



THE BUDIMEX GROUP

BUDIMEX SA

DIRECTORS' REPORT FOR 2017

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1 BUSINESS ENVIRONMENT

1.1 General market conditions

2017 brought a significant improvement in economic growth compared to 2016. In accordance with the initial estimates provided by the Central Statistical Office (GUS), real domestic product increased in 2017 by 4.6 per cent annually in comparison with 2.9 per cent in 2016. A marked acceleration of economic growth was recorded in the fourth quarter of 2017, in which the year-on-year change in GDP estimated by analysts stood at 5.1 per cent, reaching the highest level in the last 24 quarters. Growth in investment is one of the key reasons for the improved GDP growth rate. In 2017, gross capital expenditures on fixed assets increased by 5.4 per cent, as compared to 7.9 per cent decline in 2016, and their contribution to real GDP growth in 2017 was 1.0 per cent, compared to -1.6 per cent in 2016. In 2017, gross added value in the construction industry increased by 11.5 per cent in comparison with 2016, while in 2016 it dropped by 7.2 per cent. 2017 was a time of increasing inflation which reached the target level set by the National Bank of Poland. In December 2017, the year-on-year CPI inflation rate reached 2.1 per cent. In 2017, the unemployment rate decreased by 1.6 percentage points, from 8.2 per cent in December 2016 to 6.6 per cent in December 2017.

In 2017, the perception of the general economic situation in the construction industry by construction companies improved in relation to 2016, however, economic activity in the construction market is characterised by constant uncertainty whose profile has recently significantly changed. While a considerable number of contracting companies pointed to the low supply of public procurement and a slowdown in private investment as the source of uncertainty at the beginning of 2017, the construction companies' concerns were mostly focused on the shortage of qualified staff. Concerns as to whether construction companies can meet their employment needs are also confirmed by the statistics published by the Central Statistical Office (GUS) which show that the difference between the number of people employed in the construction industry by large construction companies in mid-2012, i.e. at the peak of the previous investment cycle, and the corresponding figure at the end of 2017, amounted to approximately 100 thousand employees. Filling this gap in employment will be a major challenge for the entire construction industry.

After the period of a decline in construction and assembly production in 2016 by 14.4 per cent (in current prices) compared to 2015, in 2017 this indicator recorded a two-digit year-on-year increase of 12.9 per cent in current prices. The main reason for the improvement in the production volume was the return to the upward trend in infrastructural construction sector which recorded an increase by 11.7 per cent on a year-to-year basis (in current prices), compared to a year-on-year decline of 19.0 per cent in 2016. This good performance of the entire infrastructural construction sector resulted primarily from the results of the road construction segment (an increase by 14.5 per cent on a year-to-year basis, in current prices) and the railway construction segment (an increase by 52.0 per cent on a year-to-year basis, in current prices). The scale of the overall growth of the construction market in 2017 was also driven by an upturn in the general construction segment. Construction and assembly production in this area recorded an increase by 14.0 per cent, in current prices, as compared with 2016. In 2017, the factors that contributed to this result included increased production growth in the residential construction segment, which reached 14.2 per cent compared to 6.2 per cent growth in 2016, and a reversal of the unfavourable trend in the non-residential construction segment, where the value of construction and assembly production in 2017 increased by 14.0 per cent compared to a 15.4 per cent decline in 2016. The main source of growth in this construction segment was a significant improvement in the volume of production for public utility buildings and industrial buildings, which grew respectively by 31.5 per cent and 9.9 per cent year-on-year.

In 2017, the structure of construction and assembly production did not change significantly from the previous year. The largest share in construction and assembly production is still held by civil and water engineering facilities (50 per cent in total construction and assembly production, as compared to a share of 51 per cent in 2016). The corresponding share of the residential construction segment stood at 17 per cent and has not changed since 2016.

The factor that determines the rate and directions of growth in the construction sector in Poland is the pace of execution of large infrastructural projects and the related effectiveness of utilisation of EU funds. By the end of 2017, more than 30 thousand co-financing agreements with the total value of PLN 278.2 billion were signed, with the EU contribution amounting to PLN 172.0 billion, which accounts for approx. 52 per cent of total funds allocated to Poland under the cohesion policy. The value of agreements concerning road and railway infrastructure projects amounted to, respectively, PLN 65.6 billion and 21.3 billion. Moreover, the value of all payment applications submitted by the end of 2017 amounted to nearly PLN 54.4 billion, with road infrastructure projects accounting for PLN 22.2 billion and railway infrastructure projects accounting for PLN 3.7 billion.

In 2017 the number of flats for sale that were completed and put to use increased significantly and amounted to 89.8 thousand (up by 13.5 per cent in comparison with 2016). The good economic situation is supported by the number of flats for sale for which a construction permit was granted (an increase by 20.5 per cent annually, to the level of 128.5 thousand). 2017 must be recognised as the best year in history for the development industry in terms of the number of pre-sold flats. In the six largest residential markets in Poland (Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź), approx. 72.7 thousand flats were pre-sold in 2017 by developers (by approx. 17 per cent more than in 2016).

1.2 Market development prospects

According to the forecast published on 1 February 2018 by the Institute for Economic Forecasts and Analysis (IPAG, Instytut Prognoz i Analiz Gospodarczych), real GDP growth in 2018 will amount to 4.0 per cent, as compared to 4.6 per cent in 2017. The projected year-on-year decline in economic growth is due to a weakening of the investment stream in 2016, and consequently, to a relatively low GDP base in that year. The forecast published by IPAG reflects the government's expectations. As stated by Jerzy Kwieciński, the Minister of Investment and Development, on 2 February 2018, the year-on-year GDP growth should exceed 3.8 per cent, i.e. the level set in the budget act for 2018.

In 2018, the construction market will be driven by increasing investment expenditures by the largest public investors in the area of infrastructure. The entry of many infrastructural projects into the construction phase (after completion of the design phase) should translate into a further increase in construction and assembly production. The enterprise sector should experience an improvement in the overall economic climate related to the increase in market orders in 2017 compared to 2016. At the same time, growing revenues of construction companies are likely to be under high cost pressure due to the continued upward trend in material and labour costs.

In the coming years, the scale of road construction projects in Poland will be determined to a large extent by the pace of implementation of the current national road construction programme. In July 2017, the government adopted the revised "National Road Construction Programme for 2014-2020, with perspective until 2025" (Program Budowy Dróg Krajowych, PBDK). The new document provides for an increase in the programme budget from PLN 107.1 billion to PLN 135.2 billion, while reducing the number of kilometres to be financed. Additional funds are to be generated from the fuel charge, credits and loans (mainly from international financial institutions), bonds and electronic charges. So far, the government's efforts to increase the fuel surcharge have met with strong social resistance, which forced the government to abandon this idea. The length of sections of national roads planned for completion within the revised PBDK budget amounts to 3 268 kilometres, as compared to 4 783 kilometres provided for in PBDK adopted in 2015. In addition, the revised PBDK includes 40 reserve projects of a total length of 1 911 kilometres. The launching of these projects depends on the level of savings generated in the course of the programme implementation. Between 2013 and 2017, the General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA) announced tenders under the PBDK for tasks with a total length of approx. 2 300 kilometres, among which approx. 80 per cent of the contracts will be executed in the design & build formula. The gross value of bids opened by the GDDKiA under the PBDK in 2014-2017, as regards general contracting contracts with a significant value, amounted to PLN 61.9 billion. Assuming a 20% share of expenditures not related to the general execution of projects (such as land purchase costs, project supervision costs, feasibility study costs), the progress of implementation of PBDK, in terms of value of bids submitted, is approx. 57 per cent. In material terms, the significant value bids opened cover the implementation of 158 general contracting tasks with the total length of approx. 2 092 kilometres which means that the progress of implementation of PBDK in material terms is approx 64 per cent. In 2017 alone, the gross value of bids opened amounted to PLN 21.4 billion which is a significant improvement from 2016, when the corresponding value was PLN 1.2 billion. As at the end of January 2017, the GDDKiA is conducting tender procedures under the PBDK for sections with a total length of 207 kilometres. The gross value of significant general contracting contracts for road investment projects signed under the PBDK by the GDDKiA in 2017 amounted to PLN 6.2 billion and was lower than in 2016, when the total gross value of similar contracts reached PLN 8.6 billion. A noticeable problem, casting a shadow on the GDDKiA tender market in 2017, was a dangerously long period between submission of a bid by a contractor and the final tender decision. In view of the increasing rate of growth in input prices in 2017, delays in the award of tenders have forced some contractors to refrain from extending their bids. There was a case where none of the dozen or so bidders proceeded to sign the contract and, as a consequence, the tender was cancelled. The level of GDDKiA expenditure in 2017 was not published (as at the end of January 2018). According to PBDK published in July 2017, their value should reach PLN 19.0 billion in 2017, i.e. much less than expected at the end of 2016. At that time, the level of GDDKiA expenditure was estimated at approximately PLN 23 billion.

In 2019-2020, an accumulation of projects in the road construction segment should be expected. The growth in the volume of construction works carried out in these years will be determined by the entry of many contracts implemented under the "design&build" formula into the construction phase. The stagnation in announcing new tenders, which started in the second half of 2017, is likely to continue in the first months of 2018. The slowdown of the tender process should translate into a flattening of investment expenditures in 2019-2020.

In the coming years, another prospective area of construction, from the general contractor's point of view, will be the railway infrastructure construction market. In July 2017, the government revised the "National Railway Programme until 2023" (Krajowy Program Kolejowy, KPK) again. In accordance with the programme financing plan, between 2015 and 2023 PKP PLK will implement projects included in the basic list with a value of PLN 63.8 billion. Additionally, the reserve list includes approx. 70 projects with a value of approx. PLN 33 billion, the execution of which depends on potential savings generated in the course of the implementation of the KPK. Changes made in the KPK, as compared to the version adopted by the government in November 2016, are insignificant. The aggregate level of planned capital expenditure increased by PLN 0.1 billion. In 2015 PKP PLK announced tenders with an all-time high value of approx. PLN 17 billion, according to cost estimates. In 2016, this value amounted to approx. PLN 10 billion and was higher by more than PLN 2 billion than the planned amount. In 2017, the value of tenders announced under the KPK reached a similar value as in 2016, i.e. PLN 10 billion. However, most of them were announced in the last weeks of December 2017. A predominant share in the value of tenders published in 2015-2017 was held by large general contracting contracts of significant value. Between July 2015 and December 2017, PKP PLK announced 56 such tenders (of which nearly 40 per cent were conducted in the two-stage procedure). As at the end of 2017, the contractors submitted bids in 49 tenders. The net value of the lowest bids submitted by contractors amounted to PLN 16.5 billion. The average value of tender savings generated in comparison with the investor's budget was approx. 20 per cent. At the end of 2017, PKP PLK conducted several large tender proceedings at the pre-bid stage, with the total estimated value of PLN 6.5 billion. According to the Ministry of Infrastructure, the costing value of railway investment contracts signed in 2016 was PLN 4 billion, and in 2017 this value increased to approx. PLN 24 billion, as compared to the planned PLN 29 billion. As stated by Ireneusz Merchl, president of the management board of PKP PLK, lower value of contracts results primarily from the postponement of decisions on large tenders for installations of the European GSM-R communication system. In the opinion of the president of the management board of PKP PLK, this should not affect the general assessment of the company's business, as PKP PLK spent PLN 5.4 billion in 2017 in accordance with the plan.

According to the tender schedule for 2018 published by PKP PLK, the rate of publishing tenders under the KPK should increase in 2018, reaching a value comparable to that of 2015. As announced by the Ministry of Infrastructure, PKP PLK is in the process of preparatory works for projects not included in the basic KPK list with an estimated costing value PLN 16 billion. These projects will be financed owing to, among other things, the current tender savings. A good example of a solution that speeds up

the implementation of KPK is the abandonment of announcing tenders in the two-stage procedure (with pre-selection of contractors) which took place in mid-2016, and replacing it with a single-stage (open) procedure. To eliminate the situation where contractors compete based on low price only, the assessment of bids includes non-price criteria; however, the majority of such criteria have no effect on the outcome. Full implementation of projects included in the KPK will be a great challenge for both parties to the investment process, i.e. PKP PLK and contractors. As in the case of the road construction segment, the growing volume of construction work on railway lines is likely to be subject to strong pressure from material and labour prices. There is also uncertainty about the ability of the modernized rail network to meet the needs related to the transport of construction materials. In addition, the weakening of the financial and operational standing of some railway companies, due to the stagnation in rail projects between 2016 and 2017, may hinder the smooth implementation of record high portfolios of railway companies' orders. As it is very likely that some contractors will abandon some of the railway contracts in the future, PKP PLK decided to announce tender procedures for substitute contracts in the form of a competitive dialogue. The planned mechanism of support in the implementation of railway contracts will be based on framework agreements signed with several general contractors who will declare their readiness to perform unfinished construction works or works that are supplementary to the contract. One of the objectives of such a solution will be to maintain continuity of works carried out under the KPK and to reduce the risk of loss of EU funds by PKP PLK – which took place during the previous EU financial perspective.

New priorities and challenges continue to be defined in the hydraulic engineering sector. In January 2017, the president signed an act on ratification of the European agreement on main inland waterways (the AGN Convention). Under this convention, Poland undertook to bring the main waterways up to European standards. In accordance with the "Assumptions to the development programme for inland waterways in Poland for the years 2016-2020, with an outlook to 2030" adopted by the government, the planned value of investments in the area of inland waterways in the years 2016-2030 amounts to more than PLN 77 billion, including nearly PLN 9 billion to be invested by 2020. Investments in the area of waterway transport are to be supported with an increase in expenditure on investment projects in the flood protection area, which will receive significant financial support from, among other institutions, the World Bank. In addition, according to the announcement made by Jerzy Materna, Deputy Minister of Maritime Affairs and Inland Waterway Transport, in February 2018, the government plans to invest approximately PLN 25 billion in the port infrastructure and coastline over the next several years.

In recent years, the power engineering segment has maintained a good pace of growth following the progressive construction of several large power units with a total capacity of 5.8 GW. The projects in Jaworzno, Opole, Turowo and Stalowa Wola are at an advanced stage of construction, while the units in Kozienice, Włocławek and Płock have been successfully commissioned or completed. 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. The Ministry of Energy plans to launch the construction of new 5-6 power units with the total value of PLN 45-50 billion (including a nuclear power plant). Priority investment projects include a new power unit with a capacity of 1 000 MW at Ostrołęka Power Plant, a "clean coal" power plant at Bogdanka mine, a new power unit with a capacity of 500 MW at Zespół Elektrowni Dolna Odra, the construction of a gas-fired unit at Żerań Plant in Warsaw and a coal-fired generation unit in Puławy. As at the end of 2017, general contracting bids were opened for two of these projects, i.e. construction of a power unit in Ostrołęka and at Żerań Plant in Warsaw. In the case of the latter project, a general contracting agreement was signed. Due to the cancellation of the tender procedure, the construction of the coal-fired generation unit in Puławy has been significantly postponed and the scope of the project will be reduced. In January 2018, the Management Board of Grupa Azoty decided to reopen the tender for the construction of a power unit with a capacity of 100 MW, thereby significantly reducing the planned capacity by 300 MWe. Other projects are currently at the preparatory stage. Long-term development forecasts for the power engineering sector are optimistic. According to the "Forecast of coverage of peak energy demand in 2016-2035" published by Polskie Sieci Elektroenergetyczne (PSE), the required growth of new generating capacity, excluding the units that are currently under construction, in the electro-energy system in the years 2016-2035 should amount to 15.8 GW, for the BAT modernisation scenario. The corresponding value for the BAT decommissioning scenario should amount to 22.3 GW. Therefore, large investment needs in the area of power units will be the driver for growth in the power engineering sector in the coming years. After a period of stagnation in 2016, progress was made in July 2017 and January 2018 in awarding tenders for the construction of the largest projects on the waste incineration plant market. The investors opened bids in tenders for the design and construction of two large waste incineration plants in Gdańsk and Warsaw. After the tender for the construction of the incineration plant in Olsztyn in the PPP formula has been cancelled, a reopening of the tender in the formula of a traditional public procurement law procedure is considered. Despite announcements made by the Municipal Heat Company in Olsztyn in October 2017, the tender procedure was not announced by the end of 2017. The implementation of other planned investment projects is highly uncertain. As announced by the Ministry of the Environment, the list of 74 incineration plants declared during the update of provincial waste management plans will be significantly reduced, taking account of the assessment of the economic rationale behind individual projects.

In the coming years, it is expected that investment programmes will be continued in the electricity and gas transmission and distribution markets. Managers of the national transmission networks, PSE and Gaz System, are in the process of public consultations on revised development programmes for 2018-2027. According to the draft investment plans, the expenditure of PSE and Gas System on the development of infrastructure during the period in question will exceed PLN 12 billion and PLN 15 billion, respectively. The net value of significant general contracting contracts signed by PSE in 2017 amounted to PLN 0.1 billion and was significantly lower than in 2016 and 2015, when the total net value of similar contracts reached PLN 0.7 billion and PLN 1.5 billion, respectively. In 2018, it is expected that the value of contracts signed will increase due to the launch of further large tenders by PSE in the previous year. In 2018-2020, the electricity transmission market will enter the phase of growth of the volume of construction works. The maximum annual value of this volume may exceed PLN 2 billion. Positive signals regarding the pace of implementation of the investment programme are also coming from the gas transmission market. In 2016-2017, Gaz System signed 10 contracts for the general construction of large gas pipelines with a total net value of PLN 1.3 billion. Despite the relatively high pace of awarding subsequent tenders, the scale of underestimation of investor budgets in relation to bids from contractors was a cause for concern in 2017. The average underestimation of the investor's budget compared to the lowest bid in 2017 exceeded 20 per cent. The long-term development of the aforementioned sectors depends, to a large extent, on external factors. The potential of the electricity transmission market will be strongly correlated with the pace

of development of the electricity generation market, while the long-term growth on the gas transmission market will depend on the progress of works on further diversification of gas supply sources, from directions other than the east.

2018 may bring a further increase in the number of flats sold by development companies. However, the high level of the base reached in 2017, i.e. the record-high 72.7 thousand flats sold on the 6 largest markets in Warsaw, Wrocław, Kraków, Łódź, Poznań and Tri-City may significantly affect its dynamics in 2018. The largest development companies carrying on business in large cities in Poland whose offers are adapted to market expectations have probably the best chances for further growth. A factor that may positively influence the market in 2018 is the continued expansion of bank's lending activity, driven by low interest rates and the growing creditworthiness of Poles. The unfulfilled housing needs in Poland, which occupies one of the last places in Europe in terms of the number of dwellings per 1 000 inhabitants, are not without significance. On the other hand, increasing demand for residential space, an increase in the cost of purchasing land in large cities and an upward trend in the cost of construction of residential projects may translate into a noticeable increase in the price of flats in the near future, which may become a cooling factor in the Polish residential market. The phasing-out of the MDM programme is also one of the factors limiting the growth of the property development segment. On the other hand, it is still difficult to clearly assess the influence of the new government programme "Mieszkanie Plus" ("Flat Plus") on the development market. At the end of December 2017, about 120 cities declared their participation in the programme. The parties most interested in the programme are local authorities of smaller cities who, in most cases, do not have a decisive impact on the shape and size of the residential offer of the largest development companies in Poland.

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. A positive sign is the drafting of a strategic document "Government policy on PPP development" by a PPP team in the Ministry of Development and adoption of this policy by the government. The document assumes that at least 100 new PPP agreements will be signed between 2017 and 2020, and the share of PPP agreements signed in the capital expenditure of the national economy within the public sector should reach 5 per cent. Moreover, at the first meeting of the Council of Ministers in January 2018, the draft act amending the Act on public-private partnership and certain other acts was adopted. The legislative changes are aimed at creating a more friendly formal and legal framework which is expected to have a positive impact on the growth of the PPP market in Poland.

2 CURRENT ACTIVITIES AND DEVELOPMENT PERSPECTIVES FOR THE BUDIMEX GROUP

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

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

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

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

Changes in the Group's organisation:

On **1 February 2017**, the General Meeting of Shareholders of Budimex Autostrada SA (a subsidiary of Budimex SA) adopted a resolution on the liquidation of the company.

In the first quarter of 2017, Budimex SA acquired 282 484 shares (5.22 per cent) in Elektromontaż Poznań SA from minority shareholders. The buyout was performed within 623 transactions. The total price for the shares declared by Budimex SA amounted to PLN 2 418 thousand.

On **28 April 2017**, Budimex J Sp. z o.o. was entered in the National Court Register. Budimex PPP SA, a wholly-owned subsidiary of Budimex SA, holds 100 per cent of the shares in this company.

On **10 July 2017**, Budimex Budownictwo Sp. z o.o., a wholly-owned subsidiary of Budimex SA, acquired 77 043 shares in Elektromontaż Poznań SA from the State Treasury, representing 1.42 per cent of share capital and votes at the General Shareholders' Meeting of the company. The total price for the shares acquired was PLN 822 thousand. On 31 August 2017, Budimex SA repurchased the aforementioned shares from Budimex Budownictwo Sp. z o.o. for PLN 831 thousand.

On **11 August 2017**, Mostostal Kraków Energetyka Sp. z o.o. was entered in the National Court Register. Mostostal Kraków SA holds 100 per cent of the shares in this company.

In 2017, there were no changes in the management policies at the Budimex Group.

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

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

Company name	Registered office	Share in the share capital and in the number of votes (%)		Consolidation method	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
Consolidated					
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	full	full
Mostostal Kraków Energetyka Sp. z o.o. ¹	Cracow / Poland	100.00%	-	full	-
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-PIM1 Sp. z o.o. ²	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Elektromontaż Poznań SA ³	Poznań / Poland	98.95%	92.31%	full	full
Elektromontaż Import Sp. z o.o. ³	Warsaw / Poland	98.95%	92.31%	full	full
Instal Polska Sp. z o.o. ³	Poznań / Poland	98.95%	92.31%	full	full
Elektromontaż Warszawa SA ³	Warsaw / Poland	98.95%	92.31%	full	full
Non-consolidated					
Budimex Autostrada SA (w likwidacji) ⁴	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A-1 SA (w likwidacji)	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex F Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex H Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex I Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex J Sp. z o.o. ⁵	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Inwestycje "Grunwald" SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
MK Logistic Sp. z o.o. (w likwidacji)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. (w likwidacji)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated

¹⁾ Mostostal Kraków Energetyka Sp. z o.o. was entered in the National Court Register on 11 August 2017.

²⁾ SPV-BN 1 Sp. z o.o. changed its name to SPV-PIM1 Sp. z o.o. on 11 December 2017.

³⁾ During 2017, the Budimex Group companies acquired 6.64 per cent of shares in Elektromontaż Poznań SA from minority shareholders.

⁴⁾ On 1 February 2017, the General Meeting of Shareholders of Budimex Autostrada SA adopted a resolution on the liquidation of the company.

⁵⁾ Budimex J Sp. z o.o. was entered in the National Court Register on 5 April 2017.

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

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

Company name	Registered office	Share in the share capital and in the number of votes (%)		Method of recognition in the financial statements	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
Joint operations					
Budimex SA – Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex SA Energetyka 1 Sp.j.	Warsaw / Poland	100.00%	100.00%		
Budimex SA Ferrovia Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%		
Budimex SA Ferrovia Agroman SA 2 s.c.	Warsaw / Poland	95.00%	95.00%	share in assets, liabilities, revenues and costs	share in assets, liabilities, revenues and costs
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA III s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA – Cadagua SA IV s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA – Cadagua SA V s.c.	Warsaw / Poland	60.00%	60.00%		
Budimex SA Ferrovia Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 2 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		

2.2 Operating segments and branches of the Parent Company

As at 31 December 2017, the Group conducted business in the following two operating segments:

- construction business,
- development activities and property management.

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

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

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

- Budimex Nieruchomości Sp. z o.o.
- SPV-PIM1 Sp. z o.o. (formerly SPV-BN 1 Sp. z o.o.)
- Budimex SA in the part relating to the development business, as a result of a merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

As at 31 December 2017, the Parent Company operated the following branches:

- General Construction North Branch in Poznań, ul. Wołowska 92A,
- General Construction South Branch in Kraków, ul. Ujastek 7,
- General Construction East Branch in Warsaw, ul. Stawki 40,
- Infrastructure North Branch in Warsaw, ul. Stawki 40,
- Infrastructure South Branch in Kraków, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Mokronoska 2,
- 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, Pferdengasstr. 5, Cologne.

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

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

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

2.3 Structure of sales revenues**2.3.1 Structure of sales revenues of the Budimex Group****Sales of the construction segment**

In 2017, the construction market (measured by the value of sales of construction and assembly production) increased by 12.9 per cent in comparison with 2016 and recorded the highest growth rate since 2011. The increase was recorded in the infrastructural construction segment (11.7 per cent) and general construction segment (14.0 per cent).

The increase in sales of the Budimex Group's construction segment in the reviewed period was consistent with the market growth rate and amounted to 12.6 per cent over 2016.

The share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services increased from 55.9 per cent in 2016 to 48.9 per cent in 2017. Following the acquisition of new railway contracts, the share of this segment in the Group's revenue structure in 2017 was 3.9 per cent. The sound trends maintained on the general construction market were reflected in the share of this segment in the sales structure which rose from 41.6 per cent in 2015 to 47.2 per cent in 2017.

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

Type of construction	Sales value			
	2017		2016	
	PLN million	%	PLN	%
Civil engineering (infrastructure)	2 967	48.9%	3 016	55.9%
Rail	237	3.9%	131	2.4%
General construction, of which:	2 866	47.2%	2 245	41.6%
- non-residential buildings	2 058	33.9%	1 564	29.0%
- residential buildings	808	13.3%	681	12.6%
Total sales of construction and assembly services	6 070	100.0%	5 391	100.0%

Development activities

In 2017, the revenues from sales in the development business amounted to PLN 498 651 thousand, thus recording a 42.6 per cent increase compared to the previous year. Revenues from sales of the development business are recognised upon the transfer of the ownership title to a flat/premises to the buyer after the technical acceptance report has been signed for the entire building. Notary sales of flats depend on the dates of completion of the construction projects and the delivery of finished flats to the customers. It is not a seasonal phenomenon, nor can it be compared annually.

In 2017, a significant revival and a rapid growth in demand for new flats could be observed throughout the development market. In 2017, 1 457 flats offered by the Budimex Group were sold in the pre-selling system, compared to 1 615 flats pre-sold in the previous year. The decrease in the number of pre-sold flats by 10 per cent results from the expiry of the attractive offer of the "Nowe Czyżyny" project in Kraków.

In order to live up to customers' expectations and ensure stability of the revenues from sales in the following years, in 2017 the development of more than a thousand new flats commenced. The Budimex Group continues to expand its land bank and in 2017 it purchased plots of land in Warsaw, Poznań, Tri-City and Wrocław. The portfolio of projects ready for launching has increased to nearly 8 thousand flats.

Major construction contracts concluded by the Budimex Group companies in 2017:

Contract date	Contract value allocated to Budimex SA	Customer	Type of construction
2017-11-30	672 097	Regional Authority for Water Management in Gliwice	Finishing off the construction of the Racibórz Dolny dry polder
2017-03-17	652 194	Trasa Łagiewnicka SA	Construction of Łagiewnicka Route in Kraków from the junction of Grota-Roweckiego St. to the junction with Beskidzka St. and Halszki St. along with construction of section of a tram line
2017-05-29	393 484	PKP Polskie Linie Kolejowe SA	Execution of works on railway line No. 7 Warszawa Wschodnia Osobowa – Dorohusk at the section Warszawa – Otwock – Dęblin – Lublin, section Otwock – Lublin in km 26 050 – 175 850. Partial order B
2017-06-05	334 644	PKP Polskie Linie Kolejowe SA	Execution of works on railway line No. 7 Warszawa Wschodnia Osobowa – Dorohusk at the section Warszawa – Otwock – Dęblin – Lublin, section Otwock – Lublin in km 26.050 – 175.850. Partial order A
2017-12-18	293 126	General Directorate for National Roads and Motorways	Construction of Brzozowo ring road along S3 and adaptation of national road No. 3 to the parameters of the express road along the Brzozowo – Miękowo section as part of the task: Construction of S3 road along the Miękowo – end of Brzozowo ring road section, including expansion of the Miękowo – Rzęśnica section
2017-10-31	278 158	General Directorate for National Roads and Motorways	Design and construction of S-61 express road Ostrów Mazowiecka–Szczuczyn, section: junction Stawiski (excluding the junction) – start of the Szczuczyn ring road
2017-10-02	259 595	PKP Polskie Linie Kolejowe SA	Execution of construction works under Tender No. 2 – Modernisation of the Trzebinia – Krzeszowice section
2017-10-10	211 249	General Directorate for National Roads and Motorways	Construction of the S7 express road on the section: border of Mazowieckie/Świętokrzyskie provinces – road and rail junction in Skarżysko-Kamienna
2017-04-05	163 684	ZUE SA*	Performance of construction works in LCS Kutno – Żychlin-Barłogi section under project: "Works on the E20 railway line at the Warszawa – Poznań section – other works, Sochaczew – Swarzędz section"
2017-08-03	146 436	LIDL Sp. z o.o. Sp.k.	Construction of Lidl Mińsk Mazowiecki Distribution Centre
2017-07-13	125 680	TAMEH POLSKA Sp. z o.o.	Construction of a gas-fired generating unit with a total electrical capacity of 55MW. Stage 2. Construction of a steam turbine generator with balance of plant equipment at the ZW Kraków plant
2017-08-01	120 599	XEOS Sp. z o.o.	Construction of aircraft engine service centre

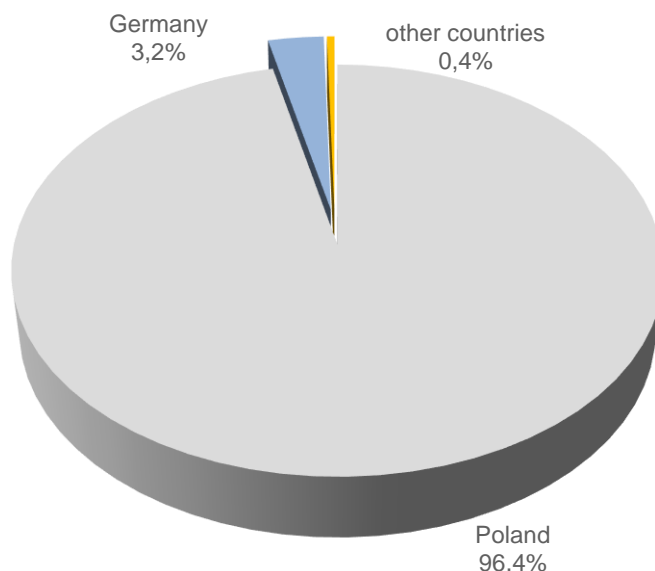
*PKP Polskie Linie Kolejowe SA is the investor, Budimex SA is a subcontractor of ZUE SA.

Geographical structure of the Budimex Group sales in 2017

The main markets on which the Budimex Group operates are:

- Poland
- Germany

The geographical structure of revenues from sales in 2017 is as follows:



2.3.2 Structure of sales revenues of Budimex SA

Sales of construction and assembly services

In 2017, sales of construction and assembly services of the Company increased by 11.9 per cent when compared to 2016. Sales of the infrastructural segment remained at the level similar to that of 2016. Sales on the rail market increased significantly by 70.2 per cent, from PLN 130 644 thousand to PLN 222 320 thousand in 2017. Sales in the building objects segment sales increased by 25.3 per cent (from PLN 2 079 690 thousand in 2016 to PLN 2 606 122 thousand in 2017).

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

Type of construction	Sales value			
	2017		2016	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	2 958	51.1%	2 958	57.2%
rail buildings and structures	222	3.8%	131	2.5%
General construction, of which:	2 606	45.0%	2 080	40.2%
- non-residential buildings	1 798	31.1%	1 399	27.1%
- residential buildings	808	14.0%	681	13.2%
Total sales of construction and assembly services	5 786	100.0%	5 169	100.0%

Development activities and property management

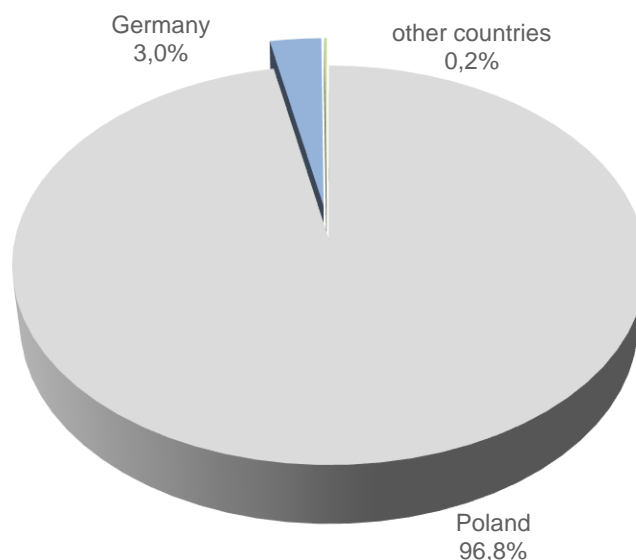
In 2017, revenues from sales of development activities and property management amounted to PLN 844 thousand, while in 2016 the figure was PLN 961 thousand. The downward trend in sales is related to the phasing out of the Company's activities in this segment. The leading entity carrying out development activities within the Budimex Group is a subsidiary – Budimex Nieruchomości Sp. z o.o.

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

The main markets on which Budimex SA operates are:

- Poland
- Germany

The geographical structure of revenues from sales in 2017 is as follows:



2.4 Construction activities of the Budimex Group on the German market

In 2017, mainly workshop services were rendered on the German market. Sales revenues in Germany amounted to PLN 199 233 thousand (of which PLN 173 977 was earned by Budimex SA) and were PLN 14 381 thousand, i.e. 7.8 per cent higher compared to 2016. An increase was recorded in the case of prefabrication works (4.4 per cent) and metal-related works (16.1 per cent). In 2017, the share of metal-related works in the sales structure increased by 2.2 percentage points and amounted to 31.1 per cent. The operating profit on the German market amounted to PLN 25 672 thousand in 2017, while in 2016 it was PLN 24 505 thousand. Profitability achieved on the prefabrication works was 1.5 per cent lower than in 2016 and profitability of the metal-related works was 1.1 per cent lower than in the previous year. Gross profit generated in 2017 was 1.2 per cent higher than the previous year, which resulted from higher sales and reversal of provisions that became unfounded. Customer structure shows dispersion and none of the customers exceeded 10% of turnover in their respective segments and of total turnover.

2.5 Budimex Group and Budimex SA development prospects in the forthcoming year

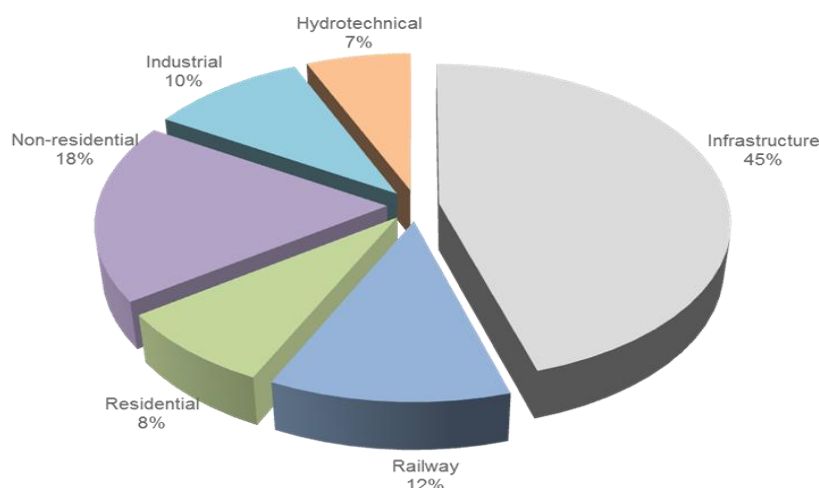
Next year the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market.

Infrastructural investments co-financed from the budget of the European Union (in particular road and railway projects) offer an opportunity for the Budimex Group to win new contracts. After the difficult 2016, marked by a significant slowdown in awarding new road tenders, in 2017 the largest infrastructural investors significantly increased the number of tenders awarded. The investment process will continue in 2018, which should translate into new road and railway construction orders.

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

In 2017, the Budimex Group companies signed construction contracts for a total value of PLN 7 285 454 thousand (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2017 amounted to PLN 10 300 213 thousand and was 15 per cent higher in comparison with the end of 2016.

In 2017, Budimex SA in turn signed construction contracts for a total value of PLN 7 070 549 thousand (with annexes). The value of the order portfolio as at 31 December 2017 amounted to PLN 10 140 639 thousand. The structure of the Budimex Group's order portfolio as at 31 December 2017 is as follows:



2.6 Evaluation of investment project feasibility

In 2018, the Budimex Group plans to incur capital expenditure of approx. PLN 100 million, of which approx. PLN 39 million will be incurred by Budimex SA and approx. PLN 53 million – by Budimex Kolejnictwo. Key expenditure will be incurred for the purchase of construction and railway machinery and implementation of IT projects.

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

2.7 Risk factors

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

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

Information concerning the financial risk management objectives and policies adopted by the Group is presented in the consolidated financial statements for the year ended 31 December 2017 (note 4).

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

- increases in prices of construction materials, energy and oil derivatives,
- increases in costs of subcontractor services, limited availability or bankruptcy of subcontractors,
- increases in employment costs and limited availability of qualified employees,
- 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 2017, 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 Budimex Group's and Budimex SA's sales.

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

3 FINANCIAL POSITION**3.1 Key economic and financial data****3.1.1 Key economic and financial data of the Budimex Group**

The financial situation of the Budimex Group in 2017 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2016 comparative data).

Consolidated statement of financial position of the Budimex Group

The main items of the Consolidated Statement of Financial Position of the Budimex Group as at 31 December 2017, compared to 31 December 2016, are presented in the table below:

ASSETS	31.12.2017	31.12.2016	Change	Change %
Non-current assets	927 334	856 936	70 398	8.2%
Property, plant and equipment	162 422	114 674	47 748	41.6%
Investment properties	24 623	25 581	(958)	(3.7%)
Intangible assets	30 163	29 926	237	0.8%
Goodwill of subordinates	73 237	73 237	-	0.0%
Investments in equity accounted companies	39 228	43 427	(4 199)	(9.7%)
Available-for-sale financial assets	9 501	9 396	105	1.1%
Retentions for construction contracts	30 138	23 333	6 805	29.2%
Trade and other receivables	39 341	36 256	3 085	8.5%
Concession agreement receivables	46 440	46 096	344	0.7%
Other financial assets	67 033	10 035	56 998	568.0%
Deferred tax assets	405 208	444 975	(39 767)	(8.9%)
Current assets	5 070 022	4 736 729	333 293	7.0%
Inventories	1 425 100	1 183 649	241 451	20.4%
Trade and other receivables	689 939	516 720	173 219	33.5%
Retentions for construction contracts	27 812	30 818	(3 006)	(9.8%)
Valuation of long-term construction contracts	483 501	288 456	195 045	67.6%
Current tax assets	30 298	194	30 104	15 517.5%
Other financial assets	286 533	1 758	284 775	16 198.8%
Cash and cash equivalents	2 126 839	2 715 134	(588 295)	(21.7%)
TOTAL ASSETS	5 997 356	5 593 665	403 691	7.2%

As at 31 December 2017, consolidated total assets increased by PLN 403 691 thousand compared to 31 December 2016, mainly due to a 8.2 per cent (PLN 70 398 thousand) increase in non-current assets and a 7.0 per cent (PLN 333 293 thousand) increase in current assets.

Non-current assets:

The change in the value of non-current assets as at 31 December 2017 compared to 31 December 2016 was caused mainly by the following:

- an increase in the balance of other financial assets, mainly as a result of granting new loans to an associate, in the amount of PLN 51 153 thousand,
- an increase in the balance of property, plant and equipment by PLN 47 748 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of fixed assets in the amount of PLN 72 086 thousand,
- a decrease in the balance of deferred tax assets by PLN 39 767 which resulted mainly from an increase in the balance of deferred tax liabilities on account of leases and valuation of long-term construction contracts (assets and liabilities are offset at the level of each consolidated company).

Current assets:

In the same period, the value of current assets increased by PLN 333 293 thousand, mainly as a result of an increase in:

- the balance of inventories by PLN 241 451 thousand, mainly as a result of an increased scale of development activities and higher level of inventories for rail contracts,
- the balance of trade and other receivables by PLN 173 219 thousand and in the balance of valuation of long-term construction contracts by PLN 195 045 thousand, following an increase in the scale of operating activities and increased involvement in projects with non-standard invoicing schemes,
- the balance of other financial assets, comprising mainly debt securities of PLN 278 972 thousand,
- and a decrease in the balance of cash and cash equivalents by PLN 588 295 thousand, in particular due to the payout of dividend and acquisition of securities.

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

EQUITY AND LIABILITIES	31.12.2017	31.12.2016	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	881 443	801 377	80 066	10.0%
Share capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	2 557	4 725	(2 168)	(45.9%)
Foreign exchange differences on translation of foreign operations	5 342	5 525	(183)	(3.3%)
Retained earnings	640 533	558 116	82 417	14.8%
Non-controlling interests	685	4 443	(3 758)	(84.6%)
Total shareholders' equity	882 128	805 820	76 308	9.5%
Liabilities	5 115 228	4 787 845	327 383	6.8%
Long-term liabilities	614 923	525 882	89 041	16.9%
Loans, borrowings and other external sources of finance	92 086	62 333	29 753	47.7%
Retentions for construction contracts	203 643	206 147	(2 504)	(1.2%)
Provisions for non-current liabilities and other charges	305 858	247 481	58 377	23.6%
Retirement benefits and similar obligations	11 086	7 937	3 149	39.7%
Other financial liabilities	2 250	1 984	266	13.4%
Current liabilities	4 500 305	4 261 963	238 342	5.6%
Loans, borrowings and other external sources of finance	30 324	20 276	10 048	49.6%
Trade and other liabilities	1 697 984	1 475 983	222 001	15.0%
Retentions for construction contracts	217 193	186 244	30 949	16.6%
Provisions for construction contract losses	243 829	408 455	(164 626)	(40.3%)
Valuation of long-term construction contracts	783 209	944 184	(160 975)	(17.1%)
Deferred revenue	1 345 267	1 002 017	343 250	34.3%
Provisions for current liabilities and other charges	170 762	169 544	1 218	0.7%
Current tax liability	3 404	52 820	(49 416)	(93.6%)
Retirement benefits and similar obligations	1 537	1 422	115	8.1%
Other financial liabilities	6 796	1 018	5 778	567.6%
TOTAL EQUITY AND LIABILITIES	5 997 356	5 593 665	403 691	7.2%

Equity and liabilities:

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

- an increase in the balance of non-current liabilities by PLN 89 041 thousand, due to the increase in the balance of provisions for non-current liabilities by PLN 58 377 thousand, as well as, in the balance of long-term loans, borrowings and other external sources of financing by PLN 29 753 thousand, following the acquisition of property, plant and equipment;
- an increase in current liabilities by PLN 238 342 thousand, of which the greatest balance movements related to the following:
 - an increase in trade and other payables by the amount of PLN 222 001 thousand,
 - a decrease in recognised sales adjustment over the invoiced sales in relation to the estimation of long-term contracts by PLN 160 975 thousand and a decrease in the balance of provision for contract losses by PLN 164 626 thousand,
 - an increase in deferred revenue by PLN 343 250 thousand, mainly due to prepayments for performed construction contracts and payments on account of premises in development activities.

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

Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01- 31.12.2017	01.01- 31.12.2016	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	6 369 309	5 572 290	797 019	14.3%
Cost of finished goods, services, goods for resale and raw materials sold	(5 559 485)	(4 821 025)	(738 460)	15.3%
Gross profit on sales	809 824	751 265	58 559	7.8%
Selling expenses	(34 016)	(32 671)	(1 345)	4.1%
Administrative expenses	(216 627)	(198 766)	(17 861)	9.0%
Other operating income	61 070	46 451	14 619	31.5%
Other operating expenses	(31 933)	(61 172)	29 239	(47.8%)
Operating profit	588 318	505 107	83 211	16.5%
Finance income	37 084	43 227	(6 143)	(14.2%)
Finance costs	(40 771)	(34 657)	(6 114)	17.6%
Shares in net (losses) of subordinated companies valued using the equity method	(4 199)	(2 272)	(1 927)	84.8%
Gross profit	580 432	511 405	69 027	13.5%
Income tax	(115 838)	(100 929)	(14 909)	14.8%
Net profit for the period	464 594	410 476	54 118	13.2%
<i>of which:</i>				
<i>attributable to the shareholders of the Company</i>	<i>464 408</i>	<i>409 851</i>	<i>54 557</i>	<i>13.3%</i>
<i>attributable to non-controlling interests</i>	<i>186</i>	<i>625</i>	<i>(439)</i>	<i>(70.2%)</i>

In 2017, the Budimex Group earned sales revenue of PLN 6 369 309 thousand, which represents a 14.3 per cent increase compared to the revenue earned in 2016.

In 2017, gross profit on sales was PLN 809 824 thousand, while in the previous year it was PLN 751 265 thousand. The gross sales profitability ratio for 2017 was therefore 12.7 per cent, while for 2016 it was 13.5 per cent.

In accordance with the adopted accounting policies, as soon as Group companies become aware of the fact that budgeted construction contract costs exceed the entire expected contract revenues, they create provisions for expected contract losses and recognise them in the consolidated statements of financing activities under "Provisions for construction contract losses". As at 31 December 2017, the balance of the provision for contract losses amounted to PLN 243 829 thousand. In 2017, the balance of the provision for contract losses decreased by PLN 164 626 thousand.

Compared to the previous year, selling expenses increased in the twelve-month period ended 31 December 2017 by PLN 1 345 thousand, while administrative expenses were PLN 17 861 thousand higher than the expenses incurred in 2016. The share of the sum total of selling and administrative expenses in total sales revenue decreased from 4.2 per cent in 2016 to 3.9 per cent in the current year.

Other operating income in 2017 was PLN 61 070 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 24 828 thousand, the reversal of provisions for penalties and sanctions in the amount of PLN 12 363 thousand, the reversal of provisions for litigation and compensations in the amount of PLN 3 391 thousand, the reversal of impairment write-downs against receivables and inventories in the amount of, respectively, PLN 4 405 thousand and PLN 3 251 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 656 thousand. In addition, in 2017, Group companies sold property, plant and equipment and earned a profit on those sales in the total amount of PLN 3 301 thousand. The net value of the property, plant and equipment sold in 2017 was PLN 1 322 thousand.

Apart from the above, in 2017, the Group also recorded a gain on the valuation of FX Forward derivative financial instruments (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 5 060 thousand.

Other operating expenses in the 12-month period ended on 31 December 2017 amounted to PLN 31 933 thousand, of which PLN 2 870 thousand related to impairment write-downs against receivables and PLN 3 070 thousand to recognised impairment write-downs against inventories. The costs of recognised provisions for litigation amounted to PLN 2 617 thousand and recognised provisions for claims and compensations amounted to PLN 1 806 thousand. The value of compensations and liquidated damages charged to the Group in 2017 was PLN 13 311 thousand. In addition, in 2017 the Group also incurred a loss on the realisation of FX Forward derivative financial instruments in the amount of PLN 1 169 thousand.

In 2017, the Group reported an operating profit of PLN 588 318 thousand, representing 9.2 per cent of total sales revenues. In the previous year, the Group reported an operating profit of PLN 505 107 thousand, representing 9.1 per cent of total sales revenues.

In the 12-month period ended 31 December 2017, the Group reported loss on financing activities in the amount of PLN 3 687 thousand, while in 2016 – a profit of PLN 8 570 thousand. Finance costs in 2017 represented, among others, interest costs of PLN 5 567 thousand, costs of bank commissions and guarantees of PLN 24 234, and the cost of discounting long-term receivables and liabilities arising from guarantee deposits in the amount of PLN 8 580 thousand. In 2017, the Group also

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

reported losses on the realisation of interest rate swap derivative financial instruments (made with a view to limiting the interest rate risk) in the amount of PLN 643 thousand and, at the same time, recorded a gain on the valuation of the said instruments in the amount of PLN 401 thousand. Finance income in 2017 represented mainly interest received in the amount of PLN 32 865 thousand and a valuation of receivables due to the concession agreement in the amount of PLN 2 931 thousand, as well as a reversal of long-term receivables discount amounting to PLN 820 thousand.

In 2017, the Group reported a gross profit of PLN 580 432 thousand, while in the previous year a gross profit of PLN 511 405 thousand.

Income tax for 2017 was PLN 115 838 thousand, of which:

- current tax – PLN 75 549 thousand,
- deferred tax – PLN 40 289 thousand.

As at 31 December 2017, the Group recognised deferred tax assets in the amount of PLN 405 208 thousand, while as at 31 December 2016 the Group recorded deferred tax assets of PLN 444 975 thousand. Items of deferred income tax asset reported in the statement of financial position of the Budimex Group result mainly from the specific method of settlement of construction contracts, under which the moment of recognition of costs as incurred and revenue as earned is different from the tax and accounting perspective.

The net profit attributable to the shareholders of Budimex SA for 2017 was PLN 464 408 thousand, while the net profit attributable to the shareholders of Budimex SA for 2016 was PLN 409 851 thousand, which represents an increase by 13.3 per cent.

Net profit attributable to non-controlling interest for 2017 amounted to PLN 186 thousand. In the previous year, net profit attributable to non-controlling interest stood at PLN 625 thousand.

3.1.2 Key economic and financial data of Budimex SA

The financial situation of Budimex SA in 2017 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (as below, together with the 2016 comparative data).

Statement of financial position of Budimex SA

The main items of the Company Statement of Financial Position as at 31 December 2017, compared to 31 December 2016, are presented in the table below:

ASSETS	31.12.2017	31.12.2016	Change	Change %
Non-current assets	1 447 596	1 387 569	60 027	4.3%
Property, plant and equipment	115 521	92 668	22 853	24.7%
Investment properties	3 306	3 762	(456)	(12.1%)
Intangible assets	29 937	29 707	230	0.8%
Investments in subsidiaries	727 827	724 473	3 354	0.5%
Investments in associates	61 246	61 246	-	0.0%
Investments in other entities	6 417	6 417	-	0.0%
Other financial assets	70 384	16 537	53 847	325.6%
Trade and other receivables	18 124	12 878	5 246	40.7%
Retentions for construction contracts	54 685	39 835	14 850	37.3%
Deferred tax assets	360 149	400 046	(39 897)	(10.0%)
Current assets	3 405 686	3 232 437	173 249	5.4%
Inventories	242 103	159 498	82 605	51.8%
Trade and other receivables	638 335	462 329	176 006	38.1%
Retentions for construction contracts	46 306	46 767	(461)	(1.0%)
Long-term construction contracts valuation	472 740	290 016	182 724	63.0%
Current tax assets	29 995	-	29 995	0.0%
Other financial assets	295 836	1 717	294 119	17 129.8%
Cash and cash equivalents	1 680 371	2 272 110	(591 739)	(26.0%)
TOTAL ASSETS	4 853 282	4 620 006	233 276	5.0%

As at 31 December 2017, the total assets increased by PLN 233 276 thousand as compared to 31 December 2016, and amounted to PLN 4 853 282 thousand. Changes in the Statement of Financial Position were mainly related to the following events:

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

Non-current assets:

Non-current assets increased by PLN 60 027 thousand, which was mainly a result of the following events:

- an increase in the balance of other financial assets by PLN 53 847 thousand, mainly as a result of granting a loan and the disbursement of another tranches of loans to an associate, FBSerwis SA, in the amount of PLN 51 153 thousand,
- a decrease in the balance of deferred tax assets by PLN 39 897 thousand due to an increase in the balance of deferred tax liabilities by PLN 42 080 thousand (deferred tax assets and liabilities are offset in the statement of financial position) which resulted mainly from an increase in deferred tax liabilities due to the valuation of long-term construction contract by PLN 33 429 thousand,
- an increase in the balance of property, plant and equipment by PLN 22 853 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of fixed assets in the amount of PLN 41 295 thousand,
- an increase in the balance of long-term retentions for construction contracts by PLN 14 850 thousand, attributable to an increase in revenues from construction and assembly works,
- an increase in the balance of long-term trade and other receivables by PLN 5 246 thousand, primarily as a result in long-term prepayments,
- an increase in the balance of investments in subsidiaries by PLN 3 354 thousand following the acquisition of shares in a subsidiary, Elektromontaż-Poznań SA, in the amount of PLN 3 249 thousand, and the share capital increase in a subsidiary, Budimex PPP SA, in the amount of PLN 105 thousand.

Current assets:

In the same period, the value of current assets increased by PLN 173 249 thousand, mainly as a result of the following events:

- a decrease in the balance of cash and cash equivalents by PLN 591 739 thousand, in particular due to the payout of dividend and acquisition of short-term bonds,
- an increase in the balance of other financial assets by PLN 294 119 thousand, mainly due to the acquisition of short-term bonds whose nominal value amounted to PLN 278 972 thousand as at 31 December 2017, and granting a short-term loan to a subsidiary, Budimex Nieruchomości Sp. z o.o., in the amount of PLN 9 600 thousand,
- an increase in the balance of long-term construction contracts valuation by PLN 182 724 thousand,
- an increase in the balance of trade and other receivables by PLN 176 006 thousand, mainly as a result of an increase in trade receivables by PLN 134 524 thousand,
- an increase in the balance of inventories by PLN 82 605 thousand, mainly as a result of the increased amount of materials in warehouses,
- an increase in current tax receivables by PLN 29 995 thousand.

EQUITY AND LIABILITIES	31.12.2017	31.12.2016	Change	Change %
Share capital	145 848	145 848	-	0.0%
Share premium	80 199	80 199	-	0.0%
Other reserves	52 452	54 001	(1 549)	(2.9%)
Foreign exchange differences on the translation of foreign operations	5 682	5 670	12	0.2%
Retained earnings/(losses)	449 995	382 856	67 139	17.5%
Total shareholders' equity	734 176	668 574	65 602	9.8%
Liabilities	4 119 106	3 951 432	167 674	4.2%
Long-term liabilities	466 678	410 118	56 560	13.8%
Loans, borrowings and other external sources of finance	45 885	29 374	16 511	56.2%
Retentions for construction contracts	192 314	194 624	(2 310)	(1.2%)
Provisions for non-current liabilities and other charges	219 909	180 765	39 144	21.7%
Retirement benefits and similar obligations	7 857	5 348	2 509	46.9%
Other financial liabilities	713	7	706	10 085.7%
Current liabilities	3 652 428	3 541 314	111 114	3.1%
Loans, borrowings and other external sources of finance	26 381	18 463	7 918	42.9%
Trade and other liabilities	1 579 248	1 397 654	181 594	13.0%
Retentions for construction contracts	207 272	174 635	32 637	18.7%
Provisions for construction contract losses	234 876	400 146	(165 270)	(41.3%)
Long-term construction contracts valuation	767 855	937 634	(169 779)	(18.1%)
Deferred revenue	671 844	408 741	263 103	64.4%
Provisions for current liabilities and other charges	157 814	157 540	274	0.2%
Current tax liability	0	45 272	(45 272)	(100.0%)
Retirement benefits and similar obligations	985	1 025	(40)	(3.9%)
Other financial liabilities	6 153	204	5 949	2 916.2%
TOTAL EQUITY AND LIABILITIES	4 853 282	4 620 006	233 276	5.0%

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

Equity and liabilities:

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

- an increase in the balance of current liabilities by PLN 111 114 thousand, mainly due to:
 - an increase in deferred revenue by PLN 263 103 thousand primarily in connection with the higher value of advances received against performance of contracts,
 - an increase in trade and other payables by the amount of PLN 181 594 thousand
 - a decrease in the balance of long-term contracts valuation by PLN 169 779 thousand
 - a decrease in the balance of provision for contract losses by PLN 165 270 thousand,
 - a decrease in current tax liability by PLN 45 272 thousand,
 - an increase in the balance of retentions for construction contracts by PLN 32 637 thousand,
 - an increase in loans, borrowings and other external sources of finance by PLN 7 918 thousand, mainly following an increase in current lease liabilities,
 - an increase in other financial liabilities by PLN 5 949 thousand following a change in the valuation of derivative financial instruments;
- an increase in non-current liabilities by PLN 56 560 thousand, mainly due to:
 - an increase in provisions for non-current liabilities and other charges by PLN 39 144 thousand, mainly due to a higher balance of warranty repair provisions,
 - an increase in loans, borrowings and other external sources of finance by PLN 16 511 thousand, following an increase in non-current lease liabilities.

Profit and Loss Account of Budimex SA

PROFIT AND LOSS ACCOUNT	01.01-31.12.2017	01.01-31.12.2016	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	5 824 859	5 207 194	617 665	11.9%
Cost of finished goods, services, goods for resale and raw materials sold	(5 148 144)	(4 570 979)	577 165	12.6%
Gross profit on sales	676 715	636 215	40 500	6.4%
Selling expenses	(10 722)	(11 665)	(943)	(8.1%)
Administrative expenses	(194 220)	(179 368)	14 852	8.3%
Other operating income	55 684	38 677	17 007	44.0%
Other operating expenses	(23 495)	(54 951)	(31 456)	(57.2%)
Operating profit	503 962	428 908	75 054	17.5%
Finance income	80 311	69 670	10 641	15.3%
Finance costs	(36 563)	(31 489)	5 074	16.1%
Gross profit	547 710	467 089	80 621	17.3%
Income tax	(97 875)	(85 173)	12 702	14.9%
Net profit for the period	449 835	381 916	67 919	17.8%

Within the twelve-month period of 2017, Budimex SA generated revenues from sales in the amount of PLN 5 824 859 thousand, while in 2016 they amounted to PLN 5 207 194 thousand, i.e. a 11.9 per cent increase.

Gross profit on sales in 2017 was PLN 676 715 thousand, while in the previous year it was PLN 636 215 thousand. The gross sales profitability ratio for 2017 was therefore 11.6 per cent and was higher than in 2016, when it reached 12.2 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 2016, the balance of the provision for contract losses amounted to PLN 400 146 thousand. In the twelve-month period ended 31 December 2017, the balance of the provision for contract losses was decreased by PLN 165 270 thousand.

The selling expenses in 2017 decreased by PLN 943 thousand in comparison to the previous year, while the general administrative expenses grew by PLN 14 852 thousand. The share ratio of those expenses in the total sales amounted to 3.5 per cent in 2017 and 3.7 per cent in 2016.

Other operating income in the twelve-month period of 2017 amounted to PLN 55 684 thousand. That amount comprised mainly received compensations and liquidated damages in the amount of PLN 24 533 thousand, revenues due to a reversal of receivables and retentions impairment write-downs in the amount of PLN 4 073 thousand and of write-downs on inventories in the amount of PLN 68 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 656 thousand. At the same time, the Company reversed provisions for litigation and compensations in the total amount of PLN 14 844 thousand. In 2017, profit on disposal of non-financial non-current assets amounted to PLN 6 054 thousand and was higher than the profit generated in 2016 by PLN 5 053 thousand, mainly due to the profit earned on the sale of an investment property. In 2017, the Company also earned a gain on the valuation and realisation of derivative financial instruments in the amount of PLN 2 687 thousand.

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

Other operating expenses in the twelve-month period ended 31 December 2017 amounted to PLN 23 495 thousand, of which PLN 4 077 thousand related to the value of created provisions for litigation and expected contractual liabilities, while the compensations and liquidated damages paid amounted to PLN 13 216 thousand. Moreover, the Company recognised impairment write-downs on receivables and retentions in the amount of PLN 2 683 thousand.

In the twelve-month period of 2017, the Company reported profit on financing activities of PLN 43 748 thousand. This was caused primarily by dividend income of PLN 51 686 thousand, net interest income of PLN 24 931 thousand, costs of discount of retentions for construction contracts – higher than in 2016 and amounting to PLN 8 205 thousand, costs of bank commissions and guarantees – slightly higher than in the previous year and amounting to PLN 23 754 thousand.

In 2017, the Company earned a gross profit of PLN 547 710 thousand, which means an increase by 17.3 per cent over the previous year.

Income tax for the 12 months of 2017 amounted to PLN 97 875 thousand, including:

- current tax – PLN 57 615 thousand,
- deferred tax – PLN 40 260 thousand.

In 2017, Budimex SA earned a net profit in the amount of PLN 449 835 thousand, which represents an increase by 17.8 per cent over 2016.

3.2 Statement of Cash Flows

3.2.1 Consolidated Statement of Cash Flows of the Budimex Group

"Cash and cash equivalents" included in the Statement of Cash Flows comprise cash in hand, demand deposits and bank deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

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

The Budimex Group entered 2017 with cash in hand and cash at bank amounting to a total of PLN 2 715 134 thousand. For the purpose of the Statement of Cash Flows, this amount was reduced by the amount of cash of restricted use of PLN 191 101 thousand. Net cash flow for 2017 was negative and amounted to PLN (560 867) thousand. As at 31 December 2017, the Group's reported cash balance was PLN 2 126 839 thousand, of which cash of restricted use was PLN 164 990 thousand.

In 2017, the balance of cash from operating activities increased by PLN 195 796 thousand.

Cash flow from investing activities came out to a negative balance of PLN 356 583 thousand, which was mainly the result of purchasing non-financial non-current assets, acquiring bonds issued by banks and granting borrowings.

Cash flow from financing activities for 2017 showed a negative balance, which amounted to PLN 400 080 thousand and resulted mainly from the 2016 dividend payment.

3.2.2 Statement of Cash Flows of Budimex SA

The balance of cash in bank accounts and in hand at the beginning of 2017 amounted to PLN 2 272 110 thousand. For the purposes of drafting the statement of cash flows, this amount was adjusted with the value of cash of restricted use mainly of consortia in the portion attributable to other consortium members, in the amount of PLN 32 564 thousand. In the twelve months of 2017, net cash flow was negative and amounted to PLN 598 694 thousand. As at 31 December 2017, the Company reported a cash balance of PLN 1 680 371 thousand, including cash of restricted use in the amount of PLN 40 597 thousand.

In 2017, the balance of cash from operating activities increased by PLN 95 323 thousand.

The balance of cash from investment activities of the Company decreased by PLN 298 085 thousand, mostly as a result of expenses for the acquisition of short-term bonds which, after deducting proceeds from the redemption of short-term bonds, amounted to PLN 278 009 thousand, as well as expenses in the form of loans granted to related companies in the total amount of PLN 104 253 thousand. At the same time, inflows from dividends received amounted to PLN 51 686 thousand and inflows from the repayment of loans and interest on loans granted to related parties amounted to PLN 46 636 thousand and PLN 3 112 thousand, respectively.

Cash flow from financing activities for 2017 showed a negative balance of PLN 395 932 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 382 696 thousand and repayment of liabilities under finance leases together with interest in the amount of PLN 13 236 thousand.

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

3.3 Managing of finance**3.3.1 Managing of finance at the Budimex Group**

The balance of cash, short-term bonds and liquid deposits of the Budimex Group as at 31 December 2017 amounted to PLN 2 405 811 thousand and was PLN 309 323 thousand lower than as at 31 December 2016. On the one hand, the most important factors contributing to this change in financial resources of the Budimex Group during 2017 include:

- the continued high profitability and cash generated from both construction and development activities,
- an increase in the net balance of contract prepayments from customers in the construction segment,
- an increase in net balance of payments received from customers in the development segment,
- and, on the other hand:
- the payment of dividend by Budimex SA,
- increased financial involvement in the implementation of selected contracts in the infrastructural and industrial segments,
- purchase of land as part of development activities,
- increased financial involvement in the associated company, FB Serwis SA.

In accordance with the Group's policy, cash surpluses were placed as bank deposits and invested in short-term debt securities of highly rated issuers. In addition, Budimex SA used cash surpluses to finance its suppliers of services and raw materials. This had a positive effect on the financial liquidity of these suppliers, and generated extra finance income for Budimex SA.

At the same time, the Budimex Group entities reported an external debt in respect of bank loans and borrowings and other external sources of finance, including finance lease liabilities, which as at 31 December 2017 amounted to PLN 122 410 thousand and were PLN 39 801 thousand higher than as at 31 December 2016 (see table below). The Group's debt is mainly composed of: the debt of Budimex SA under finance leases (concluded for the purpose of financing the purchase of property, plant and equipment – primarily machines and equipment for performing road and railway construction contracts) and a loan taken out by Budimex Parking Wrocław sp. z o.o. to finance a car park concession (car park at the Centennial Hall in Wrocław). The aforementioned increase in total debt in 2017 results primarily from an increase in Budimex SA's debt under finance lease agreements. As at the end of 2017, the Group had no debt under bank loans financing the development activities.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2017	31.12.2016	31.12.2015
- non-current	92 086	62 333	44 563
- current	30 324	20 276	19 778
Total	122 410	82 609	64 341

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

Ratio	31.12.2017	31.12.2016	31.12.2015
Equity to assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.15	0.14	0.13
Equity to non-current assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total non-current assets)</i>	0.95	0.94	0.73
Debt ratio: <i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.85	0.86	0.87
Assets to equity ratio: <i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)</i>	5.80	5.98	6.87

As at the end of 2017, the ratios illustrating the Group's equity structure improved slightly. An increase in net profit and the resulting increase in equity contributed to the decrease in debt ratios and the increase in the equity to assets ratios, despite a significant increase in the Group's total assets.

Liquidity ratios remained at a very similar level (small increase in the current ratio and, at the same time, a slight decrease in the quick ratio) compared to their level recorded in the previous year.

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

Ratio	31.12.2017	31.12.2016	31.12.2015
Current ratio (current assets) / (current liabilities)	1.13	1.11	1.06
Quick ratio (current assets – inventory) / (current liabilities)	0.81	0.83	0.83

Owing to the current very good financial standing of the Budimex Group, the cash resources of the Group, access to credit limits at banks and the insignificant level of financial debt, there are no threats to the Group's ability to finance its business activities in 2018.

3.3.2 Managing of finance at Budimex SA

The balance of cash, short-term bonds and liquid deposits of Budimex SA as at 31 December 2017 amounted to PLN 1 959 343 thousand and was PLN 312 767 thousand lower than as at 31 December 2016. This decline was primarily attributable to the following factors:

- payout of a dividend in the amount of PLN 382 696 thousand, which was nearly the amount of the Company's net profit for 2016,
- increased financial involvement in the associated company, FB Serwis SA, and
- increased financial involvement of the Company in the implementation of selected contracts in the infrastructural and industrial segments.

In 2017, the Company signed annexes to loan agreements, under which banks provided Budimex, for a period of 3.5 years, with committed credit facilities in the total amount of PLN 400 000 thousand, to hedge against future, unplanned fluctuations in financial liquidity in subsequent years. During 2017, the Company did not use these facilities. Detailed information on loan agreements concluded is provided in Section 4.4 "Loans and borrowings".

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 liabilities under finance lease agreements in respect of machines and equipment required to carry out road and railway construction projects. The indebtedness as at 31 December 2017 increased significantly as a result of an increase in the level of debt under finance lease agreements in connection with continued execution of the aforementioned investment purchases.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2017	31.12.2016	31.12.2015
- non-current	45 885	29 374	11 551
- current	26 381	18 463	18 382
Total	72 266	47 837	29 933

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

Ratio	31.12.2017	31.12.2016	31.12.2015
Equity to assets ratio: (shareholders' equity) / (total assets)	0.15	0.14	0.13
Equity to non-current assets ratio: (shareholders' equity) / (non-current assets)	0.51	0.48	0.38
Debt ratio: (total assets – shareholders' equity) / (total assets)	0.85	0.86	0.87
Assets to equity ratio: (total assets – shareholders' equity) / (shareholders' equity)	5.61	5.91	6.97

As at the end of 2017, all ratios illustrating the Company's equity structure improved. This was possible owing to a material increase in equity resulting from an increase in the Company's net profit, despite higher sales and an increase in total assets.

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

Ratio	31.12.2017	31.12.2016	31.12.2015
Current ratio (current assets) / (current liabilities)	0.93	0.91	0.85
Quick ratio (current assets – inventory) / (current liabilities)	0.87	0.87	0.83

The current ratios improved in relation to the ratio recorded at the end of 2016. The quick ratio remained at the same level due to a significant increase in inventories of construction materials. The Company's situation with respect to liquidity and access to external sources of finance is currently very good and there are no risks to the financing of the Company's activities in 2018.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables are described in note 48 to the consolidated financial statements of the Budimex Group and in note 48 to the financial statements of Budimex SA.

The table below shows loan guarantees and sureties issued by Budimex SA or its subsidiaries as at 31 December 2017:

Name of the company granting a surety for a loan or borrowing or granting a guarantee	Name of the (company) entity to which sureties or guarantees were granted	Total amount of loans or borrowings that have been duly guaranteed to the extent specified	Period 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	207 830	2025-08-13	in exchange for payments	subsidiary
Budimex SA	Budimex Kolejnictwo SA	16 107	2025-10-31	in exchange for payments	subsidiary
Budimex SA	Budimex Bau GmbH	81	2018-12-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	112 075*	2026-12-23	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	10 110	2020-02-17	in exchange for payments	subsidiary
Budimex SA	FBSerwis SA	1 551	2020-10-30	in exchange for payments	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	in exchange for payments	associate
TOTAL		349 017			

* the surety was granted in relation to contracts executed by Budimex SA

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

The Budimex Group did not publish any financial forecasts for 2017.

3.6 Utilisation of proceeds from issues of securities

In the period covered by the report, no securities were issued either within or outside the Budimex Group.

4 SIGNIFICANT AGREEMENTS

4.1 Insurance agreements for the Budimex Group companies

In 2017, 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 2016 to 4 July 2018.

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

- General Third Party Liability (TPL) Agreement

Axa TUIR 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 2016 to 4 July 2018.

- General All-Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a fixed period of time, i.e. from 15 November 2016 to 14 November 2018. Gothaer TU SA is the insurer. Subject to 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 2017, an extension was signed to the agreement with AIG concerning TPL insurance for Management and Supervisory Board Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 June 2017 to 21 June 2018. 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 2017

Cooperation agreements concluded in 2017:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Orlen Asfalt Sp. z o.o.	road asphalts	66 474	1.04.2017
2	Lotos Asfalt Sp. z o.o.	road asphalts	51 898	1.04.2017
3	Moris Sp. z o.o.	rails	17 301	27.03.2017
4	PWS Sp. z o.o.	concrete reinforcements, reinforced steel	9 425	5.12.2017
5	Tomag Sp. z o.o.	general construction materials	4 915	18.04.2017
6	Energa Obrót SA	electricity	4 783	7.03.2017
7	Nynas Sp. z o.o.	road asphalts	3 707	3.02.2017
8	TLC Rental Sp. z o.o.	rental of fences	2 399	14.04.2017
9	Saint Gobain Sp. z o.o.	materials for sanitary facilities	2 105	5.12.2017
10	Suwałskie Kopalnie Surowców Mineralnych Sp. z o.o.	road and construction aggregates	1 020	1.09.2017

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

Cooperation agreements concluded before 2017 and effective in 2017:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Cemex Polska Sp. z o.o.	Aggregates, cement, concrete	61 828	23.11.2006 1.04.2009 6.12.2011
2	Arcelormittal Distribution Solutions Poland Sp. z o.o.	steel reinforcements, reinforced steel	47 977	24.05.2011
3	Lafarge Cement SA*	concrete, cement	44 568	2.05.2016
4	ZPK Rupińscy sp.j.	aggregates	42 776	15.01.2013
5	Konsorcjum Stali SA	steel reinforcements, reinforced steel	39 665	01.03.2012
6	Peri Polska Sp. z o.o.	lease of formwork and scaffoldings	33 866	17.03.2006
7	Viacon Polska Sp. z o.o.	road pass elements	27 508	15.02.2013
8	Stalprodukt SA	road barriers	26 615	18.06.2007 1.03.2010
9	ThyssenKrupp Materials Poland SA	steel reinforcements, reinforced steel	26 583	4.02.2013
10	Anna Sp. z o.o.	steel reinforcements, reinforced steel	22 746	2.06.2014
11	Nordkalk Sp. z o.o.	aggregates	21 780	30.04.2009

* This turnover includes liabilities assumed by Lafarge Cement S.A. from Lafarge Kruszywa i Beton Sp. z o.o. as of 2 May 2016.

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

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

4.3 Related party transactions

Detailed information on transactions with related parties was presented in note 41 to the consolidated financial statements of the Budimex Group and in note 39 to the financial statements of Budimex SA.

4.4 Loans and borrowings

As at 31 December 2017, Budimex SA had the following loans, borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Credit Agricole Bank Polska SA	Revolving working capital loan	13.05.2015	PLN 70 000	-	WIBOR 1M or 3M + margin	31.05.2021
ING Bank Śląski SA	Overdraft facility	15.05.2015	PLN 50 000	-	WIBOR 1M + margin	31.05.2021
Bank Zachodni WBK SA	Revolving loan	13.05.2015	PLN 110 000	-	WIBOR 1M or 3M or 6M + margin	31.05.2021
Bank PEKAO SA	Revolving working capital loan	14.05.2015	PLN 100 000	-	WIBOR 1M + margin	14.05.2021
Societe Generale SA Branch in Poland	Medium-term revolving loan	14.05.2015	PLN 70 000	-	WIBOR 1M + margin	31.05.2021
Ferrovial SA	Loan	01.12.2004	EUR 2 086	EUR 2 086	EURIBOR 12M + margin	01.12.2018
Millennium Leasing Sp. z o.o.	Finance lease (54 agreements in total)	-	-	PLN 19 805	WIBOR 1M + margin	31.05.2021
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 2 432	fixed, as provided in the agreement	monthly
Pekao Leasing Sp. z o.o.	Finance lease (89 agreements in total)	-	-	PLN 41 331	WIBOR 1M + margin	31.12.2022

As at 31 December 2017, other companies of the Budimex Group were parties to the following loan agreements and finance lease agreements:

Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Budimex Nieruchomości Sp. z o.o.						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 149	fixed, as provided in the agreement	monthly
Mostostal Kraków SA						
Bank BGŻ BNP Paribas SA	Finance lease	22.11.2013	-	PLN 404	WIBOR 1M + margin	13.03.2019
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	31.05.2012	-	PLN 90	fixed, as provided in the agreement	monthly
Millennium Leasing Sp. z o.o.	Finance lease	17.12.2014	-	PLN 241	WIBOR 1M + margin	31.01.2020
Millennium Leasing Sp. z o.o.	Finance lease	20.12.2016	-	PLN 1 266	WIBOR 1M + margin	31.12.2021
Millennium Leasing Sp. z o.o.	Finance lease	29.05.2017	-	PLN 640	WIBOR 1M + margin	31.05.2022
Millennium Leasing Sp. z o.o.	Finance lease	30.10.2017	-	PLN 242	WIBOR 1M + margin	31.10.2022
Budimex Parking Wrocław Sp. z o.o.						
Bank PKO BP SA (consortium leader)	Concession financing loan	30.06.2012	-	PLN 30 857	WIBOR 3M + margin	31.12.2031
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2014	-	PLN 1	fixed, as provided in the agreement	monthly

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

Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Elektromontaż Poznań SA						
Getin Bank SA	Finance lease	17.07.2014	-	PLN 12	WIBOR 3M + margin	17.07.2018
Pekao Leasing Sp. z o.o.	Finance lease	24.11.2016	-	PLN 60	WIBOR 1M + margin	12.11.2020
Pekao Leasing Sp. z o.o.	Finance lease	01.08.2017	-	PLN 74	WIBOR 1M + margin	01.08.2021
Budimex Kolejnictwo SA						
Pekao Leasing Sp. z o.o.	Finance lease	12.06.2017	-	PLN 2 815	WIBOR 1M + margin	31.07.2025
Pekao Leasing Sp. z o.o.	Finance lease	12.06.2017	-	PLN 3 028	WIBOR 1M + margin	31.07.2025
Millennium Leasing Sp. z o.o.	Finance lease	21.08.2017	-	PLN 266	WIBOR 1M + margin	31.08.2025
Millennium Leasing Sp. z o.o.	Finance lease	21.08.2017	-	PLN 2 113	WIBOR 1M + margin	31.10.2025
Millennium Leasing Sp. z o.o.	Finance lease	21.08.2017	-	PLN 699	WIBOR 1M + margin	31.10.2025
Millennium Leasing Sp. z o.o.	Finance lease	08.08.2017	-	PLN 5 057	WIBOR 1M + margin	30.11.2023
Millennium Leasing Sp. z o.o.	Finance lease	21.08.2017	-	PLN 2 130	WIBOR 1M + margin	30.11.2025

4.5 Major capital deposits and equity investments in 2017

On 15 February 2017, Budimex SA commenced the process of acquisition of shares in Elektromontaż Poznań SA. This process ended with the acquisition of 359 527 shares representing 6.64 per cent of share capital and votes at the General Shareholders' Meeting of the company, for a total purchase price of PLN 3 249 thousand.

On 28 November 2017, the Extraordinary General Shareholders' Meeting of Budimex PPP SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 105 thousand, i.e. from PLN 1 290 thousand to PLN 1 395 thousand by issuing 105 ordinary registered shares of nominal value of PLN 1 thousand each. All shares were acquired by the sole shareholder – Budimex SA, at the issue price equal to the nominal price. As of the date of financial statements issuance the above share capital increase was not registered in the National Court Register.

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

On **30 May 2017**, Budimex SA signed a borrowing agreement with FBSerwis SA (an associate of Budimex SA), valid until 26 May 2020. Budimex SA provided FBSerwis with a borrowing in the amount of up to PLN 78 400 thousand. Pursuant to the agreement, the interest on the borrowing was agreed at 3M WIBOR + margin. As at 31 December 2017, the value of tranches disbursed under the loan agreement was PLN 49 389 thousand.

Moreover, under borrowing agreements signed by Budimex SA and FBSerwis SA, in 2017 Budimex SA disbursed further tranches in the total amount of PLN 1 764 thousand.

5 OTHER INFORMATION

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

As at 31 December 2017, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2017, the Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 4 000 shares

5.2 Acquisition of own shares

In 2017, Budimex SA did not acquire its own shares.

5.3 System of control over employee share incentive programmes

The Company did not operate an employee share incentive scheme.

5.4 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.

5.5 Entity authorised to audit financial statements

On 28 March 2017, the Supervisory Board of Budimex SA resolved to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. to review the Company's semi-annual financial statements and consolidated financial statements of the Budimex Group for a 6-month period of 2017 and 2018, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial years 2017 and 2018. The contract for the review and audit of financial statements was concluded on 30 June 2017. The remuneration for the audit of separate and consolidated financial statements amounted to PLN 405 thousand; the remuneration for the review of the semi-annual separate and consolidated financial statements amounted to PLN 120 thousand. In 2017, the audit firm did not provide any other services to the Group companies.

The financial statements of Budimex SA and consolidated financial statements of the Budimex Group for 2016 were audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. The same audit firm also reviewed the semi-annual separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for a 6-month period of 2016. The remuneration for the obligatory audit of separate and consolidated financial statements amounted to PLN 454 thousand, the remuneration for the review of the semi-annual separate and consolidated financial statements amounted to PLN 114 thousand, the remuneration for other certification services amounted to PLN 65 thousand and the remuneration for other services amounted to PLN 20 thousand.

5.6 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 four times a year. In 2016, the "CSR Strategy" was implemented, establishing goals for the Company for the years 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 2017, 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] and an employee volunteering scheme "Grant na Wolontariat" [Grant for Volunteering].

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 33 thousand children from over 340 schools nationwide. Evaluation research shows that a year after providing the children with fluorescent cards, 70 per cent of them still carry them fixed to their backpacks. In 2017, 4 560 children from 62 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 23 Parent Zones in paediatric hospitals in Poland. Each year, they can be used by nearly 46 thousand hospitalised children and their parents. In 2017, 5 Parent Zones were launched.

In 2015, the Company launched a new programme called "Grant na Wolontariat" [Grant for Volunteering] under which Budimex employees can propose their own volunteering initiatives. Employee volunteering projects can be proposed throughout the year. They are discussed during quarterly meetings of the CSR Committee which makes decisions on awarding the grants. In 2017, our volunteers implemented 10 projects.

Apart from community activities, the Company also carries out charity and sponsorship activities. In 2017, the Budimex Group donated PLN 1 506 thousand, primarily to charities focused on various children's causes.

In 2017, the sponsorship activities of Budimex SA were focused mainly on sports initiatives, such as: Half marathon in Augustów, All-Star Volleyball Match in Szczecin, the Polish Women's Chess Championships, the Polish Sailing Championships for the Disabled, Stomil Olsztyn Football Club, the Polish Bridge Union and "Katarzynki" Sports Club in Toruń, as well as on social, cultural and educational initiatives, e.g. construction of an access road to the Children's Home in Odporyszów (Siemacha Foundation), "Fairy Tale Days" or second edition of "Teatr w budowie. Dziennik podróży" by Bolesław Steilmach, CSK Festival

"Scena w budowie". Moreover, Budimex was engaged in the most important economic and industry forums and conferences in Poland, such as: the Economic Forum in Krynica, the European Economic Congress in Katowice, the Polish Infrastructure Conference, the Welconomy Forum in Toruń, the Transport Development Congress, 4th Eastern Economic Congress, 25th Anniversary of IGEiOŚ and the 1st Congress for Innovation in the Energy Sector.

6 CORPORATE GOVERNANCE

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

In 2017, the Company applied the "Best Practices of WSE Listed Companies 2016" adopted by a resolution of the WSE Supervisory Board, No. 26/1413/2015 dated 13 October 2015, 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.

On 11 December 2015, under Resolution No. 22, the Company's Management Board adopted the new principles for use as of 1 January 2016, except for guaranteeing shareholders, using electronic means of communication:

- 1) 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 – Rule No. IV.R.2 item 2) in Chapter IV General Meeting and Shareholder Relations,
- 2) the option to exercise voting rights in person or through an authorised legal representative during the General Meeting, outside the place of the General Meeting – Rule No. IV.R.2 item 3) in Chapter IV General Meeting and Shareholder Relations.

The Company upholds its previously presented position in relation to continued doubts as to the possibility of ensuring a legally safe manner of execution of the General Meeting if shareholders are granted the above-mentioned option, in particular, taking into account the number of shareholders usually participating in the General Meeting of Budimex SA. Therefore, in the opinion of the Company, such a situation still carries technical, and consequently legal, threats to the correct and efficient execution of the General Meeting.

In the above-mentioned resolution, the Management Board also determined that:

- a. in accordance with Rule I.Z.1.15. (diversity policy) in Chapter I. Disclosure Policy and Investor Communications, the Company applies the diversity policy to its governing bodies and key managers and, as a result, it will prepare in one document the principles of this policy, covering in particular such elements as gender, education, age, professional experience, so that it is possible to publish the relevant description on its website,
- b. Rule III.Z.3. in Chapter III. Internal Systems and Functions (the independence of the person managing the internal audit function and other persons responsible for the performance of its tasks in line with generally accepted international standards of the professional internal audit practice), is applied by the Company in such a way that in accordance with the adopted division of competencies between individual bodies of the Company, matters related to employing Office of Internal Control staff, including their remuneration, are in the competencies of the Management Board of the Company, and the Audit Committee of the Supervisory Board monitors the efficiency of internal control systems and internal audit, i.e. the actions of the Office of Internal Control, is informed of the activity plan of the internal audit, and receives reports of these activities or periodic summaries from the Office of Internal Control. Employees of the Office of Internal Control are obliged to perform audits primarily at the request of the Supervisory Board and the Audit Committee of the Supervisory Board,
- c. considering that the Management Board and the Supervisory Board apply previous corporate governance principles regarding a conflict of interest, and the relevant provisions do not occur in internal regulations of the Company regarding the Supervisory Board (Bylaws of the Supervisory Board), on the basis of principle V.Z.6. of DPS 2016 it will be proposed to the Company's Supervisory Board that it supplements the Bylaws of the Supervisory Board with a provision under which a member of the Supervisory Board will inform the Supervisory Board of an existing conflict of interests which has arisen or may arise, and shall refrain from discussing such issue, including refraining from voting.

At the same time, the Management Board applied to the Supervisory Board to adopt the resolution on the application of corporate governance principles concerning the above.

On 16 December 2015, under Resolution No. 240, the Company's Supervisory Board adopted the "Best Practices of WSE Listed Companies 2016" for use as of 1 January 2016, in the scope specified in the aforesaid resolution of the Company's Management Board.

On 14 March 2016, by Resolution No. 242, the Supervisory Board introduced the aforementioned amendments to the Bylaws of the Supervisory Board by adding Article 12b to the Bylaws. Next, at the request of the Management Board, by Resolution No. 243 of 14 March 2016, the Supervisory Board asked the Ordinary General Meeting to adopt a resolution on observing the "Best Practices of WSE Listed Companies 2016" to the extent specified in the aforementioned resolutions of the Management Board and the Supervisory Board.

In 2016, the Ordinary General Meeting of Shareholders of the Company, by Resolution No. 275 of 26 April 2016, adopted for use the "Best Practices of WSE Listed Companies 2016" as 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>.

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

The Diversity policy is published on the Company's website.

At the same time, it needs to be noted that the Company has been providing a broadcast of the General Meeting in real time for several years, and no changes in this respect are planned.

6.2 Compliance policy

In September 2017, the Management Board of Budimex SA adopted the Compliance Policy. The adoption of this policy ensures that the Company's operations comply with applicable ethical standards, legal regulations and internal regulations. At Budimex SA, elements of such a system are in place, but the adoption of the policy gives them a more formal dimension. By adopting the Compliance Policy, the Company wishes to draw attention to the importance of these issues and to make its employees aware of them. The Compliance Policy contains a general list of activities prohibited at Budimex SA and indicates key areas of the Company's operations that are exposed to the risk of malpractice, while indicating internal rules and regulations that are designed to minimise the risk of law infringement. This is not an exhaustive list, but it can be helpful in assessing a specific situation.

6.3 Diversity policy

Diversity and openness constitute integral parts of both the business activities of the Company and its hiring policy. The Diversity Charter signed on 8 November 2016 is a confirmation of the Company's efforts in this area.

The contents of the Diversity Charter have been published on the Company's intranet, as well as made available to employees in printed form at the Head Office and in branches of Budimex SA. In addition, information on signing the Diversity Charter has been published at www.budimex.pl.

As a company with many years of experience, Budimex is aware that employees are the most valuable assets and that it is employees who, for many years, have been contributing to the Company's strong position on the market. Having regard to the creation of a friendly working environment, Budimex puts particular emphasis on the policy of equal treatment with regard to:

- gender,
- age,
- disability,
- race, nationality,
- religion, belief,
- lifestyle,
- gender identity, sexual orientation,
- family status,
- political convictions,
- the form, scope of and basis for employment,
- other types of cooperation and other conditions exposing people to discriminatory behaviour.

The Budimex Group companies undertook to implement diversity management and equal rights policies and to promote and disseminate them among all stakeholders of the organisation — from administrative to senior management and supervisory positions.

Budimex has developed and implemented equal rights and diversity management policies in the workplace, with special emphasis placed on recruitment, access to training programs and promotion opportunities, remuneration, reconciliation of professional and family obligations, and protection from mobbing and unjustified dismissal.

The Budimex Group's staff includes people of differing gender and age, which fosters dialogue between people from different generations. The largest group of employees are 30-50 years of age, followed by the group of employees under the age of 30, with people over the age of 50 forming a slightly smaller group. Budimex also breaks down barriers associated with the health of our employees by hiring people with disabilities.

Structure of employees of the Budimex Group in 2017

Age (in years)	Women	Men	Total
<30	473	986	1 459
30-50	744	3 109	3 853
> 50	91	1 129	1 220
Total employees	1 308	5 224	6 532

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

Age and gender structure of the Company's Management Board

	Women	Men	Total
Total Management Board , of which:	0	8	8
under 30 years of age	0	0	0
30-50 years of age	0	4	4
over 50 years of age	0	4	4
including foreign nationals	0	1	1

Age and gender structure of the Company's Supervisory Board

	Women	Men	Total
The Supervisory Board	1	8	9
under 30 years of age	0	0	0
30-50 years of age	0	4	4
over 50 years of age	1	4	5
including foreign nationals	0	4	4

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

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

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

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

Preparation of the financial statements is an orderly process which accounts for the delegation of duties of the personnel of the Financial Department of Budimex SA, in accordance with their competences and qualifications. Separate financial statements of the Company are prepared on the basis of its books of account. The books of account of the most significant Group companies are maintained using the finance and accounting system, SAP R/3, which has been used for financial and management accounting purposes since 1 January 2003. The SAP R/3 system is managed centrally by qualified employees of Budimex SA who define authorisation levels for the implementation and modification of transaction data, templates of key reports and changes in the Company's chart of accounts.

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

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

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

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

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

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

6.5 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 2017 was as follows:

Shareholder	Type of shares	Number of shares	% share in the share capital	Number of votes	% share in the number of votes at the GSM
Valivala Holdings B.V. Amsterdam (the Netherlands) – a Ferrovia SA Group (Spain) company	ordinary	14 078 159	55.1%	14 078 159	55.1%
Aviva OFE Aviva BZ WBK	ordinary	2 344 000	9.2%	2 344 000	9.2%
Nationale Nederlanden OFE	ordinary	1 376 939	5.4%	1 376 939	5.4%
Other shareholders	ordinary	7 731 000	30.3%	7 731 000	30.3%
Total		25 530 098	100.0%	25 530 098	100.0%

6.6 Holders of all securities which confer special control rights

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

6.7 Restrictions on exercising voting rights

There are no restrictions concerning the exercise of voting rights.

6.8 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.

6.9 Regulations concerning appointment or removal of Management or Supervisory Board Members, the rights of those persons, in particular, the right to make 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 2017, 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 make a decision on the issuance or redemption of the Company shares, as provided for in the Articles of Association, did not change.

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

- granting approval for disposal of registered (inscribed) shares,
- determining the share issue price in the case of a share capital increase,
- cancelling or limiting the pre-emptive right to newly issued shares upon approval by the Supervisory Board,
- defining the method of determining the share issue price or issuing shares in exchange for non-monetary contribution upon approval by the Supervisory Board,
- making 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 one fifth of the Company's share capital,
- taking a decision on the prepayment of year-end dividend upon approval by the Supervisory Board.

6.10 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. A draft resolution on amending the Company's Articles of Association should be submitted to the Supervisory Board for approval, as is the case for all resolutions of the General Meeting. 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, three quarters of the total voting rights, and (ii) in the case of a significant change to business activities – two thirds of the votes.

6.11 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 share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint the chairperson of the Meeting.

The shareholder or shareholders representing at least 1/20th of the Company's share capital may request in writing, or using electronic means of communication, that the Company's Management Board convene an Extraordinary General Meeting of Shareholders and include certain specific matters on the meeting agenda or matters that are to be introduced 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 one twentieth of the Company's share capital may request that certain matters be included on the agenda of the next General Meeting of Shareholders. The request should be forwarded to the Management 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 one twentieth of the Company's share capital may, before the date of the General Meeting of Shareholders, send to the Company in writing, or using electronic means of communication, draft resolutions concerning items placed on the agenda of the General Meeting of Shareholders or items that are to be placed on 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 electronic form does not require the use of a qualified electronic signature.

In accordance with the Articles of Association and applicable laws, the General Meeting of Shareholders adopts resolutions in particular 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 share capital and the shareholders are issued new shares in exchange,
- claims for losses incurred at the incorporation of the Company, or losses resulting from performing management or supervisory functions,
- disposing or leasing/renting the company or its organised part, or establishing restrictions on its use or disposal,
- taking decisions on company merger or liquidation, and in the case of the latter – appointing Company liquidators,
- issuing convertible bonds or bonds with pre-emptive rights, or subscription warrants,
- redemption of shares,
- an amendment to the Company's Articles of Association, especially concerning a share 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.

6.12 Composition of the Management and Supervisory Boards, changes thereto 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 2017, 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, |
| • Radosław Górski | Board Member, General Construction Director, |
| • Cezary Mączka | Board Member, Chief HR Officer, |
| • Jacek Daniewski | Board Member, Chief Legal and Organisational Officer, |
| • Artur Popko | Board Member, Infrastructure Construction Director, |
| • Henryk Urbański | Board Member, Chief Real Estate Officer, |
| • Marcin Węglowski | Board Member, Chief Financial Officer. |

In 2017, there were no changes in the composition of the Management Board. On 28 March 2017, due to the expiry of the term of office of the Management Board, the Supervisory Board appointed the Management Board of the ninth term of office in its previous composition.

In 2017, there were no changes as regards authorisations to represent the Company granted by the Management Board.

b) Composition of the Supervisory Board and its Committees

As at 31 December 2017, 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 2017, there were no changes to the composition or structure of the Supervisory Board.

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

As at 31 December 2017, the Audit Committee was composed of the following persons:

- Marzenna Anna Weresa – Deputy Chairperson,
- Javier Galindo Hernandez – Member,
- Janusz Dedo – Member.

The composition of the Audit Committee did not change in 2017.

As regards the independence of an Audit Committee member, provisions of the following apply: Article 129 par. 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (until the date of entry into force of the aforesaid Act, Article 56 par. 3 pt. 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorised to Audit Financial Statements and Public Oversight of 7 May 2009 applied) and criteria of independence of Board members, within the meaning of the Best Practices of WSE Listed Companies 2016 (Rule II.Z.4. Section II Management Board and Supervisory Board, in the Best Practices of WSE Listed Companies 2016).

The status of independence of a Supervisory Board member is determined by the Company in accordance with the criteria defined in the Operating Instruction No IO-01-07-02, 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 129 par. 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017.

As at 31 December 2017, 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 2017.

As at 31 December 2017, the Remuneration Committee was composed of the following persons:

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

The composition of the Remuneration Committee did not change in 2017.

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 acquisition or disposal exceeds 1/5th of the Company's share capital; if the value of the transactions referred to in this point does not exceed the amount stated above, the decision is made independently by the Management Board.

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

e) Tasks of the Audit Committee

The role of the Audit Committee is to:

- 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 audits performed by a statutory auditor at each audit stage; monitor the process of preparation of the Directors' Report, including statements on non-financial information;
- monitor the effectiveness of the internal control systems, risk management systems and internal audit, also in the area of financial reporting;
- monitor the performance of audit activities, in particular performance by an audit firm of an audit, while taking into consideration any and all motions and findings of the Audit Supervision Authority arising from the control activities carried out within the audit firm;
- control and monitor the independence of the statutory auditor and of the audit firm, in particular when the services other than audit and review of financial statements are provided to the Company by the audit firm;
- inform the Supervisory Board about the results of the audit and explain the manner in which the audit contributed to reliability of financial reporting at the Company and the role of the Audit Committee in the audit process;
- assess the independence of the statutory auditor and grant consent to provision by the statutory auditor of permitted services other than the audit in the Company;

- develop a policy for selecting the audit firm to conduct the audit;
- develop a policy governing provision by the audit firm, entities affiliated with that audit firm and by any member of the audit firm's network of permitted services other than audit;
- define the procedure for selection of the audit firm by the Company;
- present to the Supervisory Board a recommendation referred to in Article 16(2) of Regulation No. 537/2014 (a recommendation for the appointment of statutory auditors or audit firms) in compliance with the policies referred to items 7 and 8 above;
- submit recommendations designed to ensure integrity of the financial reporting process at the Company;
- 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;
- perform other tasks commissioned by the Supervisory Board depending on the current situation of the Company;
- submit a report on the Committee's activities to the Supervisory Board on a semi-annual basis, by the date of approval of annual financial statements and after publication of semi-annual financial statements.

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.

6.13 Remuneration Policy for Members of the 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,

- President of the Investment 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 1.3 ratio,
- President of the Remuneration 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 1.3 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.

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 termination notice period resulting from the Labour Code provisions. In addition, the employment contracts provide for severance pay in the amount of 6-12 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 due to the Company. Where the contract is terminated due to an employee's resignation or his/her wilful misconduct to the detriment of the Company, severance pay is not paid and only the termination notice period resulting from the applicable Labour Code provisions remains in effect.

In addition, Members of the Management Board of Budimex SA 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 25-100 per cent of his/her basic monthly remuneration, depending on the manner in which the employment contract is terminated and the party that initiated the termination. 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 40.1 to the consolidated financial statements of the Budimex Group and in note 40 to the financial statements of Budimex SA.

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-based remuneration under the "Ferrovia's objective-related share incentive scheme" ("Plan przyznania akcji związanych z celami Ferrovia") which consists in conditional awarding of rights to acquire shares in Ferrovia SA. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares in Ferrovia. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovia Group in three consecutive years and on the eligible persons' remaining employed by the Company at 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 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-based remuneration under the "Ferrovia's objective-related share incentive scheme" ("Plan przyznania akcji związanych z celami Ferrovia") which consists in conditional awarding of rights to acquire shares in Ferrovia SA. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares in Ferrovia. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovia Group in three consecutive years and on the eligible persons' remaining employed by the Ferrovia Group at the date of awarding the shares.

Non-financial components of remuneration

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

Significant changes to the remuneration policy

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

Assessment of the remuneration policy

The remuneration policy applicable in the Company is an effective management tool supporting the primary goal of the shareholders, i.e. the long-term appreciation of shares: in the period from 31 December 2010 to 31 December 2017, the value of shares increased from PLN 99.5 to PLN 212, representing an increase by 113 per cent. Furthermore, this policy ensures the stability of the exercise of duties of the Management Board, whose actions guarantee the economic success of the Company.

7 NON-FINANCIAL DATA STATEMENT

Budimex SA and the Budimex Group have decided to prepare reports on non-financial information as separate documents. The consolidated report of the Budimex Group on non-financial information and the individual report of Budimex SA on non-financial information will be published on the website www.budimex.pl.

Dariusz Blocher	President of the Management Board	..... signature	Henryk Urbański	Member of the Management Board	..... signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	..... signature	Marcin Węglowski	Member of the Management Board	..... signature
Jacek Daniewski	Member of the Management Board	..... signature	Artur Popko	Member of the Management Board	..... signature
Cezary Mączka	Member of the Management Board	..... signature	Radosław Górski	Member of the Management Board	..... signature
Warsaw, 19 March 2018					