

**BUDIMEX GROUP**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE GROUP FOR THE YEAR 2012**

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## **1 BUSINESS ENVIRONMENT**

### **1.1 General market conditions**

In 2012, Poland experienced an economic downturn. A particularly noticeable slowdown occurred in the construction industry, where it was reflected in the financial position and market valuation of most construction companies, as well as delays in most projects, particularly infrastructural projects. The significant worsening of the situation in the construction industry is illustrated by the index of the overall business situation, which in December 2012 was at its lowest level since January 2003.

An initial reading of GDP movements in 2012 indicates an increase of 2.0% over 2011 (in 2011, GDP growth was reported at 4.3% year-on-year). Despite worsening market conditions, Poland continues to be perceived as a country with a stable foundation and a relatively solid public finance structure.

After rapid growth in 2011 (16.3% compared to 2010, in terms of fixed prices), the past year has seen a slowdown in construction and assembly production. The industry has decreased by 1.0% over the course of the year, mainly due to the dwindling of infrastructural projects, which had been driving growth in previous years.

Expenditures by the key investor in the roads segment, the General Directorate for National Roads and Highways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA), decreased from the record-high level of PLN 26.4 billion in 2011 to approximately PLN 22.6 billion in the prior year. Lower expenditure was mainly caused by delays and the need to reissue road construction tenders (e.g. in the case of A1 and A4 highway sections for which agreements with contractors had been terminated).

The share of civil and water engineering facilities in the structure of construction and assembly production decreased from 60.1% in 2011 to 55.3% in 2012, mainly due to an increased share of residential construction (from 39.9% to 44.7%).

After a three-year downward trend, in 2012, the number of flats handed over for use increased, reaching 152.5 thousand. On the other hand, the extensive housing offer and anticipated decreased demand (due to market uncertainty and the dwindling of the "Rodzina na Swoim" scheme) had a negative impact on the number of flats offered for sale which are under development (an 11.3 per cent decrease compared to the prior year). The number of flats for sale, for which building permits had been issued, decreased in 2012 by 11.7% compared to the prior year, reflecting developers' unwillingness to commence any new projects.

### **1.2 Market development perspectives**

Market conditions in the years 2013-2014 most likely will not be favourable for the construction industry. In accordance with the provisions of the Act on State Budgets, the increase in GDP in 2013 should be 2.2%, and the yearly average inflation rate - 2.7%. The unemployment rate at year-end is projected to be 13%. Although most projections envision an improvement in the economic situation in the latter half of 2013, medium-term growth prospects for the construction market tend to be pessimistic.

The greatest challenges are expected in the roads segment. Although GDDKiA estimates it will spend PLN 18 billion in 2013, it is expected that the number of new public tenders will be further limited, which will translate into a decrease in the value of the roads market, in particular in the year 2014. The "Polish Investments" project, which will help finance the development of, among other things, the missing section of the A1 highway (between Tuszyn and Pyrzowice) may help revive the segment. The estimated value of the 140 km project is approximately EUR 2 billion, and the first tenders may be announced as early as the middle of this year.

Railway infrastructure projects are expected to experience growth in coming years. In accordance with the data contained in the Multi-year Railway Investment Plan until 2015, prepared by the Ministry of Transport, Construction and Maritime Economy, the expenditures of PKP PLK (the main investor in said segment) in 2012 amounted to PLN 3.7 billion, whilst in 2013, they are to reach PLN 7.7 billion. The PLN 11 billion threshold is expected to be exceeded in 2014.

Last year saw the conclusion of the first, long-awaited tenders for the construction of new power units (such as the Opole and Kozienice units). Most market experts agree that the energy construction industry will be the fastest growing construction market segment in the coming years.

2013 might prove to be a particularly challenging time for development companies. The extensive offer of the primary market, together with the anticipated economic slowdown (negatively affecting the decisions of key customer groups) may result in fierce competition and even fiercer battle for customers, particularly among companies heavily relying on external financing.

The business operations of the Budimex Group companies 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 projects, 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. Under the agreement concerning the new budget, Poland may expect EUR 72.9 billion under the Cohesion Policy, i.e. more than the 2007-2013 allowance.

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

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

The main area of the Group's business activities concerns the broadly interpreted construction and assembly services rendered in the system of general contracting at home and abroad, developer activities, property management, and limited scope trading, production and transport.

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

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

In 2012, the following changes occurred in the structure of the Budimex Group:

**Directors' Report on the activities of the Budimex Group in the year 2012**

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

On 13 April 2012, Budimex B Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex SA holds 100% of the shares in this company.

On 20 April 2012, Budimex A Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex SA holds 100% of shares in this company.

On 20 April 2012, Budimex PPP SA was entered in the Register of Entrepreneurs. Budimex SA holds 100% of the shares in this company.

On 30 April 2012, Budimex D Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex PPP SA holds 100% of the shares in this company.

On 30 April 2012, Budimex E Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex PPP SA holds 100% of the shares in this company.

On 16 May 2012 FBSerwis SA was entered in the Register of Entrepreneurs. Budimex SA holds 49% of the shares in this company.

On 29 June 2012, Budimex C Sp. z o.o. was entered in the Register of Entrepreneurs. Budimex PPP SA holds 100% in this company.

In 2012, there were no changes in the management policies at the Budimex Group.

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

Company name	Registered office	Share in the share capital and in the number of votes (%)		Consolidation method
		31 December 2012	31 December 2011	
Mostostal Kraków SA	Kraków / 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
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated
MK Logistic Sp. z o.o. (in liquidation)	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. in bankruptcy open to arrangements	Warsaw / Poland	100.00% <sup>1</sup>	100.00%	full
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full
SPV-BN 2 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full
Budimex Kolejnictwo SA <sup>2</sup>	Warsaw / Poland	100.00%	100.00%	non-consolidated
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated
Budimex Autostrada SA	Warsaw / Poland	100.00%	100.00%	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated
Budimex Autostrada A-1 SA	Warsaw / Poland	100.00%	100.00%	non-consolidated
Dromex Oil Sp. z o.o. (in liquidation)	Warsaw / Poland	97.93%	97.93%	non-consolidated
Budimex SA Ferrovia 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 Ferrovia Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%	proportionate
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	Warsaw / Poland	30.00%	30.00%	proportionate
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	-	non-consolidated
Budimex B Sp. z o.o.	Warsaw / Poland	100.00%	-	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	-	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	-	non-consolidated
Budimex E Sp. z o.o.	Warsaw / Poland	100.00%	-	non-consolidated
Budimex PPP SA	Warsaw / Poland	100.00%	-	non-consolidated

<sup>1)</sup> the company was acquired on 16 November 2011. The court declared bankruptcy of the company with an arrangement option on 13 September 2012. The Budimex Group lost control over the company on 30 November 2012 as a result of removing the company's own management board and appointing a court administrator.

<sup>2)</sup> Previous name of the company: Budimex Serwis SA. The name change was entered in the Register of Entrepreneurs on 5 December 2012.

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

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

As at 31 December 2012, the Group conducted business in the following two operating segments:

- construction activities,
- development activities and property management.

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

- Budimex SA,
- 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. in bankruptcy open to arrangements (company purchased by Budimex SA on 16 November 2011). As a result of removing the company's own management on 30 November 2012, the Budimex Group lost control over the company and the company was excluded from consolidation as of that date).

Development and property management services comprise preparation of land for investment, execution of investment projects in the field of residential construction, 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.
- SPV-BN 2 Sp. z o.o.
- Budimex SA in the part relating to the development business, as a result of a merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

As at 31 December 2012, 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, Pferdengesstr. 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,
- Tax Representative Office in Estonia (Narva) of Mostostal Kraków SA.

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

**2.3 Structure of sales revenue of the Budimex Group****Disposal of the construction segment**

In 2012, the value of sales in the construction segment of the Budimex Group was 8% higher compared to 2011. Sales in the infrastructural construction segment grew by 5%, whilst sales in the building objects segment – by 13%.

In 2012, a further increase was recorded in sales in the infrastructure segment (from PLN 3,375 million in 2011 to PLN 3,552 million in 2012). However, the share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services decreased from 65% in 2011 to 63% in 2012.

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

Type of construction	Sales value			
	2012		2011	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3,552	63%	3,375	65%
buildings, of which:	2,054	37%	1,818	35%
- non-residential buildings	1,786	32%	1,471	28%
- residential buildings	268	5%	347	7%
<b>Total sales of construction and assembly services</b>	<b>5,606</b>	<b>100%</b>	<b>5,193</b>	<b>100%</b>

**Development activities**

In 2012, the revenue from sales in the development business amounted to PLN 322,420 thousand thus recording a nearly 30% increase compared to the prior year. Revenue from sales of the development business is seasonal as it is recognised upon the transfer of the ownership title to a flat/premises to buyer after the technical acceptance report has been signed for the entire building.

In 2012, the situation on the development market was stable, which translated directly into high levels of flat pre-booking. In the year 2012, 515 flats were sold in the pre-booking system, compared to 682 flats sold in the prior year.

In 2012, the development of more than 460 new flats was commenced in three development projects. As at 31 December 2012, 799 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 2012**

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

**Major construction contracts (with a value greater than PLN 50 million) concluded by the Budimex Group companies in the year 2012:**

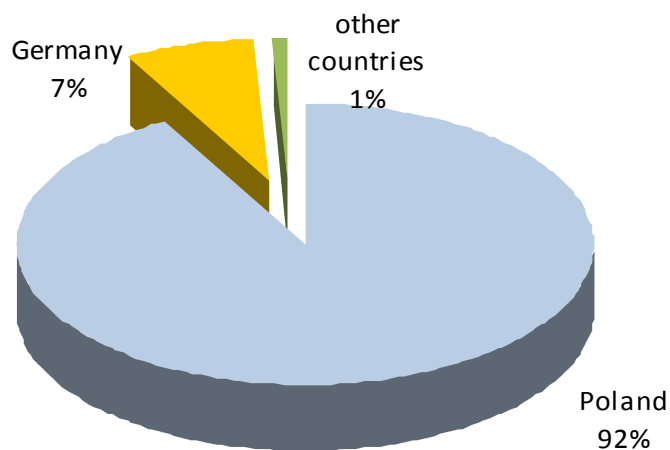
Contract date	Contract value allocated to the Budimex Group	Customer	Type of construction
2012-01-30	173,000	Powiśle Park Sp. z o.o.	Office, retail and residential complex at ul. Kruczkowskiego 2 in Warsaw
2012-03-05	62,840	Poznań University of Technology	Teaching Centre at the Faculty of Chemistry of the Poznań University of Technology
2012-03-08	77,100	Centrum Biurowe Neptun Sp. z o.o.	NEPTUN office complex in Gdańsk
2012-07-20	99,816	General Directorate for National Roads and Highways, Branch in Białystok	Construction of a bypass for the Stawiski municipality
2012-07-30	75,832	Maritime Office in Słupsk	Protection of the shoreline in Darłowo
2012-07-31	58,500	BPTO INFRA Sp. z o.o.	Construction of Nowa Wałowa street in Gdańsk
2012-08-21	259,600	Lublin Administration for Roads and Bridges	Construction of an access road to the Dąbrowica junction of the bypass for the city of Lublin along expressways S12, S17 and S19
2012-08-31	167,539	Przedsiębiorstwo usługowo-handlowo-produkcyjne Lech Sp. z o.o.	Construction of a Waste Processing Plant in Białystok
2012-09-03	113,367	Municipal Infrastructure Administration	Redesign of a tram line, section Rondo Mogiłskie - al. Jana Pawła II - Plac Centralny, together with a traffic management system in Kraków.
2012-09-21	96,863	Podkarpackie Voivodship Roads Administration	Expansion of Voivodship Road No. 892 Zagórz-Komańcza
2012-10-15	163,695	Office of the Marshal of the Lubelskie Voivodship in Lublin	Development of the Centre for the Meeting of Cultures, renovation of the Musical Theatre and Henryk Wieniawski Philharmonic in Lublin
2012-10-22	59,850	Jeronimo Martins Polska SA	Centrum Dystrybucyjne JMD SA in Gdańsk
2012-11-26	121,626	Upper Silesian Aviation Group	New runway for the International Airport in Pyrzowice
2012-11-29	68,526	Zarząd Morskich Portów Szczecin i Świnoujście SA	Ferry landing No. 1 in the Świnoujście Harbour

**Geographical structure of the Budimex Group sales in 2012**

The main markets on which the Budimex Group operates are:

- Poland
- Germany

The geographical structure of revenue from sales in 2012 is as follows:



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

## **2.4 Construction activities on the German market**

In 2012, only workshop services were rendered. Sales revenues in Germany amounted to PLN 165,233 thousand and were PLN 10,663 thousand, i.e. 6.9%, higher compared to 2011. The increase was generated in metal-related works, the value of which in 2012 was 15.9% higher than in 2011. Prefabrication works, whose share in total sales revenue is 62.4%, had a comparable value to that of 2011. Gross profit generated in 2012 was 13.4% higher than in the prior year, which resulted from an increase in the value of revenue from metal-related works, lower costs of removing the defects of the works performed in previous years and interest on the income tax refund for previous years. Customer structure in both segments shows dispersion and the share of each customer in total sales revenue does not exceed 10%.

## **2.5 Budimex Group development perspectives in the forthcoming year**

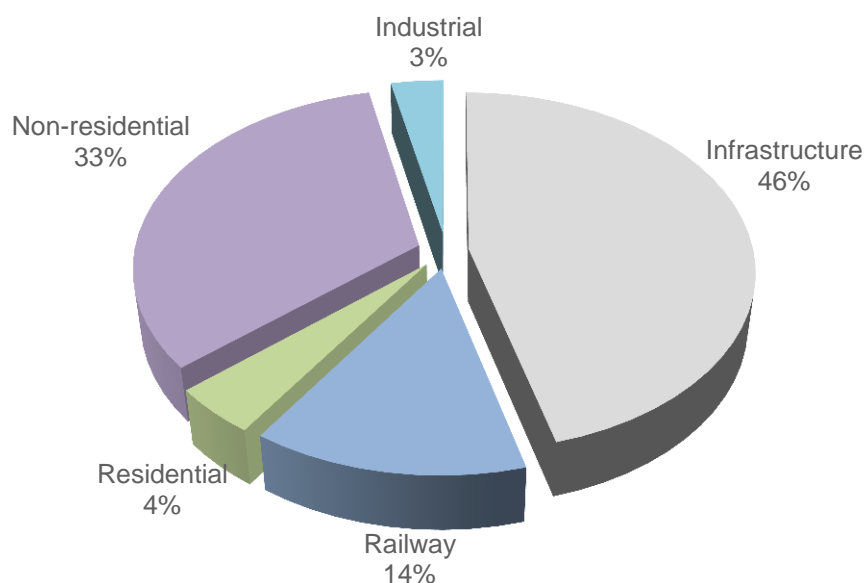
Next year the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market.

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 a comparable level. Entering the market of municipal services is also contemplated, as well as engaging in new projects on the basis of public-private partnerships. The Group 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 2012, as part of carrying out a business diversification strategy, a six-year contract was secured for comprehensive maintenance of the A1 highway with a value of more than PLN 40 million and for the development of a car park in Wrocław as part of public-private partnership (PPP) with a total value of PLN 43 million. Another success was the conclusion of a contract for the development of a waste incineration plant in Białystok with a value of more than PLN 167 million.

In 2012, the Budimex Group companies signed construction contracts for a total value of PLN 2,803 million (without annexes). The value of the order portfolio of the Budimex Group as at 31 December 2012 amounted to PLN 4,877 million and was 43.1% lower in comparison with the end of 2011.

The structure of the order portfolio as at 31 December 2012 is as follows:



## **2.6 Evaluation of investment project feasibility**

In 2012, the Budimex Group plans to incur capital expenditure of approx. PLN 19 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.

## **2.7 Risk factors**

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

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

Information concerning the financial risk management objectives and policies adopted by the Group are presented in the consolidated financial statements for the year ended 31 December 2012 (note 4).



## Directors' Report on the activities of the Budimex Group in the year 2012

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

Construction contracts are executed under 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 the planning and progress of contract work. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors occur that will cause that contracts will be performed with lower margins than initially planned. Such factors may include:

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

### 2.8 Procurement source changes

In 2012, there were no significant changes in the sources of supplies for construction sites. None of the suppliers of raw materials or services exceeded 10% of the Group's consolidated sales.

## 3 FINANCIAL POSITION

### 3.1 Key economic and financial data of the Budimex Group

The financial situation of the Budimex Group in 2012 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2011 comparative data)<sup>1</sup>.

#### Consolidated statement of financial position of the Budimex Group

The main items of the Consolidated Statement of Financial Position of the Budimex Group as at 31 December 2012, compared to 31 December 2011, are presented in the table below:

ASSETS	31.12.2012	31.12.2011	Change	Change %
<b>Non-current assets</b>	<b>559,807</b>	<b>801,210</b>	<b>(241,403)</b>	<b>-30.1%</b>
Property, plant and equipment	111,192	274,001	(162,809)	-59.4%
Investment properties	3,256	3,278	(22)	-0.7%
Intangible assets	2,992	7,489	(4,497)	-60.0%
Goodwill of subordinates	73,237	134,356	(61,119)	-45.5%
Investments in equity accounted entities	16,966	13,503	3,463	25.6%
Available-for-sale financial assets	17,135	12,146	4,989	41.1%
Retentions for construction contracts	19,202	37,883	(18,681)	-49.3%
Other long-term receivables	-	24	(24)	-100.0%
Long-term prepayments and deferred costs	4,176	6,498	(2,322)	-35.7%
Deferred tax assets	311,651	312,032	(381)	-0.1%
<b>Current assets</b>	<b>2,888,404</b>	<b>3,661,350</b>	<b>(772,946)</b>	<b>-21.1%</b>
Inventories	876,206	1,115,558	(239,352)	-21.5%
Trade and other receivables	401,836	511,961	(110,125)	-21.5%
Retentions for construction contracts	49,419	22,394	27,025	120.7%
Amounts due and receivable from customers under construction contracts	227,490	229,762	(2,272)	-1.0%
Current tax assets	935	5,985	(5,050)	-84.4%
Derivative financial instruments	5,724	141	5,583	3,959.6%
Cash and cash equivalents	1,317,733	1,761,630	(443,897)	-25.2%
Short-term prepayments and deferred costs	9,061	13,919	(4,858)	-34.9%
<b>TOTAL ASSETS</b>	<b>3,448,211</b>	<b>4,462,560</b>	<b>(1,014,349)</b>	<b>-22.7%</b>

<sup>1</sup> comparative data for 2011 changed due to a modification of the provisionally determined fair value of the net assets of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and goodwill impairment. The change did not affect prior reporting periods.

## Directors' Report on the activities of the Budimex Group in the year 2012

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

<b>EQUITY AND LIABILITIES</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>Change</b>	<b>Change %</b>
<b>Shareholders' equity attributable to the shareholders of the Parent Company</b>	<b>433,130</b>	<b>525,830</b>	<b>(92,700)</b>	<b>-17.6%</b>
Share capital	145,848	145,848	-	0.0%
Share premium	234,799	234,799	-	0.0%
Other reserves	2,705	1,283	1,422	110.8%
Foreign exchange differences on translation of foreign operations	2,190	2,229	(39)	-1.7%
Retained earnings	47,588	141,671	(94,083)	-66.4%
Non-controlling interests	-	-	-	0.0%
<b>Total shareholders' equity</b>	<b>433,130</b>	<b>525,830</b>	<b>(92,700)</b>	<b>-17.6%</b>
<b>Liabilities</b>	<b>3,015,081</b>	<b>3,936,730</b>	<b>(921,649)</b>	<b>-23.4%</b>
<b>Non-current liabilities</b>	<b>382,378</b>	<b>360,153</b>	<b>22,225</b>	<b>6.2%</b>
Loans, borrowings and other external sources of finance	75,967	73,981	1,986	2.7%
Retentions for construction contracts	161,143	150,122	11,021	7.3%
Provisions for non-current liabilities and other charges	141,521	124,665	16,856	13.5%
Retirement benefits and similar obligations	3,747	11,385	(7,638)	-67.1%
<b>Current liabilities</b>	<b>2,632,703</b>	<b>3,576,577</b>	<b>(943,874)</b>	<b>-26.4%</b>
Loans, borrowings and other external sources of finance	17,718	37,753	(20,035)	-53.1%
Trade and other liabilities	1,287,594	1,698,239	(410,645)	-24.2%
Retentions for construction contracts	222,146	153,436	68,710	44.8%
Amounts due and payable to customers under construction contracts	534,870	1,037,987	(503,117)	-48.5%
Prepayments received	274,050	357,956	(83,906)	-23.4%
Provisions for current liabilities and other charges	116,060	105,529	10,531	10.0%
Current tax liability	6,225	-	6,225	100.0%
Retirement benefits and similar obligations	1,036	5,044	(4,008)	-79.5%
Derivative financial instruments	257	12,330	(12,073)	-97.9%
Short-term accruals	161,608	162,231	(623)	-0.4%
Short-term deferred income	11,139	6,072	5,067	83.4%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,448,211</b>	<b>4,462,560</b>	<b>(1,014,349)</b>	<b>-22.7%</b>

As at 31 December 2012, consolidated total assets decreased by PLN 1,014,349 thousand, compared to the end of December 2011, mainly due to a 30.1% (PLN 241,403 thousand) decrease in non-current assets and a 21.1% (PLN 772,946 thousand) decrease in current assets.

### Non-current assets:

Decrease in the value of non-current assets as at 31 December 2012 compared to 31 December 2011 was caused mainly by the following:

- a decrease in the balance of property, plant and equipment by PLN 162,809 thousand, mainly due to a change in the composition of the Group in the amount of PLN 143,245 thousand and due to a depreciation charge in the amount of PLN 45,325 thousand. Capital expenditures of PLN 25,739 thousand were allocated towards property, plant and equipment.
- a decrease in goodwill by PLN 61,119 thousand concerns the goodwill impairment write-down of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. of PLN 45,000 thousand and PLN 16,119 thousand, resulting from changes in the Group's composition,
- a decrease in the balance of long-term retentions for construction contracts by PLN 18,681 thousand results from transferring many retentions to short-term assets.

### Current assets:

In the same period, the value of current assets decreased by PLN 772,946 thousand, mainly as a result of a decrease in:

- trade and other receivables by PLN 110,125 thousand,
- inventories by PLN 239,352 thousand, mainly relating to the development business and a change in the Group's status,
- cash and cash equivalents by PLN 443,897 thousand,

with a simultaneous increase in the balance of short-term retentions for construction contracts by PLN 27,025 thousand.

## Directors' Report on the activities of the Budimex Group in the year 2012

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

### Equity and liabilities:

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

- an increase in the value of non-current liabilities by PLN 22,225 thousand, mainly due to an increase in provisions for non-current liabilities and other liabilities by PLN 16,856 thousand, with an increase in the balance of retentions for construction contracts by PLN 11,021 thousand,
- a decrease in current liabilities by PLN 943,874 thousand, of which the greatest balance movements related to the following:
  - a decrease in trade and other payables by PLN 410,645 thousand,
  - a decrease in the balance of loans and borrowings and other external sources of finance by PLN 20,035 thousand,
  - a decrease in the balance of received prepayments by PLN 83,906 thousand,
  - a decrease in amounts due and payable to customers under construction contracts by PLN 503,117 thousand,
  - a decrease in liabilities under derivatives by PLN 12,073 thousand.
  - a increase in the balance of retentions for construction contracts by PLN 68,710 thousand.

### Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01. - 31.12.2012	01.01. - 31.12.2011	Change	Change %
Net revenue from sales of products, services and goods for resale and raw materials	6,077,660	5,516,487	561,173	10.2%
Cost of finished goods, services, goods for resale and raw materials sold	(5,617,789)	(5,059,721)	(558,068)	11.0%
<b>Gross profit on sales</b>	<b>459,871</b>	<b>456,766</b>	<b>3,105</b>	<b>0.7%</b>
Selling expenses	(24,371)	(24,529)	158	-0.6%
Administrative expenses	(193,362)	(138,087)	(55,275)	40.0%
Other operating income	65,780	86,338	(20,558)	-23.8%
Other operating expenses	(139,172)	(234,619)	95,447	-40.7%
Gains/ (losses) on derivative financial instruments	13,663	(11,218)	24,881	-221.8%
<b>Operating profit</b>	<b>182,409</b>	<b>134,651</b>	<b>47,758</b>	<b>35.5%</b>
Finance income	67,063	54,457	12,606	23.1%
Finance costs	(40,723)	(44,777)	4,054	-9.1%
Share in net profits / (losses) of equity accounted subordinates	(6,121)	(2,537)	(3,584)	141.3%
<b>Gross profit</b>	<b>202,628</b>	<b>141,794</b>	<b>60,834</b>	<b>42.9%</b>
Income tax	(16,646)	(66,200)	49,554	-74.9%
<b>Net profit for the period</b>	<b>185,982</b>	<b>75,594</b>	<b>110,388</b>	<b>146.0%</b>
<i>of which:</i>				
<b>Attributable to the shareholders of the Company</b>	<b>185,982</b>	<b>75,594</b>	<b>110,388</b>	<b>146.0%</b>
Attributable to non-controlling interests	-	-	-	-

In 2012, the Budimex Group earned a sales revenue of PLN 6,077,660 thousand, which represents a 10.2% increase compared to the result for 2011.

Gross profit on sales in 2012 was PLN 459,871 thousand, while in the prior year – PLN 456,766 thousand. The gross sales profitability ratio for 2012 was therefore 7.57%, while for 2011 – 8.28%.

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 subsequent periods, a part of the earlier created provision is reversed in proportion to the percentage of contract completion, after taking into account a total negative margin on the entire contract. As at 31 December 2012, the balance of the provision for contract losses amounted to PLN 228,439 thousand. In 2012, the balance of the provision for contract losses decreased by PLN 267,372 thousand, of which PLN 137,345 thousand was due to discontinuing the consolidation of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

Compared to the prior year, selling expenses decreased in the twelve-month period ended 31 December 2012 by PLN 158 thousand, while administrative expenses were PLN 55,275 thousand higher than the expenses incurred in 2011. The share of the sum total of selling and administrative expenses in total sales revenue increased from 2.95% in 2011 to 3.58% in the current year.

Other operating income in 2012 was PLN 65,780 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 39,996 thousand, reversal of the provision for penalties and sanctions in the amount of PLN 3,116 thousand, reversal of impairment write-downs against doubtful receivables in the amount of PLN 13,541 thousand, as well as reversal of the provision for litigation in the amount of PLN 1,592 thousand. In addition, in 2012, Group companies sold property, plant and equipment and investment properties and earned a profit on those sales in the total amount of PLN 4,042 thousand. The net carrying amount of the property, plant and equipment sold in 2012 was PLN 315 thousand.

## **Directors' Report on the activities of the Budimex Group in the year 2012**

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

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Other operating expenses in the 12-month period ended 31 December 2012 amounted to PLN 139,172 thousand, of which PLN 13,194 thousand related to impairment write-downs against receivables, PLN 13,246 thousand – to recognised impairment write-downs against inventories, and PLN 45,000 thousand concerned impairment write-downs against the goodwill of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. The cost of restructuring provisions amounted to PLN 36,096 thousand, PLN 3,288 thousand concerned recognized provisions for litigation and PLN 7,236 thousand concerned recognized provisions for claims and penalties. The value of compensations and liquidated damages charged to the Group result in 2012 was PLN 3,373 thousand. Derecognition of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. resulted in a charge to other operating expenses of PLN 13,493 thousand.

In 2012, the Group reported a profit on valuation and realization of derivatives (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 13,663 thousand.

In 2012, the Group reported an operating profit of PLN 182,409 thousand, representing 3.00% of total sales revenues, while in the prior year – an operating profit of PLN 134,651 thousand, representing 2.44% of sales revenues.

In the 12-month period ended 31 December 2012, the Group reported a profit on financing activities of PLN 26,340 thousand, while in 2011 – a profit of PLN 9,680 thousand. Finance costs in 2012 represented, among others, interest costs of PLN 6,862 thousand, bank commissions on guarantees and loans of PLN 13,906 thousand paid by Group companies, cost of discounting long-term receivables and non-current liabilities arising from retentions for construction contracts in the amount of PLN 14,991 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 4,916 thousand. Finance income in 2012 represented mainly interest received in the amount of PLN 63,894 thousand and the surplus of FX gains over losses of PLN 3,026 thousand.

In 2012, the Group reported a gross profit of PLN 202,628 thousand, while in the previous year – a gross profit of PLN 141,794 thousand.

Income tax liability for 2012 was PLN 16,646 thousand, of which:

- current tax - PLN 13,508 thousand,
- deferred tax – PLN 3,138 thousand.

As at 31 December 2012, the Group recognized a deferred tax asset in the amount of PLN 311,651 thousand, while as at 31 December 2011 – a deferred tax asset of PLN 312,032 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 2012 was PLN 185,982 thousand, while the net profit attributable to the shareholders of Budimex SA for 2011 - PLN 75,594 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 a 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 2012 with cash on hand and cash in bank amounting to a total of PLN 1,761,630 thousand. For the purpose of the Statement of Cash Flow, this amount was reduced by the amount of cash of restricted use of PLN 21,142 thousand. Net cash flow for the year 2012 was negative and amounted to PLN 433,825 thousand. As at 31 December 2012, the Group's reported cash balance was PLN 1,317,733 thousand, of which the cash of restricted use was PLN 10,987 thousand.

In 2012, the balance of cash from operating activities decreased by PLN 44,147 thousand.

Cash flow from investing activities came out to a negative balance of PLN 98,693 thousand.

Cash flow from financing activities for 2012 showed a negative balance which amounted to PLN 290,985 thousand and resulted mainly from the 2011 dividend payment.

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

### 3.3 Managing of finance at the Budimex Group

The cash balance of the Budimex Group as at 31 December 2012 amounted to PLN 1,317,733 thousand and was PLN 443,897 thousand lower than as at 31 December 2011. In the course of 2012, Budimex SA paid dividend in the amount of PLN 280,065 thousand, which exceeded the amount of net profit for 2011 adjusted in 2012. Furthermore, in the course of 2012, the company committed total funds of PLN 111,373 thousand towards financing Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (including capital increases, advance payments on contracts and trade receivables) for which 100% impairment write-downs were made due to the announcing that company's bankruptcy with an arrangement option. Given the above, one should consider that the amount of cash in the Group as at 31 December 2012 was very high. Generating cash assets at the above level was possible owing to positive profitability maintained by Group companies in 2012 as well as to sustained favourable tendencies in working capital which took place in the second half of 2012.

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

The Budimex Group entities reported an external debt in respect of bank loans and borrowings and other external sources of finance, including finance lease liabilities, which as at 31 December 2012 amounted to PLN 93,685 thousand and was PLN 18,049 thousand lower than as at 31 December 2011 (see table below). The decrease in debt stems primarily from the fact that as at 31 December 2012, Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. was not subject to consolidation (Budimex SA lost control over the company in 2012) and thus, its debt did not increase the debt of the Budimex Group on the Group's consolidated balance sheet as at 31 December 2012. The Group's debt is mainly composed of the debt of Budimex SA under finance leases (concluded for the purpose of financing the purchase of property, plant and equipment – primarily machines and equipment for performing roadwork contracts) and the debt of Budimex Nieruchomości Sp. z o.o. under bank loans financing development activities.

Bank loans and borrowings and other external sources of finance, of which:	31.12.2012	31.12.2011
- long-term	75,967	73,981
- short-term	17,718	37,753
<b>Total</b>	<b>93,685</b>	<b>111,734</b>

The following ratios illustrate the structure of finance at the Budimex Group<sup>2</sup>:

Ratio	31.12.2012	31.12.2011
<b>Equity to assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/(total assets)	0.13	0.12
<b>Equity to non-current assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/(total non-current assets)	0.77	0.66
<b>Debt ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company)/(total assets)	0.87	0.88
<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)	6.96	7.49

At the end of 2012, the Group's debt ratios decreased, whilst equity to assets or non-current assets ratios- increased (see table above). This was related to a significant decrease in total assets, which was large enough to offset the decrease in the Group's shareholders' equity due to dividend payment by Budimex SA in recent years and goodwill impairment write-downs due to the bankruptcy of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

Furthermore, there was an improvement in liquidity ratios (see table below). This was possible thanks to the high profitability of the Budimex Group companies operating in the construction and development segments, and thanks to the high balances of cash generated in both areas of business. This decrease occurred despite a large cash outflow relating to dividend payment and the investments into financing Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. by Budimex SA, as described above.

Ratio	31.12.2012	31.12.2011
Current Ratio (current assets)/(current liabilities)	1.10	1.02
Quick Ratio (or Acid Test) (current assets - inventory)/(current liabilities)	0.76	0.71

Due to the current very good financial standing of the Budimex Group and significant cash resources, there are no threats to the Group's ability to finance its business activities in 2013.

<sup>2</sup> comparative data for 2011 changed due to a modification of the provisionally determined fair value of the net assets of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and goodwill impairment. The change did not affect prior reporting periods.

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

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

Guarantees, suretyships, other liabilities and contingent liabilities:

OFF-BALANCE SHEET ITEMS	31.12.2012	31.12.2011
<b>Contingent receivables</b>	<b>369,358</b>	<b>378,269</b>
<b>From related parties, of which:</b>	<b>2,372</b>	<b>-</b>
- guarantees and suretyships received	2,372	-
- bills of exchange received as security	-	-
<b>From other entities, of which:</b>	<b>363,986</b>	<b>378,269</b>
- guarantees and suretyships received	349,791	358,041
- bills of exchange received as security	14,195	20,228
<b>Other contingent liabilities, of which:</b>	<b>3,000</b>	<b>-</b>
- other off-balance-sheet liabilities	3,000	-
<b>Contingent liabilities</b>	<b>1,573,708</b>	<b>1,971,353</b>
<b>To related parties, of which:</b>	<b>803</b>	<b>503</b>
- guarantees and suretyships issued	803	503
- bills of exchange issued as security	-	-
<b>To other entities, of which:</b>	<b>1,429,725</b>	<b>1,832,131</b>
- guarantees and suretyships issued	1,423,993	1,801,518
- bills of exchange issued as security	5,732	30,613
<b>Other contingent liabilities, of which:</b>	<b>143,180</b>	<b>138,719</b>
- other off-balance-sheet liabilities	143,180	138,719
<b>Total off-balance sheet liabilities</b>	<b>(1,204,350)</b>	<b>(1,593,084)</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 the 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 2012:

Name of the company granting a suretyship for a loan or borrowing or granting a guarantee	Name of the (company) entity to which suretyships or guarantees were granted	Total amount of loans or borrowings that has been duly guaranteed to the extent specified	Term for which suretyships or guarantees were granted	Financial terms on which suretyships or guarantees were granted	The nature of the relationship existing between BUDIMEX SA and the entity that incurred the loan or borrowing
(PLN '000)					
Budimex SA	Mostostal Kraków SA	50,184	2018-11-13	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	13,576	2017-07-15	free of charge	subsidiary
Budimex SA	Budimex Danwood SA	26,060	2015-12-21	free of charge	subsidiary
Budimex SA	FBSerwis SA	803	2017-11-01	free of charge	associate
Budimex SA	Budimex Bau GmbH	210	2015-06-30	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	35,500	2020-02-12	free of charge	subsidiary
<b>TOTAL</b>		<b>126,333</b>			

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

The Budimex Group did not publish any financial forecasts for 2012.

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

In the period covered by the report, no securities were issued outside the Group.

## **4 SIGNIFICANT AGREEMENTS**

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

In 2012, the Budimex Group (including Budimex SA) was a party to the following General Insurance Agreements:

- General Insurance Coverage for All Construction & Assembly Risks

The leading co-insurer for this agreement is TUIR Warta SA with its registered office in Warsaw (50% share) and the other co-insurers are TUIR Allianz Polska SA with its registered office in Warsaw (25% share) and PZU SA with its registered office in Warsaw (25% share).

Subject to the insurance coverage are all construction and assembly contracts executed by the Budimex SA 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 5 July 2012 to 4 July 2014.

- General Third Party Liability (TPL) Agreement

The leading co-insurer for this agreement is TUIR Warta SA with its registered office in Warsaw (50% share) and the other co-insurers are TUIR Allianz Polska SA with its registered office in Warsaw (25% share) and PZU SA with its registered office in Warsaw (25% 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 5 July 2012 to 4 July 2014.

- 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 July 2012 to 4 July 2014.

- General All-Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a defined period of time i.e. from 15 November 2012 to 14 November 2013. 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 the transport, loading, unloading, assembly or disassembly of the machine.

- Other significant insurance agreements:

In 2012, 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 2012 to 21 June 2013. The insurance coverage relates to Members of Management and Supervisory Boards and authorised commercial representatives of the Budimex Group companies, and of their subsidiaries and affiliates. This insurance is part of the global insurance program for the Ferrovial Group.

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

### 4.2 Cooperation agreements binding in 2012

Cooperation agreements concluded in 2012

(in PLN thousand gross)

	Supplier	Scope of the agreement	Annual value	Agreement date
1	Lotos Asfalt Sp. z o.o.	Road asphalts	210,089	12.03.2012
2	Orlen Asfalt Sp. z o.o.	Road asphalts	101,618	1.03.2012
3	Kopalnie Dolomitu w Sandomierzu SA	Aggregates	25,052	1.10.2012
4	Konsorcjum Stali SA	Steel and concrete reinforcement	24,961	1.03.2012
5	Grupa Ożarów SA	Cement	9,686	8.10.2012
6	Amitech Poland Sp. z o.o.	Pipes, resin wells	3,616	16.05.2012
7	Bims Plus FHH Sp. z o.o. Warszawa sp.k.	Grid and plumbing materials	1,315	8.04.2012
8	3W Dystrybucja Budowlana SA	General construction materials	1,176	4.09.2012

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

Cooperation agreements concluded by the Budimex Group before 2012 and effective in 2012:

(in PLN thousand gross)

	Supplier	Scope of the agreement	Annual value	Agreement date
1	Lafarge Kruszywa i Beton Sp. z o.o.	Aggregates, concrete	71,055	1.06.2010
2	ArcelorMittal Distribution Sp. z o.o.	Steel and concrete reinforcement	46,906	4.05.2011
3	Cemex Polska Sp. z o.o.	Aggregates, cement, concrete	45,329*	23.11.2006 1.04.2009 6.12.2011
4	Lotos Paliwa Sp. z o.o.	Fuel oil	37,765	12.04.2005
5	Peri Polska Sp. z o.o.	Formwork lease	36,388	17.03.2006
6	Mal-Sped Sp. z o.o.	Mazut	33,719	1.06.2010
7	Śląskie Kruszywa Naturalne Sp. z o.o.	Aggregates	28,502	1.05.2009
8	Stalprodukt SA	Supply and assembly of road barriers	28,405	1.03.2010 18.06.2007
9	Francisco Ros Casares Polska Sp. z o.o.	Steel and concrete reinforcement	25,695	2.12.2009
10	Viacon Polska Sp. z o.o.	Road passes, geo-textiles	20,621	14.02.2006
11	Bowim SA	Steel and concrete reinforcement	19,914	30.04.2009
12	Nordkalk Sp. z o.o.	Aggregates	18,066	23.07.2010
13	Ulma Construcción Polska SA	Formwork lease	15,060	21.12.2005
14	Doka Polska Sp. z o.o.	Formwork lease	13,607	23.07.2010
15	Touax Sp. z o.o.	Lease of temporary contractor's facilities	9,866	11.07.2007

\* 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 the Budimex Group.

### 4.3 Related party transactions

Detailed information on related party transactions was presented in note 46 of the consolidated financial statements of the Budimex Group.



## Directors' Report on the activities of the Budimex Group in the year 2012

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

### 4.4 Loans and borrowings

As at 31 December 2012, Budimex SA had the following loans and borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. of interest (in '000)	Interest rate	Maturity date
Bank Handlowy w Warszawie SA	Overdraft facility	31.01.2012	PLN 40,000	-	1M WIBOR + margin	06.02.2013
Societe Generale SA Branch in Poland	Overdraft facility	28.11.2012	PLN 50,000	-	1M WIBOR + margin	27.11.2013
Cintra Infraestructuras SA	Loan	01.12.2004	EUR 1,981	EUR 1,983	12M EURIBOR + margin	01.12.2013
Millennium Leasing Sp. z o. o.	Finance lease (63 agreements in total)	-	-	PLN 36,527	1M WIBOR + margin	30.11.2015 - 30.06.2017
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 801	fixed, as provided in the agreement	monthly

As at 31 December 2012, other companies of the Budimex Group were parties to the following loan and borrowing agreements and finance lease agreements:

Lender	Title of liability	Date of signing the loan agreement	Amount available under the agreement (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 15,000	- PLN	1M WIBOR + margin	30.04.2016
Getin Noble Bank SA	Investment loan	17.10.2011	PLN 39,500	PLN 38,493	1M WIBOR + margin	31.12.2014
Getin Noble Bank SA	Investment loan	18.05.2012	PLN 33,000	PLN 9,671	1M WIBOR + margin	30.06.2014
Getin Noble Bank SA	Investment loan	04.10.2012	PLN 25,000	- PLN	1M WIBOR + margin	31.12.2014
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 81	fixed, as provided in the agreement	monthly
<b>Mostostal Kraków SA</b>						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	2.01.2012	-	PLN 5	fixed, as provided in the agreement	monthly

### 4.5 Major equity investments in 2012

On 27 March 2012, a Deed of Association of Budimex PPP Spółka Akcyjna was signed. The share capital of the new company amounting to PLN 100,000 thousand (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 National Court Register on 20 April 2012.

On 27 March 2012, the Deeds of Association of Budimex A Sp. z o.o., Budimex B Sp. z o.o., Budimex C Sp. z o.o., Budimex D Sp. z o.o., Budimex E Sp. z o.o. were signed, in connection with the proposed public-private partnership investments. The share capital of each new company amounts to PLN 5 thousand respectively (100 shares with a nominal value of PLN 50 each) and, in the case of Budimex A Sp. z o.o. and Budimex B Sp. z o.o., was taken up in full by Budimex SA, while in the case of the remaining companies, it was taken up by Budimex PPP SA.

On 28 March 2012, a Deed of Association of FBŚerwis Spółka Akcyjna was signed. The share capital of the new company amounting to PLN 6,250 thousand (12,500 shares with a nominal value of PLN 500 each) was taken up by Budimex SA in the amount of PLN 3,063 thousand (6,125 shares) and Ferrovial Servicios SA in the amount of PLN 3,187 thousand (6,375 shares). The company was entered in the National Court Register on 16 May 2012.

On 9 May 2012, the Extraordinary Shareholders' Meeting of Budimex Parking Wrocław Sp. z o.o. (a wholly-owned subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 995 thousand, i.e. from PLN 5 thousand to PLN 1,000 thousand by way of establishing 19,900 new shares with a nominal value of PLN 50 each. Budimex SA subscribed all the new shares in the company. The increase in the share capital was registered in the National Court Register on 21 May 2012.

On 28 May 2012, the Extraordinary Shareholders' Meeting of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. (an affiliate of Budimex SA) resolved to increase the company's share capital by PLN 40,000 thousand, i.e. from PLN 178,869 thousand to PLN 218,869 thousand by way of establishing 80,000 new shares with a nominal value of PLN 500 each. Budimex SA subscribed all the new shares in the company. The share capital increase was entered in the National Court Register on 14 June 2012.

## **Directors' Report on the activities of the Budimex Group in the year 2012**

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

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On 28 June 2012, the Extraordinary Shareholders' Meeting of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. resolved to increase the company's share capital by PLN 23,000 thousand, i.e. from PLN 218,869 thousand to PLN 241,869 thousand by way of establishing 46,000 new shares with a nominal value of PLN 500 each. Budimex SA subscribed all the new shares in the company. The share capital increase was entered in the National Court Register on 13 July 2012.

On 6 August 2012, Budimex SA concluded with Bank Handlowy in Warsaw SA an agreement for the purchase of shares of Elektromontaż – Poznań SA (previously, an associate of Budimex SA). In the agreement, Budimex SA agreed to purchase 1,075,300 shares for PLN 6.1 per share, i.e. for a total price of PLN 6,559 thousand. Thus, the share of Budimex SA in the share capital and votes at the GSM increased from 30.78% to 50.66%. The agreement was concluded on the condition precedent of obtaining approval for the share concentration. The conditions precedent were fulfilled in January 2013.

On 13 August 2012, the Extraordinary Shareholders' Meeting of Budimex Parking Wrocław Sp. z o.o. (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 500 thousand, i.e. to the amount of PLN 1,500 thousand. Budimex SA subscribed all 10,000 new shares with a nominal value of PLN 50 each. The share capital increase was entered in the National Court Register on 29 August 2012.

On 7 December 2012, Budimex SA and Budimex Kolejnictwo SA (previously operating under the name of Budimex Serwis SA) concluded an agreement for the sale of all the shares in Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. for PLN 5,002 thousand.

On 14 December 2012, the Extraordinary Shareholders' Meeting of FBSerwis SA resolved to increase the company's share capital by PLN 13,350 thousand, i.e. from PLN 6,250 thousand to the amount of PLN 19,600 thousand, by way of issuing 26,700 new ordinary registered shares with a nominal value of PLN 500 per share. All the new shares were purchased by existing shareholders, i.e. by Ferrovial Servicios SA - 13,617 shares with a value of PLN 6,808 thousand and by Budimex SA – 13,083 shares with a value of PLN 6,542 thousand. The share capital increase was entered in the National Court Register on 13 February 2013.

On 21 December 2012, the Extraordinary Shareholders' Meeting of Budimex PPP SA resolved to increase the company's share capital by PLN 260 thousand, i.e. from PLN 100 thousand to the amount of PLN 360 thousand, by way of issuing 260 new ordinary registered shares with a nominal value of PLN 1,000 per share. Budimex SA subscribed all the new shares. The share capital increase was entered in the National Court Register on 24 January 2013.

On 21 December 2012, the Extraordinary Shareholders' Meeting of Budimex A Sp. z o.o. resolved to increase the company's share capital by PLN 70 thousand, i.e. from PLN 5 thousand to PLN 75 thousand, by way of issuing 1,400 new shares with a nominal value of PLN 50 per share. Budimex SA subscribed all the new shares. The share capital increase was entered in the National Court Register on 22 January 2013.

On 21 December 2012, the Extraordinary Shareholders' Meeting of Budimex B Sp. z o.o. resolved to increase the company's share capital by PLN 70 thousand, i.e. from PLN 5 thousand to the amount of PLN 75 thousand, by way of issuing 1,400 new shares with a nominal value of PLN 50 per share. Budimex SA subscribed all the new shares. The share capital increase was entered in the National Court Register on 22 January 2013.

On 21 December 2012, the Extraordinary Shareholders' Meeting of Budimex Kolejnictwo SA resolved to increase the company's share capital by PLN 7,900 thousand, i.e. from PLN 100 thousand to PLN 8,000 thousand, by way of issuing 158,000 new ordinary registered shares with a nominal value of PLN 50 per share. Budimex SA subscribed all the new shares. The share capital increase was entered in the National Court Register on 6 February 2013.

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

**On 24 October 2012**, Budimex SA concluded a loan agreement with subsidiary FBSerwis SA, in which it holds 49% of the shares. Under the agreement, Budimex SA extended to FBSerwis SA a loan for up to PLN 3,000 thousand. The loan repayment date, inclusive of interest, was scheduled for 21 December 2012, and the loan together with interest was repaid on that date.

**On 1 December 2012**, an agreement concerning a loan granted in 2004 to Budimex SA by Ferrovial Infraestructuras SA (currently Cintra Infraestructuras SA) was extended, and the interest due for the period from 1 December 2011 was capitalised. Therefore, the amount of the loan increased by EUR 54 thousand to EUR 1,981 thousand. The loan repayment date is 1 December 2013.

**On 19 December 2012**, Budimex SA concluded a loan agreement between Budimex Parking Wrocław Sp. z o.o., in which Budimex SA holds 100% of the shares. The loan in the amount of PLN 5,566 thousand is available until 30 April 2014. As at 31 December 2012, it had not been drawn down. The loan was granted for the purpose of financing a Car Park Development Project in Wrocław.

## **5 OTHER INFORMATION**

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

Members of the Management Board of Budimex SA ("Company"), in connection with the work performed and position occupied on the Management Board, are employed at either Budimex SA or at subsidiary companies where they receive remuneration based on an employment contract concluded for a fixed term of office, with a 2-week termination notice. In addition, the employment contracts provide for a severance pay in the amount of average remuneration for 6-12 months, depending on the position, in case of removal or non-appointment for the next term of office for reasons attributable to 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-compete agreement, which is valid for the period of 12 months of the date of termination of the employment contract. During the period of validity of the non-compete clause, the Company will pay the employee 75% of his basic monthly remuneration, if the termination of the employment contract was initiated by the Company, or 25% of the basic monthly remuneration, if the termination was initiated by the employee. Contractual penalties have been established for the breach of the non-compete clause. Non-compete agreements have been concluded with all Management Board members except for Andrzej Artur Czynczyk. In accordance with the rules in place, such an agreement is planned to be concluded one year after his hiring by the Company, i.e. after 14 May 2013.

Information on the remuneration of Members of the Management Board was presented in note 46.1 to the consolidated financial statements of the Budimex Group.

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

As at 31 December 2012, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2,830 shares

As at 31 December 2012, Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 3,900 shares

As at 31 December 2012, 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 2012, Budimex SA did not re-acquire own shares.

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

The Company did not operate an employee share incentive scheme.

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

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

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

The Supervisory Board of Budimex SA resolved on 28 March 2012 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 of 2012, and to audit the separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2012. The contract with Deloitte Audyt for the review and audit of financial statements was concluded on 27 June 2012 and 19 October 2012, respectively. Remuneration for the above services amounts to PLN 558 thousand. In January 2013, Deloitte Audyt Sp. z o.o. was renamed to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Deloitte Audyt Sp. z o.o. also reviewed 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 2011 and audited the separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2011. Remuneration for those services amounted to PLN 459 thousand.

In 2012, Deloitte Audyt Sp. z o.o. concluded with Budimex SA a contract for advisory services in the amount of PLN 120 thousand, and in 2011, it did not render any other services to Budimex SA.

## **6 CORPORATE GOVERNANCE**

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

The Company applied in 2012 the "Best Practices of WSE Listed Companies" adopted by the resolution of the WSE Supervisory Board dated 4 July 2007, as amended, while further suspending the application of Policy No. 10 point 2 and 3 of Section IV "Best Practices Applied by Shareholders" (current report in this matter was filed on 8 March 2011).

In 2012, due to the amendment of the best practices adopted by the WSE's Supervisory Board in 2011 (resolutions of the WSE's Supervisory Board of 31 August 2011 and 19 October 2011), by Resolution No. 171 of 26 April 2012, the Ordinary General Shareholders' Meeting of the Company adopted for use the "Best Practices of WSE Listed Companies" in their new wording, save for the above point 2 and 3 of Policy No. 10 in Section IV of the "Best Practices Applied by Shareholders". Its adoption by the General Meeting was preceded by appropriate resolutions of the Management Board (of 28 September 2011 and 29 November 2011) and the Supervisory Board (of 13 October 2011 and 14 December 2011).

The document containing corporate governance policies was and is posted on the Company's website at <http://www.budimex.pl>.

On 21 November 2012, in Resolution No. 19/130/2012, the Supervisory Board of WSE adopted further amendments of the policies of 4 July 2007.

On 20 December 2012, the Company's Management Board, under Resolution No. 18, adopted for use on 1 January 2013 the "Best Practices of WSE Listed Companies", as amended on 21 November 2012, save for:

- the option to exercise voting rights in person or through an authorised legal representative during the course of the general meeting, outside of the place of the general meeting, using electronic means of communication - Policy No. 12 in Section I "Recommendations concerning best practices of listed companies",
- two-way real-time communication process during which shareholders can take the floor during the General Shareholders' Meeting while being in a place other than the place of the meeting - Policy No. 10 point 2) in Section IV of Best Practices Applied by Shareholders.

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 Policy No. 12 in Section I and Policy No. 10 point 2 in Section IV of the "Best Practices of WSE Listed Companies" in full as soon as it clears all doubts regarding functioning in practice of the new regulations concerning the 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.

In the above Resolution No. 18 of 20 December 2012, the Management Board recommended that the Company's Supervisory Board adopt a resolution regarding the application by the Supervisory Board of the "Best Practices of WSE Listed Companies" to the extent adopted by the Management Board. The Management Board intends to request a Supervisory Board recommendation for the General Meeting of Budimex SA regarding application by the Meeting of the "Best Practices of WSE Listed Companies" in the same respect.

Under Policy No. 9 Section I of the "Best Practices of WSE Listed Companies" (Recommendations concerning best practices of public companies) concerning the balanced share of males and females performing management and supervisory functions, the Company reported that until 8 May 2012, the Company's Management Board was composed of one female and five males. From 8 to 24 May 2012, the Management Board was composed of five males, and from 25 May to the end of the year, it was composed of six males.

The Supervisory Board was composed of one female and eight males throughout 2012.

Given the fact that the bodies authorising the 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 and based on the Resolution of the General Meeting of Shareholders, 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 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 preparation of separate financial statements of Budimex SA and 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 a Management Board Member – the Chief Financial Officer of Budimex SA.

Preparation of annual financial statements is preceded by a meeting of the Audit Committee with independent auditors in order to determine the audit scope and plan, and to discuss potential risk areas which may have impact on the truthfulness and fairness of the financial statements. Preparation of the financial statements is an orderly process which accounts for the delegation of duties of the personnel of the Financial Department of Budimex SA, in accordance with their competences and qualifications.

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

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

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

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

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

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

- assessment of significant, non-routine transactions in terms of their effect on the financial position of the Group or the manner of their presentation in the financial statements,
- verification of correctness of the 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 2012 was as follows:

Shareholder	Type of shares	Number of shares	% share in the share capital	Number of votes	% share in the number of votes at the GSM
Valivala Holdings B.V. Amsterdam (Holland) - a Ferrovial SA (Spain) Group company	ordinary	15,078,159	59.06%	15,078,159	59.06%
OFE PZU „Złota Jesień”	ordinary	2,561,102	10.03%	2,561,102	10.03%
Other shareholders	ordinary	7,890,837	30.91%	7,890,837	30.91%
<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 all securities which confer special control rights**

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

### **6.5 Restrictions on exercising voting rights**

There are no restrictions concerning exercising voting right.

### **6.6 Restrictions on transferring ownership rights to the securities of Budimex SA**

There are no restrictions on the transfer of ownership rights to securities of Budimex SA, except for the rights concerning registered shares whose disposal requires 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, the 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 a joint three-year term of office.

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 the appointment and removal of Management Board Members, the 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 2012.

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

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

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defined in the Code of Commercial Companies. Detailed rights of the Management Board of Budimex SA specified in the Company's Articles of Association are as follows:

- granting approval for disposal of registered (inscribed) shares,
- determining the share issue price in case of a share capital increase,
- cancelling or limiting the pre-emptive right to newly issued shares upon approval by the Supervisory Board,
- defining the method of determining the share issue price or issuing shares in exchange for non-monetary contribution upon approval by the Supervisory Board,
- taking decision on the 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 approval by 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 a 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 By-laws of the General Meeting of Shareholders of Budimex SA. Prior to taking a resolution on amending the Company's Articles of Association, a draft of such resolution should be forwarded by the Management Board to the Supervisory Board for approval. In accordance with the provisions of the Code of Commercial Companies, such resolution should be adopted by 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 operates on the basis of the Articles of Association, By-laws of the General Meeting (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 Articles of Association. Shareholders exercise their rights in the manner specified in the Articles of Association, By-laws of the General Meeting of Shareholders of Budimex SA and binding laws.

The General Meeting of Shareholders is convened as ordinary or extraordinary. Ordinary General Shareholders' Meetings take place, at the latest, within 6 months of the end of each financial year. General Shareholders' Meetings are convened by the Company's Management Board. The Supervisory Board may convene an Ordinary General Meeting of Shareholders if the Company's Management Board does not convene it within the period defined in the Code of Commercial Companies or in the Articles of Association; the Supervisory Board may also convene an Extraordinary General Meeting of Shareholders if such a meeting is deemed advisable. An Extraordinary General Shareholders' Meeting may also be convened by the shareholders representing at least half of the Company's share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint the 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 on the meeting agenda or matters that are to be introduced to the meeting agenda. If, within two weeks of the date of forwarding such a request, the Extraordinary General Shareholders' Meeting is not convened, the court of registration [of the Company] may authorise the shareholders initiating such a request to convene the meeting. The court of registration appoints the person chairing the meeting, and in the notification about the meeting the shareholders should refer to such decision of the court of registration. The meeting convened in this manner takes resolution on whether the costs of convening and holding 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.

A dedicated email 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 an announcement on the Company's website and in the manner reserved for forwarding current information, in accordance with the provisions of the Act on the Public Offering and the Terms and Conditions of Introducing Financial Instruments to an 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.

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

A shareholder or shareholders representing at least 1/20th of the Company's share capital may request that certain matters be included on the agenda of the next 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 must immediately, but 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 applicable to convening General Shareholders' Meetings.

A 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, draft resolutions concerning matters entered on the agenda of the General Shareholders' Meeting. The Company shall immediately post such

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drafts of resolutions on its website. During a General Shareholders' Meeting, each shareholder may submit draft resolutions concerning matters entered on the agenda.

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

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

- considering and authorization of the report on the Company's activities and of the financial statements for the prior financial year,
- reviewing and approving the directors' report on the Group's activities and the consolidated financial statements of the Budimex Group,
- acknowledging fulfilment of duties by members of the Management and Supervisory Boards,
- creating and reversing of special funds and reserve capital, and their utilisation,
- profit appropriation or defining the manner of loss absorption; the General Shareholders' Meeting may resolve that dividend, in whole or in part, be allocated towards increasing the share capital and the shareholders are issued new shares in exchange,
- claims for losses incurred at incorporation of the Company, or losses resulting from performing management or supervisory functions,
- disposing or leasing/renting the company or its organized part, or establishing restrictions on its use or disposal,
- taking decisions on company merger or liquidation, and in the case of the latter - appointing Company liquidators,
- issuing convertible bonds or bonds with pre-emptive rights, or subscription warrants,
- redemption of shares,
- amendment of the Company's Articles of Association, especially concerning a share capital increase or decrease, or amendment of the Company's business activities,
- adopting By-laws of the General Meeting of Shareholders of Budimex SA,
- appointing and removing Supervisory Board members,
- defining the principles and amount of remuneration for Supervisory Board members,
- re-acquisition of own shares to offer them to employees or persons who were employed at the Company or any related company for the period of at least three years,
- conclusion by the Company of a credit or loan agreement, or guarantee or other similar agreement with a member of the Management or Supervisory Board, authorised commercial representative, liquidator, or concluding an agreement in favour of any of 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 adopted by an absolute majority of votes, irrespective of the number of shares represented at the meeting, unless the provisions of the Code of Commercial Companies state otherwise.

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

#### **a) Composition of the Management Board**

As at 31 December 2012, 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 of the Management Board,              |
| • Andrzej Artur Czynczyk    | Board Member, Chief HR Officer                       |
| • Jacek Daniewski           | Board Member, Chief Legal Officer                    |
| • Henryk Urbański           | Board Member, Chief Property Officer                 |
| • Marcin Węglowski          | Board Member, Chief Financial Officer                |

During the period from 1 January 2012 to 31 December 2012, the composition of the Management Board did not change:

- On 8 May 2012, the term of office of Ms. Joanna Katarzyna Makowiecka, Management Board member and Chief HR Officer, was terminated as a result of resigning from performing these functions.
- On 25 May 2012, the Supervisory Board of Budimex SA, under Resolution No. 201, appointed the Chief HR Officer of Budimex SA, Mr. Andrzej Artur Czynczyk, as a Management Board member for the seventh joint term of office covering the years 2011, 2012 and 2013. The seventh term of office of the Management Board of Budimex SA elapses on the date of the General Shareholders' Meeting of Budimex SA during which the 2013 financial statements are approved.

As at 31 December 2012, joint authorisations to represent the Company together with a member of the Management Board of Budimex SA were granted to the following persons:

- Jose Emilio Pont Pérez
- Jaime Rontome Pérez.

From 1 January 2012 to 31 December 2012, there were no changes in authorised legal representatives.

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

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During 2012, policies concerning the appointment or removal of members of managing bodies as well as the rights of members of these bodies, including the right to take decision on share issuance or redemption, as provided in the Articles of Association, did not change.

### **b) Composition of the Supervisory Board and its Committees**

As at 31 December 2012, 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.

During the period from 1 January 2012 to 31 December 2012, the composition of the Supervisory Board did not change.

As at 31 December 2012, 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 2012.

As regards the independence of an 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 Practices for Supervisory Board Members).

The status of independence of a Supervisory Board member is determined by the Company in accordance with the criteria defined in the Procedure for Integrated Management System No. 05-05 relating to obtaining information from Supervisory Board members and 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:

- Maciej Stańczuk - Chairman,
- Alejandro de la Joya Ruiz de Velasco - member,
- Javier Galindo Hernandez – member.

The composition of the Investment Committee did not change in 2012.

The Remuneration Committee was composed of the following persons:

- Marek Michałowski - chairman,
- Igor Chalupec - member,
- Alejandro de la Joya Ruiz de Velasco - member.

The composition of the Remuneration Committee did not change in 2012.

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

The Management Board operates based on the provisions of the Company's Articles of Association, By-laws of the Management Board and other binding regulations, including the Code of Commercial Companies. The Management Board is composed of one or more members. The Management Board conducts the Company affairs and formally represents the Company.

The President of the Management Board is appointed and removed by the Supervisory Board. The President of the Management Board is, at the same time, the Company's General Director. The Supervisory Board, at the request of the President of the Management Board, appoints vice-presidents and other members of the Management Board for a 3-year joint term of office.

The functioning of the Management Board is managed by the President of the Management Board. The detailed manner of Management Board functioning has been defined in the By-laws of the Management Board approved by the Supervisory Board.

Resolutions of the Management Board may be adopted with an absolute majority of votes. In the event of an equal number of votes, the casting vote is that of the President of the Management Board.



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

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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 on the basis of the Articles of Association, By-laws of the Supervisory Board of Budimex SA and other legal regulations, including the Code of Commercial Companies. The organization and operation of the Supervisory Board is defined in the By-laws of the Supervisory Board.

The Supervisory Board takes decisions provided at least half 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 means of direct communication. Resolutions of the Supervisory Board are valid and effective if all Board members were informed about the content of the draft resolution. Supervisory Board members may participate in taking resolutions by voting in writing by proxy i.e. through another member of the Supervisory Board, in all matters listed on the agenda of the Supervisory Board meeting, except for matters that were added to the agenda during the course of the Supervisory Board's Meeting.

In performing its duties, the Supervisory Board is authorised to review all documents of the Company or to request reports and explanations from the Management Board or employees of the Company; it may also verify the company's assets, books of account, registers and documents. The Supervisory Board is also entitled to commission, for own use, appropriate expert research in matters of its supervision and control.

The Supervisory Board supervises all aspects of the Company's operations in an ongoing manner. Included in the scope of duties of the Supervisory Board are, in particular, the following:

- assessment of the directors' report on the company's activities and evaluation of the financial statements for the prior year,
- evaluation of profit appropriation or loss absorption proposals made by the Management Board,
- recommending to the General Shareholders' Meeting the acknowledgement 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 valid reasons, individual or all Management Board members and delegating Supervisory Board members for a period lasting no more than 3 months to temporarily perform the duties of those Management Board members who were removed, resigned or could not perform their duties for other reasons,
- approval of the By-laws of the Management Board of the Company,
- concluding agreements with Management Board members, determining remuneration of the President of the Management Board and of other Board members, determining policies for granting management bonuses, exercising rights towards Management Board members resulting from work relations; with the proviso that such agreements 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 a Board member to deal with competitive business or to participate in a competing company,
- granting approval to excluding or limiting by the Management Board a pre-emptive right to newly issued shares,
- granting approval to the method of determining share issue price proposed by the Management Board or to issue 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 By-laws of the Supervisory Board, the Supervisory Board may establish committees or appoint teams from among its members, or delegate a Board member to such bodies. As stated above, the following three committees operate as part of the Supervisory Board: the 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 serve as 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 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 each audit stage, monitor the financial audit process, monitor the effectiveness of the internal control, internal audit and risk management systems, forward to the Supervisory Board conclusions and recommendations relating to the audit and assessment of the financial statements of the

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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 acknowledgement of the fulfilment of duties by the Chief Financial Officer, monitor the independence of the 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, perform other tasks commissioned by the Supervisory Board depending on the current situation at the Company, and submit 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 issuing financial assets, Budimex Group company mergers, divisions or transformations, carrying out financial operations, establishing special purpose vehicles (SPVs) to perform works or to render services based on 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 related entities.

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

**g) Remuneration Committee tasks**

The tasks of the Remuneration Committee comprise:

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

- President of the Supervisory Board – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.7 ratio,
- President of the Audit Committee of the Supervisory Board - twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.4 ratio,
- Vice-President of the Supervisory Board - twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.15 ratio,
- Secretary of the Supervisory Board - twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio,
- Supervisory Board Member - twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.0 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, performance-based remuneration, retirement benefit scheme and retirement benefits, and long-term incentive scheme.

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

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.

The remuneration of Management Board members is composed of the following items:

- fixed remuneration – basic monthly salary,
- performance-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of annual assessment of task completion, and ratio-related bonus relating to the business activities of the Budimex Group,
- share incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" (*„Plan przyznania akcji związanych z celami Ferrovialu”*) which consists in conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in the Management Board posts on the date of awarding the shares,
- 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 of the Management Board	.....	Marcin Węglowski	Board Member	.....
Name and surname	Position	Signature	Name and surname	Position	Signature
Jacek Daniewski	Board Member	.....			
Name and surname	Position	Signature			
Andrzej Artur Czynczyk	Board Member	.....	Warsaw, 15 March 2013		
Name and surname	Position	Signature			