

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To the General Shareholders Meeting and Supervisory Board of Budimex S.A.

The audit report on the annual consolidated financial statements

We have audited the accompanying annual financial statements for the year ended 31 December 2017 of Budimex Group ('the Group'), for which the holding company is Budimex S.A. ('the Company') located in Warsaw at Stawki 40, containing the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view¹ of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

¹ Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation 537/2014").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the Audit Committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated 28 March 2017. We have been auditing the consolidated financial statements of the Group for the first time for the financial year ended 31 December 2017.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<i>Description of the nature of the risk of material misstatement (key audit matters)</i>	<i>Audit procedures in response to the identified risk</i>
<p>First year audit of the consolidated financial statements</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>The consolidated financial statements for the financial year ended 31 December 2017 were the first being subject to our audit.</p> <p>Bearing in mind the size and scope of operations of the Company and other entities within the Group, the key was to understand</p>	<p><i>Audit approach</i></p> <p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> conducting the kick off meeting with key personnel responsible for financial reporting of the Group, gaining an understanding of the control environment in the Company and entities within the Group and testing of selected controls in relation to individual processes,

<p>the complexity of the Group's organizational structure and its impact on the processes within the Group.</p> <p>During the audit, we performed a number of additional procedures necessary to understand and gain knowledge about: (i) the Group's business profile and its accompanying processes (ii) specific risks related to the business (iii) control mechanisms implemented by the Group's entities and adopted policies affecting the financial reporting of the Group. These procedures allowed us to assess the risk of the audit, identify the risk of material misstatement, including inherent audit risks and control risks, determine materiality levels and the scope of audit procedures.</p> <p>In addition, as part of the first-year audit, the purpose of our additional procedures was to determine whether opening balances contain distortions that materially affect the financial statements for the current period and whether the accounting rules (policies) applied to the opening balance were applied continuously in the preparation of financial statements for the current period, or whether the changes made therein were correctly accounted for and properly presented in accordance with the applicable financial reporting assumptions.</p>	<ul style="list-style-type: none"> • understanding of the Group's accounting policy and significant values included in the consolidated financial statements based on professional judgment and estimates, • communication with a predecessor auditor, including discussion of key audit matters of the Group audit and review of audit documentation from the previous reporting period, • assessment of the main audit issues from the previous reporting period and their impact on the Group's consolidated financial statements for the current financial year and on the opening balance, • analysis of changes in the opening balance as identified by the Group's entities and the reasons for such changes, • assessment of the adequacy of disclosures, in accordance with the International Accounting Standard 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, in the consolidated financial statements of the Group. <p>The results of our procedures as well as the revised audit strategy based on them have been communicated to the Management Board of the Group and to the Audit Committee.</p>
<p>Revenue recognition and provision for expected contracts' losses</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>The Group presents in the consolidated financial statements for the year ended 31 December 2017 revenue from construction contracts amounting to 5 786 million Polish zloty. The Group has implemented IFRS 15 <i>Revenue from contracts with customers</i> from 1 January 2017 using retrospective method with cumulative effect of initially applying the standard recognized at the date of initial application. The revenue recognition method requires often the identification of more than one performance obligation within contracts with customers, when performance obligations were satisfied and determination of the transaction price.</p>	<p><i>Audit approach</i></p> <p>During the audit of the consolidated financial statements we have assessed the revenue recognition and its presentation accounting policies, including those resulting from the change of the accounting standards from IAS 11 and IAS 18 to IFRS 15.</p> <p>For significant revenue streams:</p> <ul style="list-style-type: none"> • we have documented the effectiveness of processes and key internal controls existing in the Group. For selected controls we have performed tests of its operational effectiveness. • we have performed analysis of correctness and appropriateness of revenue recognition methods applied by the Group, • for services for which revenue is recognized over the time, based on selected sample,

<p>Additionally due to the technical complexity and the scale of the construction contracts revenue recognition includes the risk of incorrect physical measurement of realized works. Those aspects as a result can lead to revenue being recognized in incorrect amount in incorrect period.</p> <p>In case of construction contracts the Group recognizes revenue as at each balance sheet date based on physical measurement of the construction works performed or as a percentage of completion of the costs incurred in total planned costs. The Group estimates contracts' budgets, including detailed costs necessary to complete the contract determining total contract result. Based on estimated result of the contract, the Group does recognize or derecognize the provision for expected contract losses.</p> <p>The estimates in respect of contracts' budgets, relating to both planned contract costs as well as already recognized revenue, involve significant judgement of the Group's Management and include a risk of incorrectly defined scope of work or costs to complete the contract. Those can result in misstated estimate of planned result of the contracts and as a result may impact the amount of provision for expected contract losses.</p> <p><i>Reference to related disclosures in the consolidated financial statements</i></p> <p>In notes 2.20-2.21 of the introduction to the consolidated financial statements the Group disclosed detailed accounting rules (policy) while significant estimates and judgments in the revenue recognition and provision for expected contracts' losses calculation are disclosed in notes 6.1 and 6.2. In the note 31 of additional notes to the consolidated financial statements the Group included detailed data on revenue recognition required by IFRS 15 and additionally in the note 2.1 an impact of IFRS 15 first time adoption on the opening balance presented in the consolidated financial statements.</p>	<p>we have performed tests of details on physical measurements of performed construction works, determination of transaction price and recognized revenue as well as determination of contracts' budgets, which were the basis for calculation and recognition of provisions for expected contracts' losses,</p> <ul style="list-style-type: none"> • we have performed the analysis of historical budgets realization for significant contracts finalized during the financial year comparing the budgets and forecasts of the open contracts and also in order to confirm existing trends in costs of materials and labor prices, which are substantially determining the estimate of costs which will be incurred to complete a contract. We have checked whether observed trends in costs were reflected in the budgets of contracts selected for the purpose of our tests of details, • for selected sample of complex contracts, which include more than one performance obligation of the Group, we have performed the analysis of transaction price allocation to separate performance obligations and evaluation of revenue recognized over the time or at the point in time, • we have analyzed the process of IFRS 15 implementation performed by the Group and we have assessed its impact as at the date of the first application i.e. 1 Jan 2017, • for a sample of significant contracts: <ul style="list-style-type: none"> – we analyzed the relevant clauses within the contracts, costs and revenue budgets as well as discussed with the Group's Management the changes occurred during the reporting period, – we have discussed with project managers key budgets assumptions, risks and status of realized contracts, – we have performed site visits on selected contracts, – we observed physical measurement process of performed construction works, • for a sample of contracts for which the Group has recognized provisions for expected contracts' losses:
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	<ul style="list-style-type: none"> – we have performed procedures to reconcile the correctness of the provision calculation and recognition with IAS 37, – we have discussed with the Management and project managers the assumptions for contracts' budgets and probability of changes of assumed contracts' results. <p>During the audit we have also assessed the disclosures in respect of revenue recognition and provisions for expected contracts' losses made in the consolidated financial statements.</p>
<p>Revenue recognition – revenue from residential real estate projects</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>Revenue achieved from the sales of multi-family residential real estate projects, represents significant part of the Group's total revenue. Revenue is recognized by the Group when the control over the real estate asset is transferred to the buyer and when revenue can be measured reliably. The control is considered as transferred to the buyer when the notarial deed transferring the legal ownership to the acquired property is signed. Consequently, taking into account the significance of proper cut-off for the revenue recognition resulting from the sales of multi-family residential real estate projects for the consolidated financial statements, it has been identified as a key audit matter.</p> <p><i>Refer to the related disclosures</i></p> <p>The accounting policy and significant judgments relating to revenue recognition from residential real estate projects have been disclosed by the Group in notes 2.20-2.21 of the introduction to the consolidated financial statements.</p> <p>In note 31 of additional notes to the consolidated financial statements, the Group included detailed data on revenue recognition required by IFRS 15 and additionally in the note 2.1 an impact of IFRS 15 first time adoption on the opening balance presented in the consolidated financial statements.</p>	<p><i>Audit approach</i></p> <p>During the audit we have documented our understanding of the process, we have identified the key controls in that process and then performed tests of those controls. Additionally, we have performed substantive audit procedures including, among others, detailed margin analyses, tests of details and tests of transactions to assess the correctness and completeness of recognized revenue, including the proper cut-off of all revenue in the current reporting period.</p> <p>During the audit we have also assessed the disclosures relating to revenue recognition from sale of residential real estate projects made in the consolidated financial statements.</p>

Opinion

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Other matters

The consolidated financial statements for the prior financial year ended 31 December 2016 were subject to an audit by a key certified auditor acting on behalf of another authorized audit firm, who issued an unqualified opinion on these financial statements, dated 16 March 2017.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

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

Key Certified Auditor

Marcin Zieliński
certified auditor
No. 10402

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
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Warsaw, 19 March 2018