



**BUDIMEX SA**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE COMPANY 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), the gross domestic product (GDP) increased 3.6 per cent annually in comparison with 3.3 per cent in 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 the 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 were 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 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 the 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). Good economic situation is supported by the number of flats whose construction was started (an increase by 13.7 per cent annually to 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 "Flat for Young People" (Mieszkanie dla Młodych, MdM) and the record-low interest rates making the 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, and 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 the 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, 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 the 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 the execution of contracts in the design & build formula. Furthermore, there is a high risk of an accumulation of works in 2017-2019, which may result in difficulties with the mobilisation of sufficient capital, human and material resources.

Investments in the railway infrastructural sector did not gain the momentum assumed in the Multi-year Railway Investment Plan by 2015, 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 the 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 the implementation of KPK. In 2015, PKP PLK announced tenders with an all-time high 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 the 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 is enjoying 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 the 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 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 Company****2.1 Basic information about the Company**

The main area of business activities of Budimex SA is rendering construction and assembly services, development activities and rendering management and advisory services to other companies in the Budimex Group. The execution by Budimex SA of 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.

As at 31 December 2015, Budimex SA had 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,
- 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.

**2.2 Structure of sales at Budimex SA****Sales of construction and assembly services**

In 2015, sales revenue from the construction and assembly services of the Company increased by 5.0 per cent when compared to 2014. Sales in the infrastructural construction segment decreased by 6.8 per cent (from PLN 2 669 million in 2014 to PLN 2 487 million in 2015) and in the building objects segment sales increased by 22.1 per cent (from PLN 1 848 million in 2014 to PLN 2 256 million in 2015). As far as the building objects segment is concerned, sales increased both in the case of non-residential construction (by 12.6 per cent) and residential construction (by 73.4 per cent).

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)	2 487	52.4%	2 669	59.1%
General construction, of which:	2 256	47.6%	1 848	40.9%
- non-residential buildings	1 755	37.0%	1 559	34.5%
- residential buildings	501	10.6%	289	6.4%
<b>Total sales of construction and assembly services</b>	<b>4 743</b>	<b>100.0%</b>	<b>4 517</b>	<b>100.0%</b>

**Development activities and property management**

In 2015, revenues from sales of development activities and property management amounted to PLN 1 815 thousand, while in 2014 it was PLN 3 873 thousand. The downward trend in sales is related to the phasing out of the Company's activities in this segment. The leading entity carrying out development activities within the Budimex Group is a subsidiary – Budimex Nieruchomości Sp. z o.o.

**Major construction contracts concluded by the Company in the year 2015:**

Contract date	Contract value allocated to Budimex SA	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 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 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 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 the 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 S6 expressway within the section from the end of the bypass for 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 connection"
2015-10-20	157 962	General Directorate for National Roads and Motorways branch in Zielona Góra	Construction of the second roadway on 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 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 Os 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 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 Mieleno at ul. Pionierów 18
2015-05-29	53 222	Spx Flow Technology Poland Sp. z o.o.	Construction of a production hall in Bydgoszcz
2015-09-24	46 967	1 <sup>st</sup> 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



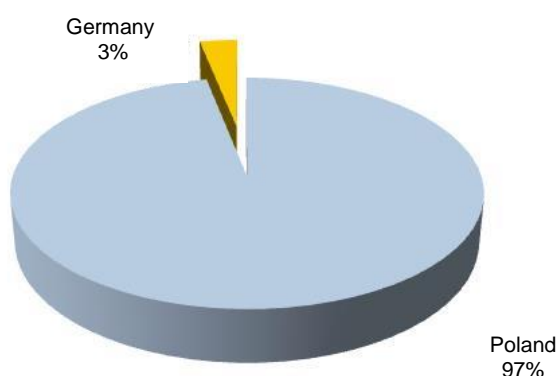
2015-04-10	44 797	LC Corp Invest XVII Sp. z o.o. Projekt 20 Sp. k.	Construction of stage II (building B) of the office complex "Różdzieńskiego" in Katowice at Al. Różdzieńskiego together with internal infrastructure.
2015-09-15	44 212	Regional Court in Zamość	Completion of the construction of the building of the Regional and District Courts in Zamość
2015-01-09	32 275	PGNiG Termika SA	Delivery and assembly of a denitrification plant and modernisation of the desulfurisation plant for the K2 boiler at EC Siekierki in Warsaw

**2.3 Geographic structure of sales at Budimex SA in 2015**

The main markets on which Budimex SA operates are:

- Poland
- Germany

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

**2.4 Construction activities on the German market**

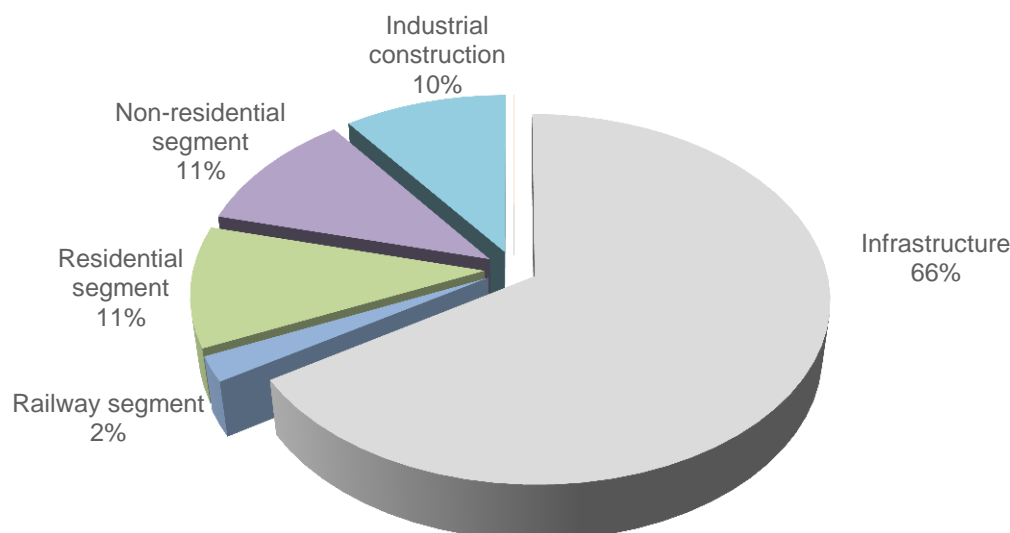
In 2015, mainly workshop services were rendered on the German market. Sales revenues in Germany amounted to PLN 152 302 thousand and were PLN 21 713 thousand, i.e. 16.6 per cent higher compared to 2014. The increase was reported both in the case of metal-related works and prefabrication works. Gross margin on sales remained at 18.8 per cent, as compared to 20.0 per cent reported in 2014. Owing to higher revenues from sales and comparable level of gross profit margin, operating profit for 2015 was PLN 17 228 thousand, i.e. 21.7 per cent more than in 2014. This was due mainly to lower costs of impairment write-downs on receivables charged to other operating costs.

**2.5 Development perspectives for the Company in the forthcoming year**

Next year the Company will continue to operate in all major sectors of the construction market in Poland, as well as on the German market. In 2015, the General Directorate for National Roads and Motorways continued announcing and awarding infrastructural contracts co-financed with EU funds for 2014-2020, which translated into the continued growth of the order portfolio. The investment process will be continued, which should ensure further orders in 2016-2017. Besides, the Company also plans to win contracts in the building objects, energy and hydraulic engineering construction segments.

In 2015, Budimex SA signed construction contracts for a total value of PLN 6 979 million (with annexes). The value of the order portfolio as at 31 December 2015 amounted to PLN 8 292 million.

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



## 2.6 Evaluation of investment project feasibility

In 2015, Budimex SA plans to incur capital expenditure of approximately PLN 63 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

During the course of its business activities, the Company is exposed to various types of financial risk: currency risk, interest rate risk, price risk, credit risk and loss of liquidity risk.

The inherent risk of any business activity is the credit risk of business partners. Despite implementing restrictive debt control procedures in the Company, the risk of investor insolvency has not been eliminated. Delays in the timely repayment of debt may have adverse effects on the financial results of the Company and may require that receivables 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 Company is presented in the financial statements for the year ended 31 December 2015 (note 7).

Construction contracts are executed under specific technical and economic conditions which have an effect on the level of realised margin. The Company monitors 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 will occur that will result in contracts being 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 Company's sales.

# 3 Financial Position

## 3.1 Key economic and financial data of the Company

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

### Statement of financial position of Budimex SA

The main items of the Company Statement of Financial Position as at 31 December 2015, compared to 31 December 2014, are presented in the table below:



<b>ASSETS</b>	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Change %</b>
<b>Non-current assets</b>	<b>1 316 650</b>	<b>1 199 133</b>	<b>117 517</b>	<b>9.80%</b>
Property, plant and equipment	61 821	58 028	3 793	6.54%
Investment properties	3 888	3 963	(75)	-1.89%
Intangible assets	3 761	3 946	(185)	-4.69%
Investments in subsidiaries	724 323	712 940	11 383	1.60%
Investments in associates	61 246	19 775	41 471	209.71%
Investments in other entities	6 597	6 417	180	2.81%
Other financial assets	6 666	5 908	758	12.83%
Trade and other receivables	11 120	6 513	4 607	70.74%
Retentions for construction contracts	35 404	35 616	(212)	-0.60%
Deferred tax assets	401 824	346 027	55 797	16.13%
<b>Current assets</b>	<b>2 625 013</b>	<b>2 115 395</b>	<b>509 618</b>	<b>24.09%</b>
Inventories	79 329	55 545	23 784	42.82%
Trade and other receivables	379 325	433 519	(54 194)	-12.50%
Retentions for construction contracts	25 649	20 044	5 605	27.96%
Amounts due and receivable from customers under construction contracts	155 241	165 648	(10 407)	-6.28%
Other financial assets	2 333	34 488	(32 155)	-93.24%
Cash and cash equivalents	1 983 136	1 403 970	579 166	41.25%
	<b>2 625 013</b>	<b>2 113 214</b>	<b>511 799</b>	<b>24.22%</b>
Non-current assets (disposal groups) classified as held for sale	-	2 181	(2 181)	-100.00%
<b>TOTAL ASSETS</b>	<b>3 941 663</b>	<b>3 314 528</b>	<b>627 135</b>	<b>18.92%</b>
<b>EQUITY AND LIABILITIES</b>	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Change %</b>
Issued capital	145 848	145 848	0	0.00%
Share premium	80 199	80 199	0	0.00%
Other reserves	53 909	59 520	(5 611)	-9.43%
Foreign exchange differences on the translation of foreign operations	5 630	5 507	123	2.23%
Retained earnings/(losses)	208 753	150 926	57 827	38.31%
<b>Total shareholders' equity</b>	<b>494 339</b>	<b>442 000</b>	<b>52 339</b>	<b>11.84%</b>
<b>Liabilities</b>	<b>3 447 324</b>	<b>2 872 528</b>	<b>574 796</b>	<b>20.01%</b>
<b>Long-term liabilities</b>	<b>366 594</b>	<b>337 566</b>	<b>29 028</b>	<b>8.60%</b>
Loans, borrowings and other external sources of finance	11 551	12 313	(762)	-6.19%
Retentions for construction contracts	196 185	165 288	30 897	18.69%
Provisions for non-current liabilities and other charges	153 495	154 125	(630)	-0.41%
Retirement benefits and similar obligations	5 358	4 407	951	21.58%
Other financial liabilities	5	1 433	(1 428)	-99.65%
<b>Current liabilities</b>	<b>3 080 730</b>	<b>2 534 962</b>	<b>545 768</b>	<b>21.53%</b>
Loans, borrowings and other external sources of finance	18 382	20 401	(2 019)	-9.90%
Trade and other liabilities	1 019 137	1 030 106	(10 969)	-1.06%
Retentions for construction contracts	158 641	191 520	(32 879)	-17.17%
Amounts due and payable to customers under construction contracts	1 229 015	910 183	318 832	35.03%
Deferred revenue	464 616	247 986	216 630	87.36%
Provisions for current liabilities and other charges	130 964	106 656	24 308	22.79%
Current tax liability	58 313	25 556	32 757	128.18%
Retirement benefits and similar obligations	926	992	(66)	-6.65%
Other financial liabilities	736	1 562	(826)	-52.88%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 941 663</b>	<b>3 314 528</b>	<b>627 135</b>	<b>18.92%</b>

As at 31 December 2015, the total assets increased by PLN 627 135 thousand as compared to 31 December 2014, and amounted to PLN 3 941 663 thousand. Changes in the Statement of Financial Position were mainly related to the following events:

Non-current assets:

Non-current assets: increase by PLN 117 517 thousand, which was mainly a result of the following events:

- an increase in the balance of deferred tax assets by PLN 55 797 thousand as a result of creating assets in the amount of PLN 68 625 thousand and their utilisation in the amount of PLN 16 872 thousand as well as establishing a provision in the amount of PLN 1 461 thousand and its utilisation of PLN 5 505 thousand,
- an increase in the balance of investments in associates by PLN 41 471 thousand, mainly as a result of a payment in the amount of PLN 41 650 thousand made to increase the equity of the company FBSerwis SA,
- an increase in the balance of investments in subsidiaries by PLN 11 383 thousand, mainly due to the purchase of shares in Elektromontaż-Poznań SA for a price of PLN 15 487 thousand,
- an increase in the balance of long-term trade and other receivables by PLN 4 607 thousand as a result in long-term prepayments and deferred costs related to the costs of insurance and other costs of contracts settled over time.

**Current assets:**

At the same time, the value of current assets increased by PLN 509 618 thousand, mainly as a result of the following events:

- an increase in the balance of cash and cash equivalents by PLN 579 166 thousand,
- a decrease in the balance of trade and other receivables by PLN 54 194 thousand, mainly as a result of a decrease in trade receivables by PLN 53 350 thousand,
- an increase in inventories by PLN 23 784 thousand, mainly as a result of the increased amount of materials in warehouses,
- a decrease in the balance of other financial assets by PLN 32 155 thousand, mainly as a result of a repayment of a borrowing granted to a subsidiary, Budimex Budownictwo Sp. z o.o., in the amount of PLN 14 674 thousand and the repayment of a borrowing granted to an associated company, FBSerwis SA, in the amount of PLN 26 950 thousand, with a simultaneous increase in the balance due to, among other things, the granting of borrowings to Budimex Budownictwo Sp. z o.o. in the amount of PLN 5 513 thousand and to FBSerwis SA in the amount of PLN 2 450 thousand,
- a decrease in amounts due and receivable from customers under construction contracts by the amount of PLN 10 407 thousand, mainly as a result of an decrease in recognised sales adjustment over the invoiced sales in comparison to the previous year, in relation to the estimation of long-term contracts in accordance with their advancement level,
- an increase in the balance of retentions for construction contracts received by PLN 5 605 thousand.

**Equity and liabilities:**

On the side of equity and liabilities, the most significant changes referred to:

- an increase in current liabilities by PLN 545 768 thousand, mainly due to:
  - an increase in amounts due and payable to customers under construction contracts by PLN 318 832 thousand, which comprises an increase in the balance of provision for contract losses by PLN 182 430 thousand and an increase in recognised sales adjustment over the invoiced sales in relation to the estimation of long-term contracts in accordance with their advancement level by PLN 136 402 thousand,
  - an increase in the balance of deferred revenue by PLN 216 630 thousand primarily in connection with the higher value of advances received against performance of contracts,
  - a decrease in the balance of retentions for construction contracts by PLN 32 879 thousand,
  - a decrease in trade and other payables by the amount of PLN 10 969 thousand,
- an increase in non-current liabilities by PLN 29 028 thousand, mainly due to:
  - an increase in the balance of retentions for construction contracts by PLN 30 897 thousand,
  - a decrease in the balance of other financial liabilities by PLN 1 428 thousand in relation to the valuation of derivatives – FX forward.

**Profit and Loss Account of Budimex SA**

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	4 768 675	4 552 765	215 910	4.74%
Cost of finished goods, services, goods for resale and raw materials sold	(4 355 182)	(4 200 056)	155 126	3.69%
<b>Gross profit on sales</b>	<b>413 493</b>	<b>352 709</b>	<b>60 784</b>	<b>17.23%</b>
Selling expenses	(11 157)	(10 884)	273	2.51%
Administrative expenses	(172 749)	(161 892)	10 857	6.71%
Other operating income	52 201	57 479	(5 278)	-9.18%
Other operating expenses	(33 978)	(35 842)	(1 864)	-5.20%
<b>Operating profit</b>	<b>247 810</b>	<b>201 570</b>	<b>46 240</b>	<b>22.94%</b>
Finance income	43 668	27 490	16 178	58.85%
Finance costs	(32 569)	(33 141)	(572)	-1.73%
<b>Gross profit</b>	<b>258 909</b>	<b>195 919</b>	<b>62 990</b>	<b>32.15%</b>
Income tax	(50 901)	(39 850)	11 051	27.73%
<b>Net profit for the period</b>	<b>208 008</b>	<b>156 069</b>	<b>51 939</b>	<b>33.28%</b>

Within the twelve-month period of 2015, Budimex SA generated revenues from sales in the amount of PLN 4 768 675 thousand, while in 2014 they amounted to PLN 4 552 765 thousand, i.e. a 4.74 per cent increase.

In 2015, gross profit on sales was PLN 413 493 thousand, while in the prior year it was PLN 352 709 thousand. The gross sales profitability ratio for 2015 was therefore 8.67 per cent and was higher than in 2014, when it reached 7.75 per cent.

Pursuant to the adopted accounting principles, the Company creates provision for contract losses if the budgeted costs exceed the total revenues under the agreement. In the subsequent periods, a part of the earlier created provision is reversed in proportion to the percentage of contract completion, after taking into account the total negative margin on the entire contract. As at 31 December 2014, the balance of the provision for contract losses amounted to PLN 446 996 thousand. In the twelve-month period ended 31 December 2015, the balance of the provision for contract losses was increased by PLN 182 430 thousand.

The selling expenses in 2015 increased by PLN 273 thousand in comparison to the previous year, while the general administrative expenses grew by PLN 10 857 thousand. The share ratio of those expenses in the general sales amounted to 3.86 per cent in 2015 and 3.79 per cent in 2014.

Other operating income in the twelve-month period of 2015 amounted to PLN 52 201 thousand. That amount comprised mainly received compensations and liquidated damages in the amount of PLN 14 647 thousand, revenues due to reversal of receivables and retentions impairment write-downs in the amount of PLN 9 626 and a deduction of overdue liabilities in the amount of PLN 3 682 thousand. At the same time, the Company dissolved provisions for litigation and compensations in the total amount of PLN 4 658 thousand, as well as the restructuring provision in the amount of PLN 2 769 thousand. In 2015, profit on disposal of non-financial non-current assets amounted to PLN 13 920 thousand and was higher than the profit generated in 2014 by PLN 12 428 thousand, mainly due to the sale of a plot of land with buildings with a profit of PLN 11 819 thousand (as at 31 December 2014, these assets were classified as held for sale).

In 2015, the Company recorded a gain on the valuation and realisation of FX Forward derivative financial instruments and FX options in the amount of PLN 2 314 thousand.

Other operating expenses in the twelve-month period ended 31 December 2015 amounted to PLN 33 978 thousand, of which PLN 11 991 thousand related to the value of created provision for litigation and expected contractual liabilities, while the compensations and liquidated damages paid amounted to PLN 14 753 thousand. Moreover, the Company established impairment write-downs for receivables in the amount of PLN 4 102 thousand and for inventories in the amount of PLN 1 332 thousand.

In the twelve-month period of 2015, the Company reported a positive financial result of PLN 11 099 thousand. This was caused primarily by dividend income of PLN 11 361 thousand, net interest income of PLN 27 911 thousand, gain on disposal of financial asset of PLN 1 836 thousand, costs of discount of retentions for construction contracts – lower than in 2014 and amounting to PLN 4 858 thousand, costs of bank commissions and guarantees – higher than in the previous year and amounting to PLN 20 011 thousand, as well as costs or revaluation of financial assets of PLN 5 054 thousand.

At the end of 2015, the Company recorded gross profit of PLN 258 909 thousand.

Income tax for the 12 months of 2015 amounted to PLN 50 901 thousand, including:

- current tax – PLN 106 595 thousand,
- deferred tax – PLN (55 694) thousand.

In 2015, Budimex SA earned a net profit in the amount of PLN 208 008 thousand.

### **Cash flow statement**

The balance of cash in bank accounts and at hand at the beginning of 2015 amounted to PLN 1 403 970 thousand. For the purposes of drafting the statement of cash flows, this amount was adjusted with the value of cash of restricted use of consortia in the portion attributable to other consortium members, in the amount of PLN 42 036 thousand. In the twelve months of 2015, net cash flow was positive and amounted to PLN 573 645 thousand. As at 31 December 2015, the Company reported a cash balance of PLN 1 983 136 thousand, including cash of restricted use in the amount of PLN 47 770 thousand.

In 2015, the balance of cash from operating activities increased by PLN 761 899 thousand.

The balance of cash from investment activities of the Company decreased by PLN 19 644 thousand, mostly as a result of expenses for the acquisition of shares and increase of issued capital in related parties in the amount of PLN 58 205 thousand, expenses for the acquisition of intangible assets and property, plant and equipment in the amount of PLN 29 488 thousand, as well as expenses in the form of borrowings granted to related companies in the total amount of PLN 21 302 thousand. At the same time, inflows from the repayment of borrowings granted to related parties amounted to PLN 54 921 thousand.

Cash flow from financing activities for 2015 showed a negative balance of PLN 168 610 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 155 989 thousand and repayment of liabilities under finance leases together with interest in the amount of PLN 12 621 thousand.

### **3.2 Managing of finance at the Company**

The cash balance of Budimex SA as at 31 December 2015 amounted to PLN 1 983 136 thousand and was by PLN 579 166 thousand higher than as at 31 December 2014. In 2015, the Company paid out a dividend in the amount of PLN 155 989 thousand, which was nearly the amount of the Company's net profit for 2014. Generating cash at the above level was possible owing to: an increase in the Company's profitability in 2015, an increase in the balance of advances received from customers under contracts as well as to sustained favourable trends in working capital in the second half of 2015.

The Company's 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 the Company. Furthermore, the Company signed loan agreements in 2015, under which banks provided Budimex, for a period of three years, with committed credit facilities in the total amount of PLN 270 000 thousand, to hedge against unplanned fluctuations in the Company's financial liquidity in the subsequent years. During 2015, the Company did not use these facilities.

The Company's indebtedness under borrowings, bank loans and the concluded finance lease agreements is presented in the table below. The major part of indebtedness comprises the Company's liabilities under finance lease agreements in respect of machines and equipment required to carry out road construction projects. The indebtedness as at 31 December 2015 decreased as a result of a decrease of the level of debt under finance lease agreements.

Financial liabilities	31.12.2015	31.12.2014	31.12.2013
Long-term loans, borrowings and other external sources of finance	11 551	12 313	17 044
Short-term loans, borrowings and other external sources of finance	18 382	20 401	18 165
<b>Total liabilities under bank loans and borrowings and other external sources of finance</b>	<b>29 933</b>	<b>32 714</b>	<b>35 209</b>

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

Ratio	31.12.2015	31.12.2014	31.12.2013
equity to assets ratio: (shareholders' equity) / (total assets)	0.13	0.13	0.18
equity to non-current assets ratio: (shareholders' equity) / (non-current assets)	0.38	0.37	0.51
debt ratio: (total assets – shareholders' equity) / (total assets)	0.87	0.87	0.82
assets to equity ratio: (total assets – shareholders' equity) / (shareholders' equity)	6.97	6.50	4.50

As at the end of 2015, the ratios illustrating the Company's capital structure remained at levels close to those observed at the end of 2014, except for the assets to equity ratio which increased significantly. This was due to a material increase in total assets of the Company, as well as to a material increase in the balance of advances received under contracts which was not accompanied by a proportional increase in equity. In turn, significantly improved levels of all ratios, recorded temporarily as at 31 December 2013, were related to an increase in the Company's net profit (and, at the same time, a rise in its equity) due to a revaluation of shares in Budimex B Sp. z o.o. to market value.

Ratio	31.12.2015	31.12.2014	31.12.2013
current ratio (current assets) / (current liabilities)	0.85	0.83	0.89
quick ratio (current assets – inventory) / (current liabilities)	0.83	0.81	0.85

Although liquidity ratios were lower than at the end of 2013, when they were at exceptionally high levels due to the above-mentioned one-off factors, they improved in relation to the one recorded at the end of 2014. The Company's situation with respect to liquidity and access to external sources of finance is presently very good and there are no risks to the financing of the Company's activities in 2016.

### 3.3 Contingent receivables and liabilities of Budimex SA

Guarantees, sureties, and other contingent liabilities and receivables:

CONTINGENT RECEIVABLES AND LIABILITIES	31.12.2015	31.12.2014
<b>Contingent receivables</b>	<b>341 921</b>	<b>310 947</b>
<b>From related parties, of which:</b>	<b>12 128</b>	<b>14 482</b>
- guarantees and suretyships received	-	880
- bills of exchange received as security	1 490	2 964
- other contingent receivables	10 638	10 638
<b>From other entities, of which:</b>	<b>328 443</b>	<b>296 465</b>
- guarantees and suretyships received	327 738	295 422
- bills of exchange received as security	705	1 043
<b>Other contingent receivables</b>	<b>1 350</b>	-

<b>Contingent liabilities</b>	<b>2 815 136</b>	<b>2 174 139</b>
<b>To related parties, of which:</b>	<b>117 435</b>	<b>157 953</b>
- guarantees and suretyships issued	117 435	157 953
- bills of exchange issued as security	-	-
<b>To other entities, of which:</b>	<b>2 564 147</b>	<b>1 880 706</b>
- guarantees and suretyships issued	2 562 552	1 877 637
- bills of exchange issued as security	1 595	3 069
<b>Other contingent liabilities, of which:</b>	<b>133 554</b>	<b>135 480</b>
- other off-balance-sheet liabilities	133 554	135 480
<b>Total contingent receivables and liabilities</b>	<b>(2 473 215)</b>	<b>(1 863 192)</b>

Contingent receivables arising from guarantees and sureties comprise guarantees issued by banks or other entities in favour of Budimex SA securing the Company's claims against its business partners in connection with executed construction contracts.

Contingent liabilities arising from guarantees and sureties represent guarantees issued by banks to business partners of Budimex SA to secure their claims against the Company that may arise on the grounds of executed construction contracts. The banks are entitled to reverse claims against Budimex SA.

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 Budimex SA of its obligations under the agreement of acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

The table below shows guarantees and sureties relative to loans and borrowings issued by Budimex SA as at 31 December 2015:

Name of the company granting a surety for loans or borrowings 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
<b>TOTAL</b>		<b>117 434</b>			

### 3.4 Differences between forecasts and actual financial results of Budimex SA

Budimex SA did not publish any forecasts regarding financial results for 2015.

### 3.5 Utilisation of proceeds from issues of securities

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

## 4 Significant agreements

### 4.1 Insurance agreements covering Budimex SA

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 the 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 machine.

- 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 Asfalt 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 Asfalt 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

\*Turnover with a given supplier in 2015

The agreements listed above are master cooperation agreements with no exclusivity clause and present no obligation for Budimex SA.

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	ArcelorMittal Distribution Solutions Polska Sp. z o.o.	steel reinforcements, reinforced steel	34 655	24.05.2011
3	Kopalnie Dolomitu w Sandomierzu SA	aggregates	25 738	01.10.2012
4	Viacon Polska Sp.z o.o.	road pass elements	23 853	15.02.2013
5	Nordkalk Sp.z o.o.	aggregates	23 101	30.04.2009
6	Konsorcjum Stali SA	steel reinforcements, reinforced steel	21 713	01.03.2012
7	Vimex SA	steel reinforcements, reinforced steel	20 526	06.06.2014
8	ZPK Rupińscy Sp.j.	aggregates	16 009	15.01.2013
9	Peri Polska Sp.z o.o.	lease of formwork and scaffoldings	15 794	17.03.2006
10	Ulma Construcción Polska SA	lease of formwork and scaffoldings	14 286	21.12.2005
11	PKN Orlen SA	fuel	13 650	15.06.2011
12	FUH Birex R.Banaszyński	unloading of wagons, transportation of aggregates	12 696	02.11.2012

The agreements listed above are master cooperation agreements with no exclusivity clause and present no obligation for Budimex SA.

\*\*Turnover with a given supplier in 2015

#### 4.3 Transactions with related parties

Detailed information on transactions with related parties was presented in note 39 of the consolidated financial statements of the Budimex Group.

#### 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	Liability incl. interest	Interest rate	Maturity date
Credit Agricole	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

#### 4.5 Major capital deposits and equity investments in 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 issued capital by PLN 150 thousand, i.e. from PLN 780 thousand to PLN 930 thousand by issuing 150 shares of a 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 18 November 2015**, Budimex SA concluded an agreement with Budimex Budownictwo Sp. z o.o. for the purchase of 2 252 500 shares in Elektromontaż-Poznań SA, accounting for 41.65 per cent of the issued capital, for the price of PLN 15 487 thousand. As a result of the above transaction, Budimex SA now holds 92.31 per cent of the issued capital of this company.

**On 18 December 2015**, the Extraordinary General Shareholders' Meeting of FBSerwis SA (an associate of Budimex SA) resolved to increase the company's issued 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 Ferrovial 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 issued capital by PLN 360 thousand, i.e. from PLN 930 thousand to PLN 1 290 thousand by issuing 360 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 Autostrada SA (a subsidiary of Budimex SA) resolved to increase the company's issued 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 issued 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 as 3 per cent. As at 31 December 2015, the amount of the borrowing paid out was EUR 10 thousand.

**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 as 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 the 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 the 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 40 to the financial statements of Budimex SA.

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

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

As at 31 December 2015, Members of the Management and Supervisory Boards of Budimex SA did not hold any shares in the Company's related parties.

### **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 the 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.

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 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 and the remuneration for other services amounted to PLN 32 thousand.

### **5.7 Information about charity and sponsorship activities**

For many years, Budimex SA 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 the 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 proprietary CSR programmes: "Strefa Rodzica. Budimex Dzieciom" [Parent Zone. Budimex for Children] and "Domofon ICE. Budimex Dzieciom" [ICE Card. Budimex for Children].

The main idea of the "Domofon ICE. Budimex Dzieciom" 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 SA 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 SA 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 sponsorship activities. In 2015, the Company donated PLN 523 thousand to foundations focused in particular on children's causes.

In 2015, the sponsorship 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" (rules' indication 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:

- 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 the 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 the 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 regard to the preparing of financial statements of Budimex SA**

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

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. 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. Additionally, Budimex SA uses a computer program that supports the identification and management of risks related to the preparation of any financial information, including financial statements.

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.

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 Company 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 the 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 issued 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%
<b>Total</b>		<b>25 530 098</b>	<b>100.00%</b>	<b>25 530 098</b>	<b>100.00%</b>

**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 the exercise of 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 decisions 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 issued 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 issued 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 The 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 have been 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 issued 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 issued 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 to 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 should 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 issued 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 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 the 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 issued 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 into 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 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 the 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 issued 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,
- an amendment to the Company's Articles of Association, especially concerning a issued capital increase or decrease, or an 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 the 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 by 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:

- Andrzej Artur Czynczyk resigned from the position of 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 September 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 a decision on the 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 the 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:

- Marek Michałowski – Chairperson,
- Igor Chalupiec – 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 the 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 are 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 to the General Meeting of Shareholders the acknowledgement of 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,
- 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,
- 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 share issue price proposed by the Management Board or to issue 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 the acquisition or disposal exceeds 1/5th of the Company's issued 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.

**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 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 schemes and retirement benefit and long-term incentive programs, together with recommendations concerning objectives and 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 the remuneration of individual Management Board Members and ensuring that the remuneration proposed is consistent with the remuneration regulations adopted by the Company and the assessment of the 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, 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 the previous year's bonus and the percentage ratio for salary/wage increase in the current year;
- preparation of the annual report on 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 schemes 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 42.1 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 the 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.

##### **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 an 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. 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

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.

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

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.

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