

**BUDIMEX SA**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE COMPANY  
FOR THE YEAR 2011**

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## **1 BUSINESS ENVIRONMENT**

### **1.1 General market conditions**

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

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

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

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

### **1.2 Market development perspectives**

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

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

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

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

## **2 BUDIMEX SA CURRENT ACTIVITIES AND PLANNED DEVELOPMENT**

### **2.1 General information of Budimex SA**

The main area of the business activities of the Company are widely understood construction-assembly services realized in the system of general execution at home and abroad and limited scope of developer activities, property management, trading and production. The realization by Budimex SA of the advisory, management and financial functions is to:

- ensure quick flow of information across the Group,
- strengthen the effectiveness of financial & treasury management at individual Group companies,
- strengthen market position of the Group.

In years 2009-2010 there were mergers of Budimex SA (the acquiring company) and the following acquired companies:

- Budimex Inwestycje Sp. z o. o. - the registration in the National Court Register (KRS) on 13 August 2009,
- Budimex Dromex SA - the registration in the National Court Register (KRS) on 16 November 2009,
- Budimex Auto – Park Sp. z o.o. - the registration in the National Court Register (KRS) on 23 June 2010,

The mergers of the aforesaid companies took place pursuant to Art. 492 section 1 item 1 of the Commercial Companies Code by transfer whole possessions of the acquired companies to the acquiring company.

## **2.2 Organizational units of Budimex SA**

As at 31 December 2010, Budimex SA has in its organizational structure the following branches:

- General Construction North Branch in Poznań, ul. Wołowska 92A,
- General Construction South Branch in Krakow, ul. Ujastek 7,
- General Construction East Branch in Warsaw, ul. Stawki 40,
- Infrastructure North Branch in Warsaw, ul. Stawki 40,
- Infrastructure South Branch in Krakow, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Jana Długosza 2-6,
- Railway Branch in Warsaw, ul. Stawki 40,
- Equipment Services Branch in Pruszków, ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex SA Germany Branch with its registered office in Colonia,

## **2.3 Sales structure of Budimex SA**

### **Sales of construction & assembly services**

In 2011, the value of the construction & assembly services of the Company was 37% higher compared to 2010. Sales of infrastructural construction segment were more than 41% higher, whilst sales of building objects segment – as much as 30% higher than in the prior year.

In 2011, further increase was recorded in the value of the civil engineering (infrastructure) segment (from PLN 2 353 million in 2010 to PLN 3 316 million in the current year) as well as building objects segment (from PLN 1 262 million in 2010 to PLN 1 644 million in the current year). An increase in building objects segment resulted from an increase in residential and non-residential housings as well (respectively by 20% and 88% comparatively to the prior year).

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

| Type of construction                                       | Sales value  |             |              |                |
|--|--------------|-------------|--------------|----------------|
|  | 2011         |             | 2010         |                |
|  | PLN million  | %           | PLN million  | %              |
| Civil engineering (infrastructure)                         | 3 316        | 66,85%      | 2 353        | 65,09%         |
| Building objects, of which:                                | 1 644        | 33,15%      | 1 262        | 34,91%         |
| - residential housing                                      | 347          | 7,00%       | 185          | 5,12%          |
| - non-residential housing                                  | 1 297        | 26,15%      | 1 077        | 29,79%         |
| <b>Total sales of construction &amp; assembly services</b> | <b>4 960</b> | <b>100%</b> | <b>3 615</b> | <b>100,00%</b> |

### **Development activities**

In 2011, Budimex SA recognised sales revenue from development activity and property investments' management amounted to PLN 22 035 thousand, while in the prior year, the sales revenues of that segment amounted to PLN 69 772 thousand. Revenue from development activities are of temporary character, as they are recognized based on the documents transferring ownership right to the buyer after the technical reception.

**Major construction contracts (with a value greater than PLN 50 million) concluded by Budimex SA in 2011**

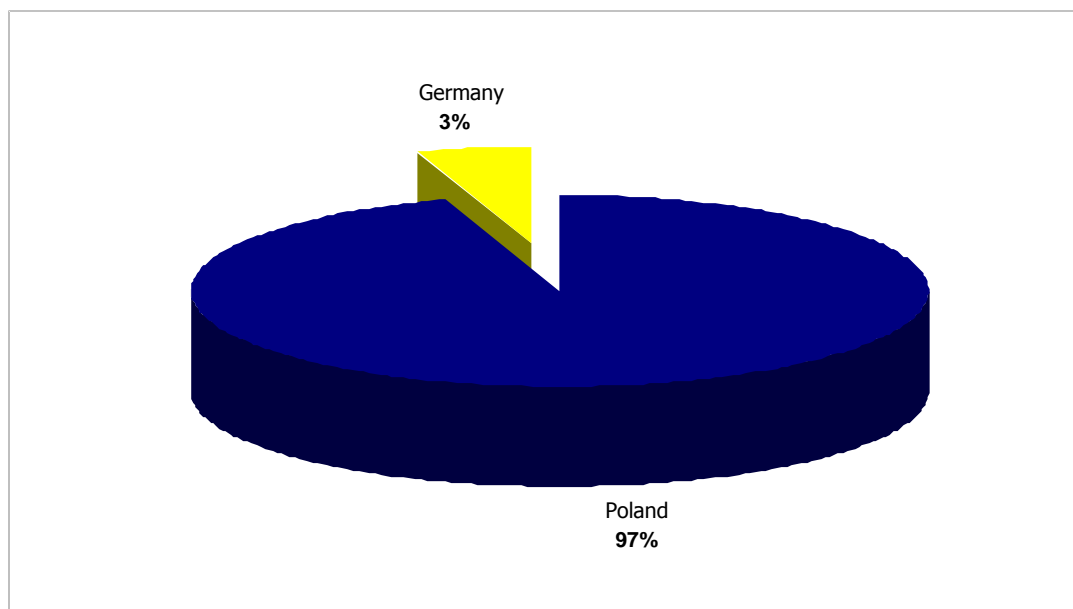
| Contract date | Contract value allocated to the Budimex SA (in PLN '000) | Customer   | Type of construction   |
|---------------|--|--|--|
| 2011-12-13    | 62 543   | Jeronimo Martins Dystrybucja S.A.  | Construction of distribution-logistics centre of Jeronimo Martins Dystrybucja S.A. in Sieradz.   |
| 2011-10-24    | 66 799   | Port Lotniczy Lublin S.A.  | Construction of airport terminal in Świdnik.   |
| 2011-10-06    | 96 340   | GSG Towers Sp. z o.o.  | Construction of production hall together with social facilities with fitted installations for Fabryka Wież Wiatrowych.   |
| 2011-10-05    | 689 244  | General Directorate for National Roads and Highways, Branch in Łódź      | Construction of express road S8 section: Walichnowy Junction - Wrocław Junction (A1), section 8 (Róża junction-Wrocław): from km 183 350.00 to km 202 700.00   |
| 2011-09-20    | 257 994  | Gmina Miejska Kraków - Urząd Miasta Krakowa Investment Department        | Construction of Congress Centre facility (Rondo Grunwaldzkie) in Cracow.   |
| 2011-09-05    | 61 600   | Neinver Annopol Sp. z o.o.   | Construction of Shopping Centre, Factory Outlet in Warsaw.   |
| 2011-09-02    | 110 738  | Gmina Lublin   | Construction of town stadium in Lublin.  |
| 2011-09-01    | 170 000  | Warszawa Przyokopowa Sp. z o.o.  | Construction of office-services centre at ul. Przyokopowa in Warsaw.   |
| 2011-08-04    | 109 748  | Gmina Miasta Gdańska - Urząd Miejski w Gdańsku                           | Construction of Słowackiego route in Gdańsk. Connecting Port Lotniczy with Port Morski Gdańsk. Section Al. Gen. J.Hallera - Marynarki Polskiej Junction – Task 3.  |
| 2011-07-15    | 158 453  | Nowy Szpital Wojewódzki Sp. z o.o.                                       | Construction of a new voivodship hospital in Wrocław - Task 2: Construction of hospital together with land development and construction of helicopter landing strip.   |
| 2011-07-15    | 95 738   | General Directorate for National Roads and Highways, Branch in Łódź      | Construction of express road S8, section: Walichnowy Junction - Łódź (A1), section 1 (Walichnowy Junction) from km 99 937 to km 101 972.92   |
| 2011-07-14    | 70 800   | Budimex Nieruchomości Sp. z o.o.   | Construction of a housing estate at Gocłowska Street in Warsaw   |
| 2011-07-06    | 73 340   | MDI SP. Z O.O.   | Execution of the Słoneczny Dom investment project - Task G   |
| 2011-06-22    | 137 150  | Gmina Miasta Gdańska - Urząd Miejski w Gdańsku                           | Execution of construction works: "Connecting national roads – Sucharskiego route. Task I. Section Gdańsk South Ring road – Elbląska Junction".   |
| 2011-06-09    | 337 497  | General Directorate for National Roads and Highways, Branch in Lublin    | Construction of express road S17, section Kurów-Lublin-Piaski, Task 2: Section: Junction "Bogucin"-Junction "Dąbrowica" together with interchange.   |
| 2011-06-07    | 168 975  | Muzeum Śląskie   | Construction of new premises for Muzeum Śląskie in Katowice.   |
| 2011-06-02    | 50 173   | Uniwersytet im. Adama Mickiewicza w Poznaniu                             | Construction of Wielkopolskie Centrum Zaawansowanych Technologii. Building A, A-1, A2.   |
| 2011-05-27    | 697 884  | PKP PLK S.A. Zakład Linii Kolejowych                                     | Execution of construction works consisting in modernizing line No.9 in the section from km 184.800 to km 236,920 included in the Area of Local Steering Center in Iława.   |
| 2011-04-28    | 119 700  | Uniwersytet Medyczny w Białymstoku                                       | Execution of construction –assembly works during construction of buildings G, H and superstructure for building F under „Rebuilding and Development of Uniwersytecki Szpital Kliniczny Uniwersytetu Medycznego in Białystok”.    |
| 2011-04-14    | 58 350   | Sabe Investments Sp. z o.o.  | Construction of multi-family housing estate at ul. Jana Kazimierza in Warsaw.  |
| 2011-04-05    | 50 827   | Kujawsko-Pomorskie Inwestycje Medyczne w Toruniu                         | Rebuilding, extension and equipment for Voivodship Children Hospital im. J. Brudzińskiego in Bydgoszcz.  |
| 2011-04-01    | 73 600   | 2Build Sp. z o.o.  | Construction of office-services facilities building at ul. Grunwaldzka in Poznań together with required infrastructure.  |
| 2011-03-11    | 535 999  | General Directorate for National Roads and Highways, Branch in Białystok | Design and construction of Augustów Ring Road in the route of National Road No. 8 (in the section from Augustów Junction to Szkocja Junction) and express road S-61 (in the section from Szkocja Junction to Lotnisko Junction). |
| 2011-02-03    | 64 429   | Toya Sp. z o.o.  | Construction of hotel-office facilities building in Łódź.  |

## **2.4 Budimex SA geographical structure of sales in 2011**

The main markets on which Budimex SA operates are:

- Poland
- Germany.

The geographical structure of sales in 2011 is as follows:



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

In 2011, sales on the German market amounted to PLN 129 919 thousand and represent 129.9% of prior year sales. The main sales items were production of pre-fabricated elements and assembly of metal constructions. Net profit for the year 2011 amounted to PLN 12 226 thousand and was 6 115 thousand higher compared to 2010. It was result of intense acquisitions in prior years that led to an increase of pre-fabricated works as well as reduction of repair costs and decrease of EUR/PLN rate.

## **2.6 Activities on the Central and Eastern European markets**

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

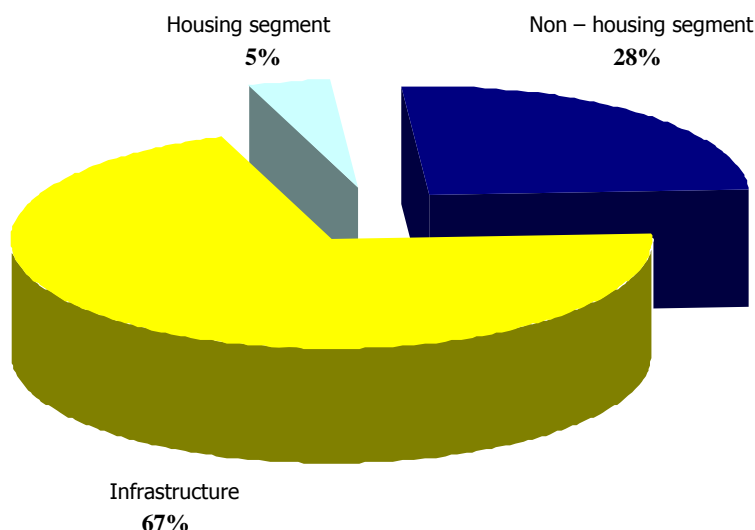
## **2.7 Budimex SA development perspectives for the forthcoming year**

In 2012, the Company 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 Company diversify its business in order to maintain the scale of operations on comparable level. The Company plans to compensate for the expected decrease in the value of road investments with new contracts secured in the power and hydraulic engineering construction segment.

In 2011, the Company signed construction contracts for a total value of PLN 5,145 million (without annexes). The value of the order portfolio of Budimex as at 31 December 2011 amounted to PLN 7,216.

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



## **2.8 Evaluation of investment projects feasibility**

In 2011, Budimex SA plans to incur capital expenditure of approx. PLN 24 million. The outlays will be made mainly on construction machines and IT solutions.

Capital expenditure shall be financed from own and external resources.

## **2.9 Risk factors**

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

The inherent risk of any business activity is the credit risk of business partners. Despite implementation of restrictive debt control procedures at the Company, 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 Company and may require that receivables impairment write-downs are recognized or that current business is financed through external borrowings.

Information concerning the financial risk management objectives and policies adopted by the Company are presented in the financial statements for the year ended 31 December 2011 (point 1b Additional notes and explanations).

The construction contracts are performed in specific technical and economical conditions which have effect on the level of realised margin. Budimex SA which render construction services monitor technical, organizational, legal and financial risks related to contract works planning and progress. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors may occur that will cause that contracts will be performed with a lower margin than initially planned. Such factors may include:

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

## **2.10 Changes in the sources of supply**

In 2011 there were no significant changes in the sources of supply for construction sites. None of the suppliers of raw materials or services exceeded the 10% share of the total Company sales.

### 3 FINANCIAL POSITION

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

The financial situation of the Company in 2011 is characterized by the selected below Balance Sheet and Profit and Loss Account items (together with the 2010 comparative data).

#### Consolidated Balance Sheet of Budimex SA

The main items of the consolidated Balance Sheet of Budimex SA as at 31 December 2011 and 31 December 2010 are presented in the table below:

| BALANCE SHEET                    | 31.12.2011       | 31.12.2010       | Change          | Change%       |
|----------------------------------|------------------|------------------|-----------------|---------------|
| <b>I. Non-current assets</b>     | <b>1 484 376</b> | <b>1 288 055</b> | <b>196 321</b>  | <b>15,24%</b> |
| 1. Intangible assets, of which:  | 2 051            | 1 768            | 283             | 16,01%        |
| 2. Property, plant and equipment | 100 326          | 82 891           | 17 435          | 21,03%        |
| 3. Long-term receivables         | -                | -                | -               | -             |
| 4. Long-term investments         | 1 022 409        | 810 754          | 211 655         | 26,11%        |
| 5. Long-term prepayments         | 359 590          | 392 642          | (33 052)        | -8,42%        |
| <b>II. Current assets</b>        | <b>2 481 890</b> | <b>2 570 896</b> | <b>(89 006)</b> | <b>-3,46%</b> |
| 1. Inventories                   | 263 347          | 237 579          | 25 768          | 10,85%        |
| 2. Short-term receivables        | 439 156          | 413 961          | 25 195          | 6,09%         |
| 3. Short-term investments        | 1 570 117        | 1 769 110        | (198 993)       | -11,25%       |
| 4. Short-term prepayments        | 209 270          | 150 246          | 59 024          | 39,28%        |
| <b>TOTAL ASSETS</b>              | <b>3 966 266</b> | <b>3 858 951</b> | <b>107 315</b>  | <b>2,78%</b>  |

| EQUITY AND LIABILITIES                                | 31.12.2011       | 31.12.2010       | Change         | Change%      |
|---|------------------|------------------|----------------|--------------|
| <b>I. Shareholders' equity</b>                        | <b>692 960</b>   | <b>642 735</b>   | <b>50 225</b>  | <b>7,81%</b> |
| <b>II. Liabilities and provisions for liabilities</b> | <b>3 273 306</b> | <b>3 216 216</b> | <b>57 090</b>  | <b>1,78%</b> |
| 1. Provisions for liabilities                         | 255 239          | 231 671          | 23 568         | 10,17%       |
| 2. Long-term liabilities                              | 33 652           | 11 244           | 22 408         | 199,29%      |
| 3. Short-term liabilities                             | 1 792 443        | 1 678 864        | 113 579        | 6,77%        |
| 4. Accruals   | 1 191 972        | 1 294 437        | (102 465)      | -7,92%       |
| <b>TOTAL EQUITY AND LIABILITIES</b>                   | <b>3 966 266</b> | <b>3 858 951</b> | <b>107 315</b> | <b>2,78%</b> |

As at 31 December 2011, total assets increased by PLN 107 315 thousand compared to 31 December 2010 and amounted to PLN 3 966 266 thousand. The main changes in the balance sheet statement was related to the following transactions:

#### Non-current assets:

The value of non-current assets increased by PLN 196 321 thousand, caused mainly by the following:

- increase in the balance of long-term investments by PLN 211 655 thousand, causing mainly by the acquisition of shares of Przedsiębiorstwo Napraw Infrastruktury Sp z o. o. in the amount of 227 267 thousand (including tax in the amount of PLN 2 250 thousand), a recognition of impairment write-down of Inversora de Autopistas del Levante S.L. shares in the amount of PLN 6 141 thousand, a decrease of Autostrada Południe SA share capital, of which Budimex part amounted to PLN 4 676 thousand and the sales of investment property located in Licheń Stary in the amount of 5 382 thousand,
- increase in the balance of tangible fixed assets by total amount of PLN 17 435 thousand, mainly due to an increase in fixed assets' investments, of which the amount of PLN 10 452 thousand relates to plant and machinery recognised on the base of financial lease agreements,
- decrease in the balance of long-term prepayments by PLN 33 052 thousand, causing mainly by the decrease in the balance of deferred tax assets by PLN 34 568 thousand,

#### Current assets:

In the same period, the value of current assets decreased by PLN 88 006 thousand, mainly as a result of the following transactions:

- decrease of short-term investments by PLN 198 993 thousand, mainly due to decrease in the balance of cash and cash equivalents by the amount of PLN 185 004 thousand, decrease in the balance of short-term securities (commercial bonds and treasury bills) by PLN 14 017 thousand,



- increase in the balance of short-term prepayments by PLN 59 024 thousand, mainly due to sales adjustment relating to construction contract valuation,
- increase in the balance of inventories by PLN 25 768 thousand, mainly due to increase in the level of materials in warehouses by PLN 27 333 thousand, the sales of finished goods (flats, garages) in amount of PLN 13 806 thousand. Meanwhile, the balance of prepayments increased by the amount of PLN 11 964 thousand,
- increase in the balance of short-term receivables by the amount of PLN 25 195 thousand, mainly due to decrease in the balance of current trade receivables.

#### Shareholders' equity and liabilities

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

- increase in the balance of short-term liabilities by PLN 113 579 thousand, mainly due to increase in the balance of current trade liabilities by PLN 324 059 thousand, decrease in tax, insurance and similar liabilities by PLN 179 691 thousand and decrease in joint ventures settlements by PLN 40 489 thousand,
- increase in the balance of provision for liabilities by PLN 23 568 thousand, including an increase in the balance of provision for deferred tax by PLN 8 733 thousand and warranty repairs by PLN 37 799 thousand as well as a decrease in provisions for: penalties by PLN 12 892 thousand and legal proceedings by PLN 10 328 thousand,
- increase in the balance of long-term liabilities arising from lease contracts by PLN 22 408 thousand,
- decrease in the balance of accruals by PLN 102 465 thousand, mainly related to decrease of the provision for contract losses by PLN 127 696 thousand, decrease of the sales adjustment relating to construction contract valuation by PLN 31 895 thousand and increase in the balance of advances received for future services and the advance payments for departments by PLN 61 900 thousand,

#### Profit and Loss Account of Budimex SA

| PROFIT AND LOSS ACCOUNT  | 01.01 -<br>31.12.2011 r. | 01.01 -<br>31.12.2010 r. | Zmiana        | Zmiana %      |
|--|--------------------------|--------------------------|---------------|---------------|
| <b>I. Net sales of finished goods, goods for resale and materials, of which:</b> | 5 019 669                | 3 751 456                | 1 268 213     | 33,81%        |
| <b>II. Cost of finished goods, goods for resale and materials, of which:</b>     | 4 638 029                | 3 393 301                | 1 244 728     | 36,68%        |
| <b>III. Gross profit (loss) on sales</b>   | <b>381 640</b>           | <b>358 155</b>           | <b>23 485</b> | <b>6,56%</b>  |
| <b>IV. Selling expenses</b>  | <b>11 692</b>            | <b>9 382</b>             | <b>2 310</b>  | <b>24,62%</b> |
| <b>V. Administrative expenses</b>  | <b>123 518</b>           | <b>113 893</b>           | <b>9 625</b>  | <b>8,45%</b>  |
| <b>VI. Profit (loss) on sales</b>  | <b>246 430</b>           | <b>234 880</b>           | <b>11 550</b> | <b>4,92%</b>  |
| VII. Other operating income  | 74 728                   | 58 356                   | 16 372        | 28,06%        |
| VIII. Other operating expenses   | 40 878                   | 79 549                   | (38 671)      | -48,61%       |
| <b>IX. Operating profit (loss)</b>   | <b>280 280</b>           | <b>213 687</b>           | <b>66 593</b> | <b>31,16%</b> |
| <b>X. Finance income</b>   | <b>87 399</b>            | <b>82 375</b>            | <b>5 024</b>  | <b>6,10%</b>  |
| <b>XI. Finance costs</b>   | <b>30 484</b>            | <b>25 181</b>            | <b>5 303</b>  | <b>21,06%</b> |
| <b>XII. Profit (loss) on operating activities</b>                                | <b>337 195</b>           | <b>270 881</b>           | <b>66 314</b> | <b>24,48%</b> |
| <b>XIII. Extraordinary gains(losses)</b>   |                          |                          |               |               |
| <b>XIV. Gross profit (loss)</b>  | <b>337 195</b>           | <b>270 881</b>           | <b>66 314</b> | <b>24,48%</b> |
| <b>XV. Income tax</b>  | <b>56 827</b>            | <b>44 598</b>            | <b>12 229</b> | <b>27,42%</b> |
| <b>XVIII. Net profit (loss)</b>  | <b>280 368</b>           | <b>226 283</b>           | <b>54 085</b> | <b>23,90%</b> |

In 2011, Budimex SA earned sales revenue of PLN 5 019 669 thousand which represents a 33.81% increase on the corresponding period of the prior year.

Gross profit on sales in 2011 was PLN 381 640 thousand, while in the prior year – PLN 358 155 thousand. The gross sales profitability ratio for 2011 was therefore 7.60%, while for 2010 – 9.55%.

In accordance with the accounting policies adopted, where the fact that budgeted contract costs exceed the entire expected contract revenue is identified, the Company creates provisions for expected contract losses. In the subsequent periods, a part of the created provision is reversed in proportion to the percentage of contract completion, after taking into account total negative margin on the entire contract. As at 31 December 2010, the balance of the provision for contract losses amounted to PLN 475 702 thousand. In 2011, the balance of the provision for contract losses was decreased by PLN 127 696 thousand.

Compared to the prior year, selling expenses increased in 2011 by PLN 2 310 thousand, while administrative expenses – by PLN 9 625 thousand. The share of the sum total of selling and administrative expenses in total sales decreased from 3.29% in 2010 to 2.69% in the current year.

Other operating income in 2011 was PLN 74 728 thousand. The above amount comprised mainly reversal of provision for legal proceedings and penalties in the amount of PLN 29 243 thousand, received compensations and liquidated damages in the amount of PLN 24 517 thousand as well as reversal of impairment write-downs against doubtful debts in the amounts of PLN 12 794 thousand. In addition, in 2011 the Company sold fixed assets and earned sales profit of PLN 5 781 thousand.

Other operating expenses in the 12-month period ended 31 December 2011 amounted to PLN 40 878 thousand, of which PLN 25 375 thousand related to the value of provision created. In that amount are included the provision for claims and penalties in the amount of PLN 23 363 thousand and provision for legal proceedings in the amount of PLN 2 012 thousand. Additionally, the Company created impairment write-downs against receivables in the amounts of PLN 8 386 thousand and the value of compensations and contractual penalties paid in 2011 was PLN 5 348 thousand.

In the 12-month period ended 31 December 2011, the Company reported profit on financing activities in the amount of PLN 56 915 thousand, while in 2010 – of PLN 57 194 thousand. That was concerned with interest revenue of net PLN 44 331 thousand, dividends received in the amount of PLN 37 000 thousand, the creating of impairment write-down of Inversora de Autopistas del Levante S.L. shares in the amount of PLN 6 141 thousand, the loss from valuation of financial instruments in amount of PLN 5 072 thousand and bank commissions on guarantees costs in the amount of PLN 13 397 thousand.

In 2011, the Company reported a gross profit of PLN 337 195 thousand, which represents a 24.48% increase on the corresponding period of the prior year.

Income tax for 2011 was PLN 56 827 thousand, of which:

- current tax was PLN 13 526 thousand,
- deferred tax – PLN 43 301 thousand.

The net profit of Budimex SA for 2011 was PLN 280 368 thousand.

### **Statement of Cash Flow**

The Budimex SA entered the year 2011 with cash on hand and cash at bank amounting to a total of PLN 1 754 999 thousand. Net cash flow for the year 2011 was negative and amounted to PLN 184 964 thousand. After including the negative change in exchange differences arising from cash valuation in the amount of PLN 40 thousand, the balance of cash as at 31 December 2011 was PLN 1 569 995 thousand.

In 2011, the balance of cash from operating activities increased by PLN 230 748 thousand and was caused mainly by continuing good construction market condition.

Cash flow from investing activities showed a negative balance of PLN 170 617 thousand. The above was mainly caused by: an acquirement of financial assets, especially shares of Przedsiębiorstwo Napraw Infrastruktury Sp z o. o. in the amount of PLN 227 267 thousand, inflow of dividend from Budimex Nieruchomości Sp. z o. o. in the amount of PLN 37 000 thousand and inflows related to the short-term securities' investments (treasury bills) in the amount of PLN 14 210 thousand.

Cash flow from financing activities for 2011 showed a negative balance which was PLN 245 095 thousand. The outflows was caused by the payment of dividend in the amount of PLN 231 814 thousand and the payment of lease liabilities in the amount of PLN 13 281 thousand (including interest).

### **3.2 Managing of finance at Budimex SA**

Monetary assets of Budimex SA (including treasury bills) amounted to PLN 1 569 995 thousand as at 31 December 2011 and were PLN 199 021 thousand lower than that at the end of the comparative period i.e. as at 31 December 2010. In 2011 the Company paid dividend in the amount of PLN 231 814 thousand that exceed the net profit for the year 2010 and acquired shares in Przedsiębiorstwo Napraw Infrastruktury Sp z o. o. in the amount of PLN 227 267 thousand what was 100% financed by own sources. Taken above into account, the balance of monetary assets as at 31 December 2011 was very positive. That was caused by the high profitability and positive changes in working capital in II half of 2011.

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

The level of loan and borrowing, issued bonds and finance lease liabilities is presented in the below table, which shows that the level of debt as at 31 December 2011 was increased compared to the previous year, mainly due to new liabilities related to the financial lease agreements.

| <b>Bank loans and borrowings and other external sources of finance, of which:</b> | <b>31.12.2011</b> | <b>31.12.2010</b> |
|---|-------------------|-------------------|
| - long-term   | 33 652            | 11 244            |
| - short-term  | 19 211            | 17 142            |
| <b>Total</b>  | <b>52 863</b>     | <b>28 386</b>     |

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

| Ratio  | 31.12.2011 | 31.12.2010 |
|--|------------|------------|
| <b>Equity to assets ratio:</b><br><i>(shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)</i>   | 0,17       | 0,17       |
| <b>Equity to non-current assets ratio:</b><br><i>(shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)</i>   | 0,47       | 0,50       |
| <b>Debt ratio:</b><br><i>(total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)</i>  | 0,83       | 0,83       |
| <b>Assets to equity ratio:</b><br><i>(total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (shareholders' equity attributable to the shareholders of the Parent Company)</i> | 4,72       | 5,00       |

Above 33% increase in revenues was accompanied only by slight increase in the total balance, what was caused by positive changes in working capital in II half of 2011. Due to that a debt ratio was decreased and an equity to assets ratio was at the similar level compared to previous year.

| Ratio  | 31.12.2011 | 31.12.2010 |
|--|------------|------------|
| <b>Current Ratio</b><br><i>(current assets)/(current liabilities)</i>                          | 0,79       | 0,82       |
| <b>Quick Ratio (or Acid Test)</b><br><i>(current assets - inventory)/(current liabilities)</i> | 0,71       | 0,75       |

Despite of slight worsening of all ratios showing the liquidity, the standing of the Company do not indicate any threat to the Company ability to finance business activities in 2012.

### 3.3 Off balance-sheet items of Budimex SA

Guarantees, suretyships, other liabilities and contingent liabilities:

| OFF-BALANCE SHEET ITEMS                        | 31.12.2011         | 31.12.2010         |
|--|--------------------|--------------------|
| <b>Contingent receivables</b>                  | <b>339 678</b>     | <b>278 736</b>     |
| <b>From affiliates, of which:</b>              | -                  | -                  |
| - guarantees and suretyships received          | -                  | -                  |
| - bills of exchange received as security       | -                  | -                  |
| <b>From other entities, of which:</b>          | <b>336 678</b>     | <b>278 736</b>     |
| - guarantees and suretyships received          | 329 996            | 277 037            |
| - bills of exchange received as security       | 6 682              | 7 699              |
| <b>Other contingent receivables, of which:</b> | <b>3 000</b>       | -                  |
| - other off-balance-sheet liabilities          | 3 000              | -                  |
| <b>Contingent liabilities</b>                  | <b>1 755 356</b>   | <b>1 429 246</b>   |
| <b>To affiliates, of which:</b>                | <b>147 130</b>     | <b>113 066</b>     |
| - guarantees and suretyships issued            | 147 130            | 113 066            |
| - bills of exchange issued as performance bond | -                  | -                  |
| <b>To other entities, of which:</b>            | <b>1 608 226</b>   | <b>1 316 180</b>   |
| - guarantees and suretyships issued            | 1 606 171          | 1 314 180          |
| - bills of exchange issued as performance bond | 2 055              | 2 000              |
| <b>Total off-balance sheet liabilities</b>     | <b>(1 415 678)</b> | <b>(1 150 510)</b> |

**Directors' Report on the Activities of the Company for the year 2011**  
(All amounts in tables are in PLN thousands, unless stated otherwise)

Contingent receivables arising from guarantees and suretyships represent guarantees issued by banks or other entities in favour of Budimex SA serving as security for the Company 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 the Company to secure their claims against Budimex SA that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Budimex SA under these guarantees.

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

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

### 3.4 Differences between forecasted and actual financial results of Budimex SA

The Company did not publish any financial forecasts for 2011.

### 3.5 Utilisation of proceeds from issues of securities

During the period covered by this report, no securities other than bonds were issued.

## 4 SIGNIFICANT AGREEMENTS

### 4.1 Insurance agreements for Budimex SA

In 2011, the Budimex Group (including Budimex SA) was a party to the following General Insurance Agreements:

- General Insurance Coverage for All Construction & Assembly Risks

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

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

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

- General Third Party Liability (TPL) Agreement

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

Subject to the insurance coverage is the out-of-contract third party liability in tort of the Insured in respect of assets used to conduct business activities with insurance coverage and construction services 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 reporting periods. This agreement provides for the extension of the basic insurance coverage together with sub-limits of the sum insured.

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

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

The insurer is Chartis Europe SA Branch in Poland.

Subject to the insurance coverage is the out-of-contract third party liability in tort of the Insured in respect of assets used to conduct business activities with insurance coverage and construction services 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 reporting 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 events covered by this Agreement.

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

- General All Risk Insurance Coverage for Construction Machines

The Insurer is TU Allianz Polska SA. Subject to the insurance coverage are construction machines and equipment which are owned by Budimex SA and which are subject to lease agreements. The insurance coverage comprises all risks of physical loss or damage of assets, except for damage resulting from losses incurred during or in connection with machines transport, loading, unloading, assembly or disassembly.

This agreement was concluded for the period from 28 September 2010 to 27 September 2012.

- Other significant insurance agreements:

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

## 4.2 Cooperation agreements binding in 2011

### Cooperation agreements concluded by Budimex SA in 2011

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

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

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

**Cooperation agreements concluded by Budimex SA before 2011 and active in 2011**

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

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

#### **4.3 Transactions with affiliates**

Detailed information on transactions with affiliates was presented in Notes 7 and 8 of the additional notes and explanations of financial statements of Budimex SA.

#### **4.4 Loans and borrowings**

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

| Lender                                 | Title of liability                     | Date of loan/<br>borrowing agreement | Amount available<br>(in '000) | Liability, incl. of interest<br>(in '000) | Interest rate        | Maturity date           |
|--|--|--------------------------------------|-------------------------------|---|----------------------|-------------------------|
| Bank Handlowy w Warszawie SA           | Overdraft facility                     | 08.02.2011                           | PLN 40 000                    | -   | 1M WIBOR + margin    | 07.02.2012              |
| Cintra Infraestructuras SA             | Loan                                   | 01.12.2004                           | EUR 1 927                     | EUR 1 931                                 | 12M EURIBOR + margin | 01.12.2012              |
| Millennium Leasing Sp. z o.o.          | Finance lease (4 agreements in total)  | -                                    | PLN 42 093                    | PLN 42 093                                | 1M WIBOR + margin    | 30.11.2015 - 30.09.2016 |
| SG Equipment Leasing Polska Sp. z o.o. | Finance lease (2 agreements in total)  | -                                    | PLN 296                       | PLN 296                                   | 1M WIBOR + margin    | 29.02.2012              |
| Fortis Lease Sp. z o.o.                | Finance lease (26 agreements in total) | -                                    | PLN 1 943                     | PLN 1 943                                 | 1M WIBOR + margin    | 31.01.2012 - 30.09.2012 |

As at 31 December 2011 Budimex SA has no issued any debt securities.

#### **4.5 Main placements and equity investments made in 2011**

**On 24 January 2011** the Incorporation Act of Budimex Parking Wrocław Sp. z o. o. was signed. The total share capital of new company amounted to PLN 5 thousand was subscribed by Budimex SA. The main activity of new company is construction and exploitation of a car park located in Wrocław on the base of public – private partnership. The decision of new company registration was issued on 8 February 2011.

**On 17 February 2011** the Incorporation Act of Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o. o. was signed. The share capital of new company amounted to PLN 5 thousand, consists of 100 shares of nominal value PLN 50 each, of which 30 shares of total amount of PLN 1,5 thousand was gained by Budimex SA and 70 shares of total amount of PLN 3,5 thousand were subscribed by Técnicas de Pretensado y Servicios Auxiliares S.L. located in Madrid. The new company was registered on 17 March 2011.

On 29 June 2011 an increase of Tecpresa capital to the total amount of PLN 590 thousand was registered, of which Budimex share amounted to PLN 177 thousand (3 540 shares).

**On 21 April 2011** the Incorporation Act of Budimex Serwis SA was signed. The total share capital of new company amounted to PLN 100 thousand, consisted of 2 000 shares of nominal value PLN 50 each, was subscribed by Budimex SA. The new company was registered on 10 May 2011.

**On 28 April 2011** the Extraordinary General Meeting of Shareholders of Budimex Budownictwo Sp. z o.o. made the resolution on increasing the capital in the amount of PLN 300 thousand (600 shares of nominal value PLN 500 thousand each). The capital was paid up by Budimex SA. The above event was registered on 26 May 2011.

**On 6 June 2011** a decrease in Autostrada Południe SA capital (related company of Budimex SA) was registered. A decrease in capital was performed by redemption of shares. Due to that Budimex SA sold the shares of Autostrada Południe SA in the amount of PLN 4 676 thousand. After that transaction Budimex SA is still the owner of Autostrada Południe shares in the amount of PLN 4 292 thousand, which relates to 5.05% in share capital of the company.

**On 20 July 2011** the Incorporation Act of Budimex Most Wschodni SA was signed. The total share capital of new company amounted to PLN 100 thousand, consisted of 100 shares of nominal value PLN 1 000 each, was subscribed by Budimex SA. The new company was registered on 2 September 2011.

**On 20 July 2011** the Incorporation Act of Budimex Autostrada SA was signed. The total share capital of new company amounted to PLN 100 thousand, consisted of 100 shares of nominal value PLN 1 000 each, was gained by Budimex SA. The new company was registered on 25 August 2011. On 25 November 2011 an increase of capital up to the amount of PLN 200 thousand was registered.

**On 4 August 2011** Budimex SA and Polskie Koleje Państwowe SA signed the agreement of acquisition of 100% shares of the company called Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. located in Warsaw for the amount of PLN 225 017 thousand. Nominal value of the shares acquired amounted to PLN 178 869 thousand. On 16 November 2011, due to meeting the agreement condition related to gaining appropriate approvals, the payment for acquired shares was made. The acquisition was financed from private sources of Budimex SA.

**On 26 October 2011** a resolution of the Partners of Budimex SA Ferrovia SA Sp. z o.o. was signed that increased the contribution in the company in the amount of PLN 4 000 thousand. Due to above, the both partners, i.e. Budimex SA and Ferrovia Agroman SA paid up the amount respectively in the amount of PLN 2 000 thousand.

#### **4.6 Loans granted during the year, including loans to affiliates of Issuer**

**On 1 December 2011**, a loan agreement was extended concerning the loan granted in 2004 to Budimex SA by Cintra Infraestructuras (as reported in Note 19), and loan interest accrued and receivable for the period from 1 December 2010 was capitalized. Due to the above, the loan balance was increased by the amount of EUR 43 thousand to EUR 1 927 thousand. Loan maturity date was set at 1 December 2012.

### **5 OTHER INFORMATION**

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

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

In addition, each Member of the Management Board of Budimex SA has concluded with the Company or the company paying his remuneration a separate non-competition agreement, which is valid for the period of 12 months of the date of termination of employment contract. During the period of validity of non-competition clause, the Company will pay the employee 75% of his basic monthly remuneration, if termination of employment contract was initiated by the Company, or 25% of basic monthly remuneration, if termination was initiated by the employee. Contractual penalties have been established for the breach of non-competition clause.

Information on remuneration of Members of the Management Board was presented in Note 12 of the financial statements of the Company.

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

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

- Marcin Węglowski – 2 830 shares

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

- Marek Michałowski – 3 900 shares

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

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

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

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

The Company did not implement employee share incentive program.

### **5.5 Agreements (incl. post-reporting date agreements) with the possible effect on 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 current shareholders.

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

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

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

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

## **6 CORPORATE GOVERNANCE**

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

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

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

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

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



## **6.2 Key features of the Company's internal control and risk management systems, and the process of the preparation of financial statements**

The Management Board of Budimex SA is responsible for the implementation and functioning of the internal control system in the process of the preparation of separate financial statements of Budimex SA and of the consolidated financial statements of the Budimex SA.

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

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

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

The Department of Reporting and Consolidation of Budimex SA is responsible for recommending solutions relating to modification and update of accounting policies and other WSE reporting requirements, as well as for their implementation after prior approval of the Management Board.

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

- assessment of significant, non-routine transactions for their effect on the financial position of the Company or the manner of their presentation in the financial statements,
- verification of consistency of assumptions underlying accounting estimates,
- comparative and substantive analyses of financial data,
- verification of clerical correctness and consistency of financial data,
- analysis of disclosure completeness.

Annual financial statements are forwarded to Chief Financial Officer for preliminary verification and then to the Management Board for final verification and authorisation.

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

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

| Shareholder   | Share type | Number of shares  | % of share capital | Number of votes   | % of votes at GSM |
|---|------------|-------------------|--------------------|-------------------|-------------------|
| Valivala Holdings B.V. Amsterdam (Holland) - the Ferrovial SA (Spain) Group company | ordinary   | 15 078 159        | 59.06%             | 15 078 159        | 59.06%            |
| OFE PZU „Złota Jesień”  | ordinary   | 1 444 895         | 5.66%              | 1 444 895         | 5.66%             |
| Other shareholders  | ordinary   | 9 007 044         | 35.28%             | 9 007 044         | 35.28%            |
| <b>Total</b>  |            | <b>25 530 098</b> | <b>100.00%</b>     | <b>25 530 098</b> | <b>100.00%</b>    |

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

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

## **6.5 Restrictions on exercising voting right**

There are no restrictions concerning exercising voting right.

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

There are no restrictions on the transfer of ownership rights to securities of Budimex SA, except for the rights concerning registered shares whose disposal requires pre-approval of the Company. Such approval has to be granted by the Management Board in writing to be valid.

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

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

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

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

In accordance with the provisions of the Company's Articles of Association, the Management Board conducts the Company's affairs and represents the Company, which effectively means that the scope of duties of this body does not differ from that defined in the Code of Commercial Companies. Detailed rights of the Management Board of Budimex SA specified in the Company's Articles of Association are as follows:

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

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

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

**6.9 Functioning of the General Meeting of Shareholders, its fundamental powers, rights of the shareholders and the manner of exercising those rights**

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

General Meeting of Shareholders is convened by the Management Board as ordinary or extraordinary meeting. Ordinary General Shareholders' Meeting takes place, at the latest, within 6 months of the end of each financial year. General Shareholders Meeting is convened by the Company's Management Board. The Supervisory Board may convene Ordinary General Meeting of Shareholders if the Company's Management Board does not convene it within the period defined in the Code of Commercial Companies or in the Company's Articles of Association; the Supervisory Board may also convene Extraordinary General Meeting of Shareholders if such meeting is deemed advisable. The Extraordinary General Shareholders' Meeting may also be convened by the shareholders representing at least half of the Company's issued share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint chairman of the Meeting.

The shareholder or shareholders representing at least 1/20th of the Company's share capital may request in writing, or using electronic means of communication, that the Company's Management Board convene an Extraordinary General Shareholders' Meeting and include certain specific matters in the meeting agenda or matters that are to be introduced to the meeting agenda. If within two weeks of the date of forwarding such request the Extraordinary General Shareholders' Meeting is not convened, the court of registration [of the Company] may authorise the shareholders initiating such request to convene the meeting. The court of registration appoints person chairing the meeting, and in the notification about the meeting the shareholders should refer to such decision of the court of registration. The meeting convened in this manner takes resolution on whether the costs of convening and realizing the meeting are to be borne by the Company. The shareholders who requested convening the meeting may apply to the court to be exempted from the costs imposed by the resolution of the shareholders' meeting.

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

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

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

The shareholder or shareholders representing at least 1/20th of the Company's share capital may request that certain specific matters are included in the agenda of the nearest General Shareholders' Meeting. The request should be forwarded to the Management Board of the Company no later than twenty one days before the scheduled date of the meeting and should include justification for or a draft of the resolution concerning the proposed matter for the agenda. The request may be forwarded in an electronic form. The Management Board is required to immediately, however no later than 18 days before scheduled date of the General Meeting, announce changes to the meeting agenda that were introduced at the request of the shareholders. Such announcement is executed in the manner appropriate to convening the General Shareholders' Meeting.

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

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

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

- considering and authorization of directors' report on the Company's activities and of the financial statements for the prior financial year,
- considering and authorization of directors' report on the Group's activities and of the consolidated financial statements of Budimex Group,
- acknowledgment of the fulfilment of duties by members of the Management and Supervisory Boards,
- creation and reversal of special funds and reserve capital, and their utilisation,
- profit appropriation or defining the manner of loss absorption; General Shareholders' Meeting may resolve that dividend, in whole or in part, is allocated to increase share capital and the shareholders are issued new shares in exchange,
- taking decisions concerning claims for losses incurred on Company incorporation, or losses resulting from performing management or supervisory functions,
- taking resolution concerning disposal or lease/ rental of the company or its organized part, or establishing thereon restrictions on use or disposal,
- taking decisions on company merger or liquidation, and in the case of the latter - appointing Company liquidators,
- issuance of convertible bonds or bonds with pre-emptive right, or subscription warrants,
- taking resolutions on share redemption,
- taking resolutions on changes to the Company's Articles of Association, especially concerning the increase or decrease in share capital, or changes in the Company's business activities,
- adopting Byelaws of the General Meeting of Shareholders of Budimex SA
- appointing and removing Supervisory Board members,
- defining principles and amount of remuneration for Supervisory Board members,
- re-acquisition of own shares to offer them to employees or persons who were employed at the Company or any related company for the period of at least three years,
- concluding by the Company of credit or loan agreement, or guarantee or other similar agreement with member of the Management or Supervisory Board, authorised commercial representative, liquidator, or concluding an agreement in favour of any of said persons,
- determining the date on which the list of shareholders entitled to receive dividend for the year is prepared (dividend date).

Matters forwarded by the Management Board for consideration of the General Shareholders' Meeting should first be forwarded for the Supervisory Board's consideration.

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

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

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

|                           |   |
|---------------------------|---|
| Dariusz Blocher           | President of the Management Board, General Director |
| Ignacio Botella Rodriguez | Vice-President                                      |
| Jacek Daniewski           | Board Member, Chief Legal Officer                   |

|                   |                                       |
|-------------------|---------------------------------------|
| Joanna Makowiecka | Board Member, Chief HR Officer        |
| Henryk Urbański   | Board Member, Chief Property Officer  |
| Marcin Węglowski  | Board Member, Chief Financial Officer |

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

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

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

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

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

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

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

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

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

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

The status of independence of Supervisory Board member is determined by the Company in accordance with the criteria defined in the Procedure for Integrated Management System No. 05-05 relating to obtaining information from Supervisory Board members and publication of this information, based on representations filed by Board members and based on article 56 section 3 point 1, 3 and 5 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

The Investment Committee was composed of the following persons:

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

The Remuneration Committee was composed of the following persons:

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

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

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

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

The functioning of the Management Board is managed by the President of the Management Board. Detailed manner

of Management Board functioning has been defined in the Byelaws of the Management Board approved by the Supervisory Board.

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

The persons authorised to make representations or sign documents on behalf of the Company are:

- President of the Management Board – one-man representation
- two Board Members – acting together or one Board Member acting together with an authorised commercial representative.

Representations filed with the Company or submissions of documents are considered valid if addressed to one Board Member, or authorised legal representative of the Company.

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

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

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

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

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

- assessment of directors' report on the company's activities and evaluation of financial statements for the prior year,
- evaluation of profit appropriation or loss absorption proposals made by the Management Board,
- recommending to the General Shareholders' Meeting the acknowledgment of the fulfilment of duties by members of the Management Board,
- presenting to the General Shareholders' Meeting annual written reports on the results of the assessment referred to above,
- suspending, for important reasons, individual or all Management Board members and delegating Supervisory Board members for the period lasting no longer than 3 months to temporarily perform the duties of those Management Board members who were removed, filed resignation or could not perform their duties for other reasons,
- approval of the Byelaws of the Management Board of the Company,
- concluding agreements with Management Board members, determining remuneration of the President of the Management Board and of other Board members, determining policies for granting management bonus, executing those rights towards Management Board members that result from work relations; with the proviso that such agreements are signed by the President of the Supervisory Board on behalf of the Supervisory Board,
- appointment of a new certified auditor from the list of certified auditors maintained by the National Council of Certified Auditors to audit the financial statements of the Company,
- approval of the agreement between the Company's Management Board and the underwriter to take up the Company's shares,
- granting approval to Board member to deal with competitive business or to participate in a competitive company,
- granting approval to excluding or limiting by the Management Board the pre-emptive right to the new issue shares,
- granting approval to the method of determining share issue price proposed by the Management Board or to issue of shares for an in-kind (non-monetary) contribution,
- granting approval for the purchase or disposal of property, perpetual usufruct right or share in property, machines and equipment and/ or disposal or acquisition of securities or other asset items, if the unit price on acquisition or disposal exceeds 1/5th of the Company's share capital; if the value of the transactions referred to in this point does not exceed the amount stated above, the decision is taken solely by the Management Board.

In accordance with para. 12, section 3 of the Byelaws of the Supervisory Board, the Supervisory Board may establish committees or appoint teams from among its members, or delegate Board member to such bodies. As stated above, the following three committees operate as part of the Supervisory Board: Audit Committee, Investment Committee and Remuneration Committee.

#### **e) Audit Committee tasks**

The role of the Audit Committee is to: recommend to the Supervisory Board an entity authorised to fulfil the function of a certified auditor and to audit the financial statements of the Company and the consolidated financial statements of the Group for the prior year, monitor the process of the preparation of the financial statements of the Company and the consolidated financial statements of the Group for the prior year, perform detailed reviews of the results of those audits at individual audit stage, monitor the process of the execution of financial audit, monitor the effectiveness of the internal control, internal audit and risk management systems, forward to the Supervisory Board conclusions and recommendations relating to the process of audit

and assessment of the financial statements of the Company and of the consolidated financial statements of the Group for the prior year, to assess the Management Board's proposal concerning profit appropriation or loss absorption, forward to the Supervisory Board conclusions and recommendations concerning acknowledgment of the fulfilment of duties by the Chief Financial Officer, monitor the independence of a certified auditor and the entity authorized to audit financial statements, in this case – the independence of services referred to in article 48 para.2 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009, execute other tasks commissioned by the Supervisory Board that depend on the current situation at the Company, and finally - to submit the interim and annual reports on its activities to the Supervisory Board.

#### **f) Investment Committee tasks**

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

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

#### **g) Remuneration Committee tasks**

The tasks of the Remuneration Committee comprise:

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

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

#### **Supervisory Board Members**

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

- President of the Supervisory Board – twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.7 ratio,
- President of the Audit Committee of the Supervisory Board - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.4 ratio,
- Vice-President of the Supervisory Board - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.15 ratio,
- Secretary of the Supervisory Board - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio,
- Supervisory Board Member - twice the amount of average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.0 ratio.

#### **Management Board Members**

The body authorised to determine remuneration policy for members of the Management Board of Budimex SA is the Supervisory Board. The policy defines all types of remuneration, in particular, fixed remuneration, result-based remuneration, retirement benefits scheme and retirement benefits, and long-term incentive scheme.

In addition, the Supervisory Board performs all labour-law based activities in relations between Budimex SA and members of the Management Board. Employment contracts with members of the Management Board are signed by the President of the Supervisory Board on behalf of the Supervisory Board. Agreements between Budimex SA and Management Board members were described in point 5.1.

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

- fixed remuneration – monthly basic salary,
- result-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of annual assessment of tasks execution, and ratio-related bonus relating to business activities of the Budimex Group,
- share incentive scheme of the Ferrovial Group called „Ferrovial objectives-related share incentive scheme” (*„Plan przyznania akcji związanych z celami Ferrovialu”*) which consists in conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to 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 period of the following three years and on the remaining by eligible persons at the Management Board posts at the date of shares awarding,
- additional “in-kind” benefits (*świadczenia w naturze*) such as free-of-charge medical care, or payment of life insurance policy premiums.