

## **REPORT**

### **of the Supervisory Board of Budimex SA**

- on the results of examination of the Report on the Activities of the Company in 2013, including the financial statements, as to their compliance with the books of account, the documents and the actual status, as well as the Management Board proposal for 2013 profit distribution;
- on the assessment of the Company standing, including evaluation of the internal control system and risk management system for the risks significant to the Company (in accordance with Principle 1.1 Division III of the corporate governance principles set out in “The Code of Best Practices of WSE Listed Companies”);

for the 2014 Annual General Meeting (AGM) of Budimex SA.

Pursuant to Article 382 § 3 and § 4 of the Code of Commercial Companies and in accordance with § 11.1.e of the Bylaw of Budimex SA Supervisory Board, the Board – in the meeting held on 12 March 2014 – examined and assessed the Reports on the Activities of the Company and the Budimex Group, as well as the respective financial statements for the reporting year 2013, as to their compliance with the books and documents and the actual status, and also the Management Board proposal for profit distribution, as a result of which the Board states as follows.

1. During the examination of the documents referring to Budimex SA for the reporting year 2013:
  - 1) the Board read the financial statements and analysed the introduction, balance sheet, profit and loss account, statement of changes in equity capital, cash flow statement, and additional information and explanatory notes;
  - 2) the Board read the Opinion and the Report on the Financial Statements Audit by an independent statutory auditor and heard the auditor’s explanations and replies to the questions asked by the Supervisory Board Members;
  - 3) the Board read the Report on the Activities of the Company and heard explanations of the Management Board regarding that Report.
2. During the examination of the documents referring to the Budimex Group for the reporting year 2013:
  - 1) the Board read the consolidated financial statements and analysed the consolidated report on financial standing, consolidated profit and loss account, consolidated report on total revenues, consolidated statement of changes in equity capital, consolidated cash flow statement, and additional information and explanatory notes;

- 2) the Board read the Opinion and the Report on the Consolidated Financial Statements Audit by an independent statutory auditor and heard the auditor's explanations and replies to the questions asked by the Supervisory Board Members;
  - 3) the Board read the Report on the Activities of the Budimex Group and heard explanations of the Management Board regarding that Report.
3. Based on the examination of the Reports on the Activities in 2013 mentioned in clauses 1 and 2, as well as the examination of the reports on the audit of 2013 financial statements prepared by the statutory auditor, the Supervisory Board states that the information provided in those documents is a correct and fair reflection of the result of business activities of the Company and the Budimex Group, as well as the assets and the financial standing of the Company.
4. In accordance with the statement presented in clause 3, the Supervisory Board requests the Annual General Meeting of Budimex SA to pass resolutions regarding:
  - 1) approval of the financial statements of Budimex SA for the year ending on 31 December 2013 and the Report on the Activities of the Company in 2013;
  - 2) approval of the consolidated financial statements for the year ending on 31 December 2013 and the Report on the Activities of the Budimex Group in 2013;
  - 3) distribution of net profit for the period from 1 January 2013 to 31 December 2013, to be assigned to the dividend and supplementary capital;
  - 4) vote of approval in relation to the performance of duties by the Members of the Management Board of Budimex SA in 2013;
  - 5) preparing financial statements of Budimex SA in accordance with the IAS starting from 1 January 2014;and also provides its positive opinion on the formal contents of the resolutions regarding:
  - 6) giving the vote of approval in relation to the performance of duties in 2013 by the Members of the Supervisory Board;
  - 7) approval of the supplementation of the membership of the Supervisory Board of eighth term, which took place on 29 January 2014 and consisted in co-opting Mr Janusz Dedo as a new Member of the Board pursuant to § 16.3 of the Company Articles of Association, owing to the resignation of Mr Tomasz Sielecki.
5. On 12 March 2014 the Supervisory Board passed Resolution No 222 on examination of the financial statements and the Reports of the Activities of the Company and the

Budimex Group in 2013, as well as the proposal for 2013 profit distribution, vote of approval for the Members of the Management Board, and preparing financial statements of Budimex SA in accordance with the IAS starting from 1 January 2014.

Appendices to the aforesaid Resolution are draft resolutions of the AGM listed in clause 4 sub-clauses 1–5 hereof and draft resolutions on giving the vote of approval in relation to the performance of duties in 2013 by the Members of the Supervisory Board, and approval of the supplementation of the membership of the Supervisory Board of the eighth term, as mentioned in clause 4 sub-clauses 6 and 7 hereof.

6. Company assessment in consideration of the internal control system and risk management system.

The basic object of Budimex SA activity is the provision of construction and assembly works, real estate development services as well as provision of management and advisory services to the Budimex Group companies. Performance of the advisory, management and financial function by Budimex SA has the purpose of:

- fast flow of information within the Group structure;
- improvement of finance and cash management effectiveness at the particular companies;
- improvement of the Group market position.

Within the 12 months of 2013 Budimex SA generated sales revenues of PLN 4,001 million, i.e. a drop of 23.5% compared to the revenues generated in 2012.

Gross sales profit in 2013 amounted to PLN 290 million, whereas in the preceding year, the profit was PLN 386 million. Gross sales profitability in 2013 was, therefore, 7.2% compared to 7.4% in 2012.

The balance of cash in bank accounts and at the cash desk of Budimex SA at the beginning of 2013 amounted to PLN 1,041 million. Net cash flows in the period of 12 months of 2013 were positive and amounted to PLN 75 million. The balance of cash as at 31 December 2013 amounted, therefore, to PLN 1,116 million.

The Company balance of cash on investing activities increased by PLN 35 million. The main contribution to that value was from the dividends received from related companies. Cash flows on financial activities in 2013 were negative and amounted to PLN 123 million. The expenditures consisted of the payout of dividend by the Company in the amount of PLN 112 million and repayment of liabilities under financial lease agreement, including interest.

In 2013 the Budimex Group generated total sales revenues of PLN 4,749 million, which was by 21.9% lower than the revenues generated in 2012.

In 2013 the sales volume in the construction segment of the Budimex Group dropped by 26.1% in comparison to 2012.

Sales in the infrastructure sector decreased by 30.9% (from PLN 3,552 million in 2012 to PLN 2,456 million in 2013), and in building construction – by 18.0% (from PLN 2,054 million in 2012 to PLN 1,685 million in 2013). The share of the infrastructure segment in the total construction and assembly services revenues of the Group dropped from 63.4% in 2012 to 59.3% in 2013.

In 2013 the sales revenues on real estate development activities amounted to PLN 225 million, reflecting a 30.1% drop compared to the preceding year. The sales revenues on real estate development activities are recognised at the moment of transfer of the ownership title to an apartment/premises to the buyer, after the technical acceptance of the entire building. Therefore, the notarised sales of apartments depend on the construction projects completion dates and handing over the finished apartments to the customers. It is not a seasonal phenomenon nor can it be compared year to year.

As a result of macroeconomic factors a major revival could be observed on the entire real estate development market in 2013. That was directly reflected in the high level of advance sales of apartments. The net advance sales throughout the year 2013 referred to 742 apartments, compared to 515 apartments in the preceding year.

In 2013 the Budimex Group companies signed construction contracts to the total value of PLN 3,266 million (including annexes). The construction order portfolio of the Budimex Group as at 31 December 2013 amounted to PLN 4,339 million, which represents an 11% drop compared to the end of 2012.

Gross sales profit in 2013 amounted to PLN 395 million, whereas in the preceding year, the profit was PLN 460 million. Gross sales profitability in 2013 was, therefore, 8.3% compared to 7.6% in 2012.

The financial standing of the Group in 2013 remained on a good level. Net cash flows in 2013 were positive and amounted to PLN 319 million. In 2013 the balance of cash on operating activities increased by PLN 315 million. The cash flows on investment activities closed with a positive balance of PLN 158 million.

Cash flows on financial activities in 2013 were negative and amounted to PLN 154 million, which was mainly the result of 2012 dividend payout.

The current financial standing of the Budimex Group as regards liquidity and access to external sources of finance does not pose any hazard to financing the activities in 2014.

Considering the recommendations of the Audit Committee, the Supervisory Board assessed positively the functioning of the internal control system and the risk management system as regards the risks significant to the Company.

The Supervisory Board assessed positively the activities of the Company Management Board in 2013.

## 7. Activities of the Supervisory Board of Budimex SA in 2013

In 2013 the Supervisory Board consisted of nine persons. In April 2013 the Annual General Meeting of Budimex SA, in relation to expiry of the seventh term of the Supervisory Board, reappointed the previous Members of the Supervisory Board. The membership of the Supervisory Board of Budimex SA throughout 2013 was as follows:

Chairman	Marek	Michałowski;
Deputy Chairman	Alejandro	de la Joya Ruiz de Velasco;
Secretary	Tomasz	Sielicki;
Members:	Marzenna	Weresa,
	Igor	Chalupec,
	Javier	Galindo Hemandez,
	Jose Carlos	Garrido Lestache Rodriguez,
	Piotr	Kamiński,
	Maciej	Stańczuk.

The Board held six meetings in 2013, each time analysing the current standing of the Company based on the materials and information regarding:

- acquisitions, order portfolio, major contracts awarded;
- financial results and the net cash position of the Budimex Group;
- evolution of the real estate development activities;
- investments and divestments within the Budimex Group;
- risks in public procurement procedures, including information on planned and implemented amendments to the Act "Public Procurement Law".

The meeting convened at the request of the Management Board on 30 October 2013 was devoted to consideration of the proposal of the Management Board for divestment by the Group of the shares in the company of Budimex Danwood Sp. z o.o.

Moreover, in the meetings held, the Board analysed also other aspects of the Company and the Group standing based on the materials and information regarding:

- the results of the construction companies competing with Budimex SA;
- the current standing of FBSerwis SA and further plans for its operations (on four occasions);
- the current standing of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in composition bankruptcy, in consideration of the events expected in the composition

- proceedings;
- progress of implementation of the new model of cooperation between Budimex and Ferroviaľ;
  - assessment of the situation in the construction sector on the Polish market.

The Supervisory Board prepared recommendations and requests for the Management Board, the implementation of which was accounted for in the subsequent meetings of the Board.

The recommendations and requests referred to the following affairs:

- analysis and planned actions related to the standing of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in composition bankruptcy;
- assessment of the progress of execution of the action plan for FBSerwis SA, as well as the principles of providing financial support to the company by Budimex SA as its shareholder;
- operation of some of the companies within the Group and shareholders' supervision thereof;
- method of presenting to the Board of the investment project applications considered by the Investment Committee;
- informing the Board about the process of implementing the new model of cooperation between Ferroviaľ and Budimex (BAPA).

On 26 March 2013 the Supervisory Board met the representatives of the external auditor, receiving information on the approach to auditing financial statements and the results of activities undertaken by the statutory auditor.

Within the Supervisory Board there were functioning in 2013 the following three-person Board Committees:

1. **Investment Committee** whose tasks and competencies are specified in the Procedure No 09-01 of the Integrated Management System – *The Principles of providing opinions and making investment, financial and corporate decisions*, which was earlier accepted by the Board and approved by the Chairman of the Board. The competencies and tasks of the Investment Committee are also provided in § 12 Clauses 7–11 of the Bylaw of the Supervisory Board;
2. **Audit Committee** whose tasks are specified in § 12.6 of the Bylaw of Budimex SA Supervisory Board and the Rules of the Audit Committee;
3. **Remuneration Committee** whose tasks are specified in § 12.14 of the Bylaw of Budimex SA Supervisory Board and the Rules of the Remuneration Committee.

The membership of the **Supervisory Board Committees** did not change throughout 2013 and was as follows:

**Investment Committee:**

Maciej Stańczuk – Chairman,  
Alejandro de la Joya Ruiz de Velasco,  
Javier Galindo Hernandez;

**Remuneration Committee:**

Marek Michałowski – Chairman,  
Igor Chalupec,  
Alejandro de la Joya Ruiz de Velasco;

**Audit Committee:**

Marzenna Weresa – Chairman,  
Javier Galindo Hernandez,  
Jose Carlos Garrido Lestache Rodriguez.

The **Investment Committee** considered the motions received on an ongoing basis. The Supervisory Board was informed about the activities and results of activities of the **Investment Committee** in the meetings held in 2013, based on the materials regarding the motions considered and pending consideration, which were prepared in accordance with the Procedure No 09-01 of the Integrated Management System – *The Principles of providing opinions and making investment, financial and corporate decisions*.

In 2014 the **Remuneration Committee** submitted to the Supervisory Board a written Report for the Reporting Year 2013, which was accepted by the Board.

The **Remuneration Committee** held three meetings in 2013. The Supervisory Board was informed about the activities and results of activities of the **Remuneration Committee** on an ongoing basis during the meetings held in 2013.

In 2013 the **Remuneration Committee** performed the following activities within its functions:

- determination of proposals for bonuses to the Members of the Management Board for the year 2012;
- acceptance of the proposal for 2012 bonus indicator for the Head Office staff;
- acceptance of changes in the bonus system for the Head Office staff;
- determination of the proposal of the value of 2013 bonus indicators and their weights for the Members of the Management Board;
- acceptance of the proposal for 2013 salary increase percentage for Budimex SA staff;
- acceptance of the proposal of the value of 2013 bonus indicators and their weights for the President of the Management Board;
- providing opinion on the request of Mr Henryk Urbański regarding consent to purchase

an apartment within the real estate development project of the Avia Residential District in Kraków;

- acceptance of the proposed change of the basic remuneration of a Management Board Member, Mr Ignacio Botella Rodriguez;
- providing opinion on the request to sign a non-competition agreement upon expiry of the employment relations with a Member of Budimex SA Management Board, Mr Andrzej Artur Czynczyk;
- reading the results of the remuneration analysis in the form of share plans in subsidiary companies;
- acceptance of the proposed change in the membership of the Supervisory Board of the subsidiary company, Elektromontaż Poznań SA.

On 12 March 2014 the **Remuneration Committee** submitted to the Supervisory Board a written Report for the Activities in 2013, which was accepted by the Board.

The Supervisory Board was informed about the activities and results of activities of the **Audit Committee** by the Chairman of the Committee.

The Audit Committee held six meetings in 2013. In its meetings, the Audit Committee met four times the representatives of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. audit company.

Before the 2013 Annual General Meeting (**AGM**) of Budimex SA, the **Audit Committee** recommended to the Board and the AGM:

- approval of the financial statements and reports of the Management Board on the activities in 2012;
- method of coverage of the loss originating on account of adjustment of the financial statements of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and profit distribution;
- giving the vote of approval in relation to the performance of duties in 2012 to a Management Board Member – the Director of the Economic and Financial Division;
- selection of an audit company to audit the financial statements for the reporting year 2013;
- positive assessment of the internal control system and risk management system at the Company.

On 26 March 2013 the **Audit Committee** submitted to the Supervisory Board a written Report on the Activities of the Committee in 2012 and on 19 September 2013 – a written Report on the Activities in the First Six Months of 2013. On 12 March 2014 the Committee submitted to the Supervisory Board an Annual Report on Activities. The aforesaid Reports



were accepted by the Board.

The **Supervisory Board** passed fourteen resolutions in 2013, regarding:

- acceptance of application starting from 1 January 2013 by the Supervisory Board of Budimex SA and supervision of adherence to “The Code of Best Practice for WSE Listed Companies” at the Company, in the wording set out in the Resolution of the Supervisory Board of the Warsaw Stock Exchange No 19/1370/2012 of 21 November 2012;
- examination of the financial statements and the Reports on the Activities of the Company and the Budimex Group in 2012, as well as the proposal for the coverage of the accumulated previous years loss, originating on account of adjustment of the financial statements of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o., 2012 profit distribution and vote of approval for the Members of the Management Board;
- recommendation to the Annual General Meeting of Budimex SA concerning the passing of a resolution with regard to adherence to “The Code of Best Practice for WSE Listed Companies”, in consideration of the amendments introduced by virtue of the Resolution of the Supervisory Board of the Warsaw Stock Exchange No 19/1370/2012 of 21 November 2012;
- acceptance of the Annual Report on the Activities of the Supervisory Board in 2012;
- appointment of an audit company to review the semi-annual financial statements for the first six months of 2013 and audit of the financial statements of Budimex SA and the selected companies of the Budimex Group, including the consolidated financial statements of the Budimex Group for the reporting year 2013;
- granting bonuses to the Members of the Management Board of Budimex SA for the year 2012;
- constitution of the Budimex SA Supervisory Board of the eighth term, upon appointment of the members of the Board by the Annual General Meeting of Budimex SA on 24 April 2013;
- determination of the membership of Supervisory Board Committees, i.e. Audit Committee, Investment Committee and Remuneration Committee;
- approval of the internal finance instrument for FBSerwis SA and providing by Budimex SA of a security bond to the guarantee lines of the company;
- consent to the exchange of shares in the company Budimex Danwood Sp. z o.o. by and between Budimex SA and Budimex B Sp. z o.o.;
- amendments to the employment agreement of the Vice President of the Management Board of Budimex SA with regard to the value of basic remuneration;
- providing consent on signing the non-competition agreement upon expiry of the

- employment relationship with a Member of the Budimex SA Management Board;
- consent to the divestment of 100% shares in Budimex Danwood Sp. z o.o. by Budimex B Sp. z o.o.;
  - consent to the divestment by Budimex PPP S.A. (a 100% subsidiary of Budimex SA) of 100% shares in Budimex E Sp. z o.o. for the benefit of FBSerwis SA.

***Secretary of the Supervisory  
Board***

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Igor CHALUPEC

**For and on behalf of the  
Supervisory Board of Budimex SA:  
*Chairman of the Supervisory Board***

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Marek MICHAŁOWSKI