

Dear Sirs,

The Budimex Group closed 2017 with very good results, both in terms of sales and net profit. For another year in a row, we took the first place among the largest general contractors in Poland. This year is special for us. We are celebrating Budimex's 50th anniversary, which makes it all the more pleasing to see that we entered 2018 with a record portfolio of contracts exceeding PLN 10 billion.

Several factors influenced the achievement of satisfactory results. We took advantage of a period of stagnation in the industry, which covered the entire 2016. Thanks to declines in the prices of materials and subcontracting services, we were able to obtain very good profitability on contracts. We felt a strong improvement on the market in the summer of 2017. During that time, the number of tenders announced by the largest transport investors in our country - GDDKiA and PKP PLK - increased significantly. The dynamics of construction and assembly production reached 12.9% - the highest level since 2011. A favourable market situation allowed us to increase sales by 14.3% compared to the previous year and to achieve a record net profit of PLN 464 million. Development activity also guaranteed sales higher by 40% in relation to 2016.

The Group's profitability was satisfactory - at the operating level it amounted to 9.2%. The net cash item reached PLN 2.2 billion and was lower by PLN 359 million compared to the end of 2016. This was because we increased our involvement in FBSerwis by over PLN 50 million and we allocated PLN 185 million for the purchase of land for new development projects. The lower cash balance was also influenced by changes in tax regulations consisting in the introduction of the so-called "reverse VAT" in construction. They have adversely affected the financial condition of our subcontractors. In order to support them, we offered earlier payment terms and more frequent invoicing of completed works.

The recovery in the market of infrastructure contracts and effective bidding in the field of building construction allowed us to finish 2017 with the signing of new contracts for a record amount of PLN 7.3 billion. The value of the contract portfolio at the end of December was PLN 10.3 billion.

For us, 2017 was a year of railway investments. Currently, they constitute 12% of the Group's portfolio. We acquired seven ambitious projects with a total value of PLN 1.3 billion. This gives us a 9% market share. We would like to not go below this level in the coming years. We will also try to increase it.

Although infrastructure investments still constitute the largest share in our portfolio of contracts, we also try to maintain high activity in other segments. At the end of 2017, we acquired a hydrotechnical contract to complete the construction of the Raciborz Dolny flood control reservoir. The contract value is nearly PLN 700 million, amounting to 7% of the contract portfolio. We have also acquired a contract in the energy market. We will build a steam turbine set together with auxiliary systems for Tameh Polska Sp. z o.o. at the Krakow Manufacturing Plant with a value exceeding PLN 125 million. A contract for the construction of a waste incineration plant in Vilnius signed in 2016 is in progress. In 2017, we increased the scale of our operations on the German market by several percent, which brought us PLN 200 million of sales revenues. We are also planning to increase our activity in the gas and energy transmission segment.

As part of our development activity in 2017, we sold 1,457 apartments. We want to maintain a similar result in the following years, which will require maintaining a constant level of approximately 4,000 apartments in construction. For this purpose, we are continuing the expansion of our land holdings. In 2017, we purchased land in Warsaw, Poznań and the Tri-City. Budimex Nieruchomości for the first time also acquired a plot in Wrocław, where we plan to build more than 1,000 apartments.

Revenues from the development segment in 2017 amounted to PLN 499 million. Budimex Nieruchomości's customers signed 1,914 notarial deeds. We recorded a 43 percent year-on-year increase and improved our net profit from PLN 41 million in 2016 to PLN 54 million in 2017.

In 2017, we developed a record-breaking contract portfolio, which allows us to look optimistically at the level of sales in 2018. However, we are aware of the difficulties which not only us, but the entire construction industry must face. In the coming years, we will have to deal with the accumulation of initiated projects, in particular in the road and rail construction markets, but also in the local government market. We faced a similar situation in 2011-2012 before the Euro 2012 Football Championship. An accumulation of contracts generates serious problems for general contractors. The biggest of them is the lack of workers. In 2017, the Budimex Group hired over 800 new employees and in 2018 we intend to hire another 1,200 people to work. Wages, prices of materials and subcontracting services have also increased significantly. Accumulation of ongoing projects will also be difficult in terms of logistics, especially when it comes to the timely delivery of materials such as aggregates. In such a difficult market situation, we count on systemic and regulatory changes to simplify the employment of foreigners from selected countries. It is also necessary to verify the indicators on the basis of which public contracts are valued and indexed. Without addressing these issues, the construction industry may find itself in a crisis.

The companies belonging to the Budimex Group may consider 2017 to be successful.

In March 2017, Mostostal Kraków increased its manufacturing potential by the Steel Structures Manufacturing Plant in Żłobnica. The factory with an area of 13,000 m² is located in the Industrial Zone of Kleszczów Municipality (near Bełchatów Power Station). The company also invested PLN 10 million in welding equipment. We hope that this will strengthen our position in tenders for the construction of gas pipelines.

FBSerwis in 2017 took over two companies from the Trans-Formers Group, specialising in municipal waste treatment. This has increased its processing capacity to almost 400,000 tons of waste per year and allowed it to appear in completely new locations. The company is dynamically growing and only in 2017 increased its employment by hiring more than 350 employees.

Elektromontaż Poznań is staying in the Budimex Group. The company belongs to us in 99%. We plan to divide it into the operational and real-estate division. We also want to use its potential in the implementation of railway investments. In mid-2017, Elektromontaż Poznań's big success was winning a contract for installation works for the construction of Mercedes engines in Jaworzno. Although we plan to develop the company, it does not mean that we will not return to the market with an offer to sell it.

Being aware of the fact that people are our most valuable link, we make every effort to ensure that working in the Budimex Group is satisfying and provides opportunities for development. In 2017, we set up an innovation team so that employees could implement their own proprietary ideas and also have access to innovative solutions from the market. We have invited start-ups, technology companies and scientific units to cooperate with us. In 2017, thanks to the positive assessment of the company by our employees, we won the "Investor in Human Capital" award. We also found ourselves among the TOP10 Employers 2017 in Poland. Continuously from 2011, we have been a part of the RESPECT Index of the Warsaw Stock Exchange - companies managed in a responsible and sustainable manner.

Our activity has a very big impact on the environment. That is why building relationships based on understanding and trust is very important to us. We want to be a good neighbour to those who live close to our projects. In 2017, at the request of employees of our construction sites, we participated in many local sponsoring and charity campaigns. We are also continuing our flagship CSR projects - "Strefa Rodzica", "Domofon ICE" and internal project addressed to Budimex Group employees - "Grant na Wolontariat".

In 2018, we will focus on the timely implementation of the record portfolio of contracts and its further diversification. The contracts acquired in 2017 will allow us to take a more selective approach to bidding. We want to continue to increase our share in the area related to the maintenance of roads, buildings and waste management. In the current market situation, we will have to look for new ways to optimise costs. This is the goal I set for our innovation team.

This year, we are celebrating a jubilee. We will celebrate half a century of operations. Taking advantage of this unique opportunity, I would like to thank our shareholders and clients for their trust. I would also like to thank the employees of the Budimex Group for their great commitment and determination in achieving our goals. It's thanks to you that we are the undisputed leader in the construction market in Poland.

I hope you enjoy reading the Budimex Group Consolidated Annual Report for 2017.

Dariusz Blocher,

President of the Management Board