

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Shareholders' Meeting and Supervisory Board of Budimex Group

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Budimex Capital Group (the 'Group'), for which the holding company is Budimex S.A. (the 'Company') located in Warsaw at Stawki 40 St., containing: the consolidated statement of financial position as at 31 December 2018, the consolidated profit and loss statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 25 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory

Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<i>Revenue recognition and provisions for expected contracts' losses</i>	
<p>The Group presents in the financial statements for the year ended 31 December 2018 revenue from construction contracts amounting to 6 773 million Polish zloty.</p> <p>The revenue recognition method requires often the identification of more than one performance obligation</p>	<p>During the audit of the consolidated financial statements we have assessed the revenue recognition and its presentation accounting policies according to IFRS 15.</p> <p>For significant revenue streams:</p> <ul style="list-style-type: none"> • we have documented the effectiveness of processes and key internal controls existing in the Group. For selected controls

Key audit matter	How the matter was addressed in our audit
<p>within contracts with customers, when performance obligations were satisfied and determination of the transaction price.</p> <p>In case of construction contracts the Group recognizes revenue as at each balance sheet date based on physical measurement of the construction works performed or as a percentage of completion of the costs incurred in total planned costs. The Group estimates contracts' budgets, including detailed costs necessary to complete the contract determining total contract result. Based on estimated result of the contract, the Group does recognize or derecognize the provision for expected contract losses.</p> <p>The estimates in respect of contracts' budgets, relating to both planned contract costs as well as already recognized revenue, involve significant judgement of the Group's Management and include a risk of incorrectly defined scope of work or costs to complete the contract. Those can result in misstated estimate of planned result of the contracts and as a result may impact the amount of provision for expected contract losses.</p> <p>Additionally, due to the technical complexity and the scale of the construction contracts, revenue recognition includes the risk of incorrect physical measurement of realized works. Those aspects as a result can lead to revenue being recognized in incorrect amount in incorrect period.</p>	<p>we have performed tests of its operational effectiveness,</p> <ul style="list-style-type: none"> • for services for which revenue is recognized over the time, based on selected sample, we have performed tests of details on determination of transaction price and recognized revenue as well as determination of contracts' budgets, which were the basis for calculation and recognition of provisions for expected contracts' losses, • we have performed the analysis of historical budgets realization for significant contracts finalized during the financial year comparing the budgets and forecasts of the open contracts and also in order to confirm existing trends in costs of materials and labor prices, which are substantially determining the estimate of costs, which will be incurred to complete a contract. We have checked whether observed trends in costs were reflected in the budgets of contracts selected for the purpose of our tests of details. • for a sample of significant contracts: <ul style="list-style-type: none"> – we analyzed the relevant clauses within the contracts, costs and revenue budgets as well as discussed with the Company's Management the changes occurred during the reporting period, – we have discussed with project managers key budgets assumptions, risks and status of realized contracts, – we have performed site visits on selected contracts, • for a sample of contracts for which provisions for expected contracts' losses are recognized: <ul style="list-style-type: none"> – we have performed procedures to reconcile the correctness of the provision calculation and recognition in accordance with IAS 37,

Key audit matter	How the matter was addressed in our audit
<p>Considering the above, we determined that the revenue recognition and provisions for losses on construction contracts are key audit matters.</p> <p>Revenue recognition accounting policy is disclosed in note 2.21 of the financial statements, while significant estimates and judgments in the revenue recognition and provision for expected contracts' losses calculation are disclosed in note 5.2.</p> <p>In the note 29 of additional notes to the consolidated financial statements, the Group included detailed data on revenue recognition required by IFRS 15.</p>	<ul style="list-style-type: none"> – we have discussed with the Management and project managers the assumptions for contracts' budgets and probability of changes of assumed contracts' results. <p>During the audit we have also assessed the disclosures in respect of revenue recognition and provisions for expected contracts' losses made in the financial statements.</p>
<i>Revenue recognition - revenue from residential real estate projects</i>	
<p>In the consolidated financial statements the Group recognized revenue from sales of multi-family residential real estate projects in the amount of 548 million PLN, which represents significant part of the Group's total revenue. Revenue is recognized by the Group when the control over the real estate asset is transferred to the buyer and when revenue can be measured reliably which according to the Management Board's judgment take place when the notarial deed transferring the legal ownership to the acquired property is signed.</p> <p>Consequently, taking into account the significance of proper cut-off for the revenue recognition resulting from the sales of multi-family residential real estate projects for the consolidated financial statements,</p>	<p>During the audit we have documented our understanding of the sales process of multi-family residential real estate projects, we have identified the key controls in that process and then performed tests of those controls.</p> <p>Additionally, we have performed substantive audit procedures including, among others, detailed margin analyses, tests of details and tests of transactions to assess the correctness and completeness of recognized revenue, including the proper cut-off of all sales revenue from multi-family residential real estate projects, in the current reporting period.</p> <p>During the audit we have also assessed the disclosures relating to revenue recognition from sale of residential real estate projects made in the consolidated financial statements.</p>

Key audit matter	How the matter was addressed in our audit
<p>it has been identified as a key audit matter.</p> <p>Revenue recognition accounting policy and significant estimates and judgements in the revenue recognition and provision for expected contracts' losses calculation are disclosed in note is disclosed in note 2.21 of the consolidated financial statements.</p> <p>In the note 29 of additional notes to the consolidated financial statements, the Group included detailed data on revenue recognition required by IFRS 15.</p>	

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information. In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we declare that we have not provided services other than audits of the financial statements to the Company and its subsidiaries, in particular we have not rendered services other than audits, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Company's Supervisory Board dated 28 March 2017. The consolidated financial statements of the Group have been audited by us for the last two consecutive years starting from the financial year ended on 31 December 2017.

Key Certified Auditor

Marcin Zieliński
certified auditor
no in the register: 10402

on behalf of:
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

Warsaw, 25 March 2019