



THE BUDIMEX GROUP

BUDIMEX SA

DIRECTORS' REPORT FOR 2016

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1 BUSINESS ENVIRONMENT

1.1 General market conditions

2016 brought a slowdown in economic growth compared to 2015. In accordance with the initial estimates provided by the Central Statistical Office (GUS), real domestic product increased in 2016 by 2.8 per cent annually in comparison with 3.9 per cent the previous year. The main reason for this slowdown of the GDP growth rate is, above all, a decline in investments in the private and public sectors. In 2016, gross capital expenditures on fixed assets declined by 5.5 per cent, as compared to 6.1 per cent increase in 2015. In 2016, gross added value in the construction industry dropped by 11.9 per cent in comparison with 2015, while in 2015 it increased by 3.8 per cent. 2016 was marked by weakening deflation. In December 2016, for the first time in 30 months, the year-on-year CPI inflation rate reached a positive value of 0.8 per cent. In 2016, the unemployment rate decreased by 1.4 percentage points, from 9.7 per cent in December 2015 to 8.3 per cent in December 2016.

The situation of uncertainty on the construction market was reflected in the general business climate indicator throughout the construction industry; after a period of strong improvement in 2014-2015, the indicator values recorded in 2016 were similar to the values recorded in 2015. Sources of uncertainty in the construction industry included a stagnation or lack of progress in announcing and awarding tenders under large investment programmes in the road and railway segment. Equally important factors causing uncertainty among construction companies in 2016 included a dynamically changing legal environment, in particular the amended Public Procurement Act and amendments to the VAT Act concerning the so-called reverse charge mechanism on construction services.

After two years of growth of construction and assembly production, 2016 brought a strong decline in this indicator. Construction and assembly production declined by 14.4 per cent on a year-to-year basis (in current prices) against 2.3 per cent growth in 2015. The upward trend was reversed mainly due to the situation in the infrastructural construction sector which recorded a drop by 19.0 per cent on a year-to-year basis (in current prices). This poor performance of the entire infrastructural construction sector resulted primarily from the results of the railway construction segment (a drop by 49.8 per cent on a year-to-year basis, in current prices) and the transmission construction segment (a drop by 31.4 per cent on a year-to-year basis, in current prices). Construction and assembly production in the building construction area recorded a decrease by 9.1 per cent, in current prices, as compared with 2015. In 2016, the value of this production was, on the one hand, driven by a 6.2 per cent increase in production in the residential construction sector and, on the other, constrained by a strong decline in the non-residential construction sector, reaching 15.4 per cent.

In 2016, 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 (51 per cent in total construction and assembly production, as compared to a share of 54 per cent in 2015). At the same time, the share of residential construction increased by three percentage points from 14 per cent in 2015 to 17 per cent in 2016. After more than four years of decline in prices of construction and assembly production, in December 2016 the ratio of prices of construction and assembly production amounted to 0.2 per cent (an increase in prices on a year-on-year basis). However, on the average annual basis, prices in 2016 decreased by 0.4 per cent, while in 2015 they dropped by 0.5 per cent as compared to 2014.

The scale of the percentage decreases in the construction and assembly production volume was similar to the one recorded in 2013, when the construction market shrank after a period of intensive works carried out as part of the organisation of the EURO 2012 Championships and the implementation of projects co-financed under the financial perspective for 2007-2013. The implementation of large investment programmes and the efficient use of European funds available under the financial perspective for 2014-2020 will determine, to a large extent, the dynamics and paths of Polish construction industry development. As announced by the Ministry of Development, significant progress in the implementation of the new financial perspective was made in 2016. Out of the total number of approx. 100 thousand planned co-financing agreements, more than 10 thousand with the total value of nearly PLN 115 billion were signed by the end of 2016, which stands for approx. 35 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 35.9 billion and 10.4 billion. Moreover, the value of all payment applications submitted by the end of 2016 amounted to nearly PLN 21 billion, with road infrastructure projects accounting for PLN 10.6 billion and railway infrastructure projects accounting for PLN 1.3 billion. Despite some progress in the utilisation of EU funds, the delay in the implementation of investment programmes contributed or will contribute, to a large extent, to a weakening of the economic condition of many contractors. Due to the unfavourable market situation in 2016, some of the leading construction sector companies had to reduce the number of their employees.

In 2016 the number of flats for sale that were completed and put to use increased significantly and amounted to 78.5 thousand (an increase by 25.7 per cent in comparison with 2015). The good economic situation is supported by the number of flats for sale for which a construction permit was granted (an increase by 9.7 per cent annually, to the level of 106.6 thousand). 2016 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. 62 thousand flats were pre-sold in 2016 by developers (by approx. 20 per cent more than in 2015).

1.2 Market development prospects

As a result of the current slowdown in GDP growth in Poland, a majority of the institutions who publish forecasts of macroeconomic indicators adjusted the projected economic growth rate for Poland for the coming years. According to the forecast published on 1 February 2017 by the Gdansk Institute for Market Economics, real GDP growth in 2017 should amount to 3.0 per cent, whereas the growth projected in April 2016 was 3.3 per cent. Average annual inflation should amount to 1.3 per cent and the unemployment rate at the end of 2017 is projected to be 8.3 per cent.

Construction market development perspectives for 2017 are stable with a slight growth perspective. In 2018-2020 we should expect much more rapid growth due to the implementation of construction works based on the contracts co-financed from the

new EU perspective. In the sector of construction companies, an improvement in the assessment of the general business climate is recorded. In January 2017, the general business climate indicator recorded a significant improvement as compared to the corresponding period of 2015 and 2016.

The "National Road Construction Programme for 2014-2020, with perspective until 2025" (Program Budowy Dróg Krajowych, PBDK), approved in September 2015, provides that as part of tasks defined in appendix 1 to the PBDK, the amount spent on the project will be PLN 107.1 billion. The investment list comprises tasks with a total length of 4 783 kilometres. In accordance with information provided by the heads of the Ministry of Infrastructure and Construction (MliB) in January 2016, the completion of the entire material scope of the PBDK requires the amount of PLN 198 billion. As a result, the government decided to commence works on the optimisation of the programme costs, while prioritising the implementation of selected projects. According to the MliB's plan, a draft version of the amended PBDK will be published in the first half of 2017. Between 2013 and 2016, 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. 2 100 kilometres, among which approx. 70 per cent of the contracts will be executed in the design & build formula. The gross value of bids opened by the GDDKiA under the PBDK in 2014-2016, as regards general contracting contracts with a significant value, amounted to PLN 40.5 billion. In material terms, the significant value bids opened cover the implementation of 97 general contracting tasks with the total length of approx. 1 332 kilometres. As at the end of January 2016, the GDDKiA is conducting tender procedures under the PBDK for sections with a total length of 745 kilometres. The gross value of significant general contracting contracts for road investment projects signed under the PBDK by the GDDKiA in 2016 amounted to PLN 8.6 billion and was significantly lower than in 2015, when the total gross value of similar contracts reached PLN 23.0 billion. According to the data published by the MliB, the value of expenditure on the statutory activities of the GDDKiA in 2016 amounted to PLN 15.7 billion and was higher by PLN 4.2 billion than the amount of such expenditure in 2015. Due to the planned acceleration of the tender awarding process and the entry of contracts executed in the design & build formula into the "build" phase, the GDDKiA plans to increase the dynamics of expenditure on road tasks in the current year. The goal for 2017 is to increase this expenditure to approx. PLN 23 billion.

The standard list of risk factors of the road infrastructural construction market, which includes uncertainty associated with the prices of raw materials, construction materials and costs of subcontractors, is being extended by the execution of contracts in the design & build formula. Furthermore, there is a high risk of an accumulation of works in 2018-2020, which may result in difficulties with the mobilisation of sufficient capital, human and material resources. It is also difficult to foresee the impact of implementation of the GDDKiA's announcement of calling for tenders in a single-stage mode (without pre-selection) which are intended to accelerate the investment process. There is also uncertainty about the effects of the planned widespread adoption of non-price criteria in the process of selecting contractors for road construction projects.

Prospects for the railway construction sector are relatively positive. In November 2016, the government adopted the updated "National Railway Programme until 2023" (Krajowy Program Kolejowy, KPK). In accordance with the programme financing plan, between 2015 and 2023 PKP PLK will implement projects included in the basic list with a value of PLN 63.7 billion. Additionally, the reserve list includes more than 70 projects with a value of approx. PLN 35 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 previous government in 2015, are insignificant. Adjustments to the previous programme included primarily an update of the value of projects, taking into account the results of the first and second stage of selection to the CEF ("Connecting Europe Facility") programme and shifting a small number of projects between the basic and reserve list. The aggregate level of planned capital expenditure decreased by PLN 0.8 billion. According to PKP PLK, in 2015 PKP PLK announced tenders with an all-time high value of approx. PLN 17 billion. In 2016, this value amounted to approx. PLN 10 billion and was higher by more than PLN 2 billion than the planned amount. A predominant share in the value of tenders published in 2015-2016 was held by large general contracting contracts of significant value. Between July 2015 and December 2016, PKP PLK announced 40 such tenders (of which more than half were conducted in the two-stage procedure), and over the last few months of 2016 the pace of awarding such contracts increased. As at the end of 2016, the contractors submitted bids in 15 tenders. The gross value of the lowest bids submitted by potential contractors amounted to PLN 6.9 billion. The average value of tender savings generated in comparison with the investor's budget was approx. 30 per cent. At the end of 2016, PKP PLK conducted approx. 20 large tender proceedings at the pre-bid stage, with the total estimated value of PLN 10 billion. According to the MliB, the value of railway investment contracts signed in 2016 was PLN 4 billion, and in the current year this value should increase to approx. PLN 30 billion. As announced by the President of the Management Board of PKP PLK in December 2016, the value of the company's spendings in 2016 will be slightly higher than PLN 4.0 billion. This amount would be significantly lower than the PLN 5.4 billion of spendings planned in KPK (document dated September 2015).

To avoid the accumulation of construction works under railway investment projects, the MliB estimates that the pace of announcing tenders under KPK in 2017 should be decreased, to become more intensive in 2018, when the estimated value of tenders announced will reach a value similar to the one recorded in 2015, i.e. PLN 18 billion. To speed up the process of awarding tenders, in mid-2016 PKP PLK abandoned announcing tenders in the two-stage procedure (with pre-selection of contractors) and replaced 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. In the face of numerous organisational problems in announcing tenders and coordinating investments, the railway infrastructure manager intends to implement a plan aimed at putting the process of executing the investment programme in order. PKP PLK plans to improve relations between the investor and the contractor by, among other things, introducing an advance payment mechanism, payment for materials used on construction sites and partial payments to contractors. This is to allow for better utilisation of EU funds and avoiding mistakes made when spending funds from the EU financial perspective for 2007-2013.

New priorities and challenges are currently being 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.

The power engineering segment will probably maintain a good growth rate owing to large construction projects for several power units which are currently at the implementation stage. Even though the largest contracts have already been awarded, several major investments in the broadly understood conventional power engineering sector are still in planning or tenders. In the near future, the Ministry of Energy plans to launch the construction of new 5-6 power units with the total value of PLN 45-50 billion. 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, as well as the construction of a gas-fired unit at Żerań Plant in Warsaw. 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 generating capacity 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. For the market of plants for thermal conversion of municipal waste, the year 2016 was marked by stagnation in awarding new tenders for the construction of such plants. The planned investments in Gdańsk, Warsaw and Olsztyn are currently at the tender or pre-tender stage. 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.

It seems that the coming years will be a period of growth for the electrical power and gas transfer and distribution market. According to development plans adopted by the managers of the domestic electricity transmission (Polskie Sieci Elektroenergetyczne) and gas transmission (Gaz System) networks, the value of investment projects planned for the period from 2016 to 2025 was estimated at, respectively, approx. PLN 13 billion and approx. PLN 15 billion. 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.

2017 may bring a further increase in the number of flats sold by development companies. However, the high level of the base reached in 2016, i.e. the record-high 62 thousand flats sold on the 6 largest markets in Warsaw, Wrocław, Kraków, Łódź, Poznań and Tri-City may significantly affect its dynamics in 2017. The largest market players have announced a similar or slightly higher level of flat pre-selling in 2017 in comparison with 2016. However, keeping up a comparable number of transactions may be challenging. The biggest players carrying on business in large cities in Poland whose offers are adapted to market expectations have probably the best chances for further growth. Factors that may positively influence the market in 2017 will probably include low interest rates and the growing creditworthiness of Poles. On the other hand, further increase in the minimum down-payment in mortgage loans (from 15 per cent to 20 per cent), the phasing-out of the MdM programme and the new bank tax which generates an increase in the margin earned by banks on mortgage loans may cause loans to be less available for some customers, thus impeding market growth. On the other hand, it is still difficult to assess the influence of the new government programme "Mieszkanie Plus" ("Flat Plus") on the development market.

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. 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.

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 understood 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 **12 February 2016**, the partnership deed of Budimex SA – Ferrovial Agroman SA 2 s.c. was signed. Budimex SA holds 95 per cent of the shares in this partnership, and Ferrovial Agroman SA holds the remaining 5 per cent.

On **25 February 2016**, Budimex Inwestycje “Grunwald” SA was entered in the National Court Register. Budimex SA holds 100 per cent of the shares in this company.

On **9 March 2016**, the partnership deed of Budimex SA – Cadagua SA III s.c. was signed. Budimex SA holds 60 per cent of the shares in this partnership, and Cadagua SA holds the remaining 40 per cent.

On **13 April 2016**, Budimex SA Ferrovial Agroman (UK) Limited – Metro II Sp.j. was dissolved without liquidation and removed from the National Court Register due to the fact that the partnership had not commenced the planned business activities. Budimex SA held 40 per cent of the shares in this partnership.

On **14 April 2016**, Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o.

On **1 August 2016**, the partnership deed of Budimex SA – Cadagua SA IV s.c. was signed. Budimex SA holds 60 per cent of the shares in this company, and Cadagua SA holds the remaining 40 per cent.

On **23 August 2016**, Budimex SA – Cadagua SA s.c. was removed from the National Official Business Register. Budimex SA held 50 per cent of shares in this partnership.

On **14 October 2016**, a resolution on the final liquidation of the company Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. was adopted. The company was removed from the National Court Register on 15 December 2016.

On **7 December 2016**, the partnership deed of Budimex SA – Cadagua SA V s.c. was signed. Budimex SA holds 60 per cent of the shares in this company, and Cadagua SA holds the remaining 40 per cent.

On **28 December 2016**, the General Meeting of Shareholders of Budimex Autostrada A-1 SA (a subsidiary of Budimex Autostrada SA) adopted a resolution on the liquidation of the company.

In 2016, 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	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Consolidated					
Mostostal Kraków SA	Kraków / Poland	100.00%	100.00%	full	full
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. ¹	Warsaw / Poland	-	100.00%	-	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	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Import Sp. z o.o.	Warsaw / Poland	92.31%	92.31%	full	full
Instal Polska Sp. z o.o.	Poznań / Poland	92.31%	92.31%	full	full
Elektromontaż Warszawa SA	Warsaw / Poland	92.31%	92.31%	full	full
Non-consolidated					
Budimex Autostrada SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A-1 SA (in liquidation) ²	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in liquidation bankructcy	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 PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Inwestycje "Grunwald" SA ³	Warsaw / Poland	100.00%	-	non-consolidated	-
MK Logistic Sp. z o.o. (in liquidation)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. (in liquidation)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated

¹) Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. merged with Budimex Nieruchomości Sp. z o.o. on 14 April 2016. This transaction had no impact on the consolidated financial statements of the Budimex Group.

²) On 28 December 2016, the General Meeting of Shareholders of Budimex Autostrada A-1 SA adopted a resolution on the liquidation of the company.

³) Budimex Inwestycje "Grunwald" SA was entered in the National Court Register on 25 February 2016.

(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	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
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%	share in assets, liabilities, revenues and costs	share in assets, liabilities, revenues and costs
Budimex SA Ferrovia Agroman SA 2 s.c. ¹	Warsaw / Poland	95.00%	-		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA III s.c. ²	Warsaw / Poland	60.00%	-		
Budimex SA – Cadagua SA IV s.c. ³	Warsaw / Poland	60.00%	-		
Budimex SA – Cadagua SA V s.c. ⁴	Warsaw / Poland	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 SA s.c. ⁵	Warsaw / Poland	-	50.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Ferrovia Agroman (UK) Limited – Metro II Sp.j. ⁶	Warsaw / Poland	-	40.00%		
Budimex SA Energetyka 2 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		
Joint ventures					
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. ⁷	Warsaw / Poland	-	30.00%	equity method	equity method

¹⁾ The partnership was established on 12 February 2016.

²⁾ The partnership was established on 9 March 2016.

³⁾ The partnership was established on 1 August 2016.

⁴⁾ The partnership was established on 7 December 2016.

⁵⁾ The partnership was liquidated on 23 August 2016.

⁶⁾ The partnership was dissolved without liquidation and removed from the National Court Register on 13 April 2016.

⁷⁾ The company was established on 14 October 2016. It was removed from the National Court Register on 15 December 2016.

2.2 Operating segments and branches of the Parent Company

As at 31 December 2016, the Group conducted business in the following two operating segments:

- construction business,
- development activities and property management.

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

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

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

- Budimex Nieruchomości Sp. z o.o.
- SPV-BN 1 Sp. z o.o.
- Poznańskie Przedsiębiorstwo Inwestycyjne Sp. z o.o. (until the merger with Budimex Nieruchomości Sp. z o.o. on 14 April 2016)
- Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. (until merging with Budimex Nieruchomości Sp. z o.o. on 27 May 2015)
- Budimex SA in the part relating to the development business, as a result of a merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

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

As at 31 December 2016, 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, Pferdmenigesstr. 5, Cologne.

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

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

2.3 Structure of sales revenues

2.3.1 Structure of sales revenues of the Budimex Group

Sales of the construction segment

In 2016, the construction market (measured by the value of sales of construction and assembly production) decreased by 14.4 per cent in comparison with 2015. The decline was recorded in the infrastructural construction segment (-19.0 per cent) and general construction segment (-9.1 per cent).

In the discussed period, the value of sales in the construction segment of the Budimex Group was 9.2 per cent higher when compared to 2015. Sales in the infrastructural construction segment grew by 26 per cent, while sales in the general construction segment dropped by 8 per cent against 2015.

The share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services increased from 50.6 per cent in 2015 to 58.4 per cent in 2016. The sound trends maintained on the residential market were reflected in the share of residential construction in the construction segment sales structure which rose from 10.1 per cent in 2015 to 12.6 per cent in 2016.

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

Type of construction	Sales value			
	2016		2015	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3 146	58.4%	2 497	50.6%
General construction, of which:	2 245	41.6%	2 440	49.4%
- non-residential buildings	1 564	29.0%	1 939	39.3%
- residential buildings	681	12.6%	501	10.1%
Total sales of construction and assembly services	5 391	100.0%	4 937	100.0%

Development activities

In 2016, the revenues from sales in the development business amounted to PLN 349 586 thousand, thus recording a 19.5 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.

As a result of the factors specified in pt. 1.1 (general characteristics of the market), in 2016 a significant revival and a rapid growth in demand for new flats could be observed on the entire development market. In 2016, 1 615 flats were sold in the pre-selling system, compared to 1 918 flats pre-sold in the previous year. The decrease in the number of pre-sold flats by 16 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 2016 the development of more than a thousand new flats commenced in nine development projects located in Warsaw, Kraków, Poznań

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

and Tri-City. As at 31 December 2016, more than four thousand flats were under construction. In 2016, the Group continued the process of land stock diversification by purchasing new plots in Warsaw, Poznań, Kraków and Gdańsk. The construction of over 6.4 thousand new flats is possible on the presently owned lands.

Major construction contracts concluded by the Budimex Group companies in 2016:

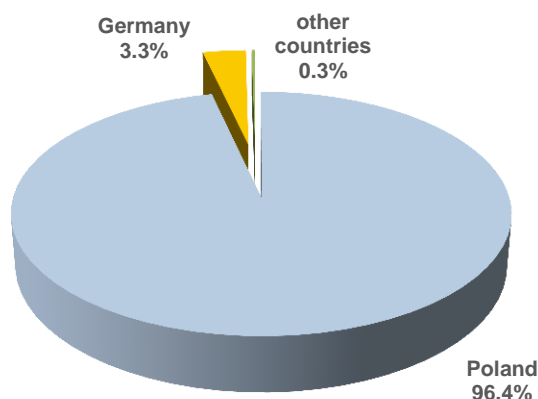
Contract date	Contract value allocated to Budimex SA	Customer	Type of construction
2016-03-29	742 291	General Directorate for National Roads and Motorways branch in Olsztyn	Construction of the S51 Olsztyn–Olsztynek at the section of Olsztyn-Wschód to Olsztyn-Południe (formerly: Construction of the Olsztyn ring road as part of national road no. 16 — Task No. 2: from approx. km 10+000 to the end of the prepared area on approx. km 24+701, behind the Olsztyn-Wschód junction)
2016-09-29	375 841	JSC "Vilniaus kogeneracine jėga"ne"	Construction of a new combined heat and power plant in Vilnius – Lot1
2016-04-13	292 102	General Directorate for National Roads and Motorways branch in Poznań	Design and construction of the S5 Poznań-Wrocław express road at the Wronczyn-Kościół Południe section
2016-06-06	285 673	Medical University of Gdańsk	Construction of the Non-Invasive Medicine Centre in Gdańsk — stage 1
2016-11-22	275 191	Kujawsko-Pomorskie Inwestycje Medyczne Sp. z o.o.	Conversion and development of L. Rydygier Provincial Polyclinic Hospital in Toruń
2016-01-27	235 750	General Directorate for National Roads and Motorways branch in Lublin	Design and construction of the S17 express road Warsaw (Zakręt junction) – Garwolin at the section of "Lubelska" junction (without the junction) – Garwolin (start of the ring road), divided into three parts: Part No. 3: at the section from Kolbiel (end of the ring road) to Garwolin (start of the ring road), from approx. km 27+900 to approx. km 40+915, with a length of approx. 13 015 km.
2016-05-05	189 145	General Directorate for National Roads and Motorways branch in Poznań	Construction of the S5 Poznań–Wrocław express road at the Radomicko–Kaczkowo section, stage II of the Leszno Pld. (with junction) – Kaczkowo section
2016-02-05	153 224	General Directorate for National Roads and Motorways branch in Zielona Góra	Construction of the second roadway of express road S3 at Sulechów–Nowa Sól section – third section from km 299+350 to km 316+640.
2016-11-24	145 180	City Council of Białystok	Construction of the Trasa Niepodległości in Białystok Stage III: Construction of the Aleja I. J. Paderewskiego in Białystok within the lane of provincial road no. 669, section from Aleja Niepodległości to provincial road no. 678, including construction and reconstruction of technical infrastructure.
2016-11-24	140 764	City Council of Białystok	Construction of the Trasa Niepodległości in Białystok Stage II: Construction of the Aleja Niepodległości in Białystok within the lane of provincial road no. 669, section from Narodowych Sił Zbrojnych Street to Aleja I. J. Paderewskiego, including construction and reconstruction of technical infrastructure.
2016-06-10	118 907	Lidl Sp. z o.o Sp. k.	Construction of Distribution Centre in Będzin
2016-06-14	118 000	Spółdzielnia Mleczarska "Mlekoop"	Construction of a group of production facilities for assembly of installations for milk and whey drying and storage located on a plot at ul. Kormoranów 29/5 in Mrągowo
2016-09-29	83 787	City Council of Olsztyn	Construction of ul. Towarowa in Olsztyn, from the junction of ul. Towarowa and ul. Leonharda to the planned Olsztyn ring road
2016-06-01	81 800	BZ WBK Leasing SA	Construction of office and commercial building in Wrocław at ul. Robotnicza 11
2016-06-07	76 999	IKEA Centres Polska SA in Janki	Construction of a Convenience Center type facility with offices and an underground garage within the Retail Park Franowo in Poznań
2016-03-18	69 704	Comarch SA	Construction of the SSE7 office building in Kraków, with an underground garage, along with roads, footpaths and parking places, landscaping features, networks and systems
2016-07-14	58 985	LC Corp Invest XVII sp. z o.o. Projekt 21 Sp. k.	Construction of "Retro Office House" commercial and service facilities including internal and external infrastructure in Wrocław at ul. Piłsudskiego, Komandorska, Bogusławskiego

Geographical structure of the Budimex Group sales in 2016

The main markets on which the Budimex Group operates are:

- Poland
- Germany

The geographical structure of revenues from sales in 2016 is as follows:



2.3.2 Structure of sales revenues of Budimex SA

Sales of construction and assembly services

In 2016, sales revenue from the construction and assembly services of the Company increased by 9.0 per cent when compared to 2015. Sales in the infrastructural construction segment increased by 24.2 per cent (from PLN 2 487 million in 2015 to PLN 3 089 million in 2016) and in the building objects segment sales decreased by 7.8 per cent (from PLN 2 256 million in 2015 to PLN 2 080 million in 2016). As far as the building objects segment is concerned, sales decreased in the case of non-residential construction (by 20.3 per cent) and increased in the case of residential construction (by 35.9 per cent).

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

Type of construction	Sales value			
	2016		2015	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3 089	59.8%	2 487	52.4%
General construction, of which:	2 080	40.2%	2 256	47.6%
- non-residential buildings	1 399	27.1%	1 755	37.0%
- residential buildings	681	13.2%	501	10.6%
Total sales of construction and assembly services	5 169	100.0%	4 743	100.0%

Development activities and property management

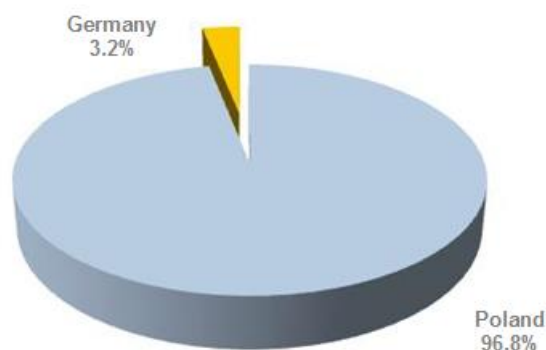
In 2016, revenues from sales of development activities and property management amounted to PLN 961 thousand, while in 2015 the figure was PLN 1 815 thousand. The downward trend in sales is related to the phasing out of the Company's activities in this segment. The leading entity carrying out development 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 2016 is as follows:



2.4 Construction activities of the Budimex Group on the German market

In 2016, mainly workshop services were rendered on the German market. Sales revenues in Germany amounted to PLN 184 852 thousand (of which PLN 163 990 was earned by Budimex SA) and were PLN 9 998 thousand, i.e. 5.7 per cent higher compared to 2015. An increase was recorded in the case of prefabrication works (11.6 per cent), while a decline was recorded for metal-related works (3.8 per cent). In 2016, the share of metal-related works in the sales structure decreased by 2.8 per cent and amounted to 28.9 per cent. The operating profit on the German market amounted to PLN 24 505 thousand in 2016, while in 2015 it was PLN 21 220 thousand. Profitability achieved on the prefabrication works was 0.1 per cent higher than in 2015 and profitability of the metal-related works was 0.2 per cent lower than in the previous year. Gross profit generated in 2016 was 17.3 per cent higher than the previous year, which resulted from higher sales, a higher gross margin and the lower impact of operating and financial expenses on the result. The customer structure shows dispersion and only in the metal sector did the share of a single customer exceed the level of 10 per cent of the total metal-related turnover by 2.1 percentage points.

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.

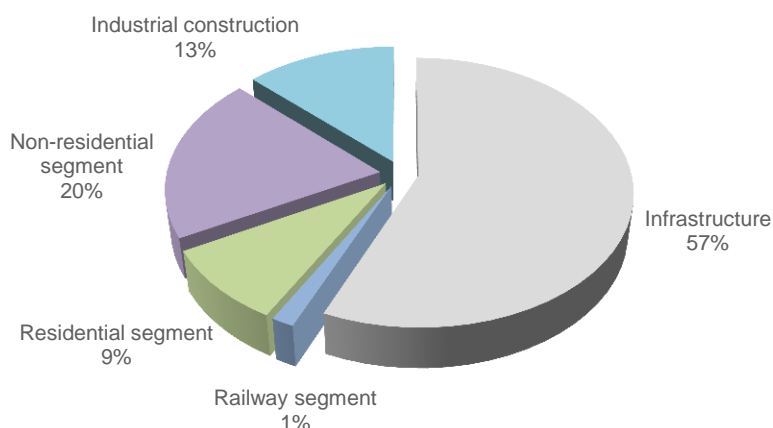
Infrastructural investments co-financed from the budget of the European Union (in particular road and railway projects) offer an opportunity for the Budimex Group to win new contracts. A slow-down in awarding new road construction tenders was visible in 2016, resulting in a significant drop in the value of contracts signed with the GDDKiA. On the other hand, PKP PLK commenced the process of awarding tenders in the second half of 2016. The investment process will continue in 2017, 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 2016, the Budimex Group companies signed construction contracts for a total value of PLN 5 691 million (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2016 amounted to PLN 8 930 million and was 6 per cent higher in comparison with the end of 2015.

In 2016, Budimex SA in turn signed construction contracts for a total value of PLN 5 480 million (with annexes). The value of the order portfolio as at 31 December 2016 amounted to PLN 8 771 million.

The structure of the Budimex Group's order portfolio as at 31 December 2016 is as follows:



2.6 Evaluation of investment project feasibility

In 2017, the Budimex Group plans to incur capital expenditure of approx. PLN 100 million, of which more than PLN 90 million will be incurred by Budimex SA. The outlays will be made mainly on construction machines and IT solutions.

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

2.7 Risk factors

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

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

Information concerning the financial risk management objectives and policies adopted by the Group is presented in the consolidated financial statements for the year ended 31 December 2016 (note 3).

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

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

2.8 Procurement source changes

In 2016, 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 sales.

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 2016 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2015 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 2016, compared to 31 December 2015, are presented in the table below:

ASSETS	31.12.2016	31.12.2015	Change	Change %
Non-current assets	856 936	821 207	35 729	4.4%
Property, plant and equipment	114 674	83 248	31 426	37.8%
Investment properties	25 581	63 410	(37 829)	(59.7%)
Intangible assets	29 926	4 000	25 926	648.2%
Goodwill of subordinates	73 237	73 237	0	0.0%
Investments in equity accounted companies	43 427	45 762	(2 335)	(5.1%)
Available-for-sale financial assets	9 396	9 247	149	1.6%
Retentions for construction contracts	23 333	20 388	2 945	14.4%
Trade and other receivables	36 256	34 909	1 347	3.9%
Concession agreement receivables	46 096	45 688	408	0.9%
Other financial assets	10 035	396	9 639	2 434.1%
Deferred tax assets	444 975	440 922	4 053	0.9%
Current assets	4 736 729	3 892 157	844 572	21.7%
Inventories	1 183 649	867 581	316 068	36.4%
Trade and other receivables	516 720	420 558	96 162	22.9%
Retentions for construction contracts	30 818	16 276	14 542	89.4%
Amounts due and receivable from customers under construction contracts	288 456	171 763	116 693	67.9%
Current tax assets	194	421	(227)	(53.9%)
Other financial assets	1 758	2 432	(674)	(27.7%)
Cash and cash equivalents	2 715 134	2 413 126	302 008	12.5%
TOTAL ASSETS	5 593 665	4 713 364	880 301	18.7%

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

EQUITY AND LIABILITIES	31.12.2016	31.12.2015	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent	801 377	599 206	202 171	33.8%
Share capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	4 725	4 801	(76)	(1.6%)
Foreign exchange differences on translation of foreign operations	5 525	5 425	100	1.8%
Retained earnings	558 116	355 969	202 147	56.8%
Non-controlling interests	4 443	3 918	525	13.4%
Total shareholders' equity	805 820	603 124	202 696	33.6%
Liabilities	4 787 845	4 110 240	677 605	16.5%
Long-term liabilities	488 704	444 226	44 478	10.0%
Loans, borrowings and other external sources of finance	62 333	44 563	17 770	39.9%
Retentions for construction contracts	206 147	207 239	(1 092)	(0.5%)
Provisions for non-current liabilities and other charges	210 303	181 691	28 612	15.7%
Retirement benefits and similar obligations	7 937	7 657	280	3.7%
Other financial liabilities	1 984	3 076	(1 092)	(35.5%)
Current liabilities	4 299 141	3 666 014	633 127	17.3%
Loans, borrowings and other external sources of finance	20 276	19 778	498	2.5%
Trade and other liabilities	1 520 870	1 135 894	384 976	33.9%
Retentions for construction contracts	186 244	168 033	18 211	10.8%
Amounts due and payable to customers under construction contracts	1 352 639	1 239 940	112 699	9.1%
Deferred revenue	1 002 017	896 448	105 569	11.8%
Provisions for current liabilities and other charges	161 835	135 565	26 270	19.4%
Current tax liability	52 820	67 568	(14 748)	(21.8%)
Retirement benefits and similar obligations	1 422	1 350	72	5.3%
Other financial liabilities	1 018	1 438	(420)	(29.2%)
TOTAL EQUITY AND LIABILITIES	5 593 665	4 713 364	880 301	18.7%

As at 31 December 2016, consolidated total assets increased by PLN 880 301 thousand compared to 31 December 2015, mainly due to a 4.4 per cent (PLN 35 729 thousand) increase in non-current assets and a 21.7 per cent (PLN 844 572 thousand) increase in current assets.

Non-current assets:

The change in the value of non-current assets as at 31 December 2016 compared to 31 December 2015 was caused mainly by the following:

- a decrease in the balance of investment properties, mainly as a result of the reclassification of a building plot with a value of PLN 38 403 thousand from investment properties to inventories by the development segment,
- a decrease in the balance of investments in equity accounted companies, primarily due to losses incurred by associated companies in the amount of PLN 2 272 thousand,
- an increase in the balance of deferred tax assets in the amount of PLN 4 053 thousand.

Current assets:

In the same period, the value of current assets increased by PLN 844 572 thousand, mainly as a result of an increase in:

- the balance of inventories by PLN 316 068 thousand, mainly as a result of an increased scale of development activities,
- the balance of trade and other receivables by PLN 96 162 thousand,
- the balance of cash and cash equivalents by PLN 302 008 thousand.

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

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 44 478 thousand, due to the increase in the balance of provisions for non-current liabilities by PLN 28 612 thousand, as well as, in the balance of long-term loans, borrowing and other external sources of financing by PLN 17 770 thousand,
- an increase in current liabilities by PLN 633 127 thousand, of which the greatest balance movements related to the following:
 - an increase in trade and other payables by the amount of PLN 384 976 thousand,
 - an increase in amounts due and payable to customers under construction contracts by PLN 112 699 thousand, which comprises an increase in recognised sales adjustment over the invoiced sales in relation to the estimation of long-term contracts in accordance with their advancement level by PLN 333 933 thousand and a decrease in the balance of provision for contract losses by PLN 221 234 thousand,
 - an increase in deferred revenue by PLN 105 569 thousand, mainly due to prepayments for performed construction contracts and payments on account of premises in development activities.

Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01-31.12.2016	01.01-31.12.2015	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	5 572 290	5 133 994	438 296	8.5%
Cost of finished goods, services, goods for resale and raw materials sold	(4 821 025)	(4 641 280)	(179 745)	3.9%
Gross profit on sales	751 265	492 714	258 551	52.5%
Selling expenses	(32 671)	(29 742)	(2 929)	9.9%
Administrative expenses	(198 766)	(190 081)	(8 685)	4.6%
Other operating income	46 451	56 205	(9 754)	(17.4%)
Other operating expenses	(61 172)	(36 878)	(24 294)	65.9%
Operating profit	505 107	292 218	212 889	72.9%
Finance income	43 227	39 545	3 682	9.3%
Finance costs	(34 657)	(31 535)	(3 122)	9.9%
Shares in net (losses) of subordinated companies valued using the equity method	(2 272)	(3 427)	1 155	(33.7%)
Gross profit	511 405	296 801	214 604	72.3%
Income tax	(100 929)	(60 281)	(40 648)	67.4%
Net profit for the period	410 476	236 520	173 956	73.6%
<i>of which:</i>				
<i>attributable to the shareholders of the Company</i>	<i>409 851</i>	<i>235 846</i>	<i>174 005</i>	<i>73.8%</i>
<i>attributable to non-controlling interests</i>	<i>625</i>	<i>674</i>	<i>(49)</i>	<i>(7.3%)</i>

In 2016, the Budimex Group earned sales revenue of PLN 5 572 290 thousand, which represents a 8.5 per cent increase compared to the revenue earned in 2015.

Gross profit on sales in 2016 was PLN 751 265 thousand, while in the previous year it was PLN 492 714 thousand. The gross sales profitability ratio for 2016 was therefore 13.5 per cent, while for 2015 it was 9.6 per cent.

In accordance with the adopted accounting policies, as soon as Group companies become aware of the fact that budgeted construction contract costs exceed the entire expected contract revenues, they create provisions for expected contract losses and recognise them in the consolidated statements of financing activities under "Amounts due and payable to customers under construction contracts". As at 31 December 2016, the balance of the provision for contract losses amounted to PLN 408 455 thousand. In 2016, the balance of the provision for contract losses decreased by PLN 221 234 thousand.

Compared to the previous year, selling expenses increased in the twelve-month period ended 31 December 2016 by PLN 2 929 thousand, while administrative expenses were PLN 8 685 thousand higher than the expenses incurred in 2015. The share of the sum total of selling and administrative expenses in total sales revenue decreased from 4.3 per cent in 2015 to 4.2 per cent in the current year.

Other operating income in 2016 was PLN 46 451 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 23 579 thousand, the reversal of provisions for penalties and sanctions in the amount of PLN 6 189 thousand, the reversal of provisions for litigation and compensations in the amount of PLN 2 765 thousand, the reversal of impairment write-downs against receivables and inventories in the amount of, respectively, PLN 4 257 thousand and PLN 1 958 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 545 thousand. In addition, in 2016, Group companies sold property, plant and equipment and earned a profit on those sales in the total amount of PLN 760 thousand. The net value of the property, plant and equipment sold in 2016 was PLN 172 thousand.

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

Apart from the above, in 2016, the Group also recorded a gain on the valuation of FX Forward derivative financial instruments and FX options (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 2 273 thousand.

Other operating expenses in the 12-month period ended on 31 December 2016 amounted to PLN 61 172 thousand, of which PLN 14 524 thousand related to impairment write-downs against receivables, PLN 4 067 thousand to recognised impairment write-downs against inventories and PLN 1 791 thousand to impairment write-downs against property, plant and equipment. The costs of recognised provisions for litigation amounted to PLN 236 thousand and recognised provisions for claims and compensations amounted to PLN 10 418 thousand. The value of compensations and liquidated damages charged to the Group in 2016 was PLN 23 934 thousand. The costs of court and enforcement charges and costs of litigation amounted to PLN 1 807 thousand. In addition, in 2016 the Group also incurred a loss on the realisation of FX Forward derivative financial instruments and FX options in the amount of PLN 2 600 thousand.

In 2016, the Group reported an operating profit of PLN 505 107 thousand, representing 9.1 per cent of total sales revenues. In the previous year, the Group reported an operating profit of PLN 292 218 thousand, representing 5.7 per cent of total sales revenues.

In the 12-month period ended 31 December 2016, the Group reported profit on financing activities in the amount of PLN 8 570 thousand, while in 2015 a profit of PLN 8 010 thousand. Finance costs in 2016 represented, among others, interest costs of PLN 3 648 thousand, bank commissions on guarantees and loans of PLN 23 960 thousand paid by Group companies, and the cost of discounting long-term receivables and liabilities arising from guarantee deposits in the amount of PLN 6 362 thousand. In 2016, the Group also reported losses on the realisation of interest rate swap derivative financial instruments (made with a view to limiting the interest rate risk) in the amount of PLN 652 thousand and, at the same time, recorded a gain on the valuation of the said instruments in the amount of PLN 1 230 thousand. Finance income in 2016 represented mainly interest received in the amount of PLN 38 037 thousand and a valuation of receivables due to the concession agreement in the amount of PLN 2 907 thousand, as well as a reversal of long-term receivables discount amounting to PLN 355 thousand.

In 2016, the Group reported a gross profit of PLN 511 405 thousand, while in the previous year a gross profit of PLN 296 801 thousand.

Income tax for 2016 was PLN 100 929 thousand, of which:

- current tax – PLN 105 020 thousand,
- deferred tax – PLN (4 091) thousand.

As at 31 December 2016, the Group recognised deferred tax assets in the amount of PLN 444 975 thousand, while as at 31 December 2015 the Group recorded deferred tax assets of PLN 440 922 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 2016 was PLN 409 851 thousand, while the net profit attributable to the shareholders of Budimex SA for 2015 was PLN 235 846 thousand, which represents an increase by 73.8 per cent.

Net profit attributable to non-controlling interest for 2016 amounted to PLN 625 thousand. In the previous year, net profit attributable to non-controlling interest stood at PLN 674 thousand.

3.1.2 Key economic and financial data of Budimex SA

The financial situation of Budimex SA in 2016 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (as below, together with the 2015 comparative data).

Statement of financial position of Budimex SA

The main items of the Company Statement of Financial Position as at 31 December 2016, compared to 31 December 2015, are presented in the table below:

ASSETS	31.12.2016	31.12.2015	Change	Change %
Non-current assets	1 387 569	1 316 650	70 919	5.4%
Property, plant and equipment	92 668	61 821	30 847	49.9%
Investment properties	3 762	3 888	(126)	-3.2%
Intangible assets	29 707	3 761	25 946	689.9%
Investments in subsidiaries	724 473	724 323	150	0.0%
Investments in associates	61 246	61 246	0	0.0%
Investments in other entities	6 417	6 597	(180)	-2.7%
Other financial assets	16 537	6 666	9 871	148.1%
Trade and other receivables	12 878	11 120	1 758	15.8%
Retentions for construction contracts	39 835	35 404	4 431	12.5%
Deferred tax assets	400 046	401 824	(1 778)	-0.4%
Current assets	3 232 437	2 625 013	607 424	23.1%
Inventories	159 498	79 329	80 169	101.1%
Trade and other receivables	462 329	379 325	83 004	21.9%
Retentions for construction contracts	46 767	25 649	21 118	82.3%
Amounts due and receivable from customers under construction contracts	290 016	155 241	134 775	86.8%
Other financial assets	1 717	2 333	(616)	-26.4%
Cash and cash equivalents	2 272 110	1 983 136	288 974	14.6%
TOTAL ASSETS	4 620 006	3 941 663	678 343	17.2%

EQUITY AND LIABILITIES	31.12.2016	31.12.2015	Change	Change %
Share capital	145 848	145 848	0	0.0%
Share premium	80 199	80 199	0	0.0%
Other reserves	54 001	53 909	92	0.2%
Foreign exchange differences on the translation of foreign operations	5 670	5 630	40	0.7%
Retained earnings/(losses)	382 856	208 753	174 103	83.4%
Total shareholders' equity	668 574	494 339	174 235	35.3%
Liabilities	3 951 432	3 447 324	504 108	14.6%
Long-term liabilities	410 118	366 594	43 524	11.9%
Loans, borrowings and other external sources of finance	29 374	11 551	17 823	154.3%
Retentions for construction contracts	194 624	196 185	(1 561)	-0.8%
Provisions for non-current liabilities and other charges	180 765	153 495	27 270	17.8%
Retirement benefits and similar obligations	5 348	5 358	(10)	-0.2%
Other financial liabilities	7	5	2	40.0%
Current liabilities	3 541 314	3 080 730	460 584	15.0%
Loans, borrowings and other external sources of finance	18 463	18 382	81	0.4%
Trade and other liabilities	1 397 654	1 019 137	378 517	37.1%
Retentions for construction contracts	174 635	158 641	15 994	10.1%
Amounts due and payable to customers under construction contracts	1 337 780	1 229 015	108 765	8.9%
Deferred revenue	408 741	464 616	(55 875)	-12.0%
Provisions for current liabilities and other charges	157 540	130 964	26 576	20.3%
Current tax liability	45 272	58 313	(13 041)	-22.4%
Retirement benefits and similar obligations	1 025	926	99	10.7%
Other financial liabilities	204	736	(532)	-72.3%
TOTAL EQUITY AND LIABILITIES	4 620 006	3 941 663	678 343	17.2%

As at 31 December 2016, the total assets increased by PLN 678 343 thousand as compared to 31 December 2015, and amounted to PLN 4 620 006 thousand. Changes in the Statement of Financial Position were mainly related to the following events:

Non-current assets:

Non-current assets increased by PLN 70 919 thousand, which was mainly a result of the following events:

- an increase in the balance of property, plant and equipment by PLN 30 847 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of machinery and technical equipment in the amount of PLN 29 630 thousand,
- an increase in the balance of intangible assets by PLN 25 946, mainly following the purchase of computer software,
- an increase in the balance of financial assets by PLN 9 871 thousand, mainly as a result of the disbursement of another tranche of a loan to an associate, FBSerwis SA, in the amount of PLN 9 163 thousand,
- an increase in the balance of long-term retentions for construction contracts by PLN 4 431 thousand.

Current assets:

In the same period, the value of current assets increased by PLN 607 424 thousand, mainly as a result of the following events:

- an increase in the balance of cash and cash equivalents by PLN 288 974 thousand,
- an increase in the balance of amounts due and receivable from customers under construction contracts by the amount of PLN 134 775 thousand, mainly as a result of an increase in recognised sales adjustment over the invoiced sales in comparison to the previous year, in relation to the estimation of long-term contracts in accordance with their advancement level,
- an increase in the balance of trade and other receivables by PLN 83 004 thousand, mainly as a result of an increase in trade receivables by PLN 98 953 thousand,
- an increase in the balance of inventories by PLN 80 169 thousand, mainly as a result of the increased amount of materials in warehouses,
- an increase in the balance of retentions for construction contracts kept by customers by PLN 21 118 thousand.

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 460 584 thousand, mainly due to:
 - an increase in trade and other payables by the amount of PLN 378 517 thousand,
 - an increase in amounts due and payable to customers under construction contracts by PLN 108 765 thousand, which comprises an increase in recognised sales adjustment over the invoiced sales in relation to the estimation of long-term contracts in accordance with their advancement level by PLN 338 045 thousand and a decrease in the balance of provision for contract losses by PLN 229 280 thousand,
 - a decrease in deferred revenue by PLN 55 875 thousand primarily in connection with the lower value of advances received against performance of contracts,
 - a decrease in provisions for current liabilities and other charges by PLN 26 576 thousand, mainly due to a lower balance of provisions for warranty repairs by PLN 24 872 thousand,
 - an increase in retentions for construction contracts by PLN 15 994 thousand,
 - a decrease in current tax liability by PLN 13 041 thousand,
- an increase in non-current liabilities by PLN 43 524 thousand, mainly due to:
 - an increase in provisions for non-current liabilities and other charges by PLN 27 270 thousand due to a higher balance of warranty repair provisions,
 - an increase in loans, borrowings and other external sources of finance by PLN 17 823 thousand, following an increase in non-current lease liabilities,
 - a decrease in retentions for construction contracts kept by customers by PLN 1 561 thousand.

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

Profit and Loss Account of Budimex SA

PROFIT AND LOSS ACCOUNT	01.01- 31.12.2016	01.01- 31.12.2015	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	5 207 194	4 768 675	438 519	9.2%
Cost of finished goods, services, goods for resale and raw materials sold	(4 570 979)	(4 355 182)	215 797	5.0%
Gross profit on sales	636 215	413 493	222 722	53.9%
Selling expenses	(11 665)	(11 157)	508	4.6%
Administrative expenses	(179 368)	(172 749)	6 619	3.8%
Other operating income	38 677	52 201	(13 524)	-25.9%
Other operating expenses	(54 951)	(33 978)	20 973	61.7%
Operating profit	428 908	247 810	181 098	73.1%
Finance income	69 670	43 668	26 002	59.5%
Finance costs	(31 489)	(32 569)	(1 080)	-3.3%
Gross profit	467 089	258 909	208 180	80.4%
Income tax	(85 173)	(50 901)	34 272	67.3%
Net profit for the period	381 916	208 008	173 908	83.6%

Within the twelve-month period of 2016, Budimex SA generated revenues from sales in the amount of PLN 5 207 194 thousand, while in 2015 they amounted to PLN 4 768 675 thousand, i.e. a 9.2 per cent increase.

In 2016, gross profit on sales was PLN 636 215 thousand, while in the previous year it was PLN 413 493 thousand. The gross sales profitability ratio for 2016 was therefore 12.2 per cent and was higher than in 2015, when it reached 8.7 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 2015, the balance of the provision for contract losses amounted to PLN 629 426 thousand. In the twelve-month period ended 31 December 2016, the balance of the provision for contract losses was decreased by PLN 229 280 thousand.

The selling expenses in 2016 increased by PLN 508 thousand in comparison to the previous year, while the general administrative expenses grew by PLN 6 619 thousand. The share ratio of those expenses in the total sales amounted to 3.7 per cent in 2016 and 3.9 per cent in 2015.

Other operating income in the twelve-month period of 2016 amounted to PLN 38 677 thousand. That amount comprised mainly received compensations and liquidated damages in the amount of PLN 20 724 thousand, revenues due to a reversal of receivables and retentions impairment write-downs in the amount of PLN 3 505 thousand and of write-downs on inventories in the amount of PLN 975 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 545 thousand. At the same time, the Company reversed provisions for litigation and compensations in the total amount of PLN 8 950 thousand. In 2016, profit on disposal of non-financial non-current assets amounted to PLN 1 001 thousand and was lower than the profit generated in 2015 by PLN 12 919 thousand (a plot of land was sold in 2015, with a profit of PLN 11 819 thousand).

Other operating expenses in the twelve-month period ended 31 December 2016 amounted to PLN 54 951 thousand, of which PLN 10 654 thousand related to the value of created provisions for litigation and expected contractual liabilities, while the compensations and liquidated damages paid amounted to PLN 23 736 thousand. Moreover, the Company recognised impairment write-downs for receivables in the amount of PLN 14 196 thousand, for inventories in the amount of PLN 1 751 thousand and for non-current assets in the amount of PLN 1 677 thousand. In 2016, the Company also incurred a loss on the valuation and realisation of FX Forward derivative financial instruments and FX options in the amount of PLN 54 thousand.

In the twelve-month period of 2016, the Company reported a positive financial result of PLN 38 181 thousand. This was caused primarily by dividend income of PLN 36 586 thousand, net interest income of PLN 30 388 thousand, costs of discount of retentions for construction contracts – higher than in 2015 and amounting to PLN 6 109 thousand, costs of bank commissions and guarantees – higher than in the previous year and amounting to PLN 23 339 thousand, as well as loss on the liquidation of available-for-sale assets in the amount of PLN 154 thousand.

In 2016, the Company earned a gross profit of PLN 467 089 thousand, which means an increase by 80.4 per cent over the previous year.

Income tax for the 12 months of 2016 amounted to PLN 85 173 thousand, including:

- current tax – PLN 83 459 thousand,
- deferred tax – PLN 1 714 thousand.

In 2016, Budimex SA earned a net profit in the amount of PLN 381 916 thousand, which represents an increase by 83.6 per cent over 2015.

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 2016 with cash in hand and cash at bank amounting to a total of PLN 2 413 126 thousand. For the purpose of the Statement of Cash Flows, this amount was reduced by the amount of cash of restricted use of PLN 229 049 thousand. Net cash flow for 2016 was positive and amounted to PLN 339 472 thousand. As at 31 December 2016, the Group's reported cash balance was PLN 2 715 134 thousand, of which cash of restricted use was PLN 191 101 thousand.

In 2016, the balance of cash from operating activities increased by PLN 611 502 thousand.

Cash flow from investing activities came out to a negative balance of PLN 48 930 thousand, which was mainly caused by the result of purchasing non-financial non-current assets and granting borrowings.

Cash flow from financing activities for 2016 showed a negative balance, which amounted to PLN 223 100 thousand and resulted mainly from the 2015 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 2016 amounted to PLN 1 983 136 thousand. For the purposes of drafting the statement of cash flows, this amount was adjusted with the value of cash of restricted use of consortia in the portion attributable to other consortium members, in the amount of PLN 47 770 thousand. In the twelve months of 2016, net cash flow was positive and amounted to PLN 303 688 thousand. As at 31 December 2016, the Company reported a cash balance of PLN 2 272 110 thousand, including cash of restricted use in the amount of PLN 32 564 thousand.

In 2016, the balance of cash from operating activities increased by PLN 534 109 thousand.

The balance of cash from investment activities of the Company decreased by PLN 10 467 thousand, mostly as a result of expenses for the acquisition of intangible assets and property, plant and equipment in the amount of PLN 40 751 thousand, as well as expenses in the form of borrowings granted to related companies in the total amount of PLN 9 193 thousand. At the same time, inflows from dividends received amounted to PLN 36 586 thousand and inflows from the repayment of borrowings granted to related parties amounted to PLN 1 918 thousand.

Cash flow from financing activities for 2016 showed a negative balance of PLN 219 954 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 207 815 thousand and repayment of liabilities under finance leases together with interest in the amount of PLN 12 139 thousand.

3.3 Managing of finance

3.3.1 Managing of finance at the Budimex Group

The cash balance of the Budimex Group as at 31 December 2016 amounted to PLN 2 715 134 thousand and was PLN 302 008 thousand higher than as at 31 December 2015. In 2016, Budimex SA paid out a dividend in the amount of PLN 207 815 thousand. In 2016, Budimex Nieruchomości sp. z o.o. also invested PLN 125 086 thousand of own funds in land intended for development activities. Generating cash at the above level, despite the dividend pay-out and the above-mentioned expenditure on land, was possible owing mainly to: the high profitability achieved by Group companies in all segments of business in 2016 as well as to sustained favourable tendencies in working capital in the construction part which took place in the second half of 2016, including an increase in the net balance of inflows from customers in the development part and the maintained high net balance of contract prepayments from customers in the construction segment.

In accordance with the Group's policy, cash surpluses were placed as bank deposits at banks with a good rating. In addition, Budimex SA used cash surpluses to finance its suppliers of services and raw materials. This had a positive effect on the financial liquidity of these suppliers, and generated extra finance income for Budimex SA.

The Budimex Group entities reported an external debt in respect of bank loans and borrowings and other external sources of finance, including finance lease liabilities, which as at 31 December 2016 amounted to PLN 82 609 thousand and were PLN 18 268 thousand higher than as at 31 December 2015 (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 2016 results primarily from an increase in Budimex SA's debt under finance lease agreements. As at the end of 2016, the Group had no debt under bank loans financing the development activities.

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

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2016	31.12.2015	31.12.2014
- non-current	62 333	44 563	46 298
- current	20 276	19 778	21 402
Total	82 609	64 341	67 700

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

Ratio	31.12.2016	31.12.2015	31.12.2014
Equity to assets ratio:			
<i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.14	0.13	0.13
Equity to non-current assets ratio:			
<i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total non-current assets)</i>	0.94	0.73	0.77
Debt ratio:			
<i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company)/(total assets)</i>	0.86	0.87	0.87
Assets to equity ratio:			
<i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company)/</i>	5.98	6.87	6.43
<i>(shareholders' equity attributable to the shareholders of the Parent Company)</i>			

As at the end of 2016, the ratios illustrating the Group's equity structure improved. A significant 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 were also slightly higher than in the previous year.

Ratio	31.12.2016	31.12.2015	31.12.2014
Current ratio (current assets) / (current liabilities)	1.10	1.06	1.09
Quick ratio (current assets – inventory) / (current liabilities)	0.83	0.83	0.87

Owing to the current very good financial standing of the Budimex Group, the cash resources of the Group, access to credit limits and the insignificant level of financial debt, there are no threats to the Group's ability to finance its business activities in 2017.

3.3.2 Managing of finance at Budimex SA

The cash balance of Budimex SA as at 31 December 2016 amounted to PLN 2 272 110 thousand and was by PLN 288 974 thousand higher than as at 31 December 2015. In 2016, the Company paid out a dividend in the amount of PLN 207 815 thousand, which was nearly the amount of the Company's net profit for 2015. Generating cash at the above level was possible owing to: a significant increase in the Company's profitability in 2016, favourable trends in working capital in the second half of 2016 and a sustained high net balance of contract prepayments from customers.

The Company continued loan agreements in 2016, under which banks provided Budimex, for a period of three years, with committed credit facilities in the total amount of PLN 270 000 thousand, to hedge against unplanned fluctuations in the Company's financial liquidity in subsequent years. During 2016, the Company did not use these facilities.

The Company's indebtedness under borrowings, bank loans and the concluded finance lease agreements is presented in the table below. The major part of indebtedness comprises the Company's liabilities under finance lease agreements in respect of machines and equipment required to carry out road and railway construction projects. The indebtedness as at 31 December 2016 increased significantly as a result of an increase in the level of debt under finance lease agreements.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2016	31.12.2015	31.12.2014
- non-current	29 374	11 551	12 313
- current	18 463	18 382	20 401
Total	47 837	29 933	32 714

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

Ratio	31.12.2016	31.12.2015	31.12.2014
Equity to assets ratio: (shareholders' equity) / (total assets)	0.14	0.13	0.13
Equity to non-current assets ratio: (shareholders' equity) / (non-current assets)	0.48	0.38	0.37
Debt ratio: (total assets – shareholders' equity) / (total assets)	0.86	0.87	0.87
Assets to equity ratio: (total assets – shareholders' equity) / (shareholders' equity)	5.91	6.97	6.50

As at the end of 2016, 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.

Ratio	31.12.2016	31.12.2015	31.12.2014
Current ratio (current assets) / (current liabilities)	0.91	0.85	0.83
Quick ratio (current assets – inventory) / (current liabilities)	0.87	0.83	0.81

Liquidity ratios improved in relation to those recorded at the end of 2015. 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 2017.

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables are described in note 47 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 2016:

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	78 306	2021-10-20	in exchange for payments	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	206	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	85	2017-12-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	26 640	2024-03-23	free of charge	subsidiary
Budimex SA	FBSerwis SA	3 774	2021-06-16	in exchange for payments	associate
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	in exchange for payments	associate
TOTAL		110 274			

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

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

The Budimex Group did not publish any financial forecasts for 2016.

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 2016, 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.

- 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 2016, 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 2016 to 21 June 2017. 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 2016

Cooperation agreements concluded in 2016:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Lotos Asphalt Sp. z o.o.	road asphalts	80 041	03.03.2016
2	Orlen Asphalt Sp. z o.o.	road asphalts	53 723	19.01.2016
3	Lafarge Cement SA**	concrete, cement	46 026	02.05.2016
4	Elikopol BK Sp. z o.o.	geosynthetics	12 898	11.01.2016
5	KGHM Metraco SA	road and railway construction aggregates	10 400	12.10.2016
6	Atut Rental Sp. z. o.o.	rental of construction equipment	5 482	26.01.2016
7	PGP Bazalt SA*	concrete products (sumps, retaining walls)	4 350	11.04.2016
8	Lausitz Energie Bergbau AG	coal dust	3 542	01.01.2016
9	Energa Obrót SA	electricity	3 174	29.03.2016
10	Tauron Sprzedaż Sp. z o.o.	electricity	1 116	02.09.2016

* The turnover also refers to other aggregates

* The turnover also refers to concrete acquired from Lafarge Kruszywa i Beton Sp. z o.o. since 2 May 2016

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

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 2016 and effective in 2016:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Cemex Polska Sp. z o.o.	aggregates, cement, concrete	43 656	23.11.2006 01.04.2009 06.12.2011
2	Viacon Polska Sp. z o.o.	road pass elements	43 104	15.02.2013
3	Vimex SA	steel reinforcements, reinforced steel	41 444	01.10.2012
4	Lafarge Kruszywa i Beton Sp. z o.o.	aggregates, concrete (until 2 May 2016)	40 784	01.06.2010
5	ArcelorMittal Distribution Solutions Polska Sp. z o.o.	steel reinforcements, reinforced steel	39 141	24.05.2011
6	ZPK Rupińscy Sp. j.	aggregates	25 582	15.01.2013
7	Peri Polska Sp. z o.o.	lease of formwork and scaffoldings	23 440	17.03.2006
8	Nordkalk Sp. z o.o.	aggregates	22 058	30.04.2009
9	Stalprodukt SA	road barriers	21 566	18.06.2007 1.03.2010
10	Konsorcjum Stali SA	steel reinforcements, reinforced steel	20 823	01.03.2012
11	ThyssenKrupp Energostal SA	steel reinforcements, reinforced steel	19 969	04.02.2013
12	Kopalnie Dolomitu w Sandomierzu SA	aggregates	19 943	01.10.2012

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

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 2016, Budimex SA had the following loans, borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Credit Agricole Bank Polska SA	Revolving working capital loan	13.05.2015	PLN 50 000	-	WIBOR 1M or 3M + margin	11.05.2018
ING Bank Śląski SA	Overdraft facility	15.05.2015	PLN 50 000	-	WIBOR 1M + margin	01.05.2018
Bank Zachodni WBK SA	Revolving loan	13.05.2015	PLN 50 000	-	WIBOR 1M or 3M or 6M + margin	12.05.2018
Bank PEKAO SA	Revolving working capital loan	14.05.2015	PLN 50 000	-	WIBOR 1M + margin	14.05.2018
Societe Generale SA Branch in Poland	Medium-term revolving loan	14.05.2015	PLN 70 000	-	WIBOR 1M + margin	14.05.2018
Cintra Infraestructuras SA	Loan	01.12.2004	EUR 2 072	EUR 2 072	EURIBOR 12M + margin	01.12.2017
Millennium Leasing Sp. z o.o.	Finance lease (66 agreements in total)	-	-	PLN 24 781	WIBOR 1M + margin	31.05.2021
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 2 079	fixed, as provided in the agreement	monthly
Pekao Leasing Sp. z o.o.	Finance lease (32 agreements in total)	-	-	PLN 11 812	WIBOR 1M + margin	30.11.2021

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

As at 31 December 2016, 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 128	fixed, as provided in the agreement	monthly
Mostostal Kraków SA						
Bank BGŻ BNP Paribas SA	Finance lease	22.11.2013	-	PLN 705	WIBOR 1M + margin	13.03.2019
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	31.05.2012	-	PLN 58	fixed, as provided in the agreement	monthly
Millennium Leasing Sp. z o.o.	Finance lease	17.12.2014	-	PLN 318	WIBOR 1M + margin	31.01.2020
Millennium Leasing Sp. z o.o.	Finance lease	20.12.2016	-	PLN 1 560	WIBOR 1M + margin	31.12.2021
Budimex Parking Wrocław Sp. z o.o.						
Bank PKO BP SA (consortium leader)	Concession financing loan	30.06.2012	-	PLN 31 883	WIBOR 3M + margin	31.12.2031
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2014	-	PLN 2	fixed, as provided in the agreement	monthly
Elektromontaż Poznań SA						
Getin Bank SA	Finance lease	17.07.2014	-	PLN 33	WIBOR 3M + margin	17.07.2018
Masterlease	Finance lease	-	-	PLN 7	WIBOR 1M + margin	05.05.2017
Pekao Leasing Sp. z o.o.	Finance lease	24.11.2016	-	PLN 78	WIBOR 1M + margin	12.11.2020

4.5 Major capital deposits and equity investments in 2016

On **20 January 2016**, the Shareholders' Meeting of Budimex A Sp. z o.o. (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 50 thousand, i.e. from PLN 175 thousand to PLN 225 thousand by creating 1 000 shares of a nominal value of PLN 50 each, which were acquired entirely by Budimex SA. The above share capital increase was registered in the National Court Register on 24 February 2016.

On **12 February 2016**, the partnership deed of Budimex SA – Ferrovial Agroman SA 2 s.c. was signed. Budimex SA holds 95 per cent of the shares in this partnership, and Ferrovial Agroman SA holds the remaining 5 per cent.

On **25 February 2016**, Budimex Inwestycje "Grunwald" SA was entered in the National Court Register. Budimex SA holds 100 per cent of the shares in this company with a nominal value of PLN 100 thousand.

On **9 March 2016**, the partnership deed of Budimex SA – Cadagua SA III s.c. was signed. Budimex SA holds 60 per cent of the shares in this partnership, and Cadagua SA holds the remaining 40 per cent.

On **1 August 2016**, the partnership deed of Budimex SA – Cadagua SA IV s.c. was signed. Budimex SA holds 60 per cent of the shares in this company, and Cadagua SA holds the remaining 40 per cent.

On **7 December 2016**, the partnership deed of Budimex SA – Cadagua SA V s.c. was signed. Budimex SA holds 60 per cent of the shares in this company, and Cadagua SA holds the remaining 40 per cent.

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

On **4 January 2016**, Budimex SA signed a borrowing agreement with FB Serwis SA (an associate of Budimex SA), valid until 4 January 2021. Budimex SA provided FB Serwis with a borrowing in the amount of up to PLN 13 720 thousand. Pursuant to the agreement, the interest on the borrowing was agreed at 3M WIBOR + margin. As at 31 December 2016, the borrowing was utilised in the amount of PLN 9 163 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 2016, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2016, the Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 3 900 shares

5.2 Acquisition of own shares

In 2016, 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 19 April 2016, the Supervisory Board of Budimex SA resolved to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. to review the Company's mid-year financial statements and consolidated financial statements of the Budimex Group for a 6-month period of 2016, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2016. The contract for the review and audit of financial statements was concluded on 23 May 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 mid-year 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.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. also reviewed the mid-year separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for a 6-month period of 2015 and audited the separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2015. The remuneration for the obligatory audit of separate and consolidated financial statements amounted to PLN 454 thousand, the remuneration for the review of the mid-year separate and consolidated financial statements amounted to PLN 114 thousand, the remuneration for other certification services amounted to PLN 61 thousand and the remuneration for other services amounted to PLN 21 thousand.

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 2016, Budimex SA developed two proprietary CSR programmes: "Strefa Rodzica. Budimex Dzieciom" [Parent Zone. Budimex for Children] and "Domofon ICE. Budimex Dzieciom" [ICE Card. Budimex for Children].

The main idea of the "Domofon ICE. Budimex Dzieciom" programme is to provide schoolchildren with plastic cards with contact details of their next of kin to be contacted in the event of an emergency. Additionally, the campaign has a broader educational dimension as it promotes the principles of road safety and first aid among young people. All children participating in the programme receive mobile phone-shaped cards together with a fluorescent holder that can easily be fixed to a backpack. The programme was introduced in 2010 and so far it has included nearly 23 thousand children from over 240 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 2016, 3 970 children from 21 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 18 Parent Zones in paediatric hospitals in Lublin, Białystok, Łódź, Katowice, Poznań, Gdańsk, Szczecin, Kraków, Sanok, Wrocław, Olsztyn, Bydgoszcz, Toruń, Jędrzejów, Bogatynia, Oleśnica and Rzeszów. Each year, they can be used by nearly 25 thousand hospitalised children and their parents. In 2016, 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 2016, our volunteers implemented 9 projects.

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

Apart from community activities, the Company also carries out charity and sponsorship activities. In 2016, the Budimex Group donated PLN 999 thousand (of which PLN 959 thousand was donated by Budimex SA) primarily to charities focused on various children's causes.

In 2016, the sponsorship activities of Budimex SA were focused mainly on social and cultural, as well as educational initiatives, such as the publication of "Don Quixote" by Miguel de Cervantes illustrated by Józef Wilkoń (together with the Chain Foundation), the "Totus Tuus – Hope" concert, a Gala Concert to commemorate "Anathematised Soldiers", the Jewish Culture Festival and the "Fairy Tale Days". Moreover, Budimex supported a number of sports initiatives and sports clubs, such as: an 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. The Company was also 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 and the Leaders' Pit Stop Conference.

6 CORPORATE GOVERNANCE

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

In 2016, 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. 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.

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

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>.

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 Diversity policy

Diversity and openness constitute integral parts of both the business activities of the Company and its hiring policy. We believe that the principles of equal treatment and combatting of all forms of discrimination bring material benefits and foster growth and innovativeness in our organisation. The Diversity Charter signed in 2016 is a confirmation of our efforts in this area.

As a company with many years of experience, we know that employees are our most valuable assets and that it is employees who, for many years, have been contributing to our strong position on the market. Having regard to the creation of a friendly working environment, we put 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.

Owing to the implementation of the diversity policy, we are a company that employs the best specialists and creates conditions that foster their professional and personal development — we have 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 Company plans to introduce anti-discrimination and anti-mobbing monitoring procedures in 2017.

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. We also break down barriers associated with the health of our employees by hiring people with disabilities.

Structure of employees of Budimex SA

Age (in years)	Women	Men	Total
<30	362	616	978
30-50	575	1 747	2 322
> 50	66	458	524
Total employees	1 003	2 821	3 824

(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

6.3 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)

6.4 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 2016 was as follows:

Shareholder	Type of shares	Number of shares	% share in the share capital	Number of votes	% share in the number of votes at the GSM
Valivala Holdings B.V. Amsterdam (the Netherlands) – a Ferrovial SA Group (Spain) company	ordinary	15 078 159	59.1%	15 078 159	59.1%
Aviva OFE Aviva BZ WBK	ordinary	1 720 000	6.7%	1 720 000	6.7%
Other shareholders	ordinary	8 731 939	34.2%	8 731 939	34.2%
Total		25 530 098	100.0%	25 530 098	100.0%

6.5 Holders of all securities which confer special control rights

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

6.6 Restrictions on exercising voting rights

There are no restrictions concerning the exercise of voting rights.

6.7 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.

6.8 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 2016, 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.

6.9 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.

6.10 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 secure electronic signature verified by a valid classified certificate.

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

- considering and authorising the report on the Company's activities and of the financial statements for the prior financial year,
- reviewing and approving the directors' report on the Group's activities and the consolidated financial statements of the Budimex Group,
- acknowledging 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.

6.11 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 2016, 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 2016, the following changes to the composition of the Management Board took place:

- At the request of the President of the Management Board, on 14 March 2016, the Supervisory Board of Budimex SA appointed Radosław Górski (Resolution No. 247) and Artur Popko (Resolution No. 248) to the position of Board Members.

As at 31 December 2016, joint authorisations to represent the Company were granted to the following persons:

- Piotr Świecki – joint authorisation to represent the Company together with another authorised commercial representative.

In 2016, the following changes to joint authorisations to represent the Company took place:

- on 14 March 2016, joint authorisations to represent the Company granted to Radosław Górski and Artur Popko were cancelled, on 11 May 2016, joint authorisation to represent the Company together with another authorised commercial representative was granted to Piotr Świecki.

b) Composition of the Supervisory Board and its Committees

As at 31 December 2016, 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 2016, there were no changes to the composition of the Supervisory Board. Due to the expiry of mandates of members of the Supervisory Board of the eighth term of office, on 26 April 2016 the Ordinary General Meeting of Budimex SA, appointed the

Supervisory Board of the ninth term of office, in the above-mentioned composition.

As at 31 December 2016, the Audit Committee was composed of the following persons:

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

During 2016, the composition of the Audit Committee changed. Pursuant to a decision of the Supervisory Board of the ninth term of office, on 26 April 2016 Janusz Dedo replaced Jose Carlos Garrido-Lestache Rodriguez on the Audit Committee.

As regards the independence of an Audit Committee member, provisions of the following apply: 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, dated 7 May 2009, 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 Procedure for Integrated Management System No. 05-05 relating to obtaining information from Supervisory Board members and the publication of this information, based on representations filed by Board members and based on Article 56 section 3 points 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorised to Audit Financial Statements and Public Oversight, dated 7 May 2009.

As at 31 December 2016, 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 2016. On 26 April 2016, the Supervisory Board of the ninth term of office appointed the Investment Committee in the previous composition.

As at 31 December 2016, 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 2016. On 26 April 2016, the Supervisory Board of the ninth term of office appointed the Remuneration Committee in the previous composition.

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:

- recommend to the Supervisory Board an entity authorised to serve as a certified auditor and to audit the financial statements of the Company and the consolidated financial statements of the Group for the previous year,
- monitor the process of preparation of the financial statements of the Company and the consolidated financial statements for the previous year, perform detailed reviews of the results of those audits at each audit stage,
- monitor the financial audit process,
- monitor the effectiveness of the internal control, internal audit and risk management systems,

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

f) Tasks of the Investment Committee

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

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

g) Tasks of the Remuneration Committee

The tasks of the Remuneration Committee comprise:

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

6.12 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,

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

- 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 average monthly salaries, depending on the position, in the case of removal or non-appointment for the next term of office of the Management Board for reasons due to the Company. The amount of the severance pay also depends on the length of the termination notice period — the sum of the basic salary for the termination period and the severance pay must not be higher than 6 or, respectively, 12 times the basic salary as at the date of termination of employment. 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 – except for the Chief HR Officer, who has been working in the Company since December 2015 – have concluded, with the Company or the company paying their remuneration, separate non-competition agreements which are valid for a period of 12 months after the date of dissolution of the respective employment contracts. During the period of validity of the non-competition clause, the Company will pay the employee 75 per cent of his/her basic monthly remuneration if the termination of the employment contract is initiated by the Company, or 25 per cent of the basic monthly remuneration if the termination is initiated by the employee. Contractual penalties have been established for the breach of the non-competition clause by a member of the Management Board.

Information on the remuneration of Members of the Management Board was presented in note 40.1 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 incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" ("*Plan przyznania akcji związanych z celami Ferrovialu*") which consists in conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in Management Board posts 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 incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" ("*Plan przyznania akcji związanych z celami Ferrovialu*"), which consists in the conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in the Management Board posts on the date of awarding the shares.

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 2016, the value of shares increased from PLN 99.5 to PLN 197.95, representing nearly a 98.9 per cent growth. Furthermore, this policy ensures the stability of the exercise of duties of the Management Board, whose actions guarantee the economic success of the Company.

Dariusz Blocher	President of the Management Board	Henryk Urbański	Member of the Management Board
name and surname	position	signature	name and surname	position	signature
Fernando Luis Pascual Larragoiti	Vice-President of the Management Board	Marcin Węglowski	Member of the Management Board
name and surname	position	signature	name and surname	position	signature
Jacek Daniewski	Member of the Management Board	Artur Popko	Member of the Management Board
name and surname	position	signature	name and surname	position	signature
Cezary Mączka	Member of the Management Board	Radosław Górski	Member of the Management Board
name and surname	position	signature	name and surname	position	signature
Warsaw, 16 March 2017					