

Dear Sirs,

The year 2016 was another very good year for Budimex Group SA, as the results achieved by Budimex SA placed the company on the first position among the biggest construction companies in Poland. Despite decrease in the construction and assembly production by 14.4%, the Group increased its sales by 8.5% and generated a record net profit of PLN 410 million.

The situation in the market in 2016 was determined by decrease in the public procurement sector resulting mainly from suspension of tendering procedures by the General Directorate for National Roads and Motorways (GDDKiA) and delays in the procedures of Polish State Railways (PKP PLK). As a result of significant decrease of the value of the awarded infrastructural tenders, the prices of materials during the year were favourable and the prices of subcontractors' services were relatively low, which had an impact on increase of profitability at every level of the Group's financial result. Gross sales margin, operational result and net result increased, accordingly, by: 52%, 73% and 74% over the previous year. Such good results of the Group are attributable mainly to improvement of the operational efficiency and decreased provisions for the projected losses in one of big road contracts of Budimex, as well as significant increase of activity in the building construction industry.

Despite unfavourable conditions in 2016, Budimex group won contracts of the value of PLN 5.7 billion (decrease by 20% as compared to 2015). Such a satisfying level of contracting in the difficult market has been achieved, among others, thanks to highly efficient tendering in the road sector referring to contracts other than offered by GDDKiA (the total value of infrastructural contracts in 2016 amounted to PLN 2.4 billion), and thanks to intensification of works in the area of general construction. We have increased the value of the obtained contracts in this segment by 34% on a yearly basis, signing agreements for a record amount of PLN 2.8 billion.

The value of the order book in the end of 2016 amounted to PLN 8.9 billion and was higher by PLN 0.5 billion (6%) as compared to the end of 2015. The change in the structure of the obtained contracts has been reflected in the order portfolio. The share of road projects decreased from 65% in the end of 2015 to 57% in the end of 2016. At the same time, the general construction segment constituted 29% of the contract portfolio, which was an increase by 7 percentage points as compared to the analogous period in the previous year.

In the end of 2016, Budimex Group generated a record net cash level in the amount of PLN 2.6 billion, which is an increase by 13% as compared to the level as of 31 December 2015.

Last year Budimex SA completed construction of 87 kilometres of expressways and motorways, which constituted over 2/3 of the total length of roads accepted for use by GDDKiA in 2016. Some of the sections, such as the Bełchatów by-pass or the S7 Ostróda – Miłomłyn section have been completed even before the contractual deadline.

At the same time, I am observing, to my utmost satisfaction, that we are reinforcing our position in the railway market. As we had announced, we bought specialist equipment enabling us to complete big orders in this area. In the beginning of 2017, we were ranked among the top contractors who placed best bids in railway tendering procedures, reaching a high, almost 20-percent tendering efficiency. Our share in the market of announced tenders in the beginning of 2017, excluding the part referring to consortiums, amounted to 10 percent and I believe that it will continue to grow. This could be achieved despite the fact that earlier plans had not provided for such a fast growth. Yet, this confirms the appropriateness of the undertaken investment decisions.

In reference to the general construction segment, what should be mentioned at this point is the completion of the development of milk processing establishments Zakłady Mleczarskie Polmlek in Lidzbark Warmiński that was highly estimated by the national dairy industry or obtaining several significant contracts such as construction of the Centre of Non-invasive Medicine (Centrum Medycyny Nieinwazyjnej) in Gdańsk and development of Provincial Polyclinic Hospital (Wojewódzki Szpital Zespolony) in Toruń.

What was an undisputable success of Budimex in 2016 was its return to Lithuania. We concluded a conditional agreement for construction of waste incineration plant in Vilnius of the value of EUR 178 million net.

Another great achievement was obtaining the first important contract in gaseous fuels market. At the commission of GAZ SYSTEM SA – one of the key gas transmission operators in Poland, we are going to build a 33-kilometre long gas pipeline in Lower Silesia.

Furthermore, Budimex increased its activity in the field of small local government contracts. The total value of the won contracts in this segment in the end of the year amounted to almost PLN 190 million.

In 2016, Budimex Group continued its activity in the area of workshop works and prefabrication in the German market where revenues at the level of almost PLN 185 million and operational profit of over PLN 24 million was generated, which is a slight increase as compared to 2015.

Continuously since 2011, Budimex SA is a part of RESPECT Index – socially accountable companies, which is a confirmation that in our business activity we focus mainly on the issues of workers' safety, environment protection and sustainable development. We are still actively supporting the Agreement on safety in the construction industry (Porozumienie dla Bezpieczeństwa w Budownictwie). In 2016, several of our construction sites were awarded in the "Buduj Bezpiecznie" (Build Safely) contest organised by the National Labour Inspectorate, and the "Builder" monthly awarded Budimex SA the title of the Construction Company of the Year ("Budowlana Firma Roku").

The year 2016 was very successful not only for Budimex SA, but also for the companies belonging to the Budimex Group.

In 2016, Budimex Nieruchomości signed 1,188 notary's deeds, i.e. 31% more than in 2015. At the same time, the growth dynamics of revenue from sales slightly decreased and amounted to 19%, which resulted from a greater share of cheaper projects located outside Warsaw, mainly in Krakow – increase in share from 25% to 44% in 2016.

In 2016, in answer to the increased customer demand, Budimex Nieruchomości started the pre-sale of apartments as a part of twelve new projects, also in Trójmiasto – a new market for the company. The company invested over PLN 100 million in purchase of the land. Thanks to this, for another consecutive year, Budimex Nieruchomości extended its portfolio of ready to run projects – more than 6,400 apartments at the moment. In order to keep the level of 1,500 pre-sold apartments a year we need to maintain a fixed number of 4,000 apartments under construction.

For yet another consecutive year, Mostostal Kraków improved its operational efficiency. Its operational results are 90 percent better than in 2015, and sales increased by 12 percent.

Elektromontaż Poznań has shown increase in EBIT up to 5.6 percent.

The FBSerwis group, where Budimex SA holds 49% of the shares, has strengthened its position in the waste treatment market, increased revenues from sales by more than 40 percent as compared to 2015 and is planning further acquisitions.

Thanks to its operational activity and transparency we are still among the key CIT payers in Poland. In 2016, we paid PLN 116 million to the state budget, i.e. 45 percent more than in the previous year. Moreover, despite the declining construction sector, we increased employment by more than 500 people.

In 2017, our actions will be focused on creating a profitable portfolio of contracts for the subsequent years. We are intending to increase our share in the railway market. We will continue diversification of our activity trying to strengthen the position of Budimex in the power and heat, industrial and hydraulic engineering sectors. We would like to include more projects financed from local government budgets in our portfolio. Our goal for the future is to enter foreign markets. The agreement signed in 2016 in Lithuania proves that this is a realistic target, and Polish contractors are perceived as reliable business partners. Recovery in the infrastructure and railway tendering market will be certainly reflected in further employment growth. We are also intending to increase the number of sold apartments.

We want to be a stable and predictable company for our Shareholders. We wish to remain an unquestioned leader in the construction market. I am deeply convinced that we have a potential to achieve this target, and our activity in 2016 confirms that we can adjust our strategy to the current situation in the market.

At this point I would like to thank all of the employees of Budimex, whose engagement and determination strongly contributed to this success.

I wish you a pleasant reading of the Budimex Group's consolidated annual report for 2016.

Dariusz Blocher

President of the Management Board