

# **THE BUDIMEX GROUP**

## **DIRECTORS' REPORT ON THE ACTIVITIES OF THE GROUP FOR THE YEAR 2011**

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## **1 BUSINESS ENVIRONMENT**

### **1.1 General market conditions**

The year 2011 was the year of the debt crisis of the largest global economies. The United States lost, for the first time in its history, the highest credit ranking (its rating was downgraded from AAA to AA+ by the rating agency, Standard & Poor's), whilst the ranking of the weakest country of the European Union was reduced to "junk" status.

In times of growing indebtedness and global economic slowdown, Poland has continued to be very attractive. Visible proof of the strong foundations of the Polish economy was the preliminary assessment of the GDP dynamics in 2011 – the Main Statistical Office (GUS) assessed it at 4.3%. According to the Ministry of Finance, the deficit of public sector finance in the previous year was 5.6% of GDP; however in 2012 it is to be reduced to a safe 3.0% of GDP.

In 2011, the construction industry showed very dynamic growth, and the value of building-assembly services (in terms of fixed prices) increased by 16.3% on a year-on-year basis. The main driver behind the increase was infrastructural investment projects (a 25.9% increase), including the accumulation of construction projects associated with preparations for the EURO 2012 tournament. Expenditures by the biggest investor in the roads segment, the General Directorate for National Roads and Highways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA), increased from PLN 19.9 billion in 2010 to a record-high level of PLN 26.4 billion in 2011. The value of building-assembly services in the segment of building objects (residential and non-residential) grew by 2.0% compared to 2010.

Given the strong slowdown in the segment of residential construction services that started in 2009, in 2011 the number of completed flats fell for the third year running (from 165.2 thousand in 2008 to 131.7 thousand in the current year). On the other hand, a systematic increase in the number of new construction projects translated into a record-breaking number of flats under construction – more than 700 thousand. The number of flats to be constructed with already granted construction permit increased by slightly more than 5% on a year-on-year basis.

### **1.2 Market development perspectives**

Market conditions in 2012 will strongly depend on developments in the eurozone. In accordance with the provisions of the act on state budgets, the increase in GDP in 2012 should be 2.5%, and the yearly average inflation rate - 2.8%. The unemployment rate at the year-end is projected to be 12.3%.

Construction market development perspectives vary, depending on the market segment. The greatest challenges are expected in the roads segment. Although GDDKiA estimates it will spend PLN 29.3 billion in 2012, it is expected that the number of new public tenders will be greatly limited, which will translate into a material decrease in the value of the roads market in the years 2013-2014. On the other hand, investment projects in the rail segment show greater dynamism. In accordance with the data of the Ministry of Infrastructure, the expenditures of PKP PLK (the main investor in said segment) in 2011 amounted to PLN 3.7 billion, whilst in the next year they are to reach a record level of PLN 7-8 billion. In 2012, the settlement of numerous public tenders is expected in the energy sector.

The year 2012 may prove to be a year of tight competition and struggle for customers on the development market. Significant fluctuations in exchange rates, coupled with greater restrictions in granting mortgage loans in connection with the Recommendation of the Polish Financial Supervision Authority (KNF), may translate into demand weakening with simultaneous high market supply.

The business operations of the Budimex Group focus on the construction sector, which to a large degree uses aid funds obtained from the European Union. A large part of these funds is assigned to infrastructural investments, including the construction of roads and railways. In the coming years, the final budget of EU funds for Poland for the years 2014-2020 will be the key parameter for the development of the construction market. A project prepared by the European Commission assumes that Poland will receive approx. EUR 80 billion, which is more than the amount allocated for the years 2007-2013.

## **2 BUDIMEX GROUP CURRENT ACTIVITIES AND DEVELOPMENT PERSPECTIVES**

### **2.1 Group organizational structure, consolidated entities and changes in Group organization**

The principal business activities of the Budimex Group comprise a wide range of construction & assembly services performed in the general contractor system at home and abroad, development activities and property management, and to a smaller extent trade, production, transportation and hotel services.

The main area of business activities of Budimex SA is rendering construction & 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 quick flow of information across the Group,
- strengthen the effectiveness of financial & treasury management at individual Group companies,
- strengthen market position of the Group.

In 2011, the following changes occurred in the structure of the Budimex Group:

On 10 February 2011, Budimex Parking Wrocław Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex SA holds 100% shares in this company.

On 17 March 2011, Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex SA holds 30% shares in this company.

## Directors' Report on the activities of the Budimex Group in the year 2011

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

On 10 May 2011, Budimex Serwis SA was entered in the Register of Entrepreneurs. Budimex SA holds 100% in this company.

On 31 May 2011, in a share-sales transaction Budimex SA sold 1 015 shares (100%) in the company Centrum Konferencyjne „Budimex” Sp. z o.o. for PLN 102 thousand. The buyer was NORTHCAN Sp. z o.o. with its registered office in Warsaw.

On 27 July 2011, SPV-BN 1 Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex Nieruchomości Sp. z o.o. holds 100% shares in this company.

On 28 July 2011, SPV-BN 2 Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex Nieruchomości Sp. z o.o. holds 100% shares in this company.

On 25 August 2011, Budimex Autostrada SA was entered in the Register of Entrepreneurs. Budimex SA holds 100% shares in this company.

On 2 September 2011, Budimex Most Wschodni SA was entered in the Register of Entrepreneurs. Budimex SA holds 100% shares in this company.

On 30 September 2011, Budimex Autostrada A-1 SA was entered in the Register of Entrepreneurs. Budimex SA holds 100% shares in this company.

On 16 November 2011, all required conditions precedent materialised, which consisted in obtaining all legal permissions i.e. the permission of the Minister of Infrastructure to dispose by PKP SA its shares in PNI Sp. z o.o., the permission of the President of the Office of Competition and Consumer Protection (UOKiK) concerning concentration and granting permission to said transaction by the Supervisory Board of PKP and the authorization of the Shareholders Meeting of PNI Sp. z o.o., as a result of which payment was made of PLN 225 017 thousand for 100% shares in the company Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (PNI). Upon crediting the account of PKP SA on 16 November 2011 with said amount, Budimex SA became the owner of PNI and obtained control over this company.

In 2011, there were no changes in the management policies at the Budimex Group.

The table below shows a list of subsidiary companies and jointly controlled entities of the Budimex Group:

Entity name	Registered office	% of share capital and votes (%)		Consolidation method
		31 Dec 2011	31 Dec 2010	
Mostostal Kraków SA	Cracow / Poland	100.00%	100.00%	full
Budimex Danwood Sp. z o.o.	Bielsk Podlaski / Poland	100.00%	100.00%	full
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full
MK Logistic Sp. z o.o. (w likwidacji)	Zabrze / Poland	100.00%	100.00%	non-consolidated
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. <sup>1</sup>	Warsaw / Poland	100.00%	-	full
SPV-BN 1 Sp. z o.o. <sup>2</sup>	Warsaw / Poland	100.00%	-	full
SPV-BN 2 Sp. z o.o. <sup>3</sup>	Warsaw / Poland	100.00%	-	full
Budimex Serwis SA <sup>4</sup>	Warsaw / Poland	100.00%	-	non-consolidated
Budimex Parking Wrocław Sp. z o.o. <sup>5</sup>	Warsaw / Poland	100.00%	-	non-consolidated
Budimex Autostrada SA <sup>6</sup>	Warsaw / Poland	100.00%	-	non-consolidated
Budimex Most Wschodni SA <sup>7</sup>	Warsaw / Poland	100.00%	-	non-consolidated
Budimex Autostrada A-1 SA <sup>8</sup>	Warsaw / Poland	100.00%	-	non-consolidated
Dromex Oil Sp. z o.o. (w likwidacji) [in liquidation]	Warsaw / Poland	97.93%	97.93%	non-consolidated
Budimex SA Ferrovial Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%	proportionate
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%	proportionate
Budimex SA Ferrovial Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%	proportionate
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. <sup>9</sup>	Warsaw / Poland	30.00%	-	proportionate
Centrum Konferencyjne „Budimex” Sp. z o.o. <sup>10</sup>	Licheń / Poland	-	100.00%	full

<sup>1)</sup> the company was acquired on 16 November 2011.

<sup>2)</sup> the company was entered in the Register of Entrepreneurs on 27 July 2011.

<sup>3)</sup> the company was entered in the Register of Entrepreneurs on 28 July 2011.

<sup>4)</sup> the company was entered in the Register of Entrepreneurs on 10 May 2011.

<sup>5)</sup> the company was entered in the Register of Entrepreneurs on 10 February 2011.

<sup>6)</sup> the company was entered in the Register of Entrepreneurs on 25 August 2011.

<sup>7)</sup> the company was entered in the Register of Entrepreneurs on 2 September 2011.

<sup>8)</sup> the company was entered in the Register of Entrepreneurs on 30 September 2011.

<sup>9)</sup> the company was entered in the Register of Entrepreneurs on 17 March 2011.

<sup>10)</sup> the company was sold on 31 May 2011.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

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## **2.2 Operating segments and branches of the Parent Company**

As at 31 December 2011, the Group reported the following two operating segments:

- construction activities,
- development activities and property management.

Construction activities comprise a wide range of construction & assembly services rendered at home and abroad by the following Group companies:

- Budimex SA,
- Sprzęt Transport Sp. z o.o. w likwidacji [in liquidation] (liquidated on 31 May 2010),
- Mostostal Kraków SA,
- Budimex Bau GmbH,
- Budimex Budownictwo Sp. z o.o.
- Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.
- Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

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. (entered in the Register of Entrepreneurs on 27 July 2011)
- SPV-BN 2 Sp. z o.o. (entered in the Register of Entrepreneurs on 28 July 2011)
- Centrum Konferencyjne „Budimex” Sp. z o.o. (sold on 31 May 2011)
- Budimex SA in the part relating to development business, as a result of merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

As at 31 December 2011, the Parent Company operated the following branches:

- Oddział Budownictwa Ogólnego Północ [general construction branch] in Poznań, at ul. Wołowska 92A,
- Oddział Budownictwa Ogólnego Południe [general construction branch] in Kraków, at ul. Ujastek 7,
- Oddział Budownictwa Ogólnego Wschód [general construction branch] in Warsaw, at ul. Stawki 40,
- Oddział Budownictwa Komunikacyjnego Północ [traffic infrastructure branch] in Warsaw, at ul. Stawki 40,
- Oddział Budownictwa Komunikacyjnego Południe [traffic infrastructure branch] in Kraków, at ul. Ujastek 7,
- Oddział Budownictwa Komunikacyjnego Zachód [traffic infrastructure branch] in Wrocław, at ul. Jana Długosza 2-6,
- Oddział Usług Sprzętowych [equipment services branch] in Pruszków, at ul. Przejazdowa 24,
- Branch in Rzeszów, at ul. Słowackiego 24,
- Branch in Poznań, at ul. Wołowska 92A,
- Budimex SA Zweigniederlassung Köln, Pferdmenesstr. 5, Cologne, Germany
- Oddział Budownictwa Przemysłowego i Kolejowego [industrial and railway infrastructure branch] in Warsaw, at ul. Stawki 40.

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

- Branch in Germany of Budimex Danwood Sp. z o.o.,
- Branch in Austria of Budimex Danwood Sp. z o.o.,
- Branch in the UK of Budimex Danwood Sp. z o.o.,
- Branch in Germany of Mostostal Kraków SA.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

**2.3 Sales structure of the Budimex Group****Sales of construction & assembly services**

In 2011, sales revenue from the construction & assembly services of Budimex Group were 36% higher compared to 2010. Sales of the infrastructural construction segment grew by as much as 43%, whilst sales of building objects segment – by as much as 24% compared to the prior year.

In 2011, further increase was recorded in sales of the civil engineering (infrastructure) segment (from PLN 2 353 million in 2010 to PLN 3 375 million in 2011). The share of the infrastructural construction segment in total sales of the construction & assembly segment increased from 62% in 2010 to 65% in 2011.

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

Type of construction	Sales value			
	2011		2010	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3 375	65%	2 353	62%
Building objects, of which:	1 818	35%	1 461	38%
- non-residential housing	1 471	28%	1 276	33%
- residential housing	347	7%	185	5%
<b>Total sales of construction &amp; assembly services</b>	<b>5 193</b>	<b>100%</b>	<b>3 814</b>	<b>100%</b>

**Development activities**

In 2011, sales of the development business amounted to PLN 248 222 thousand thus recording a 50% decrease compared to the prior year. Revenue from sales of development activities is seasonal as it is recognised upon transfer of ownership right to a flat/ premises to buyer after the technical acceptance protocol has been signed for the entire building object.

In 2011, situation on the development market was stable which translated directly into high levels of flats pre-booking. In the whole year 2011, 703 flats were sold in the pre-booking system compared to 975 flats sold in the prior year.

In the year 2011, new plots of land were acquired and execution of new development projects was started. As at 31 December 2011, 1 558 flats were under construction. At the same time, the Group administers a large number of land plots, which in the next couple of years are to house over 7 thousand new flats.

# Directors' Report on the activities of the Budimex Group in the year 2011

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

## Major construction contracts (with a value greater than PLN 50 million) concluded by the Budimex Group companies in the year 2011

Contract date	Contract value allocated to the Budimex Group (in PLN '000)	Customer	Type of construction
2011-12-13	62 543	Jeronimo Martins Dystrybucja S.A.	Construction of distribution-logistics centre of Jeronimo Martins Dystrybucja S.A. in Sieradz.
2011-10-24	66 799	Port Lotniczy Lublin S.A.	Construction of airport terminal in Świdnik.
2011-10-06	96 340	GSG Towers Sp. z o.o.	Construction of production hall together with social facilities with fitted installations for Fabryka Wież Wiatrowych.
2011-10-05	689 244	General Directorate for National Roads and Highways, Branch in Łódź	Construction of express road S8 section: Walichnowy Junction - Wrocław Junction (A1), section 8 (Róża junction- Wrocław): from km 183 350.00 to km 202 700.00
2011-09-20	257 994	Gmina Miejska Kraków - Urząd Miasta Krakowa Investment Department	Construction of Congress Centre facility (Rondo Grunwaldzkie) in Cracow.
2011-09-05	61 600	Neinver Annapol Sp. z o.o.	Construction of Shopping Centre, Factory Outlet in Warsaw.
2011-09-02	110 738	Gmina Lublin	Construction of town stadium in Lublin.
2011-09-01	170 000	Warszawa Przyokopowa Sp. z o.o.	Construction of office-services centre at ul. Przyokopowa in Warsaw.
2011-08-04	109 748	Gmina Miasta Gdańska - Urząd Miejski w Gdańsku	Construction of Słowackiego route in Gdańsk. Connecting Port Lotniczy with Port Morski Gdańsk. Section Al. Gen. J.Hallera - Marynarki Polskiej Junction – Task 3.
2011-07-15	158 453	Nowy Szpital Wojewódzki Sp. z o.o.	Construction of a new voivodship hospital in Wrocław - Task 2: Construction of hospital together with land development and construction of helicopter landing strip.
2011-07-15	95 738	General Directorate for National Roads and Highways, Branch in Łódź	Construction of express road S8, section: Walichnowy Junction - Łódź (A1), section 1 (Walichnowy Junction) from km 99 937 to km 101 972.92
2011-07-06	73 340	MDI SP. Z O.O.	Execution of the Słoneczny Dom investment project - Task G
2011-06-22	137 150	Gmina Miasta Gdańska - Urząd Miejski w Gdańsku	Execution of construction works: "Connecting national roads – Sucharskiego route. Task I. Section Gdańsk South Ring road – Elbląska Junction".
2011-06-09	337 497	General Directorate for National Roads and Highways, Branch in Lublin	Construction of express road S17, section Kurów-Lublin-Piaski, Task 2: Section: Junction "Bogucin"-Junction "Dąbrowica" together with interchange.
2011-06-07	168 975	Muzeum Śląskie	Construction of new premises for Muzeum Śląskie in Katowice.
2011-06-02	50 173	Uniwersytet im. Adama Mickiewicza w Poznaniu	Construction of Wielkopolskie Centrum Zaawansowanych Technologii. Building A, A-1, A2.
2011-05-27	697 884	PKP PLK S.A. Zakład Linii Kolejowych	Execution of construction works consisting in modernizing line No.9 in the section from km 184.800 to km 236,920 included in the Area of Local Steering Center in Iława.
2011-04-28	119 700	Uniwersytet Medyczny w Białymstoku	Execution of construction –assembly works during construction of buildings G, H and superstructure for building F under „Rebuilding and Development of Uniwersytecki Szpital Kliniczny Uniwersytetu Medycznego in Białystok”.
2011-04-14	58 350	Sabe Investments Sp. z o.o.	Construction of multi-family housing estate at ul. Jana Kazimierza in Warsaw.
2011-04-05	50 827	Kujawsko-Pomorskie Inwestycje Medyczne w Toruniu	Rebuilding, extension and equipment for Voivodship Children Hospital im. J. Brudzińskiego in Bydgoszcz.
2011-04-01	73 600	2Build Sp. z o.o.	Construction of office-services facilities building at ul. Grunwaldzka in Poznań together with required infrastructure.
2011-03-11	535 999	General Directorate for National Roads and Highways, Branch in Białystok	Design and construction of Augustów Ring Road in the route of National Road No. 8 (in the section from Augustów Junction to Szkocja Junction) and express road S-61 (in the section from Szkocja Junction to Lotnisko Junction).
2011-02-03	64 429	Toya Sp. z o.o.	Construction of hotel-office facilities building in Łódź.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

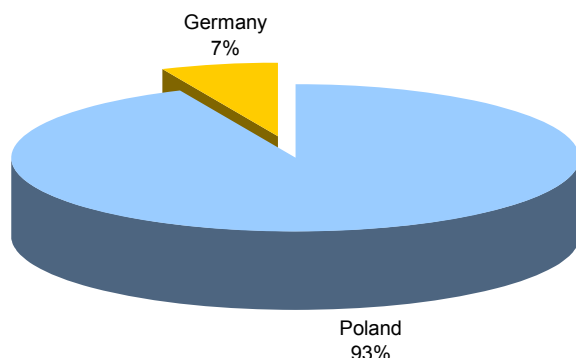
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**Geographical structure of Group sales in 2011**

The main markets on which the Budimex Group operates are:

- Poland
- Germany

The geographical structure of sales in 2011 is as follows:



**2.4 Construction activities on the German market**

In 2011, only workshop services were rendered on the German market. The high-profile marketing-sales campaign conducted both in 2010 and 2011 caused that in 2011 a 41.2% increase was recorded in pre-fabricate related works, whilst in the metal related works segment – a 6.0% growth was recorded compared to the prior year. Sales revenues of the construction segment in Germany amounted to PLN 154 570 thousand and were PLN 32 695 thousand i.e. 26.8% higher compared to 2010. Gross profit for the year 2011 was 66.4% higher compared to the prior year and the increase could be attributed to higher value of pre-fabricate related works, and higher average EUR/PLN exchange rate. Customer structure in both segments shows dispersion and the share of each customer in total sales revenue does not exceed 10%.

**2.5 Activities on the Central and Eastern European markets**

In 2011, Budimex SA closed its business in this region. Budimex SA does not, however, exclude the possibility of returning to the Central and Eastern European markets in the future.

**2.6 Budimex Group development perspectives in the forthcoming year**

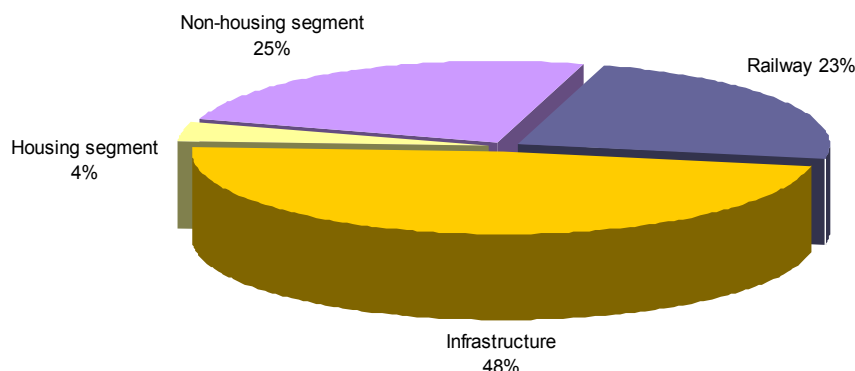
In 2012, the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market.

Restrictions on infrastructural projects (in particular road projects) require that the Budimex Group diversify its business in order to maintain the scale of operations on comparable level. The first step in this direction was the acquisition of a new company, Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o., which specialises in the design, construction, modernization, repair and maintenance of railroad infrastructure. Entering the market of municipal services is also contemplated, as well as engaging in new projects on the basis of private-public partnerships. The Company plans to compensate for the expected decrease in the value of road investments with new contracts secured in the power and hydraulic engineering construction segment.

In 2011, the Budimex Group companies signed construction contracts for a total value of PLN 5,297 million (without annexes). The value of the order portfolio of the Budimex Group as at 31 December 2011 (inclusive of the order portfolio of PNI Sp. z o.o.) amounted to PLN 8,567 million and was 24.2% higher in comparison with the end of 2010.



The structure of order portfolio as at 31 December 2011 is as follows:



## **2.7 Evaluation of investment projects feasibility**

In 2012, the Budimex Group plans to incur capital expenditure of approx. PLN 29 million. The outlays will be made mainly on construction machines and IT solutions.

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

## **2.8 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 implementation of 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 are recognized or that current business is financed through external borrowings.

Information concerning financial risk management objectives and policies adopted by the Group are presented in the consolidated financial statements for the year ended 31 December 2011 (Note 4).

Construction contracts are executed in specific technical and economic conditions which have effect on the level of realised margin. The Budimex Group companies rendering construction services monitor technical, organizational, legal and financial risks related to contract works planning and progress. 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 that will cause that contracts will be performed with lower margins than initially planned. Such factors may include:

- increase in prices of construction materials, energy and oil-derivatives,
- increase in costs of subcontractor services,
- increase 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.

## **2.9 Procurement source changes**

In 2011, there were no significant changes in the sources of supply for construction sites. None of the suppliers of raw materials or services exceeded 10% of the Group's consolidated sales.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

### 3 FINANCIAL POSITION

#### 3.1 Key economic-financial data of Budimex Group

The financial situation of Budimex Group in 2011 is characterised by the selected below items disclosed in the Statement of Financial Position and Profit and Loss Account (together with the 2010 comparative data).

#### Consolidated Statement of Financial Position of Budimex Group

The main items of the Consolidated Statement of Financial Position of Budimex Group as at 31 December 2011 and 31 December 2010 are presented in the table below:

ASSETS	31.12.2011	31.12.2010	Change	Change %
<b>Non-current assets</b>	<b>869 789</b>	<b>632 851</b>	<b>236 938</b>	<b>37.4%</b>
Property, plant and equipment	274 001	106 593	167 408	157.1%
Investment properties	3 278	3 383	(105)	-3.1%
Intangible assets	13 117	3 434	9 683	282.0%
Goodwill of subordinates	183 031	73 237	109 794	149.9%
Investments in equity accounted companies	13 503	16 040	(2 537)	-15.8%
Available-for-sale financial assets	12 146	23 955	(11 809)	-49.3%
Retentions for construction contracts	37 883	44 327	(6 444)	-14.5%
Other long-term receivables	24	-	24	-
Long-term prepayments and deferred costs	6 498	4 539	1 959	43.2%
Deferred tax assets	326 308	357 343	(31 035)	-8.7%
<b>Current assets</b>	<b>3 681 325</b>	<b>3 434 388</b>	<b>246 937</b>	<b>7.2%</b>
Inventories	1 115 558	991 387	124 171	12.5%
Trade and other receivables	515 513	373 013	142 500	38.2%
Retentions for construction contracts	22 394	24 586	(2 192)	-8.9%
Amounts due and receivable from customers under construction contracts	246 187	151 998	94 189	62.0%
Current tax asset	5 985	273	5 712	2092.3%
Derivative financial instruments	141	3 157	(3 016)	-95.5%
Other financial assets at fair value through profit or loss	-	14 017	(14 017)	-100.0%
Cash and cash equivalents	1 761 630	1 862 403	(100 773)	-5.4%
Short-term prepayments and deferred costs	13 917	7 646	6 271	82.0%
Non-current assets (disposable groups) classified as held for trading	-	5 908	(5 908)	-100.0%
<b>TOTAL ASSETS</b>	<b>4 551 114</b>	<b>4 067 239</b>	<b>483 875</b>	<b>11.9%</b>

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(all amounts in tables are expressed in thousands zloty unless stated otherwise)

EQUITY AND LIABILITIES	31.12.2011	31.12.2010	Change	Change%
<b>Shareholders' equity attributable to the shareholders of the Parent Company</b>	<b>711 110</b>	<b>680 405</b>	<b>30 705</b>	<b>4.5%</b>
Share capital	145 848	145 848	-	0.0%
Share premium	234 799	234 799	-	0.0%
Other reserves	1 283	256	1 027	401.2%
FX differences on translation of foreign operations	2 229	1 611	618	38.4%
Retained earnings/ (losses)	326 951	297 891	29 060	9.8%
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Total shareholders' equity</b>	<b>711 110</b>	<b>680 405</b>	<b>30 705</b>	<b>4.5%</b>
<b>Liabilities</b>	<b>3 840 004</b>	<b>3 386 834</b>	<b>453 170</b>	<b>13.4%</b>
<b>Non-current liabilities</b>	<b>360 153</b>	<b>254 960</b>	<b>105 193</b>	<b>41.3%</b>
Loans, borrowings and other external sources of finance	73 981	13 175	60 806	461.5%
Retentions for construction contracts	150 122	135 545	14 577	10.8%
Provision for long-term liabilities and other charges	124 665	102 082	22 583	22.1%
Retirement benefits and similar obligations	11 385	4 158	7 227	173.8%
<b>Current liabilities</b>	<b>3 479 851</b>	<b>3 131 874</b>	<b>347 977</b>	<b>11.1%</b>
Loans, borrowings and other external sources of finance	37 753	17 544	20 209	115.2%
Trade and other liabilities	1 698 239	1 270 662	427 577	33.6%
Retentions for construction contracts	153 436	124 842	28 594	22.9%
Amounts due and payable to customers under construction contracts	941 261	1 034 210	(92 949)	-9.0%
Prepayments received	357 956	225 828	132 128	58.5%
Provision for short-term liabilities and other charges	105 529	110 490	(4 961)	-4.5%
Current tax liability	-	173 074	(173 074)	-100.0%
Retirement benefits and similar obligations	5 044	1 651	3 393	205.5%
Derivative financial instruments	12 330	460	11 870	2580.4%
Short-term accruals	162 231	166 560	(4 329)	-2.6%
Short-term deferred income	6 072	6 553	(481)	-7.3%
Liabilities relating directly to non-current assets classified as held for trading	-	-	-	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 551 114</b>	<b>4 067 239</b>	<b>483 875</b>	<b>11.9%</b>

As at 31 December 2011, consolidated total assets increased by PLN 483 875 thousand compared to 31 December 2010, mainly due to a 37.4% (PLN 236 938 thousand) increase in non-current assets and a 7.2% (PLN 246 937 thousand) increase in current assets.

### Non-current assets:

Increase in the value of non-current assets as at 31 December 2011 compared to 31 December 2010 was caused mainly by the following:

- increase in the balance of tangible fixed assets by PLN 167 408 thousand, mainly due to recognition of capital expenditure in the amount of PLN 50 284 thousand, depreciation charge in the amount of PLN 28 670 thousand, as well as due to change in the composition of the Group in the amount of PLN 148 595 thousand,
- increase in the value of goodwill by PLN 109 794 thousand that relates to the preliminary value of goodwill recognised on acquisition of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.,
- decrease in the balance of deferred tax asset by PLN 31 035 thousand due to recognition of lower deductible temporary differences on valuation of assets and liabilities,
- decrease in the balance of available-for-sale financial assets by PLN 11 809 thousand, mainly due to recognition of impairment write-down against shares in Inversora de Autopistas del Levante S.L. in the amount of PLN 7 489 thousand and decrease in the balance of equity of Autostrada Południe SA by PLN 4 676 thousand, following re-acquisition of own shares for redemption purposes.

### Current assets:

In the same period, the value of current assets increased by PLN 246 937 thousand, mainly as a result of increase in:

- trade and other receivables by PLN 142 500 thousand,
- inventories by PLN 124 171 thousand, mainly relating to development business,

## Directors' Report on the activities of the Budimex Group in the year 2011

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• amounts due and receivable from customers under construction contracts by PLN 94 189 thousand, with a simultaneous decrease in:

- cash and cash equivalents by PLN 100 733 thousand,
- other financial assets at fair value through profit or loss by PLN 14 017 thousand.

### Equity and liabilities:

On the equity and liabilities side, the main changes related to the following:

- increase in the value of long-term liabilities by PLN 105 193 thousand, mainly due to an increase in the following liability balances: loans and borrowings and other sources of finance - by PLN 60 806 thousand with a simultaneous increase in provisions for long-term liabilities and other charges - by PLN 22 583 thousand, and increase in the balance of retentions for construction contracts by PLN 14 577 thousand,
- increase in short-term liabilities by PLN 347 977 thousand, of which the greatest balance movements related to the following:
  - increase in trade and other payables by PLN 427 577 thousand,
  - increase in the balance of loans and borrowings and other external sources of finance by PLN 20 209 thousand,
  - increase in the balance of retentions for construction contracts by PLN 28 594 thousand,
  - increase in the balance of received prepayments by PLN 132 128 thousand,
  - decrease in amounts due and payable to customers under construction contracts by PLN 92 949 thousand,
  - decrease in current tax liability by PLN 173 074 thousand.

### Consolidated Profit and Loss Account of Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01 - 31.12.2011	01.01 - 31.12.2010	Change	Change %
Net sales of finished goods, services, goods for resale and raw materials	5 516 675	4 430 269	1 086 406	24.5%
Cost of finished goods, services, goods for resale and raw materials sold	(5 055 141)	(3 946 002)	(1 109 139)	28.1%
<b>Gross profit/ (loss) on sales</b>	<b>461 534</b>	<b>484 267</b>	<b>(22 733)</b>	<b>-4.7%</b>
Selling expenses	(24 529)	(23 488)	(1 041)	4.4%
Administrative expenses	(138 087)	(123 251)	(14 836)	12.0%
Other operating income	86 338	85 053	1 285	1.5%
Other operating expenses	(54 602)	(97 958)	43 356	-44.3%
Gains/ (losses) on derivative financial instruments	(11 218)	6 743	(17 961)	-266.4%
<b>Operating profit/ (loss)</b>	<b>319 436</b>	<b>331 366</b>	<b>(11 930)</b>	<b>-3.6%</b>
Finance income	54 457	39 993	14 464	36.2%
Finance costs	(44 777)	(36 471)	(8 306)	22.8%
Share in net profits / (losses) of equity accounted subordinates	(2 537)	(3 136)	599	-19.1%
<b>Gross profit/ (loss) on ordinary activities</b>	<b>326 579</b>	<b>331 752</b>	<b>(5 173)</b>	<b>-1.6%</b>
Income tax	(65 705)	(64 343)	(1 362)	2.1%
<b>Net profit/ (loss) for the period</b>	<b>260 874</b>	<b>267 409</b>	<b>(6 535)</b>	<b>-2.4%</b>
<i>Of which:</i>				
<b>Attributable to the shareholders of the Company</b>	<b>260 874</b>	<b>267 409</b>	<b>(6 535)</b>	<b>-2.4%</b>
<i>Attributable to non-controlling interest</i>	-	-	-	-

In 2011, Budimex Group earned sales revenue of PLN 5 516 675 thousand which represents a 24.5% increase compared to the result for 2010.

Gross profit on sales in 2011 was PLN 461 534 thousand, while in the prior year – PLN 484 267 thousand. The gross sales profitability ratio for 2011 was therefore 8.37%, while for 2010 – 10.93%.

In accordance with the adopted accounting policies, where budgeted contract costs exceed the entire expected contract revenues, Group companies create provisions for expected contract losses and recognize them under „Amounts due and payable to customers under construction contracts“. 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 total negative margin on the entire contract. As at 31 December 2011, the balance of the provision for contract losses amounted to PLN 392 739 thousand. In 2011, the balance of the provision for contract losses was reduced by PLN 83 580 thousand.

Compared to the prior year, selling expenses increased in the year ended 31 December 2011 by PLN 1 041 thousand, and administrative expenses - by PLN 14 836 thousand. The share of the sum total of selling and administrative expenses in total sales revenue decreased from 3.31% in 2010 to 2.95% in the current year.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

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Other operating income in 2011 was PLN 86 338 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 25 012 thousand, reversal of provision for penalties and sanctions in the amount of PLN 27 301 thousand, reversal of impairment write-downs against doubtful receivables in the amount of PLN 14 063 thousand, reversal of inventory impairment write-downs of PLN 4 561 thousand, as well as reversal of provision for litigation in the amount of PLN 7 309 thousand. In addition, in 2011 Group companies sold fixed assets and investment properties and earned profit on those sales in the total amount of PLN 5 206 thousand. The net carrying amount of the fixed assets and investment properties sold in 2011 was PLN 2 756 thousand.

Other operating expenses in the 12-month period ended 31 December 2011 amounted to PLN 54 602 thousand, of which PLN 14 105 thousand related to impairment write-downs against receivables, PLN 4 965 thousand – to recognised impairment write-downs against inventories, PLN 2 125 thousand – to recognized provision for litigation and PLN 23 459 – to recognized provision for claims and penalties. The value of compensations and liquidated damages charged to the Group result in 2011 was PLN 5 521 thousand.

In 2011, the Group reported losses on valuation and realization of derivative financial instruments (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 11 218 thousand.

In 2011, the Group reported operating profit of PLN 319 436 thousand representing 5.79% of total sales revenues, while in the prior year – operating profit of PLN 331 366 thousand representing 7.48% of sales revenues.

In the 12-month period ended 31 December 2011, the Group reported profit on financing activities in the amount of PLN 9 680 thousand, while in 2010 – profit of PLN 3 522 thousand. Finance costs in 2011 represented, among others, interest costs of PLN 5 294 thousand, bank commissions on guarantees and loans of PLN 13 719 thousand paid by Group companies, cost of discounting long-term receivables and long-term liabilities arising from retentions for construction contracts in the amount of PLN 12 270 thousand, excess of FX losses over FX gains in the amount of PLN 5 945 thousand and the costs of recognition of impairment write-downs against shares in the company Inversora de Autopistas del Levante S.L. in the amount of PLN 7 489 thousand. Finance income in 2011 represented mainly interest received in the amount of PLN 54 148 thousand.

In 2011, the Group reported a gross profit of PLN 326 579 thousand, while in 2010 – the gross profit of PLN 331 752 thousand.

Income tax for 2011 was PLN 65 705 thousand, of which:

- current tax was PLN 21 044 thousand,
- deferred tax – PLN 44 661 thousand.

As at 31 December 2011, the Group recognized a deferred tax asset in the amount of PLN 326 308 thousand, while as at 31 December 2010 – a deferred tax asset of PLN 357 343 thousand. Items of deferred tax asset reported in the Statement of Financial Position 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 2011 was PLN 260 874 thousand, while the net profit attributable to the shareholders of Budimex SA for 2010 - PLN 267 409 thousand.

### **3.2 Statement of Cash Flow**

Cash and cash equivalents included in the Statement of Cash Flow comprise cash on hand and bank deposits which have maturity period of 3 months or less and were not included under investing activities.

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

- security for bank guarantees,
- amounts gathered on escrow accounts of development companies,

provided their maturity does not exceed 3 months.

The Budimex Group entered the year 2011 with cash on hand and cash at bank amounting to a total of PLN 1 862 403 thousand. For the purpose of the Statement of Cash Flow this amount was reduced by the amount of cash of restricted use of PLN 856 thousand. Net cash flow for the year 2011 was negative and amounted to PLN 121 019 thousand. As at 31 December 2011, the reported cash balance was PLN 1 761 630 thousand, of which the cash of restricted use was PLN 21 142 thousand.

In 2011, the balance of cash from operating activities increased by PLN 351 404 thousand.

Cash flow from investing activities showed a negative balance of PLN 211 668 thousand and resulted mainly from the acquisition of the company Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

Cash flow from financing activities for 2011 also showed a negative balance which amounted to PLN 260 755 thousand and resulted from the repayment of loans and borrowings together with interest and from the 2010 dividend payment.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

### 3.3 Managing of finance at the Budimex Group

As at 31 December 2011, the balance of cash and cash equivalents<sup>1</sup> of the Budimex Group amounted to PLN 1 761 630 thousand and was PLN 114 790 thousand lower than that at the end of the comparative period i.e. as at 31 December 2010. In 2011, Budimex SA paid dividend in the amount of PLN 231 814 thousand which exceeded the 2010 net profit, and purchased shares in Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. for the amount of PLN 225 017 thousand using solely own funds. Given the above, one should consider that the amount of cash at the Group as at 31 December 2011 was very high. Generating cash assets at the above level was possible owing to high profitability maintained by Group companies in 2011 as well as to favourable movements in the working capital which took place in the second half of 2011.

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

At the same time, 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 2011 amounted to PLN 111 734 thousand and was PLN 81 015 thousand higher than as at 31 December 2010 (see table below). The increase in the balance of external debt resulted mainly from:

- increase in the balance of loans and borrowings of Budimex Nieruchomości Sp. z o.o. taken out to finance development projects,
- increase in the balance of finance lease liabilities of Budimex SA in respect of machines and equipment required to carry out road building projects,
- recognition in the consolidated financial statements of the Group of finance lease liabilities of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

Bank loans and borrowings and other external sources of finance, of which:	31.12.2011	31.12.2010
- long-term	73 981	13 175
- short-term	37 753	17 544
<b>Total</b>	<b>111 734</b>	<b>30 719</b>

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

Ratio	31.12.2011	31.12.2010
<b>Equity to assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)	0.16	0.17
<b>Equity to non-current assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/ (total non-current assets)	0.82	1.08
<b>Debt ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)	0.84	0.83
<b>Assets to equity ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (shareholders' equity attributable to the shareholders of the Parent Company)	5.40	4.98

At the end of 2011, the Group's debt ratios increased, whilst equity to assets or non-current assets ratios- decreased (see table above). This resulted from an approx. 12% increase in total assets, which was not accompanied by equally fast increase in the Group's equity, due to dividend payments by Budimex SA in recent years.

At the same time, liquidity ratios decreased, although they continued to remain at satisfactory level (see table below). This was possible thanks to high profitability of the Budimex Group companies operating in the construction and development segments, and thanks to high balances of cash generated in both areas of business. This decrease occurred despite large cash outflow relating to dividend payment and acquisition of shares in Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. by Budimex SA financed from own funds.

Ratio	31.12.2011	31.12.2010
Current Ratio (current assets)/(current liabilities)	1.06	1.10
Quick Ratio (or Acid Test) (current assets - inventory)/(current liabilities)	0.74	0.78

The current very good financial standing of the Group and significant cash resources in 2011 cause that there are no threats to the Group's ability to finance its business activities in 2012.

<sup>1</sup> including "Other financial assets at fair value through profit or loss" comprising treasury bonds and debt securities issued by private entities.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

### 3.4 Off-balance sheet items of the Budimex Group

Guarantees, suretyships, other liabilities and contingent liabilities:

OFF-BALANCE SHEET ITEMS	31.12.2011	31.12.2010
<b>Contingent receivables</b>	<b>378 269</b>	<b>297 322</b>
<b>From affiliates, of which:</b>	-	-
- guarantees and suretyships received	-	-
- bills of exchange received as security	-	-
<b>From other entities, of which:</b>	<b>378 269</b>	<b>297 322</b>
- guarantees and suretyships received	358 041	277 344
- bills of exchange received as security	20 228	19 978
<b>Contingent liabilities</b>	<b>1 836 343</b>	<b>1 367 001</b>
<b>To affiliates, of which:</b>	<b>503</b>	<b>602</b>
- guarantees and suretyships issued	503	602
- bills of exchange issued as security	-	-
<b>To other entities, of which:</b>	<b>1 832 131</b>	<b>1 366 399</b>
- guarantees and suretyships issued	1 801 518	1 361 935
- bills of exchange issued as security	30 613	4 464
<b>Other contingent liabilities, of which:</b>	<b>3 709</b>	-
- other off-balance-sheet liabilities	3 709	-
<b>Total off-balance sheet liabilities</b>	<b>(1 458 074)</b>	<b>(1 069 679)</b>

Contingent receivables arising from guarantees and suretyships represent guarantees issued by banks or other entities in favour of Budimex Group companies serving as security for Group's claims against business partners in connection with executed construction contracts.

Contingent liabilities arising from guarantees and suretyships represent guarantees issued by banks to business partners of Group companies to secure their claims against Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees.

The table below shows loan guarantees and suretyships issued by Budimex SA or its subsidiaries as at 31 December 2011:

Issuer of loan guarantees or suretyships	Recipient of loan guarantees or suretyships	Total value of loans and borrowings secured, in whole or in part, by guarantee (in PLN thousands)	Period of loan guarantees or suretyships	Financial terms and conditions of loan guarantees and suretyships	Type of relation between BUDIMEX SA and borrower
Budimex SA	Mostostal Kraków SA	36 532	2016-10-30	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	7 336	2016-08-16	free of charge	subsidiary
Budimex SA	Budimex Danwood SA	97 655	2014-06-30	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	503	2015-06-30	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	5 104	2015-11-14	free of charge	subsidiary
<b>TOTAL</b>		<b>147 130</b>			

### **3.5 Differences between forecasted and actual financial results of the Budimex Group**

The Budimex Group did not publish any financial forecasts for 2011.

### **3.6 Utilisation of proceeds from issues of securities**

In the year 2011, no securities were issued.

## **4 SIGNIFICANT AGREEMENTS**

### **4.1 Insurance agreements for the Budimex Group companies**

In 2011, 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 Ergo Hestia SA with its registered office in Sopot (40% share) and the other co-insurers are Generali TU SA with its registered office in Warsaw (30% share) and HDI – Gerling TU SA with its registered office in Warsaw (30% share).

Subject to the insurance coverage are all construction & assembly contracts executed by the Budimex Group companies with a value not exceeding PLN 500 million, which are reported to the Leading Co-Insurer within 30 days of entry of the first contractor on the construction site.

This agreement was concluded for the period from 21 June 2010 to 20 June 2012.

- General Third Party Liability (TPL) Agreement

The leading co-insurer for this agreement is Ergo Hestia SA with its registered office in Sopot (40% share) and the other co-insurers are Generali TU SA with its registered office in Warsaw (30% share), HDI – Gerling TU SA with its registered office in Warsaw (20% share) and Chartis Europe Branch in Poland (10% share).

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 to third parties. The sum insured was set at PLN 30 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 21 June 2010 to 20 June 2012.

- General Third Party Liability (TPL) Excess of Loss Agreement

The insurer is Chartis Europe SA Branch in Poland.

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 to third parties. The sum insured was set at PLN 70 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.

The liability of Chartis Europe under this Agreement starts at the time the amount of aggregated own share in the form of recognised losses exceeds the sum insured or sub-limits of the sum insured defined in the General TPL Agreement, where the leading co-insurer is Hestia with the losses resulting from one or several insurance-covered events covered by this Agreement.

This agreement was concluded for the period from 21 June 2010 to 20 June 2012.

- General All Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a defined period of time i.e. from 28 September 2011 to 27 September 2012. The Insurer is TU Allianz Polska SA. Subject to the insurance coverage are construction machines and equipment which are owned by Budimex SA and which are subject to lease agreements. The insurance coverage comprises all risks of physical loss or damage of assets, except for damage resulting from losses incurred during or in connection with machines transport, loading, unloading, assembly or disassembly.

- Other significant insurance agreements:

In 2011, an extension was signed to the agreement with Chartis Europe SA (formerly AIG) concerning TPL insurance for Management and Supervisory Boards Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 June 2011 to 21 June 2012. The insurance coverage relates to Members of Management and Supervisory Boards and authorised commercial representatives of the Budimex Group companies, and of subsidiaries and affiliates. This insurance is part of the global insurance program for the Ferrovial Group.



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### 4.2 Cooperation agreements binding in 2011

#### Cooperation agreements concluded in 2011

	Supplier	Scope of agreement	Annual value (in PLN thousands)	Agreement date
1	Lotos Asfalt Sp. z o.o.	Road asphalts	131 262	10.03.2011
2	Orlen Asfalt Sp. z o.o.	Road asphalts	59 981	10.03.2011
3	Cemex Polska Sp. z o.o.	Concrete	44 972*	6.12.2011
4	ArcelorMittal Distribution Sp. z o.o.	Steel and concrete reinforcement	20 612	24.05.2011
5	Lhoist Bukowa Sp. z o.o.	Quicklime, filler aggregate	14 563	22.06.2011
6	PKN Orlen S.A.	Fuel	12 368	15.06.2011
7	Vistalex S.A.	Steel and concrete reinforcement	11 318	8.04.2011
8	Zakłady Wapiennicze Lhoist S.A.	Quicklime, filler aggregate	9 759	22.06.2011
9	TTHNMBiO J. Chojnowski	Construction materials	5 869	20.09.2011
10	Atut-Rental Sp. z o.o.	Lease of construction equipment	4 079	1.06.2011

\* global trading results with this supplier (incl. aggregates and concrete)

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

#### Cooperation agreements concluded by Budimex Group before 2011 and active in 2011

	Supplier	Scope of agreement	Annual value (in PLN thousands)	Agreement date
1	Francisco Ros Casares Sp. z o.o.	Steel and concrete reinforcement	60 477	2.12.2009
2	Lafarge Kruszywa i Beton Sp. z o.o.	Aggregates	59 440 *	1.04.2008
3	Lotos Paliwa Sp. z o.o.	Fuel oil	49 356	12.04.2005
4	Cemex Polska Sp. z o.o.	Aggregates, cement	44 972	1.04.2009
5	Nordkalk Sp. z o.o.	Aggregates	36 326	30.04.2009
6	Peri Polska Sp. z o.o.	Formwork lease	34 115	17.03.2006
7	Śląskie Kruszywa Naturalne Sp. z o.o.	Aggregates	30 448	1.05.2009
8	Ulma Construcción Polska Sp. z o.o.	Formwork lease	29 491	21.12.2005
9	Górnice Zakłady Dolomitowe S.A.	Aggregates	29 135	1.04.2009
10	Bowim S.A.	Steel and concrete reinforcement	25 147	14.07.2009
11	Stalprodukt S.A.	Supply and assembly of road barriers	24 763	1.03.2010
12	Doka Polska Sp. z o.o.	Formwork lease	22 261	23.07.2010
13	Mal-Sped Sp. z o.o.	Mazut	21 395	1.06.2010
14	Viacon Sp. z o.o.	Road passes, geo-textiles	19 948	14.02.2006
15	CMC Zawiercie S.A.	Steel and concrete reinforcement	18 120	8.12.2005

\* global trading results with this supplier (incl. aggregates and concrete)

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

### 4.3 Related party disclosures

Detailed information on related party disclosures was presented in Note 48 of the consolidated financial statements of the Budimex Group.

## Directors' Report on the activities of the Budimex Group in the year 2011

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

### 4.4 Loans and borrowings

As at 31 December 2011, Budimex SA had the following loans and borrowings and finance lease agreements:

Lender	Title of liability	Date of loan/ borrowing agreement	Amount available (in '000)	Liability, incl. of interest (in '000)	Interest rate	Maturity date
Bank Handlowy w Warszawie SA	Overdraft facility	08.02.2011	PLN 40 000	-	1M WIBOR + margin	07.02.2012
Cintra Infraestructuras SA	Loan	01.12.2004	EUR 1 927	EUR 1 931	12M EURIBOR + margin	01.12.2012
Millennium Leasing Sp. z o. o.	Finance lease (56 agreements in total)	-	PLN 42 094	PLN 42 094	1M WIBOR + margin	30.11.2015 - 30.09.2016
SG Equipment Leasing Polska Sp. z o.o.	Finance lease (1 agreement)	-	PLN 296	PLN 296	1M WIBOR + margin	29.02.2012
Fortis Lease Sp. z o. o.	Finance lease (14 agreements in total)	-	PLN 1 943	PLN 1 943	1M WIBOR + margin	31.01.2012 - 31.09.2012

As at 31 December 2011, other companies of the Budimex SA Group were parties to the following agreements of loans and borrowings and finance lease agreements:

Lender	Title of liability	Date of loan/ borrowing agreement	Amount available (in '000)	Liability, incl. of interest (in '000)	Interest rate	Maturity date
<b>Budimex Nieruchomości Sp. z o.o.</b>						
LA CAIXA Oddział w Polsce	Investment loan	03.12.2010	PLN 38 100	-	1M WIBOR + margin	31.12.2012 -30.04.2016
Bank PKO BP SA	Investment loan	22.03.2011	PLN 77 500	PLN 12 602	1M WIBOR + margin	31.12.2014
Bank Millennium SA	Investment loan	20.04.2011	PLN 31 000	PLN 4 321	1M WIBOR + margin	30.11.2013
Bank PEKAO SA	Investment loan	04.07.2011	PLN 87 870	PLN 11 136	1M WIBOR + margin	31.01.2014
Getin Noble Bank SA	Investment loan	17.10.2011	PLN 39 500	PLN 12 459	1M WIBOR + margin	31.12.2014
<b>Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.</b>						
Bank PEKAO SA	Overdraft facility	06.07.2009	PLN 60 000	-	1M WIBOR + margin	31.05.2012
HSBC Bank Polska SA	Working capital loan	06.04.2009	PLN 11 000	-	1M WIBOR + margin	25.09.2012
Millennium Leasing Sp. z o. o.	Finance lease (3 agreements in total)	-	PLN 127	PLN 127	1M WIBOR + margin	05.08.2014
Millennium Leasing Sp. z o. o.	Finance lease (14 agreements in total)	-	EUR 3 229	EUR 3 229	1M EURIBOR + margin	05.02.2012 - 05.04.2020
Raiffeisen - Leasing Polska SA	Finance lease (3 agreements in total)	-	PLN 183	PLN 183	1M WIBOR + margin	08.01.2013
BRE Leasing Sp. z o.o.	Finance lease (7 agreements in total)	-	EUR 739	EUR 739	1M EURIBOR + margin	14.03.2012 - 20.01.2015
<b>Mostostal Kraków SA</b>						
Fortis Lease Sp. z o.o.	Finance lease	-	PLN 516	PLN 516	1M WIBOR + margin	13.12.2012

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

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#### **4.5 Major equity investments in 2011**

On 24 January 2011, a Deed of Association of Budimex Parking Wrocław Sp. z o.o. was signed. The issued share capital of the new company was PLN 5 thousand and was taken up in full by Budimex SA. The main scope of the company's business activities is construction and operation of a car park in Wrocław as part of a public-private partnership project. The company was entered in the National Court Register based on a decision dated 8 February 2011.

On 17 February 2011, Articles of Association were signed for Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o. The issued share capital of the new company amounts to PLN 5 thousand and is divided into 100 shares with a nominal value of PLN 50 each, of which Budimex SA took up 30 shares with a total nominal value of PLN 1.5 thousand and Técnicas de Pretensado y Servicios Auxiliares S.L. with its registered office in Madrid - 70 shares with a total value of PLN 3.5 thousand. The company was entered in the National Court Register on 17 March 2011.

On 29 June 2011, an entry was made in the National Court Register relating to an increase in the share capital of Tecpresa to the amount of PLN 590 thousand, of which the value of shares attributable to Budimex SA amounts to PLN 177 thousand (3 540 shares).

On 21 April 2011, Articles of Association were signed for Budimex Serwis SA. The issued share capital of the new company with a value of PLN 100 thousand and comprising 2 000 shares with a nominal value of PLN 50 each was taken up in full by Budimex SA. The company was entered in the National Court Register on 10 May 2011.

On 28 April 2011, the Extraordinary Shareholders' Meeting of Budimex Budownictwo Sp. z o.o. resolved to increase the company's share capital by PLN 300 thousand (600 shares with a nominal value of PLN 500 each), i.e. to the amount of PLN 310 thousand. The entire increased capital was taken up by Budimex SA. The increase in the share capital was registered in the National Court Register on 26 May 2011.

On 6 June 2011, an entry was made in the National Court Register in the matter of reducing the share capital of Autostrada Południe SA (related entity of Budimex SA). The decrease in the share capital was executed by way of share re-acquisition and redemption. In connection with the above, Budimex SA sold to Autostrady Południe SA shares with a value of PLN 4 676 thousand. Following this transaction, Budimex SA continued to own shares in Autostrady Południe SA with a value of PLN 4 292 thousand that accounted for 5.05% of the share capital of this company.

On 20 July 2011, Articles of Association were signed for Budimex Most Wschodni SA. The issued share capital of this company amounting to PLN 100 thousand and comprising 100 shares with a nominal value of PLN 1 000 each was taken up in full by Budimex SA. The company was entered in the Register of Entrepreneurs on 2 September 2011.

On 20 July 2011, Articles of Association were signed for Budimex Autostrada SA. The issued share capital of this company amounting to PLN 100 thousand and comprising 100 shares with a nominal value of PLN 1 000 each was taken up in full by Budimex SA. The company was entered in the Register of Entrepreneurs on 25 August 2011. On 25 November 2011, an entry was made in the National Court Register to register the increase in the share capital of this company to PLN 200 thousand.

On 4 August 2011, Budimex SA signed with Polskie Koleje Państwowe SA a conditional agreement for the purchase of 100% shares in Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. with its registered office in Warsaw for the amount of PLN 225 017 thousand. The nominal value of the acquired shares was PLN 178 869 thousand. On 16 November 2011, due to the fulfilment of the conditions precedent consisting in obtaining permissions required by law i.e. the permission of the Minister of Infrastructure, President of the Office of Consumer Protection and Competition (UOKiK), Supervisory Board of PKP SA and the Shareholders' Meeting of PNI Sp. z o.o., payment was made for the acquired shares. The source of finance were own funds.

On 26 October 2011, a resolution of the Shareholders of Budimex Spółka Akcyjna Ferrovial Agroman Spółka Akcyjna S.j. (Budimex SA jointly controlled entity) concerning an increase in the shareholder contribution by PLN 4 000 thousand. Due to the above, both shareholders of this company i.e. Budimex SA and Ferrovial Agroman SA increased their contribution by PLN 2,000 each.

#### **4.6 Loans granted during the year, including in particular Issuer loans to related parties**

On 19 September 2011, Budimex Nieruchomości Sp. z o.o. (100% subsidiary of Budimex SA) signed as lender a loan agreement with SPV BN-1 (100% subsidiary of Budimex Nieruchomości Sp. z o.o.) for the amount of PLN 14 300 thousand. Loan interest was set at 12M WIBOR + margin. In accordance with the loan agreement, loan maturity date was set at 30 June 2015.

On 19 September 2011, Budimex Nieruchomości Sp. z o.o. (100% subsidiary of Budimex SA) signed as lender a loan agreement with SPV BN-2 (100% subsidiary of Budimex Nieruchomości Sp. z o.o.) for the amount of PLN 13 300 thousand. Loan interest was set at 12M WIBOR + margin. In accordance with the loan agreement, loan maturity date was set at 30 June 2015.

### **5 OTHER INFORMATION**

#### **5.1 Agreements between Issuer and Management Board Members**

Members of the Management Board of Budimex SA, in connection with the work performed and position occupied in the Management Board, are employed at either Budimex SA or at subsidiary companies where they receive remuneration based on an employment contract concluded for the defined period of the term of office, with a 2-week termination notice. In addition, the employment contracts provide for severance pay in the amount of 6-12 average monthly remuneration, depending on the position, in case of removal or non-appointment for the next term of office for reasons dependent on the Company. Where the contract is terminated due to employee resignation or his/ her wilful misconduct to the detriment of the Company, termination benefits are not paid and only the 2-week termination notice remains in effect.

In addition, each Member of the Management Board of Budimex SA has concluded with the Company or the company paying his remuneration a separate non-competition agreement, which is valid for the period of 12 months of the date of termination of

## **Directors' Report on the activities of the Budimex Group in the year 2011**

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employment contract. During the period of validity of non-competition clause, the Company will pay the employee 75% of his basic monthly remuneration, if termination of employment contract was initiated by the Company, or 25% of basic monthly remuneration, if termination was initiated by the employee. Contractual penalties have been established for the breach of non-competition clause.

Information on remuneration of Members of the Management Board was presented in Note 48.1 of the consolidated financial statements of the Budimex Group.

### **5.2 Shares of the Parent and affiliates held by Members of Management and Supervisory Boards of the Parent Company**

As at 31 December 2011, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2011, Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 3 900 shares

As at 31 December 2011, members of the Management and Supervisory Boards of Budimex SA did not hold any shares in the Company's related entities.

### **5.3 Re-acquisition of own shares**

In 2011 Budimex SA did not re-acquire own shares.

### **5.4 System of control over employee share incentive programs**

The Company did not operate employee share incentive scheme.

### **5.5 Agreements (incl. post reporting date agreements) with possible future effect on the current ownership structure**

As at the date of publication of this report, Budimex SA is not aware of any agreements that may result in future changes in the ownership structure of the current shareholders.

### **5.6 Entity authorised to audit financial statements**

The Supervisory Board of Budimex SA resolved on 23 March 2011 to appoint Deloitte Audyt Sp. z o.o. to review the Company's interim separate financial statements and interim consolidated financial statements of the Budimex Group i.e. for the 6-month period ended 30 June 2011, and to audit separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2011. Contract with Deloitte Audyt for the review and audit of financial statements was concluded on 17 June 2011. Remuneration for the above services amounts to PLN 459 thousand.

Deloitte Audyt Sp. z o.o. reviewed also the interim separate financial statements of Budimex SA and interim consolidated financial statements of the Budimex Group i.e. for the 6-month period of 2010 and audited separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the year 2010. Remuneration for those services amounted to PLN 312 thousand.

In the years 2010-2011, Deloitte Audyt Sp. z o.o. did not render any other services to Budimex S.A.

## **6 CORPORATE GOVERNANCE**

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

The Company applied in 2011 the policies of „The Best Practices of WSE Listed Companies” (Appendix to Resolution of the WSE Supervisory Board dated 4 July 2007), except for the Policy No. 10 point 2 and 3 of Section IV „Good practices applied by the shareholders” (current report in this matter was filed on 8 March 2011).

In connection with the decision of the Management Board of the Company dated 8 March 2011 to suspend application of point 2 and 3 of Policy No. 10 of Section IV „Good practices applied by the shareholders”, the Supervisory Board on 23 March 2011 and then the Ordinary General Shareholders Meeting on 19 May 2011 resolved to suspend application of the above points. The decision in this matter was taken following an analysis covering the matters relating to both technical and legal threats to the correct and efficient execution of the General Shareholders Meeting, whilst considering the number of shareholders who usually participate in the General Shareholders Meeting of the Company. The Company will start to apply the Policy No. 10 in full as soon as it clears all doubts regarding functioning in practice of the new regulations concerning two-way real-time communication process, during which the shareholders can “take the floor” during the General Shareholders Meeting while being in a place other than the actual place of the Meeting, and execute in person or by an authorised representative their voting right at the General Shareholders' Meeting using electronic means of communication.

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In connection with the Resolutions of the Supervisory Board of the WSE dated 31 August 2011 and 19 October 2011 implementing changes to „The Best Practices of WSE Listed Companies”, the Company adopted for use the above policies, after considering the implemented changes, and yet upholding the decision to suspend application of point 2 and 3 of the Policy No. 10. Resolutions in this matter were taken by the Management Board of Budimex SA on 28 September 2011 and on 29 November 2011, respectively, and by the Supervisory Board of Budimex SA - on 13 October 2011 and 14 December 2011. The Resolutions became effective as of 1 January 2012. Appropriate resolution is planned to be taken also by the nearest General Shareholders' Meeting of the Company. The document containing corporate governance policies is posted on the Internet website of the Company: <http://www.budimex.pl>.

In connection with the adopted, based on said resolutions, Policy No. 9 Section I of the „The Best Practices of WSE Listed Companies” (Recommendations concerning best practices of public companies) concerning balanced share of males and females performing management and supervisory functions, the Company reported that in 2011 the Company's Management Board was composed of one female and five males, whilst the Supervisory Board – of one female and eight males. Given the fact that the bodies authorising composition of the Management and Supervisory Boards are, as appropriate, the Supervisory Board and the General Shareholders' Meeting, and that the new wording of best practice policies was authorised for use based on the Resolution of the Supervisory Board dated 30 September 2010 and based on the Resolution of the General Meeting of Shareholders dated 19 May 2011, it is reasonable to conclude that this Policy will be a significant criterion in taking decisions by the said bodies of the Company.

## **6.2 Key features of the Company's internal control and risk management systems with respect to the process of the 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 of the consolidated financial statements of the Budimex Group.

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

The preparation of annual financial statement is preceded by a meeting of the Audit Committee with independent auditors in order to determine audit scope and plan, and to discuss potential risk areas which may have impact on the truth and fairness of the financial statements. Preparation of the financial statements is an orderly process which accounts for the segregation of duties of the personnel of Financial Department of Budimex SA, appropriate to 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 financial-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 authorization levels for 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 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 recommendation of solutions relating to modification and update of accounting policies and other WSE reporting requirements, as well as for solution implementation after Management Board approval.

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

- assessment of significant, non-routine transactions for their effect on the financial position of the Group or the manner of their presentation in the financial statements,
- verification of correctness of assumptions underlying accounting estimates,
- comparative and substantive analyses of financial data,
- verification of clerical 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 his post-audit conclusions and observations to the Audit Committee and then to the Supervisory Board.

**6.3 Shareholders with direct or indirect ownership of significant blocks of shares**

According to the information available to Budimex SA, the shareholding structure of the Company as at 31 December 2011 was as follows:

Shareholder	Share type	Number of shares	% of share capital	Number of votes	% of votes at GSM
Valivala Holdings B.V. Amsterdam (Holland) - the Ferrovial SA (Spain) Group company	ordinary	15 078 159	59,06%	15 078 159	59,06%
OFE PZU „Złota Jesień”	ordinary	1 444 895	5,66%	1 444 895	5,66%
Other shareholders	ordinary	9 007 044	35,28%	9 007 044	35,28%
<b>Total</b>		<b>25 530 098</b>	<b>100,00%</b>	<b>25 530 098</b>	<b>100,00%</b>

**6.4 Holders of securities which give special control rights**

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

**6.5 Restrictions on exercising voting right**

There are no restrictions concerning exercising voting right.

**6.6 Restrictions on transfer of ownership rights to 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 pre-approval of the Company. Such approval has to be granted by the Management Board in writing to be valid.

**6.7 Regulations concerning appointment or removal of Management or Supervisory Board Members, rights of those persons, in particular, the right to take decision on share issue or redemption**

The Supervisory Board removes and appoints President of the Management Board and, upon his request, the Vice-Presidents of the Management Board or other Board Members for the common term of office of three years.

The Management Board is not authorised to take decision on share issue. The rights of the Management Board as regards taking decision to redeem shares do not vary from those set forth in the Code of Commercial Companies.

The policies concerning appointment and removal of Management Board Members, rights of those persons, in particular the right to take decision to issue or redeem shares, included in the Articles of Association did not change in 2011.

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 share issue price in case of share capital increase,
- cancelling or limiting the pre-emptive right to newly issued shares upon prior approval of the Supervisory Board,
- defining the method of determining share issue price or issuing shares in exchange for non-monetary contribution upon prior approval of the Supervisory Board,
- taking decision on purchase or disposal of property, perpetual usufruct or share in property, machines and equipment, securities or other asset items where the unit price on acquisition or disposal does not exceed 1/5th of the Company's share capital,
- taking decision on the prepayment of year-end dividend upon prior approval of the Supervisory Board.

**6.8 Implementing changes to the Articles of Association of Budimex SA**

Changes to the Articles of Association are made by way of resolution of the General Shareholders' Meeting and entry in the National Court Register. These issues are regulated in para.13 letter r) of the Articles of Association in the description of the rights of the General Shareholders' Meeting and in para.17 section 1 letter l) of the Byelaws of the General Meeting of Shareholders of Budimex SA. Prior to taking a resolution on changes to the Company's Articles of Association, draft of such resolution should be forwarded by the Management Board to the Supervisory Board for opinion. In accordance with the provisions of the Code of Commercial Companies, such resolution should be adopted with a qualified majority of votes, i.e. (i) as a rule, 3/4ths of the total voting rights, and (ii) in the case of significant change to business activities - 2/3rds of votes.

**6.9 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 Budimex SA operates based on the Company's Articles of Association, Byelaws of the General Meeting of Shareholders of Budimex SA (both documents are posted on the Company's Internet website) and provisions of other laws, including the provisions of the Code of Commercial Companies. Detailed powers of the General Shareholders' Meeting have been described in para. 13 of the Company's Articles of Association. Shareholders exercise their rights in the manner specified in the Articles of Association, Byelaws of the General Meeting of Shareholders of Budimex SA and binding laws.

General Meeting of Shareholders is convened by the Management Board as ordinary or extraordinary meeting. Ordinary General Shareholders' Meeting takes places, at the latest, within 6 months of the end of each financial year. General Shareholders Meeting is convened by the Company's Management Board. The Supervisory Board may convene 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 Company's Articles of Association; the Supervisory Board may also convene Extraordinary General Meeting of Shareholders if such meeting is deemed advisable. The Extraordinary General Shareholders' Meeting may also be convened by the shareholders representing at least half of the Company's issued share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint chairman 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 Shareholders' Meeting and include certain specific matters in the meeting agenda or matters that are to be introduced to the meeting agenda. If within two weeks of the date of forwarding such request the Extraordinary General Shareholders' Meeting is not convened, the court of registration [of the Company] may authorise the shareholders initiating such request to convene the meeting. The court of registration appoints 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 resolution on whether the costs of convening and realizing the meeting are to be borne by the Company. The shareholders who requested convening the meeting may apply to the court to be exempted from the costs imposed by the resolution of the shareholders' meeting.

Special e-mail address which may be used in cases defined by the Code of Commercial Companies in connection with convening General Shareholders Meetings is posted on the Company's website.

The General Meeting of Shareholders of the Company is convened by way of posting appropriate announcement on the Company's website or in the manner reserved for forwarding current information, in accordance with the provisions of the act on public offering and the terms and conditions of introducing financial instruments to organized system of trading and on public companies. The announcement should be made at least twenty six days before the scheduled date of the General Shareholders' Meeting.

The General Meeting of Shareholders may also be convened in the manner specified in the Code of Commercial Companies on the condition that the provisions of article 405 of the Code of Commercial Companies are fulfilled.

The shareholder or shareholders representing at least 1/20th of the Company's share capital may request that certain specific matters are included in the agenda of the nearest General Shareholders' Meeting. 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 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 is required to immediately, however no later than 18 days before 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 appropriate to convening the General Shareholders' Meeting.

The shareholder or shareholders representing at least 1/20th of the Company's share capital may, before the date of the General Shareholders' Meeting send to the Company in writing, or using electronic means of communication, drafts of resolutions concerning matters introduced to the agenda of the General Shareholders' Meeting. The Company shall immediately post such drafts of resolutions on its Internet website. During General Shareholders' Meeting each shareholder may submit drafts of resolutions concerning matters introduced to the agenda.

The shareholders may participate in the General Shareholders' Meeting and exercise their voting right in person or by their authorized representatives. The authorization to participate in the General Shareholders' Meeting and to exercise voting right should be granted in writing or in an electronic form. Granting authorisation in an electronic form does not require use of safe e-signature verified by valid classified certificate.

In accordance with the Company's Articles of Association, apart from the matters listed in appropriate regulations, the following activities also require resolutions of the General Shareholders' Meeting:

- considering and authorization of directors' report on the Company's activities and of the financial statements for the prior financial year,
- considering and authorization of directors' report on the Group's activities and of the consolidated financial statements of Budimex Group,
- acknowledgment of the fulfilment of duties by members of the Management and Supervisory Boards,
- creation and reversal of special funds and reserve capital, and their utilisation,
- profit appropriation or defining the manner of loss absorption; General Shareholders' Meeting may resolve that dividend, in whole or in part, is allocated to increase share capital and the shareholders are issued new shares in exchange,

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- taking decisions concerning claims for losses incurred on Company incorporation, or losses resulting from performing management or supervisory functions,
- taking resolution concerning disposal or lease/ rental of the company or its organized part, or establishing thereon restrictions on use or disposal,
- taking decisions on company merger or liquidation, and in the case of the latter - appointing Company liquidators,
- issuance of convertible bonds or bonds with pre-emptive right, or subscription warrants,
- taking resolutions on share redemption,
- taking resolutions on changes to the Company's Articles of Association, especially concerning the increase or decrease in share capital, or changes in the Company's business activities,
- adopting Byelaws of the General Meeting of Shareholders of Budimex SA
- appointing and removing Supervisory Board members,
- defining 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,
- concluding by the Company of credit or loan agreement, or guarantee or other similar agreement with member of the Management or Supervisory Board, authorised commercial representative, liquidator, or concluding an agreement in favour of any of 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 of the General Shareholders' Meeting should first be forwarded for the Supervisory Board's consideration.

Resolutions of the General Shareholders' Meeting are passed by absolute majority of votes, irrespective of the number of shares represented at the meeting, unless the provisions of the Code of Commercial Companies state otherwise.

### **6.10 Composition of Management and Supervisory Boards, changes thereof in the last financial year and functioning of the management and supervisory bodies of the Company or their committees**

#### **a) Management Board**

As at 31 December 2011, the Management Board of Budimex SA was composed of the following persons:

Dariusz Jacek Blocher	President of the Management Board, General Director
Ignacio Botella Rodriguez	Vice-President
Jacek Daniewski	Board Member, Chief Legal Officer
Joanna Katarzyna Makowiecka	Board Member, Chief HR Officer
Henryk Urbański	Board Member, Chief Property Officer
Marcin Węglowski	Board Member, Chief Financial Officer

During the period from 1 January 2011 to 31 December 2011, the composition of the Management Board did not change.

During 2011, policies concerning appointment or removal of members of managing bodies as well as rights of members of these bodies, including the right to take decision on share issuance or redemption, as provided in the Articles of Association, did not change.

#### **b) Supervisory Board and its Committees**

As at 31 December 2011, the Supervisory Board of Budimex SA was composed of the following persons:

Marek Michałowski	President of the Supervisory Board
Alejandro de la Joya Ruiz de Velasco	Vice-President of the Supervisory Board
Tomasz Paweł Sielicki	Secretary
Marzenna Anna Weresa	Supervisory Board Member
Igor Adam Chalupec	Supervisory Board Member
Javier Galindo Hernandez	Supervisory Board Member
Jose Carlos Garrido - Lestache Rodriguez	Supervisory Board Member
Piotr Kamiński	Supervisory Board Member
Maciej Stańczuk	Supervisory Board Member

On 22 March 2011, Carmelo Rodrigo Lopez resigned from his function in the Supervisory Board of Budimex SA.



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(all amounts in tables are expressed in thousands zloty unless stated otherwise)

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On 23 March 2011, the Supervisory Board of Budimex SA appointed Alejandro de la Joya Ruiz de Velasco as Supervisory Board Member and Vice-President of the Supervisory Board. On 19 May 2011, the Extraordinary General Shareholders' Meeting of Budimex SA approved Alejandro de la Joya Ruiz de Velasco as Supervisory Board member. On 19 May 2011, the Ordinary General Shareholders' Meeting of Budimex S.A., based on its Resolution No. 164, authorised changes in the composition of the Supervisory Board of the seventh term of office, which were executed by way of appointment of a new Supervisory Board Member, Mr Alejandro de la Joya Ruiz de Velasco.

As at 31 December 2011, the Audit Committee was composed of the following persons:

- Marzenna Weresa – Chairman,
- Javier Galindo Hernandez – Member,
- Jose Carlos Garrido - Lestache Rodriguez – Member.

The composition of the Audit Committee did not change in 2011.

As regards independence of Audit Committee member, provisions of the following apply: article 56 section 3 point 1, 3 and 5 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009, and criteria of independence with regard to the company and entities materially related to the company, within the meaning of the Best Practices of WSE Listed Companies (Policy 6 Section III Best practice for Supervisory Board Members).

The status of independence of 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 publication of this information, based on representations filed by Board members and based on article 56 section 3 point 1, 3 and 5 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

The Investment Committee was composed of the following persons:

- until 23 March 2011 – Maciej Stańczuk (Chairman), Javier Galindo Hernandez, Carmelo Rodrigo Lopez.
- as of 23 March 2011 - Maciej Stańczuk (Chairman), Alejandro de la Joya Ruiz de Velasco, Javier Galindo Hernandez.

The Remuneration Committee was composed of the following persons:

- until 23 March 2011 - Marek Michałowski (Chairman), Igor Chalupec, Carmelo Rodrigo Lopez,
- as of 23 March 2011 - Marek Michałowski (Chairman), Igor Chalupec, Alejandro de la Joya Ruiz de Velasco.

### **c) Operation of the Management Board**

The Management Board operates based on the provisions of the Company's Articles of Association, Byelaws 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.

President of the Management Board is appointed and removed by the Supervisory Board. 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 the 3-year common term of office.

The functioning of the Management Board is managed by the President of the Management Board. Detailed manner of Management Board functioning has been defined in the Byelaws 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 case of 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 – one-man 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 legal representative of the Company.

### **d) Operation of the Supervisory Board**

The Supervisory Board operates based on the Articles of Association, Byelaws of the Supervisory Board of Budimex SA and other legal regulations, including the Code of Commercial Companies. The organization and operation of the Supervisory Board is defined in the Byelaws of the Supervisory Board.

The Supervisory Board takes decisions provided at least half of Board Members are present at the meeting and all its members were invited to the meeting. The Supervisory Board shall adopt resolutions with an absolute majority of votes. In the case of equal number of votes, the casting vote is that of the President of the Supervisory Board. It is allowed that resolutions of the Supervisory Board are taken in writing or using the means of direct communication. Resolutions of the Supervisory Board are valid and effective if all Board members were informed about the content of draft resolution. Supervisory Board members may participate in taking resolution by voting in writing by proxy i.e. through other member of the Supervisory Board, in all matters listed on the agenda of the Supervisory Board meeting, except for the matters that were added to the agenda during the course of the Supervisory Board's Meeting.

(all amounts in tables are expressed in thousands zloty unless stated otherwise)

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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 commission, for own use, appropriate expert research in the matters of its supervision and control.

The Supervisory Board executes the supervisory function over 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 directors' report on the company's activities and evaluation of financial statements for the prior year,
- evaluation of profit appropriation or loss absorption proposals made by the Management Board,
- recommending to the General Shareholders' Meeting the acknowledgment of the fulfilment of duties by members of the Management Board,
- presenting to the General Shareholders' Meeting annual written reports on the results of the assessment referred to above,
- suspending, for important reasons, individual or all Management Board members and delegating Supervisory Board members for the period lasting no longer than 3 months to temporarily perform the duties of those Management Board members who were removed, filed resignation or could not perform their duties for other reasons,
- approval of the Byelaws of the Management Board of the Company,
- concluding agreements with Management Board members, determining remuneration of the President of the Management Board and of other Board members, determining policies for granting management bonus, executing those rights towards Management Board members that result from work relations; with the proviso that such agreements are signed by the President 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 Board member to deal with competitive business or to participate in a competitive company,
- granting approval to excluding or limiting by the Management Board the pre-emptive right to the new issue shares,
- granting approval to the method of determining share issue price proposed by the Management Board or to issue of 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 taken solely by the Management Board.

In accordance with para. 12, section 3 of the Byelaws of the Supervisory Board, the Supervisory Board may establish committees or appoint teams from among its members, or delegate 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) Audit Committee tasks**

The role of the Audit Committee is to: recommend to the Supervisory Board an entity authorised to fulfil the function of a certified auditor and to audit the financial statements of the Company and the consolidated financial statements of the Group for the prior year, monitor the process of the preparation of the financial statements of the Company and the consolidated financial statements of the Group for the prior year, perform detailed reviews of the results of those audits at individual audit stage, monitor the process of the execution of financial audit, monitor the effectiveness of the internal control, internal audit and risk management systems, forward to the Supervisory Board conclusions and recommendations relating to the process of audit and assessment of the financial statements of the Company and of the consolidated financial statements of the Group for the prior year, to assess the Management Board's proposal concerning profit appropriation or loss absorption, forward to the Supervisory Board conclusions and recommendations concerning acknowledgment of the fulfilment of duties by the Chief Financial Officer, monitor the independence of a certified auditor and the entity authorized to audit financial statements, in this case – the independence of services referred to in article 48 para.2 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009, execute other tasks commissioned by the Supervisory Board that depend on the current situation at the Company, and finally - to submit the interim and annual reports on its activities to the Supervisory Board.

**f) Investment Committee tasks**

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 executing issuance of financial assets, Group companies merger, division or transformation, carrying out financial operations, establishing special purpose vehicles (SPVs) to perform works or to render services based on the 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 affiliates.

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

**g) Remuneration Committee tasks**

The tasks of the Remuneration Committee comprise:

- submitting, for the Supervisory Board authorization, proposals concerning remunerating Management Board Members, especially in the form of fixed remuneration, result-based remuneration, retirement benefits scheme and retirement benefits and long-term incentive programs, together with the recommendations concerning objectives and assessment criteria for the appropriate adjustment of remuneration of Management Board Members to long-term shareholder interests and the Company's objectives defined by the Supervisory Board; submitting to the Supervisory Board proposals concerning remuneration of individual Management Board Members and ensuring that the remuneration proposed is consistent with the remuneration regulations adopted by the Company and assessment of work results of individual Board Members; submitting to the Supervisory Board proposals concerning appropriate form of employment contracts for individual Board Members; submitting to the Supervisory Board proposals concerning bonus ratios, their weight for Board members based on the budget for the given year; offering assistance to the Supervisory Board in fulfilling the function of supervising the process under which the Company fulfils binding regulations in the area of remuneration information 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 the SPVs.
- accepting, at the request of the Management Board, the bonus ratio for employees of the Budimex SA head office to be used in calculation of prior year bonus and the percentage ratio for salary/wage increase in the current year,
- preparation of annual report on activities of the Remuneration Committee.

**6.11 Remuneration Policy for Members of Management and Supervisory Boards at Budimex SA**

**Supervisory Board Members**

The body authorised to determine remuneration policy for members of the Supervisory Board of Budimex SA is the General Shareholders' Meeting. On 19 May 2010, the General Shareholders' Meeting resolved that members of the Supervisory Board of Budimex SA will receive monthly remuneration for their work in the following amounts:

- President of the Supervisory Board – twice the amount of 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 average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.4 ratio,
- Vice-President of the Supervisory Board - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.15 ratio,
- Secretary of the Supervisory Board - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio,
- Supervisory Board Member - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.0 ratio.

**Management Board Members**

The body authorised to determine 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, result-based remuneration, retirement benefits scheme and retirement benefits, and long-term incentive scheme.

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 President of the Supervisory Board on behalf of the Supervisory Board. Agreements between Budimex SA and Management Board members were described in point 5.1.

Remuneration of Management Board members is composed of the following items:

- fixed remuneration – monthly basic salary,
- result-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of annual assessment of tasks execution, and ratio-related bonus relating to business activities of the Budimex Group,
- share incentive scheme of the Ferrovial Group called „Ferrovial objectives-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

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- additional “in-kind” benefits (*świadczenia w naturze*) such as free-of-charge medical care, or payment of life insurance policy premiums.

Dariusz Blocher	President of the Management Board	.....	Henryk Urbański	Board Member	.....
Name and surname	Position	Signature	Name and surname	Position	Signature
Ignacio Botella Rodriguez	Vice-President	.....	Marcin Węglowski	Board Member	.....
Name and surname	Position	Signature	Name and surname	Position	Signature
Jacek Daniewski	Board Member	.....			
Name and surname	Position	Signature			
Joanna Makowiecka	Board Member	.....	Warsaw, 15 March 2012		
Name and surname	Position	Signature			