performed for GDDKiA. In 2019, the implementation of over a dozen large road tasks carried out by companies unprepared to conduct multi-million investments in a difficult market environment was abandoned. In 2020 this phenomenon also took place, but on a smaller scale.

The railway market is entering the execution phase of construction contracts signed in 2018-2019. The long-term development prospects for the railway market are optimistic. According to PKP PLK, an investment expenditures were realized at a level close to PLN 10.0 billion in 2019. Therefore, PLK did not implement its investment plans, predicted to be at the level of PLN 12.0 billion. One of the main reasons were delays in contracting large investments in seaports. According to the announcements of the president of PKP PLK, in 2020 the value of investment expenditure will increase to approximately PLN 14-15 billion and over 90% of the "National Railway Program until 2023" (KPK) projects will be completed or under implementation by the end of the above-mentioned year. In the following years, outlays will stabilize by reaching the annual value of PLN 10.0 - 12.0 billion. In accordance with the current financing plan for the KPK, updated in September 2019, in 2015-2023, PKP PLK will implement projects included in the basic list with a value of PLN 73.1 billion. Additionally, 66 projects with a value of approximately PLN 32.6 billion were included in the reserve list. The value of the lowest bids submitted in the first half of 2020 as a part of PKP PLK's major tasks amounted to over PLN 3.0 billion net (excluding canceled tenders and orders for ERTMS systems) and was lower than in the first half of the previous year. The value of contracts signed under large railway contracts in the first half of 2020 amounted to PLN 5.0 billion net and was comparable to the value of contracts signed in the first half of 2019. The value of the lowest bids submitted since the beginning of 2016, as part of major PKP PLK tenders for railway works construction (excluding canceled tenders and orders for ERTMS systems), amounted to approximately PLN 41 billion net (as at the end of June 2020). The value of similar contracts, signed by PKP PLK from the beginning of 2016, amounted to approximately PLN 37 billion net. The value progress of the KPK is estimated at about 80-90% (as at the end of June 2020).

In the years 2020-2021, an intensification of works in the road and rail segment should be expected. The high value of contracted works in 2018-2019 will be the driving force behind the growth of construction and assembly production in the above-mentioned markets. The potential threats in this period include, first of all, a possible escalation of the COVID-19 pandemic. The main threat to the industry is a potential administrative decision to limit works on construction sites or to stop them permanently.

The planned construction of the Central Communication Port (CPK) will be an enormous challenge for the largest infrastructure investors and the contractors community. In the optimistic scenario, the CPK launch will take place in 2027. According to the preliminary government estimates, the value of the planned investments under the project is about PLN 30-35 billion, however, unofficial sources say that the expenses are underestimated and the scale of investments may be several times larger. The railway component, which provides for the construction of new railway lines with a length of approximately 1,600 kilometers, deserves special attention of contractors. The main task of the CPK SPV in 2020 will be the selection of a strategic project advisor and preparation of the so-called masterplan.

In 2020, the level of flats sold by the biggest residential developers is expected to fall slightly. The situation on the real estate market will depend on the degree of development of the pandemic and the government's decisions to counteract it. Further decisions of the Monetary Policy Council and the National Bank of Poland regarding the support of Polish economy are very significant. The demand for flats will be driven by the interest rate cuts introduced by the Monetary Policy Council in March-May 2020. On the other hand, the deteriorating situation on the labor market and the increased propensity to save will negatively affect the number of purchasing flats. The high level of the pre-sale volume of flats achieved with the relatively low market offer of developers has translated into an increase in apartment prices in recent years. According to the NBP data, it has increased on average by 10%. At the beginning of 2020, a continuation of this trend was observed.

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2 SIGNIFICANT DEVELOPMENTS IN THE FIRST HALF OF 2020**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
2020-01-08	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Białymstoku	843 737	Design and Build of S61 Expressway Suwałki-Budzisko. Section from the Suwałki bypass road to the Szczypiszki bypass road within "Via Baltica" project
2020-05-12	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Warszawie	486 828	Design and Build of S7 Expressway Płońsk – Czosnów. Section III from the "Modlin" junction (with the junction) to the "Czosnów" junction (without the junction)
2020-03-04	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Szczecinie	471 398	Design and Build of S11 Expressway Koszalin - Szczecinek. Section I Koszalin West (without junction) – Bobolice
2020-04-27	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Bydgoszczy	460 802	Design and Build of S5 Expressway Nowe Marzy - Bydgoszcz Section I - border of the Kuyavian-Pomeranian and Greater Poland voivodships
2020-01-08	Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w m.st. Warszawie SA	348 979	Vistula Sewage Collector – Stage II
2020-04-28	Generalna Dyrekcja Dróg Krajowych i Autostrad Oddział w Olsztynie	165 604	Construction of the S5 Expressway. Section Ornowo - Wirwajdy
2020-03-16	Teatr Polski w Szczecinie	159 395	Expansion of Polish Theatre in Szczecin

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.

The direction and pace of the development of the COVID-19 epidemic as well as the related activities and administrative decisions may significantly affect the implementation of construction contracts and determine the behavior of clients in the development segment, thus affecting the financial results of the Group's companies.

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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 2020, compared to 31 December 2019, are presented in the table below:

ASSETS	30.06.2020	31.12.2019	Change	Change %
Non-current assets	1 482 517	1 434 542	47 975	3.3%
Property, plant and equipment	537 381	512 921	24 460	4.8%
Investment properties	9 957	7 721	2 236	29.0%
Intangible assets	165 551	168 822	(3 271)	(1.9%)
Goodwill of subordinated entities	168 508	168 508	-	0.0%
Investments in equity accounted entities	2 118	2 076	42	2.0%
Investments in equity instruments	7 996	7 816	180	2.3%
Retentions for construction contracts	45 292	59 212	(13 920)	(23.5%)
Trade and other receivables	26 711	41 887	(15 176)	(36.2%)
Receivables from service concession agreement	46 616	46 690	(74)	(0.2%)
Other financial assets	28	-	28	-
Deferred tax assets	472 359	418 889	53 470	12.8%
Current assets	5 739 258	5 239 417	499 841	9.5%
Inventories	2 002 238	2 013 756	(11 518)	(0.6%)
Trade and other receivables	877 782	1 096 157	(218 375)	(19.9%)
Retentions for construction contracts	22 415	48 433	(26 018)	(53.7%)
Valuation of construction contracts	646 811	444 008	202 803	45.7%
Current tax assets	44	108	(64)	(59.3%)
Other financial assets	136 121	120 978	15 143	12.5%
Cash and cash equivalents	2 053 847	1 515 977	537 870	35.5%
TOTAL ASSETS	7 221 775	6 673 959	547 816	8.2%
EQUITY AND LIABILITIES	30.06.2020	31.12.2019	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	802 681	808 149	(5 468)	(0.7%)
Issued capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	1 180	1 180	-	0.0%
Cumulative translation differences	7 375	7 000	375	5.4%
Retained earnings	561 115	566 958	(5 843)	(1.0%)
Equity attributable to non-controlling interests	29 908	28 491	1 417	5.0%
Total equity	832 589	836 640	(4 051)	(0.5%)
Non-current liabilities	1 075 620	1 049 392	26 228	2.5%
Loans, borrowings and other external sources of finance	265 640	273 258	(7 618)	(2.8%)
Trade and other payables	228 034	229 522	(1 488)	(0.6%)
Retentions for construction contracts	538 351	498 422	39 929	8.0%
Provisions for long-term liabilities and other charges	14 979	14 979	-	0.0%
Retirement benefits and similar obligations	16 005	19 807	(3 802)	(19.2%)
Other financial liabilities	12 611	13 404	(793)	(5.9%)
Current liabilities	5 313 566	4 787 927	525 639	11.0%
Loans, borrowings and other external sources of finance	181 775	177 108	4 667	2.6%
Trade and other payables	1 721 262	1 530 773	190 489	12.4%
Retentions for construction contracts	216 170	215 032	1 138	0.5%
Provisions for construction contract losses	246 720	240 677	6 043	2.5%
Valuation of construction contracts	991 637	951 448	40 189	4.2%
Deferred income	1 655 782	1 356 310	299 472	22.1%
Provision for short-term liabilities and other charges	228 121	216 746	11 375	5.2%
Current tax liability	69 007	96 653	(27 646)	(28.6%)
Retirement benefits and similar obligations	1 877	1 877	-	0.0%
Other financial liabilities	1 215	1 303	(88)	(6.8%)
Liabilities	6 389 186	5 837 319	551 867	9.5%
TOTAL EQUITY AND LIABILITIES	7 221 775	6 673 959	547 816	8.2%

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As at 30 June 2020, consolidated total assets increased by PLN 547 816 thousand compared to 31 December 2019, mainly due to a 9.5% increase in the current assets (PLN 499 841 thousand) and a 3.3% increase in the value of non-current assets (PLN 47 975 thousand).

Non-current assets:

Change in the value of non-current assets at 30 June 2020 compared to 31 December 2019 was caused mainly by:

- an increase in the balance of property, plant and equipment by PLN 24 460 thousand including: PLN 70 153 thousand due to purchase and lease of property, plant and equipment, PLN 11 963 thousand due to increase in fixed assets under construction and in prepayments for fixed assets and PLN (57 285) thousand due to depreciation;
- a decrease in the balance of trade and other receivables by PLN 15 176 thousand;
- a decrease in the balance of retentions for construction contracts by PLN 13 920 thousand due to earlier returns of the retentions by investors;
- increase in the balance of deferred tax assets by PLN 53 470 thousand, mainly as a result of an increase in negative temporary differences due to settlements of construction contracts.

Current assets:

Simultaneously, current assets increased by PLN 499 841 thousand, mainly due to an increase in the balance of cash and cash equivalents by PLN 537 870 thousand, predominantly as a result of the non-payment of dividends in the first half of 2020 and received advances by the Group for construction and assembly works and prepayments for apartments.

Other changes in the current assets related to:

- a decrease in the balance of trade and other receivables by PLN 218 375 thousand as a result of their faster settlement mainly by public investors;
- an increase in valuation of construction contracts by PLN 202 803 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,
- a decrease in the balance of retentions for construction contracts by PLN 26 018 due to earlier returns of the retentions by investors;
- an increase in the balance of other financial assets by PLN 15 143 thousand as a result of the purchase of corporate bonds issued by Polish mortgage banks and the interest charged on them.

Equity and liabilities:

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

- an increase in the balance of non-current liabilities by PLN 26 228 thousand, mainly as a result of an increase in the balance of provisions for long-term liabilities and other charges by PLN 39 929 thousand, a decrease in the balance of loans and borrowings by PLN 7 618 thousand and other financial liabilities by PLN 3 802 thousand;
- an increase in the balance of current liabilities by PLN 525 639 thousand, where the most important changes referred to:
 - an increase in the balance of trade liabilities and other liabilities by PLN 190 489 thousand, mainly as a result of seasonality of construction activity (the highest revenues, and therefore costs, are realized in the second and third quarter),
 - an increase in the balance of deferred income by PLN 299 472 thousand, including PLN 253 890 thousand due to new advances received in the developer segment and PLN 44 243 thousand due to new advances received for construction and assembly works,
 - an increase in the valuation of construction contracts by PLN 40 189 thousand, what is the result of a difference in the invoicing and the percentage of sales recognition;
 - an increase in the balance of trade and other payables by PLN 190 489 thousand, mainly as a result of liabilities due to dividend payment;
 - a decrease in current tax liability by PLN 27 646 thousand.

Income statement of the Budimex Group

INCOME STATEMENT	01.01 - 30.06.2020	01.01 - 30.06.2019	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	3 734 436	3 248 421	486 015	15.0%
Cost of finished goods, services, goods for resale and raw materials sold	(3 406 885)	(3 039 040)	(367 845)	12.1%
Gross profit on sales	327 551	209 381	118 170	56.4%
Selling expenses	(13 787)	(14 088)	301	(2.1%)
Administrative expenses	(123 373)	(107 088)	(16 285)	15.2%
Other operating income	55 028	40 483	14 545	35.9%
Other operating expenses	(88 810)	(17 306)	(71 504)	413.2%

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INCOME STATEMENT	01.01 - 30.06.2020	01.01 - 30.06.2019	Change	Change %
Operating profit	156 609	111 382	45 227	40.6%
Finance income	21 445	12 842	8 603	67.0%
Finance costs	(25 508)	(21 040)	(4 468)	21.2%
Shares in profits of equity accounted companies	42	4 760	(4 718)	(99.1%)
Gross profit	152 588	107 944	44 644	41.4%
Income tax	(38 097)	(35 411)	(2 686)	7.6%
Net profit for the period	114 491	72 533	41 958	57.8%
<i>of which:</i>				
<i>attributable to the shareholders of the Parent</i>	<i>110 574</i>	<i>72 104</i>	<i>38 470</i>	<i>53.4%</i>
<i>attributable to non-controlling interests</i>	<i>3 917</i>	<i>429</i>	<i>3 488</i>	<i>813.1%</i>

In the 6-month period ended 30 June 2020 the Budimex Group earned sales revenue of PLN 3 734 436 thousand which means a 15.0% increase on the corresponding period of 2019.

In the first half of 2020 construction-assembly production in Poland expressed in current prices increased by 5.2% (an increase by 2.3% 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 7.4% on the corresponding period.

Gross profit on sales in the first half of 2020 was PLN 327 551 thousand, while in the corresponding period of the prior year it amounted to PLN 209 381 thousand. The gross sales profitability ratio was therefore 8.8% in the first half of 2020, while in the first half of 2019 was 6.4%.

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 2020, the balance of the provision for contract losses amounted to PLN 246 720 thousand. In the first half of 2020, the balance of provision for construction contract losses increased by PLN 6 043 thousand.

The Budimex Group companies are required to issue a warranty for the construction services rendered. As at 30 June 2020 the provision for warranty amounted to PLN 527 271 thousand. In the 6-month period ended 30 June 2020 the balance of the provision for warranty repaired increased by PLN 46 560 thousand.

Selling expenses decreased in the first half of 2020 by PLN 301 thousand compared to the corresponding period of the prior year, while administrative expenses were PLN 16 285 thousand higher than expenses incurred in the corresponding period of 2019. The share of selling and administrative expenses in total sales was 3.7% in the first half of 2020 and in the corresponding period of 2019.

Other operating income for the first half of 2020 was PLN 55 028 thousand (PLN 40 483 in the corresponding period of the prior year) and comprised: gain from reversal of provisions for compensations and liquidated damages in the amount of PLN 29 739 thousand, income from compensations and contractual penalties in the amount of PLN 17 013 thousand and reversal of write-offs for receivables due to repayment by debtors amounting to PLN 1 762 thousand. Other provisions amounting to PLN 2 000 thousand were also reversed. 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 649 thousand. Additionally, in the period of six months of 2020 the Group companies disposed of non-financial non-current assets, of which they earned PLN 1 737 thousand of profit.

Other operating expenses for the first half of 2020 amounted to PLN 88 810 thousand (PLN 17 306 thousand in the corresponding period of the prior year) and comprised: PLN 25 051 thousand related to creation of write-off for receivables, PLN 17 847 thousand related to compensations and contractual penalties paid out and PLN 2 995 thousand – to donations. The costs of created provisions for compensations and contractual penalties amounted to PLN 41 092 thousand, which constituted a 9-fold increase in relation to the comparable period and had the largest share in other operating expenses. The loss on valuation of FX forward derivative instrument contracts amounted to PLN 227 thousand.

The reported operating profit of the Group in the first half of 2020 was PLN 156 609 thousand (PLN 111 382 thousand in the first half of 2019). The operating profit for the first half of 2020 represented 4.2% of sales revenue, while for the corresponding period of the prior year – 3.4% of sales revenue.

In the 6-month period ended 30 June 2020 the Group incurred a loss on finance activities in the amount of PLN 4 063 thousand, while in the same period of the prior year – a loss in the amount of PLN 8 198 thousand. Finance income in the first half of 2020 represented mainly interest of PLN 9 927, reversal of liabilities for purchase of FBSerwis Karpatia and FBSerwis Wrocław amounted to PLN 5 026 thousand, reversal of provisions for interest on compensations and liquidated damages amounted to PLN 3 698 thousand, valuation of receivables from service concession agreement of PLN 1 438 thousand and foreign exchange gains of PLN 1 337 thousand.

Finance costs in the first half of 2020 represented, among others, interest costs of PLN 5 691 thousand, bank commissions on guarantees and loans of PLN 13 584 thousand paid by Group companies and costs from discounting of long-term retention receivables and liabilities of PLN 3 917 thousand. During the first half of 2020 the Group incurred a loss on realization and valuation of interest rate swap derivative instrument in the amount of PLN 1 903 thousand.

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In the first half of 2020, the Group reported a gross profit of PLN 152 588 thousand, while in the corresponding period of the prior year – a gross profit of PLN 107 944 thousand.

Income tax for the 6-month period ended 30 June 2020 was PLN 38 097 thousand (PLN 35 411 thousand for the first half of 2019), of which:

- current tax was PLN 93 344 thousand,
- deferred tax in the amount of PLN (54 247) thousand.

The net profit attributable to the shareholders of the Budimex SA for the first half of 2020 was PLN 110 574 thousand, while the net profit attributable to the shareholders of the Budimex SA for the corresponding period of 2019 was PLN 72 104 thousand.

The net profit attributable to non-controlling interest for the first half of 2020 amounted to PLN 3 917 thousand. In the corresponding period of 2019, the net profit attributable to non-controlling interest amounted to PLN 429 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,
- funds gathered at open housing escrow accounts,
- cash at escrow accounts and current accounts in the part due to consortium partners.

The Budimex Group entered the year 2020 with cash on hand and cash at bank amounting to a total of PLN 1 515 977 thousand. For the purpose of the statement of cash flow this amount was reduced by the amount of cash of restricted use of PLN 175 762 thousand. Net cash flow for the first half of 2020 was positive and amounted to PLN 396 553 thousand. As at 30 June 2020 cash balance was PLN 2 053 847 thousand, of which cash of restricted use was PLN 315 959 thousand.

In the first half of 2020 the cash flows from operating activities showed a positive balance of PLN 475 061 thousand.

Cash flow from investing activities showed a negative balance of PLN 8 416 thousand, mainly as a result of an increase in the cost of financial investments in bonds issued by banks.

Cash flow from financing activities for the first half of 2020 showed a negative balance of PLN 70 092 and resulted mainly from repayment of loans and leasing liabilities.

3.3 Finance management in the Budimex Group

In the first half of 2020 Budimex Group's operating activity cash flow was positive which distinguishes the analyzed period from comparable terms in previous years. Usually, the construction industry can be characterized by significant cash inflows in the year-end with negative cash flows in first half of the year when cash is consumed by expenses related to operating activity. Positive cash flow from operating activity in first half of 2020 is mainly a consequence of changes in working capital driven by: streamlined procedures related to acceptance of construction works and faster settlement of payments. Actions taken by public sector in particular were aimed at the mitigation of COVID-19 impact on construction industry. Moreover, the construction business reported growing operating profitability which also strengthened the working capital. Increased cash position is a consequence of the following factors: dividend payment postponed until July, no expenses related to land purchase in the real estate business together with income of PLN 30 000 thousand from the sale of investment property in the fourth quarter of 2019, inflows related to final settlements of developer projects, postponed expenses related to new developments as a consequence of COVID-19. Additionally, good results of FBSerwis Group companies, involved in waste management business and improved profitability in road infrastructure positively impacted the cash position. Consequently, the Budimex Group cash balance as of 30 June 2020 grew significantly comparing to 30 June 2019 and amounted to PLN 2 188 732 thousand.

According to the Group's investment policy, the cash surpluses were invested in bank deposits and bonds issued by reputable financial institutions with high ratings. Additionally, Budimex SA used high cash balances to finance company's suppliers and generate additional income on discount.

At the same time, the Budimex Group reported external bank and leasing debt which as of 30 June 2020 amounted to PLN 447 415 thousand, including PLN 175 504 thousand as a result of the MSSF 16 adjustment. External bank and leasing debt, excluding the above mentioned MSSF 16 adjustment, equaled to PLN 271 911 thousand and was lower by PLN 2 593 thousand compared to 31 December 2019. The total indebtedness comprised of: lease liabilities of Budimex SA, Budimex Kolejnictwo SA, Mostostal Kraków SA and FBSerwis Group companies (concluded in order to finance purchases of tangible fixed assets); indebtedness of Budimex Parking Wrocław Sp. z o.o. related to bank loan financing the concession project; indebtedness of Budimex Nieruchomości Sp. z o.o. from developer loan, FBSerwis Wrocław from overdraft financing, FBSerwis Dolny Śląsk Sp. z o.o. from investment loan and FBSerwis Kamieński Sp. z o.o. & FBSerwis Wrocław Sp. z o.o. from loans granted by National Fund for Environmental Protection and Water Management for waste management projects. During the first half of 2020, Budimex SA did not use available credit lines.

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

Bank loans and borrowings and other external sources of finance:	30.06.2020	31.12.2019	30.06.2019
- long-term	198 514	209 725	166 816
- long-term (Financial Lease Obligations - IFRS 16 adjustment)	67 126	63 533	29 780
- short-term	73 397	64 779	45 695
- short-term (Financial Lease Obligations - IFRS 16 adjustment)	108 378	112 329	109 056
Total	447 415	450 366	351 347

The following ratios represent the financing structure in the Budimex Group:

Ratio	30.06.2020	31.12.2019	30.06.2019
Equity to total assets ratio (asset coverage): <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0,11	0,12	0,13
Equity to non-current assets ratio (non-current asset coverage): <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (non-current assets)</i>	0,54	0,56	0,68
Debt ratio: <i>(total assets - shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0,89	0,88	0,87
Total 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>	8,00	7,26	6,93

The debt and total assets to equity ratios as of 30 June 2020 slightly increased in comparison to the relevant period with simultaneous small decrease of asset coverage ratios.

Ratio	30.06.2020	31.12.2019	30.06.2019
Current Ratio <i>(current assets)/(current liabilities)</i>	1,08	1,09	1,13
Quick Ratio <i>(current assets - inventory)/(current liabilities)</i>	0,70	0,67	0,64

The current ratio as of 30 June 2020 slightly decreased in comparison to the corresponding period. At the same time, the quick ratio improved significantly and reached a peak comparing to previous periods. It was achievable mainly due to a considerable increase of cash position described above.

The current financial standing of Budimex Group in terms of liquidity and access to external sources of financing is good. Therefore the Management does not foresee any threats to the Group's ability to finance business activity in the second half of financial year 2020.

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.

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 2020 was as follows:

Shareholder	Type of shares	Number of shares	% of the share capital	Number of votes	% of voting rights at the AGM
Ferrovial Agroman International SE	ordinary	12 801 654	50.14%	12 801 654	50.14%
Aviva OFE Aviva Santander	ordinary	2 552 000	10.00%	2 552 000	10.00%
Nationale-Nederlanden OFE	ordinary	1 618 000	6.34%	1 618 000	6.34%
Other shareholders	ordinary	8 558 444	33.52%	8 558 444	33.52%
Total		25 530 098	100.00%	25 530 098	100.00%

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

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

As at 30 June 2020, the Management Board of Budimex SA consisted of the following persons:

- Dariusz Jacek Blocher President of the Management Board, General Director
- Artur Popko Vice-President of the Management Board, Chief Operating Officer,
- Jacek Daniewski Board Member, Chief Legal and Organizational Officer
- Cezary Mączka Board Member, Chief HR Officer
- Marcin Węglowski Board Member, Chief Financial Officer

In the period from 1 January 2020 to 30 June 2020, there were no changes in composition of the Management Board. Mr. Henryk Urbański ceased to be a member of the Management Board due to his resignation, according to which 31 December 2019 was the last day of his performance.

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 2020.

b) Composition of the Supervisory Board

As at 30 June 2020, 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
- Agnieszka Słomka-Gołębiowska Supervisory Board Member
- Janusz Dedo Supervisory Board Member
- Javier Galindo Hernandez Supervisory Board Member
- Jose Carlos Garrido-Lestache Rodríguez Supervisory Board Member
- Artur Kucharski Supervisory Board Member
- Fernando Luis Pascual Larragoiti Supervisory Board Member

In the period from 1 January 2020 to 30 June 2020, there were the following changes in composition of the Supervisory Board:

- on 17 June 2020 Mrs. Marzenna Anna Weresa submitted her resignation from participation in the Supervisory Board with effect from 18 June 2020,
- on 18 June 2020 Ordinary General Meeting appointed new member to the Supervisory Board in the person of Mr. Artur Kucharski.

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 2020, 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.

Dariusz Blocher President of the Management Board		Artur Popko Vice-President of the Management Board	
Jacek Daniewski Board Member		Marcin Węglowski Board Member	
Cezary Mączka Board Member			