



THE BUDIMEX GROUP

**DIRECTORS' REPORT
ON THE ACTIVITIES OF THE GROUP FOR 2015**

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1 BUSINESS ENVIRONMENT

1.1 General market conditions

Despite a difficult and unstable situation on international markets and geopolitical conflicts, last year was successful for the Polish economy. In 2015, Poland experienced slightly accelerated economic growth. In accordance with the initial estimates provided by the Central Statistical Office (GUS), gross domestic product (GDP) increased 3.6 per cent annually in comparison with 3.3 per cent the previous year. The GDP growth was most positively affected by domestic demand (+3.4 per cent against 2014). Unlike in the previous year, foreign demand (net exports) had a positive impact on GDP. In 2015, gross added value in the domestic economy grew 3.4 per cent in comparison with 2014, while a year before it grew 3.3 per cent. This good result is to a great extent attributable to the industry and construction sectors, where, according to initial estimates, gross added value increased, respectively, by 5.4 per cent and 4.4 per cent against the previous year. Another positive movement is the fall in the unemployment rate by 1.6 percentage points from 11.4 per cent in December 2014 to 9.8 per cent at the end of 2015.

Improvement in sentiments on the construction market was reflected in the general trends ratio throughout the construction industry; despite the fact that it still remains negative, the ratio values were higher than in 2014. An increase in investments measured with gross capital expenditures on fixed assets (growth by 6.1 per cent in comparison with the previous year) and the value of tenders awarded in the road construction segment which has increased as compared to 2014 were undoubtedly of significance for the future market perspectives.

In 2015, construction and assembly production increased by 2.3 per cent on a year to year basis (in current values) against 2.6 per cent in 2014. The main driving force for the construction industry in 2015 were both the residential construction segment and the infrastructural construction segment, where transmission and railway engineering played the key roles. The growth of the infrastructural construction segment was constrained by a drop in construction and assembly production in the sector of hydraulic structures (drop in production by 25.7 per cent as compared to 2014).

In 2015, the structure of construction and assembly production did not change significantly from the previous year. The largest share in construction and assembly production is still held by civil and water engineering facilities (54 per cent in total construction and assembly production, unchanged from the previous year). At the same time, the share of residential construction increased by 1 percentage point from 13 per cent in 2014 to 14 per cent in 2015.

2015 was characterised by a continued decline in prices of construction and assembly production. Between January and December 2015, prices declined by 0.5 per cent, while in 2014 they dropped by 1.2 per cent as compared to 2013.

After decreasing for two consecutive years, in 2015 the number of flats completed and put to use increased and amounted to 147.7 thousand (an increase by 3.2 per cent in comparison with 2014). This good economic situation is supported by the number of flats whose construction was started (an increase by 13.7 per cent annually from the level of 168.4 thousand), similar to the number of issued construction permits (growth by 20.5 per cent annually to the level of 188.8 thousand). The government programme "Flats for Young People" (Mieszkanie dla Młodych, MdM) and the record-low interest rates making financing relatively cheap and, at the same time, the unattractive interest on bank deposits caused a clear revival on the development market. The above factors combined with developers' offers that are tailor-made to the preferences and buying capacity of the customers, as well as the stabilisation of flat prices, made 2015 probably the best year in history for the development industry in terms of the number of pre-booked flats. In the six largest residential markets in Poland (Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź), approx. 51.8 thousand dwellings were sold in 2015 by developers (by 20 per cent more than in 2014).

1.2 Market development perspectives

2015 was the second consecutive year of growth in construction and assembly production. The upward trend will probably continue in 2016 and in subsequent years. Awarding of new tenders for contracts co-financed from the budget of the European Union within the framework of the new financial perspective for 2014-2020 and drawing lessons from the manner of spending funds provided for in the previous EU financial perspective for 2007-2013 will be of key importance here. It is the smart use of European funds that will determine the dynamics and paths of Polish construction industry development in the years to come. The total amount of funds planned for the member states in the financial perspective for 2014-2020 for the cohesion policy will reach approximately EUR 350 billion. Poland will benefit the most from the EU funds; the country can count on total support amounting to EUR 82.5 billion, as compared to 68 billion assigned to Poland in the previous 2007-2013 perspective. Still, the largest programme will be the Infrastructure and Environment Operational Programme with allocation at the level of EUR 27.4 billion. The priorities of the programme include a low carbon economy, environmental protection, the development of Polish technical infrastructure and energy security. In accordance with the content of the Programme, which was accepted by the European Commission in December 2014, it may be expected that most of the funds will go to undertakings related to transport, i.e. roads, railways, public transport in cities, air and sea transport (planned allocation levels at approx. EUR 19.8 billion). The above will be followed by: the environmental protection sector (EUR 3.5 billion) and power industry (EUR 2.8 billion). The key beneficiaries are to include public entities, including local authority units and business undertakings, in particular large companies.

In accordance with the provisions of the Act on State Budgets, the real increase in GDP in 2016 should be 3.8 per cent, and the yearly average inflation rate – 1.7 per cent. The unemployment rate at the end of 2016 is projected to be 9.7 per cent. Construction market development perspectives for 2016 are stable with a slight growth perspective. In 2017-2019 we should expect much more rapid growth due to the accumulation of construction works based on contracts co-financed from the new EU perspective.

New priorities and challenges are currently being defined in the roads segment. The "National Road Construction Programme for 2014-2020, with perspective until 2025" (Program Budowy Dróg Krajowych, PBDK), approved in September 2015, provides that as part of tasks defined in appendix 1 to the PBDK, the amount spent on the project will be PLN 107.1 billion. In comparison with the draft version of PBDK published in December 2014, the amount of capital expenditure provided for in the programme

increased by approx. PLN 14 billion. The new financing plan for road investments also covers a wider scope of investment tasks. As compared to the document from December 2014, the idea of assigning particular investment tasks to two separate lists (a basic list and a reserve list) was given up and replaced with a single list of priority projects. In effect, the final list of investment projects comprises tasks with a total length of 4 783 kilometres, as compared to 3 005 kilometres covered by the draft version of the programme from 2014 (including 2 228 kilometres on the basic list and 777 kilometres on the reserve list). In accordance with information provided by the heads of the Ministry of Infrastructure and Construction in January 2016, the completion of the entire material scope of PBDK requires the amount of PLN 198 billion. Between 2013 and 2015, the General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA) announced tenders under PBDK for tasks with a total length of approx. 1 985 kilometres, among which approx. 70 per cent of contracts will be executed in the design & build formula. The gross value of bids opened by GDDKiA under PBDK in 2014-2015 amounted to PLN 39.3 billion. The estimated utilisation of the current budget of the programme has exceeded 36 per cent (as at the end of 2015). In material terms, the bids opened cover the implementation of 93 tasks with a total length of approx. 1 310 kilometres. As at the end of January 2016, GDDKiA is conducting tender procedures under PBDK for sections with a total length of 675 kilometres.

The standard list of risk factors of the road infrastructural construction market, which includes uncertainty associated with the prices of raw materials, construction materials and costs of subcontractors, is being extended by execution of contracts in design & build formula. Furthermore, there is a high risk of an accumulation of works in 2017-2019, which may result in difficulties with mobilisation of sufficient capital, human and material resources.

By 2015 investments in the railway infrastructural sector did not gain the momentum assumed in the Multi-year Railway Investment Plan which covered tasks with a total value of PLN 46.5 billion. Between 2011 and 2015, PKP Polskie Linie Kolejowe SA (PKP PLK) spent only approx. 50 per cent of funds projected in the programme. The effectiveness of spending EU funds allocated to PKP PLK under the EU perspective for 2007-2013 was below expectations. Out of PLN 16 billion allocated to railway investments, only PLN 13.4 billion was used by PKP PLK in accordance with the intended purpose.

Despite numerous problems, prospects for railway construction are relatively positive. In September 2015, the government adopted the "National Railway Programme until 2023" (Krajowy Program Kolejowy, KPK). In accordance with the programme financing plan, between 2015 and 2023 PKP PLK will implement projects with a value of PLN 67.5 billion allocated to 197 investment tasks included in the basic list of the programme. Additionally, the reserve list includes 70 projects with a value of PLN 27.4 billion, the execution of which depends on potential savings generated in the course of implementation of KPK. In 2015, PKP PLK announced tenders with an all-time highest value of approx. PLN 16 billion. At present (end of January 2016), two-step tender proceedings are being conducted for 20 contracts with an estimated value of PLN 12-15 billion. Despite relative progress, significant tenders within the framework of the new financial perspective are not awarded effectively enough. As announced by PKP PLK, tenders announced in 2016 will be of a lower value (approx. PLN 5 billion). Risk factors of the railway infrastructural construction market are the same as risk factors relating to the roads market, except that the accumulation of works is expected later, i.e. in 2018-2020.

In the face of numerous organisational problems in announcing tenders and coordinating investments, the railway infrastructure manager decided to implement a plan aimed at setting the process of executing the announced programmes in order. PKP PLK announced, among other things, most of the tenders in a two-step formula with pre-qualification, pre-financing, payment for materials used on construction sites, partial payments to contractors, monitoring of the course of an investment and coordinating it with timetables, as well as a tenfold increase in the number of inspections of investment implementation quality. This is to allow for better utilisation of EU funds and avoiding mistakes made when spending the funds from the EU financial perspective for 2007-2013.

The power engineering segment will probably maintain a good growth rate owing to large construction projects for several power units which were launched almost at the same time. The Energy Regulatory Office estimates that in 2015-2028, approx. 18 GW of new capacity will be completed and put to use, which will be accompanied by the decommissioning of generation units with a capacity of approx. 6 GW. And even though the largest contracts have already been awarded, several major investments in the broadly understood conventional power engineering sector are still in planning or tenders. In accordance with the development plan for 2016-2023 published by Polskie Sieci Elektroenergetyczne (PSE), the currently implemented large investments in new power units will provide capacity to meet the market demand only until 2021. PSE recommends launching new investments with a total capacity of 2.0-2.5 GW. Additionally, the market of renewable energy sources, in particular wind energy, will gain in importance. The key issue here will be to stabilise regulations, which will be achieved through a new act on renewable energy sources whose entry into force is scheduled for July 2016. At the same time, in recent years 6 tenders for the construction of waste incineration plants were awarded in the market of thermal conversion of municipal waste. Some of these plants were put into operation at the end of 2015, while others are expected to be commissioned in 2016. Over the next few years, several additional facilities are planned to be constructed in, among other cities, Gdańsk, Warsaw and Olsztyn.

It seems that the electrical power and gas transfer and distribution market enjoys a stable outlook. In 2015, the act on the preparation and implementation of strategic investment in transmission grids entered into force. This act will facilitate the implementation of 23 strategic investments in electricity infrastructure by removing significant difficulties related to the method of acquiring titles to real property where the investment is located, as well as to procedures and the manner of issuing necessary administrative decisions. 2016 may bring a further increase in the number of investments in development companies. The largest market players have announced a similar or slightly higher level of flat pre-booking in 2016 in comparison with 2015. However, keeping up a comparable number of transactions may be challenging. The biggest players carrying on business in large cities in Poland whose offers are adapted to market expectations have probably the best chances for further growth. Factors that may positively influence the market in 2016 will probably include: interest in the MdM programme and persistently low interest rates. On the other hand, an increase in the minimum downpayment in mortgage loans (from 10 per cent to 15 per cent) and the new bank tax may cause loans to be less available for some customers, thus impeding market growth.

The opportunity of further development of the construction market may also be based on the public-private partnership (PPP) formula. PPP is still applied in Poland to a very limited degree, usually with respect to small projects. Small successes provide a

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reason to be satisfied when they build a set of best practices and reliable solutions acceptable for public entities, private partners and the banking sector; unfortunately there are still too few of them.

2 CURRENT ACTIVITIES AND DEVELOPMENT PERSPECTIVES FOR THE BUDIMEX GROUP

2.1 The Group's organisational structure, consolidated entities and changes in Group organisation

The main area of business activities of the Group are broadly interpreted construction and assembly services rendered in the system of general contracting at home and abroad, development activities, property management, and, to a limited extent, trading, production and transport.

The main area of business activity of Budimex SA as the Parent Company is rendering construction and assembly services, development activities and rendering management and advisory services to other companies in the Budimex Group. Execution by Budimex SA of the advisory, management and financial functions serves to:

- ensure a quick flow of information across the Group,
- strengthen the efficiency of cash and financial management of individual companies,
- strengthen the market position of the Group as a whole.

Changes in the Group's organisation:

On 14 May 2015, the partnership Budimex SA Energetyka 1 Sp.j. was entered in the National Court Register. Budimex SA holds 50 per cent of the shares in this partnership, and Budimex Budownictwo Sp. z o.o. holds the remaining 50 per cent.

On 14 May 2015, the partnership Budimex SA Energetyka 2 Sp.j. was entered in the National Court Register. Budimex SA holds 50 per cent of the shares in this partnership, and Budimex A Sp. z o.o. holds the remaining 50 per cent.

On 27 May 2015, Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o.

On 8 June 2015, the company Budimex H Sp. z o.o. was entered in the National Court Register. Budimex PPP SA holds 100 per cent of the shares in this company.

On 8 June 2015, the company Budimex I Sp. z o.o. was entered in the National Court Register. Budimex PPP SA holds 100 per cent of the shares in this company.

On 31 July 2015, a resolution was adopted on the final liquidation of the company Budimex B Sp. z o.o. The company was removed from the National Court Register on 17 November 2015.

On 17 July 2015, the partnership Budimex SA Ferrovia Agroman (UK) Limited – Metro II Sp.j. was entered in the National Court Register. Budimex SA holds 50 per cent of the shares in this partnership.

On 21 December 2015, the transformation of the company Budimex G Sp. z o.o. into Budimex SA Energetyka 3 Sp.j. was registered. Budimex SA holds 50 per cent of the shares in this company, and Budimex PPP SA holds the remaining 50 per cent.

Furthermore, after the reporting date on **25 February 2016** the company Budimex Inwestycje Grunwaldzka SA was entered in the National Court Register. Budimex SA holds 100 per cent of the shares in this company.

In 2015, there were no changes in the management policies at the Budimex Group.

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

Presented below is a list of the subsidiaries and jointly controlled companies of the Budimex Group:

Company name	Registered office	Share in the share capital and in the number of votes (%)		Consolidation method	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
Consolidated					
Mostostal Kraków SA	Kraków / Poland	100.00%	100.00%	full	full
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex B Sp. z o.o. (in liquidation) ¹	Warsaw / Poland	-	100.00%	-	full
Elektromontaż Poznań SA	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Import Sp. z o.o.	Warsaw / Poland	92.31%	92.31%	full	full
Instal Polska Sp. z o.o.	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Warszawa SA	Warsaw / Poland	92.31%	92.31%	full	full
Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. ²	Warsaw / Poland	-	100.00%	-	full
Non-consolidated					
Budimex Autostrada SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A-1 SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in liquidation bankruptcy	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex F Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex G Sp. z o.o. ³	Warsaw / Poland	-	100.00%	-	non-consolidated
Budimex H Sp. z o.o. ⁴	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex I Sp. z o.o. ⁵	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
MK Logistic Sp. z o.o. (in liquidation)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. (in liquidation)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated

¹⁾ On 31 July 2015, a resolution was adopted on the final liquidation of the Company.²⁾ Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o. on 27 May 2015.³⁾ The company was transformed into Budimex SA Energetyka 3 Sp. j. on 21 December 2015.⁴⁾ The company was entered in the National Court Register on 8 June 2015.⁵⁾ The company was entered in the National Court Register on 8 June 2015.

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

A list of the jointly controlled companies of the Budimex Group:

Company name	Registered office	Share in the share capital and in the number of votes (%)		Method of recognition in the financial statements	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
Joint operations					
Budimex SA – Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex SA Energetyka 1 Sp.j. ¹	Warsaw / Poland	100.00%	-		
Budimex SA Ferrovia Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%	share in assets, liabilities, revenues and costs	share in assets, liabilities, revenues and costs
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA Ferrovia Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA – Cadagua SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Ferrovia Agroman (UK) Limited – Metro II Sp.j. ²	Warsaw / Poland	50.00%	-		
Budimex SA Energetyka 2 Sp.j. ³	Warsaw / Poland	50.00%	-		
Budimex SA Energetyka 3 Sp.j. ⁴	Warsaw / Poland	50.00%	-		
Joint ventures					
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	Warsaw / Poland	30.00%	30.00%	equity method	equity method

¹⁾ The partnership was entered in the National Court Register on 14 May 2015.²⁾ The partnership was entered in the National Court Register on 17 July 2015.³⁾ The partnership was entered in the National Court Register on 14 May 2015.⁴⁾ The transformation of the Company was entered in the National Court Register on 21 December 2015.

2.2 Operating segments and branches of the Parent Company

As at 31 December 2015, the Group conducted business in the following two operating segments:

- construction business,
- development activities and property management.

Construction business covers the rendering of broadly understood construction and assembly services at home and abroad and is carried out by the following Group companies:

- Budimex SA,
- Mostostal Kraków SA,
- Budimex Bau GmbH,
- Budimex Budownictwo Sp. z o.o.,
- Budimex Kolejnictwo SA.

Development and property management services comprise preparation of land for investment, execution of investment projects in the field of residential building, sale of apartments and rental and management of property on own account. Included in this operating segment are the following Group companies:

- Budimex Nieruchomości Sp. z o.o.
- SPV-BN 1 Sp. z o.o.
- Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o.
- Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. (until merging with Budimex Nieruchomości Sp. z o.o. on 27 May 2015)
- Budimex SA in the part relating to the development business, as a result of a merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

As at 31 December 2015, the Parent Company operated the following branches:

- General Construction North Branch in Poznań, ul. Wołowska 92A,
- General Construction South Branch in Kraków, ul. Ujastek 7,
- General Construction East Branch in Warsaw, ul. Stawki 40,
- Infrastructure North Branch in Warsaw, ul. Stawki 40,
- Infrastructure South Branch in Kraków, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Mokronoska 2,

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- Industrial and Railway Branch in Warsaw, ul. Stawki 40,
- Equipment Services Branch in Pruszków, ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex SA Zweigniederlassung Köln, Pferdmenesstr. 5, Cologne.

Other Group companies conducted activities abroad through the following branch offices:

- Branch in Germany of Mostostal Kraków SA,
- Tax Representative Office in Estonia (Narva) of Mostostal Kraków SA.

2.3 Structure of sales revenues of the Budimex Group

Sales of the construction segment

In 2015, the construction market (measured by the value of sales of construction and assembly production) increased by 2.3 per cent in comparison with 2014. The general construction segment's growth rate stood at 3.0 per cent, while the infrastructural construction segment went up by 1.7 per cent.

In the discussed period, the value of sales in the construction segment of the Budimex Group was 4.7 per cent higher when compared to 2014. Sales in the general construction segment grew by 19.8 per cent, while sales in the infrastructural construction segment dropped by 6.8 per cent against 2014.

The share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services decreased from 56.8 per cent in 2014 to 50.6 per cent in 2015. The sound trends on the residential market were reflected in the value of the contracts acquired in this sector; as a consequence, the share of residential construction in the construction segment sales structure rose from 6.1 per cent in 2014 to 10.1 in 2015.

The sales structure by individual segments of the construction market is presented in the table below:

Type of construction	Sales value			
	2015		2014	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	2 497	50.6%	2 680	56.8%
General construction, of which:	2 440	49.4%	2 037	43.2%
- non-residential buildings	1 939	39.3%	1 748	37.1%
- residential buildings	501	10.1%	289	6.1%
Total sales of construction and assembly services	4 937	100.0%	4 717	100.0%

Development activities

In 2015, the revenues from sales in the development business amounted to PLN 292 599 thousand, thus recording a 16.8 per cent increase compared to the prior year. Revenues from sales of the development business are recognised upon the transfer of the ownership title to a flat/premises to the buyer after the technical acceptance report has been signed for the entire building. Notary sales of flats depend on the dates of completion of the construction projects and the delivery of finished flats to the customers. It is not a seasonal phenomenon, nor can it be compared annually.

As a result of the factors specified in pt. 1.1 (general characteristics of the market), in 2015 a significant revival and a rapid growth in demand for new flats could be observed on the entire development market. It was directly reflected in the record-high level of pre-booking sales of flats. In 2015, 1 918 flats were sold in the pre-booking system, compared to 1 685 flats pre-sold in the prior year.

In order to live up to customers' expectations and ensure stability of the revenues from sales in the following years, in 2015 the development of more than two thousand new flats was commenced in twelve development projects located in Warsaw, Kraków and Poznań. As at 31 December 2015, about four thousand flats were under construction. In 2015, the Group continued the process of land stock diversification by purchasing new plots in Warsaw and Gdańsk. Construction of over 6.2 thousand new flats is possible on the presently owned lands.

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

Major construction contracts concluded by the Budimex Group companies in 2015:

Contract date	Contract value allocated to the Budimex Group	Customer	Type of construction
2015-10-09	1 281 621	General Directorate for National Roads and Motorways branch in Gdańsk	Construction of the S7 road Gdańsk (A1) – Elbląg (S22) section Koszwały (DK No 7, Koszwały junction) – Elbląg (with Kazimierzowo junction); Task 2: Nowy Dwór Gdański-Kazimierzowo
2015-06-15	1 071 708	General Directorate for National Roads and Motorways branch in Olsztyn	Construction of S7 expressway within the section from Miłomłyn to Olsztynek, subsection Ostróda Północ – Ostróda Południe along S7 road with the construction of a bypass for the city of Ostróda along national road No 16 (subsection "B")
2015-02-27	638 664	General Directorate for National Roads and Motorways branch in Wrocław	Design and construction of S3 expressway Nowa Sól – Legnica (A4), task V from Lubin Południe junction (excluding the junction) - Legnica II junction (A4)
2015-09-29	279 602	General Directorate for National Roads and Motorways branch in Szczecin	Design and construction of S6 expressway within the section from Goleniów to Nowogard (S3, "Goleniów Północ" junction) /including the junction/ – start of the bypass for the city of Nowogard)
2015-09-22	254 980	General Directorate for National Roads and Motorways branch in Lublin	Design and construction of S17 Garwolin – Kurów expressway within the section from Garwolin (end of the bypass) to the border of Mazowieckie and Lubelskie provinces, divided into 2 parts: Part No. 2: within the section from Gończyce (end of the bypass) to the border of Mazowieckie and Lubelskie provinces from approx. km 62+200 to approx. km 75+212
2015-09-29	243 459	General Directorate for National Roads and Motorways branch in Białystok	Design and construction of a bypass for the city of Suwałki along the S61 expressway – Section A and Section B
2015-09-22	234 616	General Directorate for National Roads and Motorways branch in Lublin	Design and construction of S17 Garwolin – Kurów expressway within the section from Garwolin (end of the bypass) to the border of Mazowieckie and Lubelskie provinces, divided into 2 parts: Part No. 1: within the section from Garwolin (end of the bypass) to Gończyce (end of bypass) from approx. km 49+973 to approx. km 62+200
2015-10-05	206 500	General Directorate for National Roads and Motorways branch in Szczecin	Design and construction of the S6 expressway within the section from the end of the bypass of the city of Płoty – "Kiełpino" junction (including junction)
2015-09-16	190 672	PKP Polskie Linie Kolejowe SA	Performance of construction works within the project under Operational Programme Infrastructure and Environment 7.1–55 "Construction of the Kraków Zabłocie – Kraków Krzemionki railway
2015-10-20	157 962	General Directorate for National Roads and Motorways branch in Zielona Góra	Construction of the second roadway on the S3 expressway within the section from Sulechów to Nowa Sól: second section from km 286+043 to km 299+350
2015-02-24	96 477	Mazowiecki Szpital Wojewódzki Drewnica Sp. z o.o.	Construction of Mazovian Provincial Hospital Drewnica
2015-06-30	68 690	Poznańskie Inwestycje Miejskie Sp. z o.o. acting on behalf and for the City of Poznań and Aquanet SA	Construction and expansion of roads for the purposes of the investment in Mixed Municipal Waste Residues Fraction Incineration System (ITPOK)
2015-12-09	64 500	Bouygues Immobilier Polska Sp. z o.o.	Construction of a residential and commercial complex "ESPACE" (Buildings C and D) in Warsaw Wilanów at the junction of Oś Królewska and Al. Rzeczypospolitej.
2015-07-06	61 000	mLocum SA	Construction of a housing estate in Łódź at ul. Łąkowa 23/25.
2015-09-10	56 493	Equilibrium Sp. z o.o.	Construction of the Equilibrium office building with its external infrastructure at ul. Jana Kazimierza, Jan Ordon corner in Warsaw
2015-10-07	53 677	General Directorate for National Roads and Motorways branch in Opole	Construction of a bypass for the city of Kępno along the S11 expressway — Section I
2015-06-01	53 423	Dune B Sp. z o.o.	Construction of the Dune B residential building with services and a car park together with necessary technical infrastructure in Mielno at ul. Pionierów 18
2015-05-29	53 222	Spx Flow Technology Poland Sp. z o.o.	Construction of a production hall in Bydgoszcz

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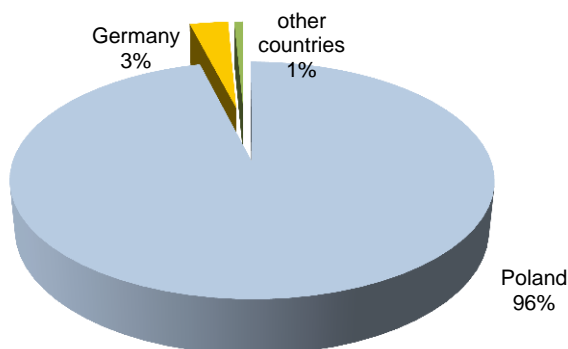
2015-09-24	46 967	1 st Military Research Hospital and Polyclinic, Independent Public Health Care Unit in Lublin	Construction of a new hospital building intended for the central operating theatre with facilities, hospital wards and a helipad, as well as an extension of the main hospital building and changing the roof structure
2015-04-10	44 797	LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k.	Construction of stage II (building B) of office complex "Różdzieńskiego" in Katowice at Al. Różdzieńskiego together with internal infrastructure.
2015-09-15	44 212	Regional Court in Zamość	Completion of the construction of the building of the Regional and District Courts in Zamość
2015-01-09	32 275	PGNiG Termika SA	Delivery and assembly of the denitrification plant and modernisation of the desulfurisation plant for the K2 boiler at EC Siekierki in Warsaw

Geographical structure of the Budimex Group sales in 2015

The main markets on which the Budimex Group operates are:

- Poland
- Germany

The geographical structure of revenues from sales in 2015 is as follows:



2.4 Construction activities on the German market

In 2015, mainly workshop services were rendered on the German market. Sales revenues in Germany amounted to PLN 174 854 thousand and were PLN 16 891 thousand, i.e. 10.7 per cent higher compared to 2014. The increase occurred both on prefabrication works (12.9 per cent) and metal-related works (3.5 per cent). In 2015, the share of metal-related works in the sales structure decreased by 2.2 per cent and amounted to 31.7 per cent. The operating profit on the German market amounted to PLN 21 220 thousand in 2015, while in 2014 it was PLN 18 319 thousand. Profitability achieved on the prefabrication works was 1.3 per cent higher than in 2014 and profitability of the metal-related works was 3.0 per cent higher than in the prior year. Gross profit generated in 2015 was 15.2 per cent higher than the previous year, which resulted from higher sales and the lower impact of receivables impairment write-downs on the result. Customer structure in both segments shows dispersion and the share of no customer in total sales revenue exceeds 10 per cent.

2.5 Budimex Group development perspectives in the forthcoming year

Next year the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market.

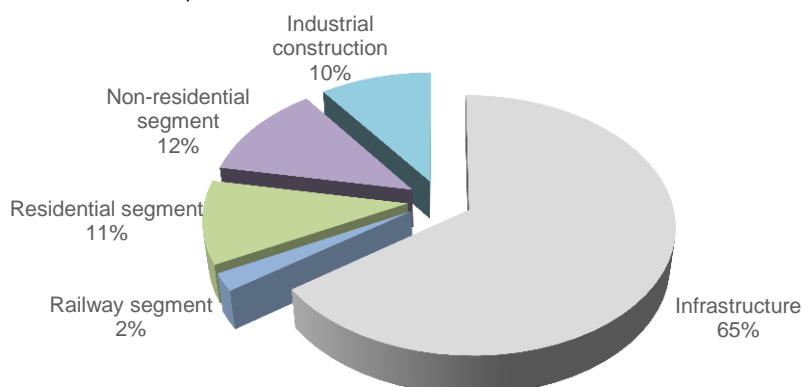
New infrastructural projects (in particular road investments carried out under the "National Roads Construction Programme for 2014-2023") offer an opportunity for the Budimex Group to win road contracts. In 2015, orders signed with the General Directorate for National Roads and Motorways were the driver for growth in the construction segment order portfolio. The investment process will be continued, which should ensure further orders in 2016-2017.

The Group also plans to win contracts in the building objects, energy and hydraulic engineering construction segments. Further development on the market of municipal services is also contemplated, as well as engaging in new projects on the basis of public-private partnerships.

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

In 2015, the Budimex Group companies signed construction contracts for a total value of PLN 7 105 million (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2015 amounted to PLN 8 421 million and was 37.9 per cent higher in comparison with the end of 2014.

The structure of the order portfolio as at 31 December 2015 is as follows:



2.6 Evaluation of investment project feasibility

In 2016, the Budimex Group plans to incur capital expenditure of approx. PLN 70 million. The outlays will be made mainly on construction machines and IT solutions.

Capital expenditure will be financed from own funds and from external sources of finance.

2.7 Risk factors

In the course of its activities, Budimex Group is exposed to various financial risks, such as currency risk, interest rate risk, price risk, credit risk or loss of liquidity risk.

The inherent risk of any business activity is the credit risk of business partners. Despite implementing restrictive debt control procedures at the Group, the risk of investor insolvency has not been eliminated. Delays in timely repayment of debt may have adverse effects on the financial results of the Group and may require that receivables impairment write-downs be recognised or that current business be financed through external borrowings.

Information concerning the financial risk management objectives and policies adopted by the Group is presented in the consolidated financial statements for the year ended 31 December 2015 (note 3).

Construction contracts are executed under specific technical and economic conditions which have an effect on the level of realised margin. The Budimex Group companies rendering construction services monitor technical, organisational, legal and financial risks related to the planning and progress of contract work. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors occur due to which contracts will be performed with lower margins than initially planned. Such factors may include:

- increases in prices of construction materials, energy and oil derivatives,
- increases in costs of subcontractor services,
- increases in employment costs,
- delays in timely performance or insufficient quality of subcontracted works,
- delays in obtaining relevant administrative decisions,
- changes in the scope of work or technologies as agreed in the contracts,
- unfavourable weather or land conditions.

2.8 Procurement source changes

In 2015, there were no significant changes in the procurement sources for construction sites. None of the suppliers of raw materials or services exceeded 10 per cent of the Group's consolidated sales.

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3 FINANCIAL POSITION**3.1 Key economic and financial data of the Budimex Group**

The financial situation of the Budimex Group in 2015 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2014 comparative data).

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 31 December 2015, compared to 31 December 2014, are presented in the table below:

ASSETS	31.12.2015	31.12.2014	Change	Change %
Non-current (long-term) assets	821 207	677 496	143 711	21.2%
Property, plant and equipment	83 248	79 513	3 735	4.7%
Investment properties	63 410	24 994	38 416	153.7%
Intangible assets	4 000	4 494	(494)	(11.0%)
Goodwill of subordinated entities	73 237	73 237	0	0.0%
Investments in equity accounted companies	45 762	7 539	38 223	507.0%
Available-for-sale financial assets	9 247	8 376	871	10.4%
Retentions for construction contracts	20 388	27 923	(7 535)	(27.0%)
Trade and other receivables	34 909	29 945	4 964	16.6%
Receivables from service concession arrangement	45 688	45 214	474	1.0%
Other financial assets	396	-	396	100.0%
Deferred tax assets	440 922	376 261	64 661	17.2%
Current (short-term) assets	3 892 157	3 180 713	711 444	22.4%
Inventories	867 581	648 655	218 926	33.8%
Trade and other receivables	420 558	495 364	(74 806)	(15.1%)
Retentions for construction contracts	16 276	10 248	6 028	58.8%
Amounts due and receivable from customers under construction contracts	171 763	172 548	(785)	(0.5%)
Current tax assets	421	265	156	58.9%
Other financial assets	2 432	19 800	(17 368)	(87.7%)
Cash and cash equivalents	2 413 126	1 831 652	581 474	31.7%
Non-current assets (disposal groups) classified as held for sale	-	2 181	(2 181)	(100.0%)
TOTAL ASSETS	4 713 364	3 858 209	855 155	22.2%

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EQUITY AND LIABILITIES	31.12.2015	31.12.2014	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent	599 206	519 265	79 941	15.4%
Issued capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	4 801	4 816	(15)	(0.3%)
Foreign exchange differences on translation of foreign operations	5 425	5 326	99	1.9%
Retained earnings	355 969	276 112	79 857	28.9%
Equity attributable to non-controlling interests	3 918	3 244	674	20.8%
Total equity	603 124	522 509	80 615	15.4%
Liabilities	4 110 240	3 335 700	774 540	23.2%
Non-current (long-term) liabilities	444 226	412 629	31 597	7.7%
Loans, borrowings and other external sources of finance	44 563	46 298	(1 735)	(3.7%)
Retentions for construction contracts	207 239	176 116	31 123	17.7%
Provisions for long-term liabilities and other charges	181 691	179 169	2 522	1.4%
Retirement benefits and similar obligations	7 657	6 121	1 536	25.1%
Other financial liabilities	3 076	4 925	(1 849)	(37.5%)
Current (short-term) liabilities	3 666 014	2 923 071	742 943	25.4%
Loans, borrowings and other external sources of finance	19 778	21 402	(1 624)	(7.6%)
Trade and other payables	1 135 894	1 117 743	18 151	1.6%
Retentions for construction contracts	168 033	201 207	(33 174)	(16.5%)
Amounts due and payable to customers under construction contracts	1 239 940	920 668	319 272	34.7%
Deferred income	896 448	520 766	375 682	72.1%
Provisions for short-term liabilities and other charges	135 565	111 598	23 967	21.5%
Current tax liability	67 568	26 291	41 277	157.0%
Retirement benefits and similar obligations	1 350	1 080	270	25.0%
Other financial liabilities	1 438	2 316	(878)	(37.9%)
TOTAL EQUITY AND LIABILITIES	4 713 364	3 858 209	855 155	22.2%

As at 31 December 2015, consolidated total assets increased by PLN 855 155 thousand compared to 31 December 2014, mainly due to a 21.2 per cent (PLN 143 711 thousand) increase in non-current assets and a 22.4 per cent (PLN 711 444 thousand) increase in current assets.

Non-current assets:

Increase in the value of non-current assets as at 31 December 2015 compared to 31 December 2014 was caused mainly by the following:

- an increase in the balance of investment properties as a result of the purchase of rental properties by the development segment with a value of PLN 38 788 thousand,
- an increase in the balance of investments in equity accounted companies as a result of the conversion of a borrowing into equity in an associate, FBSerwis SA, in the amount of PLN 41 650 thousand, accompanied by a decrease in the balance by PLN 3 427 thousand due to losses incurred by the associates,
- an increase in the balance of deferred tax assets by PLN 64 661 thousand as a result of creating assets in the amount of PLN 61 008 thousand, releasing a provision in the amount of PLN 3 467 thousand, as well as other changes in the amount of PLN 186 thousand.

Current assets:

In the same period, the value of current assets increased by PLN 711 444 thousand, mainly as a result of an increase in:

- inventories by PLN 218 926 thousand, mainly as a result of an increased scale of development activities,
- cash and cash equivalents by PLN 581 474 thousand,

with a simultaneous decrease in:

- trade and other receivables by PLN 74 806 thousand,
- other financial assets by PLN 17 368 thousand, mainly relating to the conversion of loans granted to an associate.

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Equity and liabilities:

On the side of equity and liabilities the changes referred to:

- an increase in the value of non-current liabilities by PLN 31 597 thousand, mainly due to an increase in the balance of long-term retentions for construction contracts by PLN 31 123 thousand,
- increase in current liabilities by PLN 742 943 thousand, of which the biggest change related to the following:
 - an increase in amounts due and payable to customers under construction contracts by PLN 319 272 thousand, which results from an increased scale of construction activities of the Group,
 - an increase in deferred income by PLN 375 682 thousand, mainly due to prepayments for construction contracts and payments on account of premises in development activities.

Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01-31.12.2015	01.01-31.12.2014	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	5 133 994	4 949 939	184 055	3.7%
Cost of finished goods, services, goods for resale and raw materials sold	(4 641 280)	(4 517 259)	(124 021)	2.7%
Gross profit on sales	492 714	432 680	60 034	13.9%
Selling expenses	(29 742)	(27 660)	(2 082)	7.5%
Administrative expenses	(190 081)	(177 743)	(12 338)	6.9%
Other operating income	56 205	60 191	(3 986)	(6.6%)
Other operating expenses	(36 878)	(40 150)	3 272	(8.1%)
Operating profit	292 218	247 318	44 900	18.2%
Finance income	39 545	42 841	(3 296)	(7.7%)
Finance costs	(31 535)	(41 688)	10 153	(24.4%)
Shares in net (losses) of equity accounted subordinates	(3 427)	(5 852)	2 425	(41.4%)
Gross profit	296 801	242 619	54 182	22.3%
Income tax	(60 281)	(48 681)	(11 600)	23.8%
Net profit for the period	236 520	193 938	42 582	22.0%
<i>of which:</i>				
<i>attributable to the shareholders of the Parent</i>	<i>235 846</i>	<i>191 973</i>	<i>43 873</i>	<i>22.9%</i>
<i>attributable to non-controlling interests</i>	<i>674</i>	<i>1 965</i>	<i>(1 291)</i>	<i>(65.7%)</i>

In 2015, the Budimex Group earned a sales revenue of PLN 5 133 994 thousand, which represents a 3.72 per cent increase compared to the result for 2014.

Gross profit on sales in 2015 was PLN 492 714 thousand, while in the prior year it was PLN 432 680 thousand. The gross sales profitability ratio for 2015 was therefore 9.60 per cent, while for 2014 – 8.74 per cent.

In accordance with the adopted accounting policies, as soon as Group companies become aware of the fact that budgeted construction contract costs exceed the entire expected contract revenues, they create provisions for expected contract losses and recognise them in the consolidated statements of financing activities under "Amounts due and payable to customers under construction contracts". As at 31 December 2015, the balance of the provision for contract losses amounted to PLN 629 689 thousand. In 2015, the balance of the provision for contract losses was increased by PLN 184 531 thousand.

Compared to the prior year, selling expenses increased in the twelve-month period ended 31 December 2015 by PLN 2 082 thousand, while administrative expenses were PLN 12 338 thousand higher than the expenses incurred in 2014. The share of the sum total of selling and administrative expenses in total sales revenue increased from 4.15 per cent in 2014 to 4.28 per cent in the current year.

Other operating income in 2015 was PLN 56 205 thousand and comprised, among others, received compensations and penalties in the amount of PLN 14 929 thousand, reversal of the provision for penalties and sanctions in the amount of PLN 4 346 thousand, reversal of restructuring provisions in the amount of PLN 2 769 thousand, reversal of impairment write-downs against receivables in the amount of PLN 9 719 thousand, as well as write-downs against overdue liabilities in the amount of PLN 3 698 thousand. In addition, in 2015, Group companies sold property, plant and equipment and investment properties and earned a profit on those sales in the total amount of PLN 16 829 thousand. The net value of the property, plant and equipment sold in 2015 was PLN 3 997 thousand and non-current assets classified as held for sale — PLN 2 181 thousand. The transaction for the disposal of assets classified as held for sale was finalised on 24 February 2015. The gain on the transaction amounted to PLN 11 819 thousand and was reported in the segment "Development activities and property management".

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Apart from the above, in 2015, the Group also recorded a gain on the valuation and realisation of FX Forward derivative financial instruments and FX options (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 2 654 thousand.

Other operating expenses in the 12-month period ended on 31 December 2015 amounted to PLN 36 878 thousand, of which PLN 4 796 thousand related to impairment write-downs against receivables, and PLN 2 533 thousand – to recognised impairment write-downs against inventories. The costs of recognised provision for litigation amounted to PLN 855 thousand and recognised provision for claims and penalties amounted to PLN 11 212 thousand. The value of compensations and liquidated damages charged to the Group in 2015 was PLN 14 900 thousand. The costs of court and enforcement charges and costs of litigation amounted to PLN 990 thousand.

In 2015, the Group reported an operating profit of PLN 292 218 thousand, representing 5.69 per cent of total sales revenues. In the previous year, the Group reported an operating profit of PLN 247 318 thousand, representing 5.00 per cent of total sales revenues.

In the 12-month period ended 31 December 2015, the Group reported profit on financing activities in the amount of PLN 8 010 thousand, while in 2014 – profit of PLN 1 153 thousand. Finance costs in 2015 represented, among others, interest costs of PLN 4 186 thousand, bank commissions on guarantees and loans of PLN 20 766 thousand paid by Group companies, and the cost of discounting long-term receivables and liabilities arising from guarantee deposits in the amount of PLN 5 346 thousand. In 2015, the Group also reported losses on the realisation of interest rate swap derivative financial instruments (made with a view to limiting the interest rate risk) in the amount of PLN 627 thousand and, at the same time, recorded a gain on the valuation of the abovementioned instruments in the amount of PLN 349 thousand. Finance income in 2015 represented mainly interest received in the amount of PLN 35 630 thousand and a valuation of receivables due to the concession agreement in the amount of PLN 2 956 thousand, as well as a reversal of long-term receivables discount amounting to PLN 510 thousand.

In 2015, the Group reported a gross profit of PLN 296 801 thousand, while in the previous year – a gross profit of PLN 242 619 thousand.

Income tax for 2015 was PLN 60 281 thousand, of which:

- current tax – PLN 124 604 thousand,
- deferred tax – PLN (64 323) thousand.

As at 31 December 2015, the Group recognised deferred tax assets in the amount of PLN 440 922 thousand, while as at 31 December 2014, the Group recorded deferred tax assets of PLN 376 261 thousand. Items of deferred income tax asset reported in the statement of financial position of the Budimex Group result mainly from the specific method of settlement of construction contracts, under which the moment of recognition of costs as incurred and revenue as earned is different from the tax and accounting perspective.

The net profit attributable to the shareholders of Budimex SA for 2015 was PLN 235 846 thousand, while the net profit attributable to the shareholders of Budimex SA for 2014 was PLN 191 973 thousand.

Net profit attributable to non-controlling interest for 2015 amounted to PLN 674 thousand. The net result attributable to non-controlling interest in the same period of the previous year stood at PLN 1 965 thousand.

3.2 Statement of Cash Flows

Cash and cash equivalents included in the Statement of Cash Flows comprise cash on hand and bank deposits which have a maturity period of 3 months or less and were not included under investing activities.

Included in cash of restricted use are mainly cash items representing:

- security for bank guarantees,
- gathered at open housing escrow accounts,
- cash in escrow accounts and current accounts in the part due to construction contract partners together with a Group company,

provided their maturity does not exceed 3 months.

The Budimex Group entered 2015 with cash on hand and cash in bank amounting to a total of PLN 1 831 652 thousand. For the purpose of the Statement of Cash Flows, this amount was reduced by the amount of cash of restricted use of PLN 104 962 thousand. Net cash flow for 2015 was positive and amounted to PLN 457 287 thousand. As at 31 December 2015, the Group's reported cash balance was PLN 2 413 126 thousand, of which the cash of restricted use was PLN 229 049 thousand.

In 2015, the balance of cash from operating activities increased by PLN 699 259 thousand.

Cash flow from investing activities showed a negative balance of PLN 70 462 thousand, which was mainly caused by purchase of non-financial non-current assets, acquiring additional shares in FBSerwis SA and granting loans.

Cash flow from financing activities for 2015 showed a negative balance, which amounted to PLN 171 510 thousand and resulted mainly from the 2014 dividend payment.

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3.3 Managing of finance at the Budimex Group

The cash balance of the Budimex Group as at 31 December 2015 amounted to PLN 2 413 126 thousand and was PLN 581 474 thousand higher than as at 31 December 2014. In 2015, Budimex SA paid out a dividend in the amount of PLN 155 989 thousand. In 2015, Budimex Nieruchomości Sp. z o.o. also invested PLN 151 649 thousand of own funds in land intended for development activities. Generating cash at the above level, despite the dividend pay-out and the abovementioned expenditure on land, was possible owing mainly to: the high profitability achieved by Group companies in all segments of business in 2015 as well as to sustained favourable tendencies in working capital in the construction part which took place in the second half of 2015, including the increase in the net balance of contract prepayments from customers in the construction segment and an increase in the net balance of inflows from customers in the development part.

In accordance with the Group's policy, cash surpluses were placed as bank deposits at banks with a good 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 for Budimex SA.

The Budimex Group entities reported an external debt in respect of bank loans and borrowings and other external sources of finance, including finance lease liabilities, which as at 31 December 2015 amounted to PLN 64 341 thousand and were PLN 3 359 thousand lower than as at 31 December 2014 (see table below). The Group's debt is mainly composed of: the debt of Budimex Parking Wrocław Sp. z o.o. taken out to finance a car park concession (car park at the Centennial Hall in Wrocław) and the debt of Budimex SA under finance leases (concluded for the purpose of financing the purchase of property, plant and equipment – primarily machines and equipment for performing road contracts). As at the end of 2015, the Group had no debt under bank loans financing the development activities.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2015	31.12.2014	31.12.2013
- non-current	44 563	46 298	34 355
- current	19 778	21 402	19 729
Total	64 341	67 700	54 084

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

Ratio	31.12.2015	31.12.2014	31.12.2013
Equity to assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.13	0.13	0.17
Equity to non-current assets ratio: (shareholders' equity attributable to the shareholders of the Parent Company) / (total non-current assets)	0.73	0.77	1.01
Debt ratio: (total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)	0.87	0.87	0.83
Assets to equity ratio: (total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)	6.87	6.43	4.89

As at the end of 2015, the ratios illustrating the Group's equity structure did not change significantly in comparison with those observed at the end of 2014. Significant increases in total assets, resulting mainly from the abovementioned increase in prepayments received and the accompanying increase in the balance of cash, resulted in an increase in the assets to equity ratio.

Although liquidity ratios were slightly lower than at the end of 2014, they remain at levels close to those recorded at the end of the previous year.

Ratio	31.12.2015	31.12.2014	31.12.2013
Current ratio (current assets) / (current liabilities)	1.06	1.09	1.14
Quick ratio (current assets – inventory) / (current liabilities)	0.83	0.87	0.88

Owing to the current very good financial standing of the Budimex Group, the cash resources of the Group, access to credit limits and the insignificant level of financial debt, there are no threats to the Group's ability to finance its business activities in 2016.

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

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables:

	31.12.2015	31.12.2014
<u>Contingent receivables</u>		
From related parties		
- guarantees and sureties received	-	-
- bills of exchange received as security	-	-
From related parties, total	-	-
From other entities		
- guarantees and sureties received	348 558	316 777
- bills of exchange received as security	5 478	8 519
From other entities, total	354 036	325 296
Other contingent receivables	1 350	86
Total contingent receivables	355 386	325 382
<u>Contingent liabilities</u>		
To related parties		
- guarantees and sureties issued	5 286	5 456
- bills of exchange issued as security	-	-
To related parties, total	5 286	5 456
To other entities		
- guarantees and sureties issued	2 722 682	2 035 036
- bills of exchange issued as security	2 610	6 746
To other entities, total	2 725 292	2 041 782
Other contingent liabilities	133 554	135 480
Total contingent liabilities	2 864 132	2 182 718
Total off-balance sheet items	(2 508 746)	(1 857 336)

Contingent receivables arising from guarantees and sureties issued represent guarantees issued by banks or other entities in favour of 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 bills of exchange issued represent security for the settlement of liabilities towards strategic suppliers of the Group companies, while the bills of exchange received and recognised under contingent receivables represent security for the payment of the receivables due to the Group companies by their customers.

Other contingent liabilities include among others voluntary submission to enforcement which secures payment in the amount of up to PLN 133 554 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)

The table below shows loan guarantees and sureties issued by Budimex SA or its subsidiaries as at 31 December 2015:

Name of the company granting a surety for a loan or borrowing or granting a guarantee	Name of the (company) entity to which sureties or guarantees were granted	Total amount of loans or borrowings that have been duly guaranteed to the extent specified	Term for which sureties or guarantees were granted	Financial terms on which a surety or guarantee was granted	The nature of the relationship existing between BUDIMEX SA and the entity that incurred the loan or borrowing
Budimex SA	Mostostal Kraków SA	79 763	2018-11-13	in exchange for payments	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	206	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	82	2016-08-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	33 360	2024-03-31	free of charge	subsidiary
Budimex SA	FBSerwis SA	4 023	2021-06-16	in exchange for payments	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	in exchange for payments	associate
TOTAL		118 697			

3.5 Differences between forecast and actual financial results of the Budimex Group

The Budimex Group did not publish any financial forecasts for 2015.

3.6 Utilisation of proceeds from issues of securities

In the period covered by the report, no securities were issued outside the Group.

4 SIGNIFICANT AGREEMENTS

4.1 Insurance agreements for the Budimex Group companies

In 2015, the Budimex Group (including Budimex SA) was a party to the following General Insurance Agreements:

- General Insurance Coverage for All Construction & Assembly Risks

The leading co-insurer for this agreement is TUiR Warta SA with its registered office in Warsaw (50 per cent share) and the other co-insurers are TUiR Allianz Polska SA with its registered office in Warsaw (25 per cent share) and PZU SA with its registered office in Warsaw (25 per cent share).

Subject to the insurance coverage are all construction and assembly contracts executed by Budimex SA with a value not exceeding PLN 500 million, which are reported to the Leading Co-Insurer within 30 days of entry of the first contractor on the construction site.

This agreement was concluded for the period from 5 July 2014 to 4 July 2016.

- General Third Party Liability (TPL) Agreement

Generali TU SA is the insurer.

Subject to the insurance coverage is the out-of-contract third party liability in tort of the Insured in respect of assets used to conduct business activities with insurance coverage and construction services rendered against life and non-life (material) losses caused to third parties. The sum insured was set at PLN 100 million for one and all events in each of the insurance settlement periods. This agreement provides for the extension of the basic insurance coverage together with sub-limits of the sum insured.

This agreement was concluded for the period from 5 July 2015 to 4 July 2016.

- General All-Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a fixed period of time i.e. from 15 November 2014 to 14 November 2016. Gothaer TU SA is the insurer. Subject to the insurance coverage are construction machines and equipment which are owned by Budimex SA and which are subject to lease agreements. The insurance coverage comprises all risks of physical loss or damage of assets, except for damage resulting from losses incurred during or in connection with the transport, loading, unloading, assembly or disassembly of the machines.

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- Other significant insurance agreements:

In 2014, an extension was signed to the agreement with AIG concerning TPL insurance for Management and Supervisory Boards Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 June 2015 to 21 June 2016. The insurance coverage covers Members of Management and Supervisory Boards and authorised commercial representatives of the Budimex Group companies and of their subsidiaries. This insurance constitutes a part of the global insurance programme for the Ferrovial Group.

4.2 Cooperation agreements binding in 2015

Cooperation agreements concluded in 2015:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Orlen Asphalt Sp. z o.o.	road asphalts	52 389	01.04.2015
2	Lafarge Kruszywa i Beton Sp. z o.o.	ready-mixed concrete	38 511	15.04.2015
3	Lotos Asphalt Sp. z o.o.	road asphalts	22 918	01.04.2015
4	Touax Sp. z o.o.	construction facilities	11 445	12.06.2015
5	Dyckerhoff Polska Sp. z o.o.	ready-mixed concrete	10 418	09.01.2015
6	Lotos Paliwa Sp. z o.o.	diesel oil and heating oil	9 423	03.04.2015
7	Ramirent SA	renting of construction machinery and equipment	3 864	05.11.2015
8	Biuro Inżynierii Drogowej Drotest sp.j.	geosynthetics	2 938	01.10.2015

The agreements listed above are framework cooperation agreements with no exclusivity clauses and present no obligation for the Budimex Group.

Cooperation agreements concluded before 2015 and effective in 2015:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Cemex Polska Sp. z o.o.	aggregates, cement, concrete	74 814	23.11.2006 01.04.2009 06.12.2011
2	Orlen Asphalt Sp. z o.o.	road asphalts	52 389	13.11.2013
3	Lafarge Kruszywa i Beton Sp. z o.o.	aggregates, concrete	38 511	01.06.2010
4	ArcelorMittal Distribution Solutions Polska Sp. z o.o.	steel reinforcements, reinforced steel	34 655	24.05.2011
5	Kopalnie Dolomitu w Sandomierzu SA	aggregates	25 738	01.10.2012
6	Viacon Polska Sp. z o.o.	road pass elements	23 853	15.02.2013
7	Nordkalk Sp. z o.o.	aggregates	23 101	30.04.2009
8	Lotos Asphalt Sp. z o.o.	road asphalts	22 918	30.10.2014
9	Konsorcjum Stali SA	steel reinforcements, reinforced steel	21 713	01.03.2012
10	Vimex SA	steel reinforcements, reinforced steel	20 526	06.06.2014
11	ZPK Rupińscy Sp.j.	aggregates	16 009	15.01.2013
12	Peri Polska Sp. z o.o.	lease of formwork and scaffoldings	15 794	17.03.2006
13	Ulma Construcción Polska SA	lease of formwork and scaffoldings	14 286	21.12.2005
14	PKN Orlen SA	fuel	13 650	15.06.2011
15	FUH Birex R.Banaszyński	unloading of wagons, transportation of aggregates	12 696	02.11.2012

The agreements listed above are framework cooperation agreements with no exclusivity clauses and present no obligation for the Budimex Group.

4.3 Transactions with related parties

Detailed information on transactions with related parties was presented in note 41 of the consolidated financial statements of the Budimex Group.

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

4.4 Loans and borrowings

As at 31 December 2015, Budimex SA had the following loans, borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Credit Agricole Bank Polska SA	Revolving working capital loan	13.05.2015	PLN 50 000	-	WIBOR 1M or 3M + margin	11.05.2018
ING Bank Śląski SA	Overdraft facility	15.05.2015	PLN 50 000	-	WIBOR 1M + margin	01.05.2018
Bank Zachodni WBK SA	Revolving loan	13.05.2015	PLN 50 000	-	WIBOR 1M or 3M or 6M + margin	12.05.2018
Bank PEKAO SA	Revolving working capital loan	14.05.2015	PLN 50 000	-	WIBOR 1M + margin	14.05.2018
Societe Generale SA Branch in Poland	Medium-term revolving loan	14.05.2015	PLN 70 000	-	WIBOR 1M + margin	14.05.2018
Cintra Infraestructuras SA	Loan	01.12.2004	EUR 2 054	EUR 2 054	EURIBOR 12M + margin	01.12.2016
Millennium Leasing Sp. z o. o.	Finance lease (92 agreements in total)	-	-	PLN 20 162	WIBOR 1M + margin	30.11.2020
Konica Minolta	Finance lease	16.02.2012	-	PLN 1 011	fixed, as provided in the agreement	monthly

As at 31 December 2015, other companies of the Budimex Group were parties to the following loan agreements and finance lease agreements:

Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Budimex Nieruchomości Sp. z o.o.						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 55	fixed, as provided in the agreement	monthly
Mostostal Kraków SA						
Bank BGŻ BNP Paribas SA	Finance lease	22.11.2013	-	PLN 997	WIBOR 1M + margin	13.03.2019
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	31.05.2012	-	PLN 53	fixed, as provided in the agreement	monthly
Millennium Leasing Sp. z o.o.	Finance lease	17.12.2014	-	PLN 393	WIBOR 1M + margin	05.02.2020
Budimex Parking Wrocław Sp. z o.o.						
Bank PKO BP SA (consortium leader)	Concession financing loan	30.06.2012	-	PLN 32 783	WIBOR 3M + margin	31.12.2031
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2014	-	PLN 3	fixed, as provided in the agreement	monthly

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Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Elektromontaż Poznań SA						
Getin Bank SA	Finance lease	17.07.2014	-	PLN 53	WIBOR 3M + margin	17.07.2018
Masterlease	Finance lease (4 agreements in total)	-	-	PLN 54	WIBOR 1M + margin	05.05.2017
Millennium Leasing Sp. z o.o.	Finance lease	26.01.2012	-	PLN 17	WIBOR 1M + margin	26.11.2016

4.5 Major capital deposits and equity investments in 2015

On 14 April 2015, the Deed of Association of Budimex H Sp. z o.o. was signed. The share capital of the new company amounting to PLN 125 thousand (2 500 shares with a nominal value of PLN 50 each) was taken up in full by Budimex PPP SA. The company was entered in the National Court Register on 8 June 2015.

On 14 April 2015, the Deed of Association of Budimex I Sp. z o.o. was signed. The share capital of the new company amounting to PLN 125 thousand (2 500 shares with a nominal value of PLN 50 each) was taken up in full by Budimex PPP SA. The company was entered in the National Court Register on 8 June 2015.

On 14 April 2015, the Extraordinary General Shareholders' Meeting of Budimex PPP SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 150 thousand, i.e. from PLN 780 thousand to PLN 930 thousand by issuing 150 shares of nominal value of PLN 1 thousand, which were acquired entirely by Budimex SA. The capital increase was entered in the National Court Register on 10 June 2015.

On 29 April 2015, the partnership deed of Budimex SA Energetyka 1 Sp.j. was signed. Budimex SA holds 50 per cent of the shares in this partnership, and Budimex Budownictwo Sp. z o.o. holds the remaining 50 per cent. The partnership was entered in the National Court Register on 14 May 2015.

On 29 April 2015, the partnership deed of Budimex SA Energetyka 2 Sp.j. was signed. Budimex SA holds 50 per cent of the shares in this partnership, and Budimex A Sp. z o.o. holds the remaining 50 per cent. The partnership was entered in the National Court Register on 14 May 2015.

On 10 June 2015, the partnership deed of Budimex SA Ferrovia Agroman (UK) Limited – Metro II Sp.j. was signed. Budimex SA holds 50 per cent of the shares in this partnership. The partnership was entered in the National Court Register on 17 July 2015.

On 31 July 2015, a resolution was adopted on the final liquidation of the company Budimex B Sp. z o.o. The company was removed from the National Court Register on 17 November 2015.

On 18 December 2015, the Extraordinary General Shareholders' Meeting of FBSerwis SA (an associate of Budimex SA) resolved to increase the company's share capital by PLN 68 000 thousand, i.e. from PLN 20 000 thousand to PLN 88 000 thousand. All the new shares were purchased by existing shareholders, i.e. by Ferrovia Servicios S.A. – 69 360 shares of a nominal value of PLN 500 per share for a total of PLN 43 350 thousand and by Budimex SA – 66 640 shares of a nominal value of PLN 500 per share for a total of PLN 41 650 thousand.

On 18 December 2015, the Extraordinary General Shareholders' Meeting of Budimex PPP SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 360 thousand, i.e. from PLN 930 thousand to PLN 1 290 thousand by issuing 360 shares of nominal value of PLN 1 thousand, which were acquired entirely by Budimex SA.

On 22 December 2015, the Extraordinary General Shareholders' Meeting of Budimex Autostrada SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 240 thousand, i.e. from PLN 440 thousand to PLN 680 thousand by issuing 240 shares of a nominal value of PLN 1 thousand, which were acquired entirely by Budimex SA.

On 22 December 2015, the Extraordinary General Shareholders' Meeting of Budimex Most Wschodni SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 120 thousand, i.e. from PLN 220 thousand to PLN 340 thousand by issuing 120 shares of a nominal value of PLN 1 thousand, which were acquired entirely by Budimex SA.

4.6 Information about borrowings granted during the accounting year, including in particular borrowings granted to related parties of the Issuer

On 15 January 2015, Budimex SA signed a borrowing agreement with Budimex Bau GmbH for the amount of EUR 10 thousand, valid until 18 January 2020. Pursuant to the agreement, the interest on the borrowing was agreed at 3 per cent. As at 31 December 2015, the amount of the borrowing paid out was EUR 10 thousand.

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On **24 March 2015**, Budimex SA signed a borrowing agreement with FBSerwis SA (an associate of Budimex SA), valid until 24 March 2020. Budimex SA provided FBSerwis with a borrowing in the amount of up to PLN 17 689 thousand. Pursuant to the agreement, the interest on the borrowing was agreed at 3M WIBOR + margin. Under an annex dated 10 December 2015, the amount of the borrowing was reduced to PLN 3 969 thousand. As at 31 December 2015, the borrowing was not utilised; interest on the borrowing, amounting to PLN 552 thousand, was repaid on 4 January 2016.

On **1 December 2015**, an agreement concerning a borrowing granted in 2004 to Budimex SA by Ferrovial Infraestructuras SA (currently Cintra Infraestructuras SA) was extended, and the interest due for the period from 1 December 2014 was capitalised. Therefore, the amount of the loan increased by EUR 22 thousand to EUR 2 054 thousand. The borrowing repayment date is 1 December 2016.

5 OTHER INFORMATION

5.1 *Agreements between the Issuer and the Management Board Members*

Members of the Management Board of Budimex SA ("Company"), in connection with their work performed and position occupied on the Management Board, are employed at either Budimex SA or at subsidiary companies where they receive remuneration based on an employment contract concluded for a fixed term of office, with a 2-week termination notice. In addition, the employment contracts provide for severance pay in the amount of 6-12 average monthly salaries, depending on the position, in case of removal or non-appointment for the next term of office of the Management Board for reasons dependent on the Company. Where the contract is terminated due to employee resignation or his/her wilful misconduct to the detriment of the Company, severance pay is not paid and only the 2-week termination notice remains in effect.

In addition, Members of the Management Board of Budimex SA – except for the Chief HR Officer, who has been working in the Company for less than a year – have concluded with the Company or the company paying their remuneration, separate non-competition agreements which are valid for a period of 12 months after the date of dissolution of the respective employment contracts. During the period of validity of the non-competition clause, the Company will pay the employee 75 per cent of his/her basic monthly remuneration if the termination of the employment contract is initiated by the Company, or 25 per cent of the basic monthly remuneration if the termination is initiated by the employee. Contractual penalties have been established for the breach of the non-competition clause by a member of the Management Board.

Information on the remuneration of Members of the Management Board was presented in note 41.1 to the consolidated financial statements of the Budimex Group.

5.2 *Information about the shareholding in the Parent Company and related parties held by Members of the Management and Supervisory Boards of the Parent Company*

As at 31 December 2015, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2015, the Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 3 900 shares

5.3 *Acquisition of own shares*

In 2015, Budimex SA did not acquire its own shares.

5.4 *System of control over employee share incentive programs*

The Company did not operate an employee share incentive scheme.

5.5 *Information about agreements acknowledged by the Company (including post-balance sheet date agreements) with a possible future effect on the current ownership structure*

As at the date of publication of this report, Budimex SA is not aware of any agreements that may result in future changes in the ownership structure of the current shareholders.

5.6 *Entity authorised to audit financial statements*

On 16 March 2015, the Supervisory Board of Budimex SA resolved to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. to review the Company's mid-year financial statements and consolidated financial statements of the Budimex Group for a 6-month period of 2015, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2015. The contract for the review and audit of financial statements was concluded on 6 July 2015. The remuneration for the obligatory audit of separate and consolidated financial statements amounted to PLN 454 thousand, the remuneration for the review of the mid-year separate and consolidated financial statements amounted to PLN 114 thousand, the remuneration for other certification services amounted to PLN 61 thousand and the remuneration for other services amounted to PLN 21 thousand.

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Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. also reviewed the mid-year separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for a 6-month period of 2014 and audited the separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2014. The remuneration for the obligatory audit of the separate and consolidated financial statements amounted to PLN 454 thousand; the remuneration for the review of the mid-year separate and consolidated financial statements amounted to PLN 114 thousand; the remuneration for tax consulting amounted to PLN 46 thousand; the remuneration for other certification services amounted to PLN 40 thousand, and the remuneration for other services amounted to PLN 32 thousand.

5.7 Information about charity and sponsorship activities

For many years, the Budimex Group has implemented projects designed to support its sustainable development. In 2011, the Management Board of Budimex SA adopted the "CSR Policy", under which short-term goals for the entire Company are determined. Their implementation is supervised by the CSR Committee whose meetings are held several times a year. In the nearest future, the "CSR Strategy" will be implemented, establishing goals for the Company for 2016–2020.

Since 2011, Budimex SA has been listed in the RESPECT Index – the first index of socially responsible companies in Central and Eastern Europe.

In 2015, Budimex SA developed two CSR programmes: "Parent Zone. Budimex for Children" and "ICE Card. Budimex for Children".

The main idea behind the "ICE Card. Budimex for Children" programme is to provide schoolchildren with plastic cards with contact details of their next of kin to be contacted in the event of an emergency. Additionally, the campaign has a broader educational dimension as it promotes the principles of road safety and first aid among young people. All children participating in the programme receive mobile phone-shaped cards together with a fluorescent holder that can easily be fixed to a backpack. The programme was introduced in 2010 and so far it has included nearly 20 thousand children from over 230 schools nationwide. Evaluation research shows that a year after providing the children with fluorescent cards, 73 per cent of them still carry them fixed to their backpacks. In 2015, 2 800 children from 17 schools joined the programme.

"Parent Zone. Budimex for Children" is a programme implemented at the end of 2012. The programme involves the creation of separate zones in hospital paediatric wards where children can spend time together with their parents, and parents have the ability to prepare a meal, take a shower or sleep. Thus far, Budimex has launched 12 Parent Zones in paediatric hospitals in Lublin, Białystok, Łódź, Katowice, Poznań, Gdańsk, Szczecin, Kraków, Sanok, Wrocław, Olsztyn and Bydgoszcz. Each year, they can be used by nearly 25 thousand hospitalised children and their parents. In 2015, 4 Parents Zones were launched.

In 2015, Budimex held the presidency of the Safety in Construction Agreement – an initiative launched in August 2010 and bringing together ten of the largest general contractors in Poland. The mission of the Agreement is to improve the level of safety at work and eliminate fatal accidents in the construction industry. Activities implemented under the Agreement are supported by the National Labour Inspectorate.

Apart from community activities, the Company also carries out charity and sponsoring activities. In 2015, the Company donated PLN 523 thousand to foundations focused in particular on children's causes.

In 2015, the sponsoring activities of Budimex SA were focused mainly on social and cultural, as well as educational initiatives. The Company was also engaged in the most important economic and industry forums and conferences in Poland.

6 CORPORATE GOVERNANCE

6.1 Corporate governance policies at Budimex SA and public availability of the underlying document

In 2015, the Company applied the "Best Practices of WSE Listed Companies" adopted by a resolution of the WSE Supervisory Board dated 4 July 2007, as amended, while further suspending the application of policies included in the current report filed on 8 March 2011, i.e. Policy 12 of Section I Recommendations relating to best practices of listed companies and point 2 of Policy 10 of Section IV "Best Practices Applied by Shareholders" (guidance of the rules as per the wording of the Best Practices applicable as at 31 December 2015).

In 2012, due to the amendment of the best practices adopted by the WSE's Supervisory Board in 2011 (resolutions of the WSE's Supervisory Board of 31 August 2011 and 19 October 2011), by Resolution No. 171 of 26 April 2012, the Ordinary General Meeting of Shareholders of the Company adopted for use the "Best Practices of WSE Listed Companies" in their new wording, save for the above point 2 and 3 of Policy No. 10 in Section IV of the "Best Practices Applied by Shareholders" (in accordance with the wording applicable as at 31 December 2015, the exclusion covered Policy No. 12 of Section I Recommendations relating to best practices of listed companies and point 2 of Policy 10 of Section IV "Best Practices Applied by Shareholders"). Its adoption by the General Meeting was preceded by appropriate resolutions of the Management Board (of 28 September 2011 and 29 November 2011) and the Supervisory Board (of 13 October 2011 and 14 December 2011).

By virtue of Resolution No. 19/1307/2012 of 21 November 2012, the Supervisory Board of WSE adopted further amendments to the policies of 4 July 2007.

On 20 December 2012, under Resolution No. 18, the Company's Management Board adopted the "Best Practices of WSE Listed Companies", as amended on 21 November 2012, for use from 1 January 2013, save for:

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- the option to exercise voting rights in person or through an authorised legal representative during the course of the general meeting, outside of the place of the general meeting, using electronic means of communication – Policy No. 12 of Section I Recommendations relating to best practices of listed companies; and
- a two-way real-time communication process during which shareholders can take the floor during the General Meeting of Shareholders while being in a place other than the place of the meeting – Policy No. 10 point 2) in Section IV of Best Practices Applied by Shareholders.

The decision in this matter was taken following an analysis covering the matters relating to both technical and legal threats to the correct and efficient execution of the General Meeting of Shareholders, whilst considering the number of shareholders who usually participate in the General Meeting of Shareholders of the Company. The Company will start to apply the policy concerning the two-way real-time communication process, during which the shareholders can “take the floor” during the General Meeting of Shareholders while being in a place other than the actual place of the Meeting, and execute in person or by an authorised representative their voting right at the General Meeting of Shareholders using electronic means of communication as soon as it clears all doubts regarding the functioning of these regulations in practice.

In the above Resolution No. 18 of 20 December 2012, the Management Board recommended that the Company's Supervisory Board adopt a resolution regarding the application by the Supervisory Board of the “Best Practices of WSE Listed Companies” to the extent adopted by the Management Board.

While following the application and recommendation of the Management Board, on 26 March 2013, by resolution No. 204, the Supervisory Board of the Company adopted the “Best Practices of WSE Listed Companies” to be applied from 1 January 2013, in the wording introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012, save for providing the shareholders, using electronic means of communication, with:

- the option to exercise voting rights in person or through an authorised legal representative during the course of the general meeting, outside of the place of the general meeting; and
- two-way real-time communication during which shareholders can take the floor during the General Meeting of Shareholders while being in a place other than the place of the meeting.

Upon request of the Management Board, by Resolution No. 206 of 26 March 2013, the Supervisory Board of the Company applied to the Ordinary General Meeting of Shareholders to adopt the resolution on observing the “Best Practices of WSE Listed Companies” in the wording introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012, save for the elements specified in Resolution No. 204 of the Supervisory Board of the Company.

In 2013, the Ordinary General Meeting of Shareholders of the Company, by Resolution No. 201 of 24 April 2013, adopted for use the “Best Practices of WSE Listed Companies” in their new wording, within the scope suggested by the Management Board and the Supervisory Board. The document containing corporate governance policies was and is still posted on the Company's website at <http://www.budimex.pl>.

Under Policy No. 9 Section I of the “Best Practices of WSE Listed Companies” (Recommendations concerning best practices of public companies) concerning the balanced share of males and females performing management and supervisory functions, the Company reported that in 2015 the Company's Management Board was composed of six males (five in the period between a resignation from the position held submitted by one of the Management Board Members and the appointment of a new Member of the Management Board).

Throughout 2015, the Supervisory Board was composed of one female and eight males.

In connection with the adoption by the WSE Supervisory Board, by resolution No. 26/1413/2015 of 13 October 2015, of the “Best Practices of WSE Listed Companies 2016”, the Company, as of 1 January 2016, applies the new policies within the scope indicated in report No. 1/2016 of 4 January 2016, sent in the EBI system and published on the Company's website.

6.2 Key features of the Company's internal control and risk management systems with respect to the process of the preparation of the financial statements of Budimex SA and the Budimex Group

The Management Board of Budimex SA is responsible for the implementation and functioning of the internal control system in the process of the preparation of separate financial statements of Budimex SA and the consolidated financial statements of the Budimex Group.

The obligation to prepare financial statements is realised in practice by qualified personnel of the Financial Department under the supervision of a Management Board Member – the Chief Financial Officer of Budimex SA.

The preparation of annual financial statements is preceded by a meeting of the Audit Committee with independent auditors in order to determine the audit scope and plan, and to discuss potential risk areas which may have an impact on the truthfulness and fairness of the financial statements. Additionally, the Budimex Group uses a computer program that supports the identification and management of risks related to the preparation of any financial information, including financial statements.

The preparation of the financial statements is an orderly process which accounts for the delegation of duties of the personnel of the Financial Department of Budimex SA, in accordance with their competences and qualifications. Separate financial statements of the Company are prepared on the basis of its books of account. The books of account of the most significant Group companies are maintained using the finance and accounting system, SAP R/3, which has been used for financial and

management accounting purposes since 1 January 2003. The SAP R/3 system is managed centrally by qualified employees of Budimex SA who define authorisation levels for the implementation and modification of transaction data, templates of key reports and changes in the Company's chart of accounts.

Consolidated financial statements are drafted on the basis of consistent consolidation packages prepared electronically by individual Group companies. The process of consolidation is executed by the Department of Reporting and Consolidation and is supervised by the Head of the Accounting Department.

The companies of the Budimex Group apply consistent accounting policies approved by the Management Boards of Budimex SA and subsidiary companies. The correctness of application of the accounting policies by individual companies is regularly monitored by the Department of Reporting and Consolidation and by the Controlling Office of Budimex SA.

The Department of Reporting and Consolidation of Budimex SA is responsible for recommending solutions relating to modifying and updating accounting policies and other WSE reporting requirements, as well as for implementing solutions approved by the Management Board.

During the preparation of the financial statements, among others, the following control activities are carried out:

- assessment of significant, non-routine transactions in terms of their effect on the financial position of the Group or the manner of their presentation in the financial statements,
- verification of the correctness of the assumptions underlying accounting estimates,
- comparative and substantive analyses of financial data,
- verification of arithmetical correctness and consistency of financial data,
- analysis of disclosure completeness.

Annual financial statements are forwarded to the Chief Financial Officer for preliminary verification and then to the Management Board for final verification and authorisation.

Annual financial statements are subject to an audit by an independent certified auditor who presents post-audit conclusions and observations to the Audit Committee and then to the Supervisory Board.

6.3 Shareholders with direct or indirect ownership of significant blocks of shares

According to the information available to Budimex SA, the shareholding structure of the Company as at 31 December 2015 was as follows:

Shareholder	Type of shares	Number of shares	% share in the share capital	Number of votes	% share in the number of votes at the GSM
Valivala Holdings B.V. Amsterdam (the Netherlands) – a Ferrovial SA Group (Spain) company	ordinary	15 078 159	59.06%	15 078 159	59.06%
Aviva OFE Aviva BZ WBK	ordinary	1 280 000	5.01%	1 280 000	5.01%
Other shareholders	ordinary	9 171 939	35.93%	9 171 939	35.93%
Total		25 530 098	100.00%	25 530 098	100.00%

6.4 Holders of all securities which confer special control rights

The Company did not issue any securities that give special control rights.

6.5 Restrictions on exercising voting rights

There are no restrictions concerning exercising voting rights.

6.6 Restrictions on transferring ownership rights to the securities of Budimex SA

There are no restrictions on the transfer of ownership rights to securities of Budimex SA, except for the rights concerning registered shares whose disposal requires the pre-approval of the Company. Such approval has to be granted by the Management Board in writing to be valid.

6.7 Regulations concerning appointment or removal of Management or Supervisory Board Members, the rights of those persons, in particular, the right to take a decision on share issue or redemption

The Supervisory Board appoints and removes the President of the Management Board and, upon his/her request, the Vice-Presidents of the Management Board or other Board Members for a joint three-year term of office.

The Management Board is not authorised to take a decision on share issue. The rights of the Management Board regarding the decision to redeem shares do not vary from those set forth in the Code of Commercial Companies.

During 2015, policies concerning the appointment or removal of members of managing bodies as well as the rights of members of these bodies, including the right to take a decision on the issuance or redemption of the Company shares, as provided for in the Articles of Association, did not change.

In accordance with the provisions of the Company's Articles of Association, the Management Board conducts the Company's affairs and represents the Company, which effectively means that the scope of duties of this body does not differ from that defined in the Code of Commercial Companies. Detailed rights of the Management Board of Budimex SA specified in the Company's Articles of Association are as follows:

- granting approval for disposal of registered (inscribed) shares,
- determining the share issue price in the case of a share capital increase,
- cancelling or limiting the pre-emptive right to newly issued shares upon approval by the Supervisory Board,
- defining the method of determining the share issue price or issuing shares in exchange for non-monetary contribution upon approval by the Supervisory Board,
- taking a decision on the purchase or disposal of property, perpetual usufruct or a share in property, machines and equipment, securities or other asset items where the unit price on acquisition or disposal does not exceed 1/5th of the Company's share capital,
- taking a decision on the prepayment of year-end dividend upon approval by the Supervisory Board.

6.8 Implementing changes to the Articles of Association of Budimex SA

Changes to the Articles of Association are made by way of a resolution of the General Meeting of Shareholders and an entry in the National Court Register. These issues are regulated in par. 13 letter r) of the Articles of Association in the description of the rights of the General Meeting of Shareholders and in par. 17 section 1 letter l) of the By-laws of the General Meeting of Shareholders of Budimex SA. Prior to taking a resolution on amending the Company's Articles of Association, a draft of such resolution should be forwarded by the Management Board to the Supervisory Board for approval. In accordance with the provisions of the Code of Commercial Companies, such resolution should be adopted with a qualified majority of votes, i.e. (i) as a rule, 3/4th of the total voting rights, and (ii) in the case of a significant change to business activities – 2/3rd of votes.

6.9 Functioning of the General Meeting of Shareholders, its fundamental powers, rights of the shareholders and the manner of exercising those rights

The General Meeting of Shareholders of the Company operates on the basis of the Articles of Association, By-laws of the General Meeting (both documents are posted on the Company's website) and provisions of other laws, including the provisions of the Code of Commercial Companies. Detailed powers of the General Meeting of Shareholders are described in par. 13 of the Articles of Association. Shareholders exercise their rights in the manner specified in the Articles of Association, By-laws of the General Meeting of Shareholders and binding laws.

The General Meeting of Shareholders is convened as ordinary or extraordinary. Ordinary General Meetings of Shareholders take place, at the latest, within 6 months of the end of each financial year. General Meetings of Shareholders are convened by the Company's Management Board. The Supervisory Board may convene an Ordinary General Meeting of Shareholders if the Company's Management Board does not convene it within the period defined in the Code of Commercial Companies or in the Articles of Association; the Supervisory Board may also convene an Extraordinary General Meeting of Shareholders if such a meeting is deemed advisable. An Extraordinary General Meeting of Shareholders may also be convened by the shareholders representing at least half of the Company's share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint the chairperson of the Meeting.

The shareholder or shareholders representing at least 1/20th of the Company's share capital may request in writing, or using electronic means of communication, that the Company's Management Board convene an Extraordinary General Meeting of Shareholders and include certain specific matters on the meeting agenda or matters that are to be introduced into the meeting agenda. If, within two weeks of the date of forwarding such a request, the Extraordinary General Meeting of Shareholders is not convened, the court of registration may authorise the shareholders initiating such a request to convene the Meeting. The court of registration appoints the person chairing the Meeting, and in the notification about the Meeting the shareholders should refer to such decision of the court of registration. The Meeting convened in this manner takes a resolution on whether the costs of convening and holding the Meeting are to be borne by the Company. The shareholders who requested that the Meeting be convened may apply to the court to be exempted from the costs imposed by the resolution of the Meeting of Shareholders.

A dedicated email address which may be used in cases defined by the Code of Commercial Companies in connection with convening General Meetings of Shareholders is posted on the Company's website.

The General Meeting of Shareholders of the Company is convened by way of posting an announcement on the Company's website and in the manner reserved for forwarding current information, in accordance with the provisions of the Act on the Public Offering and the Terms and Conditions of Introducing Financial Instruments to an Organised System of Trading and on Public Companies. The announcement should be made at least twenty six days before the scheduled date of the General Meeting of Shareholders.

A General Meeting of Shareholders may also take place in the manner specified in the Code of Commercial Companies on condition that the provisions of Article 405 of the Code of Commercial Companies are fulfilled.

A shareholder or shareholders representing at least 1/20th of the Company's share capital may request that certain matters be included on the agenda of the next General Meeting of Shareholders. The request should be forwarded to the Management

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Board of the Company no later than twenty one days before the scheduled date of the meeting and should include a justification for or a draft of the resolution concerning the proposed matter for the agenda. The request may be forwarded in an electronic form. The Management Board must immediately, but no later than 18 days before scheduled date of the General Meeting, announce changes to the meeting agenda that were introduced at the request of the shareholders. Such announcement is executed in the manner applicable to convening the General Meetings of Shareholders.

A shareholder or shareholders representing at least 1/20th of the Company's share capital may, before the date of the General Meeting of Shareholders, send to the Company in writing, or using electronic means of communication, draft resolutions concerning matters entered on the agenda of the General Meeting of Shareholders or matters that are to be introduced to the agenda. The Company shall immediately post such drafts of resolutions on its website. During a General Meeting of Shareholders, each shareholder may submit draft resolutions concerning matters entered on the agenda.

The shareholders may participate in the General Meeting of Shareholders and exercise their voting rights in person or through authorised representatives. The authorisation to participate in the General Meeting of Shareholders and to exercise voting rights should be granted in writing or in an electronic form. Granting authorisation in an electronic form does not require the use of a secure electronic signature verified by a valid classified certificate.

In accordance with the Articles of Association (apart from other matters listed in appropriate regulations), the General Meeting of Shareholders adopts resolutions on the following matters:

- considering and authorising the report on the Company's activities and of the financial statements for the prior financial year,
- reviewing and approving the directors' report on the Group's activities and the consolidated financial statements of the Budimex Group,
- acknowledging fulfilment of duties by members of the Management and Supervisory Boards,
- creating and reversing of special funds and reserve capital, and their utilisation,
- profit appropriation or defining the manner of loss absorption; the General Meeting of Shareholders may resolve that dividend, in whole or in part, be allocated towards increasing the share capital, and the shareholders are issued new shares in exchange,
- claims for losses incurred at the incorporation of the Company, or losses resulting from performing management or supervisory functions,
- disposing or leasing/renting the company or its organised part, or establishing restrictions on its use or disposal,
- taking decisions on company merger or liquidation, and in the case of the latter – appointing Company liquidators,
- issuing convertible bonds or bonds with pre-emptive rights, or subscription warrants,
- redemption of shares,
- amendment to the Company's Articles of Association, especially concerning a share capital increase or decrease, or amendment to the Company's objects,
- adopting By-laws of the General Meeting of Shareholders of Budimex SA,
- appointing and removing Supervisory Board members,
- defining the principles and amount of remuneration for Supervisory Board members,
- re-acquisition of own shares to offer them to employees or persons who were employed at the Company or any related company for a period of at least three years,
- conclusion by the Company of a loan, borrowing or suretyship agreement, or other similar agreement with a member of the Management or Supervisory Board, authorised commercial representative, liquidator, or concluding an agreement in favour of any of the said persons,
- determining the date on which the list of shareholders entitled to receive dividend for the year is prepared (dividend date).

Matters forwarded by the Management Board for consideration of the General Meeting of Shareholders should first be forwarded for the Supervisory Board's consideration.

Resolutions of the General Meeting of Shareholders are adopted by an absolute majority of votes, irrespective of the number of shares represented at the meeting, unless the provisions of the Code of Commercial Companies state otherwise.

6.10 Composition of the Management and Supervisory Boards, changes thereof in the last financial year and functioning of the management and supervisory bodies of the Company and their committees

a) Composition of the Management Board

As at 31 December 2015, the Management Board of Budimex SA was composed of the following persons:

- | | |
|------------------------------------|---|
| • Dariusz Jacek Blocher | President of the Management Board, General Director, |
| • Fernando Luis Pascual Larragoiti | Vice-President of the Management Board, |
| • Cezary Mączka | Board Member, Chief HR Officer, |
| • Jacek Daniewski | Board Member, Chief Legal and Organisational Officer, |
| • Henryk Urbański | Board Member, Chief Real Estate Officer, |
| • Marcin Węglowski | Board Member, Chief Financial Officer. |

In 2015, the following changes to the composition of the Management Board took place:

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

- Andrzej Artur Czynczyk resigned from the position of the Board Member as of 17 September 2015,
- at the request of the President of the Management Board, by virtue of Resolution No. 239 dated 16 December 2015, the Supervisory Board appointed Cezary Mączka to the position of Board Member.

As at 31 December 2015, joint authorisations to represent the Company were granted to the following persons:

- Artur Popko – joint authorisation to represent the Company together with another authorised commercial representative,
- Radosław Górski – joint authorisation to represent the Company together with another authorised commercial representative.

In 2015, the following changes to joint authorisations to represent the Company took place:

- on 26 February 2015, joint authorisations to represent the Company together with a member of the Management Board granted to Artur Popko, Radosław Górski and Andrzej Gołowski were cancelled,
- on 26 February 2015, joint authorisations to represent the Company together with another authorised commercial representative were granted to: Artur Popko, Radosław Górski and Andrzej Gołowski,
- on 5 October 2015, the joint authorisation to represent the Company together with another authorised commercial representative granted to Andrzej Gołowski was cancelled.

The policies concerning the appointment or removal of members of managing bodies as well as the rights of members of these bodies, including the right to take decision on issuance or redemption of the Company shares, as provided for in the Articles of Association, did not change during 2015.

b) Composition of the Supervisory Board and its Committees

As at 31 December 2015, the Supervisory Board of Budimex SA was composed of the following persons:

- | | |
|--|--|
| • Marek Michałowski | Chairperson 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, |
| • Javier Galindo Hernandez | Supervisory Board Member, |
| • José Carlos Garrido-Lestache Rodríguez | Supervisory Board Member, |
| • Piotr Kamiński | Supervisory Board Member, |
| • Janusz Dedo | Supervisory Board Member. |

In 2015, there were no changes to the composition or structure of the Supervisory Board.

As at 31 December 2015, the Audit Committee was composed of the following persons:

- Marzenna Weresa – Chairperson,
- Javier Galindo Hernandez – Member,
- José Carlos Garrido-Lestache Rodríguez – Member.

The composition of the Audit Committee did not change in 2015.

As regards the independence of an Audit Committee member, provisions of the following apply: Article 56 section 3 points 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorised to Audit Financial Statements and Public Oversight, dated 7 May 2009, and criteria of independence with regard to the company and entities materially related to the company, within the meaning of the Best Practices of WSE Listed Companies (Policy 6 Section III Best Practices for Supervisory Board Members).

The status of independence of a Supervisory Board member is determined by the Company in accordance with the criteria defined in the Procedure for Integrated Management System No. 05-05 relating to obtaining information from Supervisory Board members and publication of this information, based on representations filed by Board members and based on Article 56 section 3 points 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorised to Audit Financial Statements and Public Oversight, dated 7 May 2009.

As at 31 December 2015, the Investment Committee was composed of the following persons:

- Piotr Kamiński – Chairperson,
- Alejandro de la Joya Ruiz de Velasco – Member,
- Javier Galindo Hernandez – Member.

The composition of the Investment Committee did not change in 2015.

As at 31 December 2015, the Remuneration Committee was composed of the following persons:

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

- Marek Michałowski – Chairperson,
- Igor Chalupec – Member,
- Alejandro de la Joya Ruiz de Velasco – Member.

The composition of the Remuneration Committee did not change in 2015.

c) Operation of the Management Board

The Management Board operates based on the provisions of the Company's Articles of Association, By-laws of the Management Board and other binding regulations, including the Code of Commercial Companies. The Management Board is composed of one or more members. The Management Board conducts the Company affairs and formally represents the Company.

The President of the Management Board is appointed and removed by the Supervisory Board. The President of the Management Board is, at the same time, the Company's General Director. The Supervisory Board, at the request of the President of the Management Board, appoints vice-presidents and other members of the Management Board for a 3-year joint term of office.

The functioning of the Management Board is managed by the President of the Management Board. The detailed manner of the functioning of the Management Board has been defined in the By-laws of the Management Board approved by the Supervisory Board.

Resolutions of the Management Board may be adopted with an absolute majority of votes. In the event of an equal number of votes, the casting vote is that of the President of the Management Board.

The persons authorised to make representations or sign documents on behalf of the Company are:

- President of the Management Board – individual representation,
- two Board Members – acting together or one Board Member acting together with an authorised commercial representative.

Representations filed with the Company or submissions of documents are considered valid if addressed to one Board Member, or authorised commercial representative of the Company.

d) Operation of the Supervisory Board

The Supervisory Board operates on the basis of the Articles of Association, By-laws of the Supervisory Board of Budimex SA and other legal regulations, including the Code of Commercial Companies. The organisation and operation of the Supervisory Board is defined in the By-laws of the Supervisory Board.

The Supervisory Board takes decisions provided at least half of Board Members are present at the meeting and all its members were invited to the meeting. The Supervisory Board adopts resolutions with an absolute majority of votes. In the case of an equal number of votes, the casting vote is that of the Chairperson of the Supervisory Board. It is allowed that resolutions of the Supervisory Board may be taken in writing or using means of direct communication. Resolutions of the Supervisory Board are valid and effective if all Board members were informed about the content of the draft resolution. Supervisory Board members may participate in taking resolutions by voting in writing by proxy i.e. through another member of the Supervisory Board, in all matters listed on the agenda of the Supervisory Board meeting, except for matters that were added to the agenda during the course of the Supervisory Board's Meeting.

In performing its duties, the Supervisory Board is authorised to review all documents of the Company or to request reports and explanations from the Management Board or employees of the Company; it may also verify the company's assets, books of account, registers and documents. The Supervisory Board is also entitled to order, for its own use, appropriate expert research in matters of its supervision and control.

The Supervisory Board supervises all aspects of the Company's operations in an ongoing manner. Included in the scope of duties of the Supervisory Board are, in particular, the following:

- assessment of the directors' report on the company's activities and evaluation of the financial statements for the previous year,
- evaluation of profit appropriation or loss absorption proposals made by the Management Board,
- recommending that the General Meeting of Shareholders acknowledge the fulfilment of duties by members of the Management Board,
- presenting to the General Meeting of Shareholders annual written reports on the results of the assessment referred to above,
- suspending, for valid reasons, individual or all Management Board members and delegating Supervisory Board members for a period lasting no more than 3 months to temporarily perform the duties of those Management Board members who were removed, resigned or could not perform their duties for other reasons,

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- approval of the By-laws of the Management Board of the Company,
- concluding agreements with the Company Management Board members, determining the remuneration of the President of the Management Board and of other Board members, determining policies for granting management bonuses, exercising rights towards Management Board members resulting from work relations, with the proviso that such agreements should be signed by the Chairperson of the Supervisory Board on behalf of the Supervisory Board,
- the appointment of a new certified auditor from the list of certified auditors maintained by the National Council of Certified Auditors to audit the financial statements of the Company,
- approval of the agreement between the Company's Management Board and the underwriter to take up the Company's shares,
- granting approval to a Board member to deal with competitive business or to participate in a competing company,
- granting approval to excluding or limiting by the Management Board a pre-emptive right to newly issued shares,
- granting approval to the method of determining the share issue price proposed by the Management Board or to the issue of shares for an in-kind (non-monetary) contribution,
- granting approval for the purchase or disposal of property, perpetual usufruct right or share in property, machines and equipment and/or disposal or acquisition of securities or other asset items, if the unit price on acquisition or disposal exceeds 1/5th of the Company's share capital; if the value of the transactions referred to in this point does not exceed the amount stated above, the decision is made independently by the Management Board.

In accordance with sec. 12, par. 3 of the By-laws of the Supervisory Board, the Supervisory Board may establish committees or appoint teams from among its members, or delegate a Board member to such bodies. As stated above, the following three committees operate as part of the Supervisory Board: Audit Committee, Investment Committee and Remuneration Committee.

e) Tasks of the Audit Committee

The role of the Audit Committee is to:

- recommend to the Supervisory Board an entity authorised to serve as a certified auditor and to audit the financial statements of the Company and the consolidated financial statements of the Group for the previous year,
- monitor the process of preparation of the financial statements of the Company and the consolidated financial statements for the previous year, perform detailed reviews of the results of those audits at each audit stage,
- monitor the financial audit process,
- monitor the effectiveness of the internal control, internal audit and risk management systems,
- forward to the Supervisory Board conclusions and recommendations relating to the audit and assessment of the financial statements of the Company and of the consolidated financial statements for the previous year, to assess the Management Board's proposal concerning profit appropriation or loss absorption,
- forward to the Supervisory Board conclusions and recommendations concerning acknowledgement of the fulfilment of duties by the Chief Financial Officer,
- monitor the independence of the certified auditor and the entity authorised to audit financial statements, in this case – the independence of services referred to in article 48 par. 2 of the Act on Statutory Auditors and Their Self-Governance, Audit Firms Authorised to Audit Financial Statements and Public Oversight, dated 7 May 2009,
- perform other tasks commissioned by the Supervisory Board depending on the current situation at the Company,
- submit interim and annual reports on its activities to the Supervisory Board.

f) Tasks of the Investment Committee

The role of the Investment Committee is to provide opinions or approve decisions material for the Company from the point of view of the value of operations relating to: making investments or de-investments in non-financial assets, company incorporation or dissolution, making investments or de-investments or issuing financial assets, Budimex Group company mergers, divisions or transformations, carrying out financial operations, establishing special purpose vehicles (SPVs) to perform works or to render services based on the terms and conditions other than those prevailing in the consortium agreements concluded by Budimex Group, preliminary agreements and non-binding initial offers, development projects and significant contracts with related parties.

The Investment Committee operates based on the procedure authorised by the Supervisory Board. The Supervisory Board is informed at its subsequent meetings about matters on which the Investment Committee was to provide opinions during the period in between the Supervisory Board's meetings.

g) Tasks of the Remuneration Committee

The tasks of the Remuneration Committee comprise:

- submitting for approval by the Supervisory Board, proposals concerning remunerating Management Board Members, especially in the form of fixed remuneration, performance-based remuneration, retirement benefit scheme and retirement benefit and long-term incentive programs, together with recommendations concerning objectives and

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assessment criteria for appropriate adjustment of remuneration of Management Board Members to long-term shareholder interests and the Company's objectives defined by the Supervisory Board; providing the Supervisory Board with proposals concerning remuneration of individual Management Board Members and ensuring that the remuneration proposed is consistent with the remuneration regulations adopted by the Company and assessment of work performance of individual Board Members; providing the Supervisory Board with proposals concerning the appropriate form of employment contracts for individual Board Members; providing the Supervisory Board with proposals concerning bonus ratios, their weight for Board members based on the budget for the given year; offering assistance to the Supervisory Board in supervising the process under which the Company fulfils binding regulations in the area of remuneration disclosure requirements (in particular in the area of remuneration of members of the Management Board); monitoring the level and structure of remuneration of Management Board members based on independent payroll reports and market ratios and submitting to the Supervisory Board appropriate underlying analyses and conclusions; providing opinions on the appointment and removal of members of Supervisory Boards at Budimex SA subsidiary companies, except for SPVs;

- accepting, at the request of the Management Board, the bonus ratio for employees of the Budimex SA head office to be used in the calculation of previous year's bonus and the percentage ratio for salary/wage increase in the current year;
- the preparation of the annual report on the activities of the Remuneration Committee.

6.11 Remuneration Policy for Members of Management and Supervisory Boards, as well as key managers at Budimex SA

Supervisory Board Members

The body authorised to determine the remuneration policy for members of the Supervisory Board of Budimex SA is the General Meeting of Shareholders. On 28 April 2015, the General Meeting of Shareholders resolved that members of the Supervisory Board of Budimex SA would receive monthly remuneration for their work in the following amounts:

- Chairperson of the Supervisory Board – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.7 ratio,
- President of the Audit Committee of the Supervisory Board – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.5 ratio,
- Deputy Chairperson of the Supervisory Board – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio,
- Secretary of the Supervisory Board – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.2 ratio,
- Supervisory Board Member – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio.

Management Board Members

The body authorised to determine the remuneration policy for members of the Management Board of Budimex SA is the Supervisory Board. The policy defines all types of remuneration, in particular, fixed remuneration, performance-based remuneration, retirement benefit scheme and retirement benefits, and long-term incentive schemes.

In addition, the Supervisory Board performs all labour-law based activities in relations between Budimex SA and members of the Management Board. Employment contracts with members of the Management Board are signed by the Chairperson of the Supervisory Board on behalf of the Supervisory Board. Agreements between Budimex SA and Management Board members were described in point 5.1. Information on the remuneration of Members of the Management Board was presented in note 41.1 to the consolidated financial statements of the Budimex Group.

The remuneration of Management Board members is composed of the following items:

- fixed remuneration – basic monthly salary,
- performance-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of an annual assessment of task completion, and ratio-related bonus relating to the business activities of the Budimex Group,
- share incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" ("*Plan przyznania akcji związanych z celami Ferrovialu*") which consists in conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in the Management Board posts on the date of awarding the shares.

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

Key managers

The body authorised to determine the remuneration policy for Key managers is the Management Board of Budimex SA. The remuneration policy has been determined in remuneration by-laws and individual employment contracts.

The remuneration of key managers is composed of the following items:

- fixed remuneration – basic monthly salary,
- performance-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of annual assessment of task completion, and ratio-related bonus relating to the business activities – areas under management,
- share incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" (*"Plan przyznania akcji związanych z celami Ferrovialu"*) which consists in the conditional awarding of rights to acquire shares in the parent company. Key managers who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in the key managerial posts on the date of awarding the shares.

Non-financial components of remuneration

Non-financial components of remunerations to which individual Board Members and key managers are entitled are the same and include "in-kind" benefits such as free-of-charge medical care, payment of life insurance policy premiums, company car.

Significant changes to the remuneration policy

There were no significant changes to the remuneration policy during the last financial year.

Assessment of the remuneration policy

The remuneration policy applicable in the Company is an effective management tool supporting the primary goal of the shareholders, i.e. the long-term appreciation of shares: in the period from 31 December 2010 to 31 December 2015, the value of shares increased from PLN 99.5 to PLN 194.0, representing a 95 per cent growth. Furthermore, this policy ensures the stability of the exercise of the duties of the Management Board whose actions guarantee the economic success of the Company.

Dariusz Blocher	President of the Management Board	.....	Henryk Urbański	Member of the Management Board	.....
name and surname	position	signature	name and surname	position	signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	.....	Marcin Węglowski	Member of the Management Board	.....
name and surname	position	signature	name and surname	position	signature
Jacek Daniewski	Member of the Management Board	.....		
name and surname	position	signature			
Cezary Mączka	Member of the Management Board	.....		
name and surname	position	signature			
			Warsaw, 10 March 2016		

The above Directors' report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version should prevail.