

BUDIMEX SA

**DIRECTORS' REPORT
ON THE ACTIVITIES OF THE COMPANY FOR THE YEAR 2013**

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1 Business Environment

1.1 General market conditions

In 2013, Poland experienced another economic downturn. In accordance with the initial data provided by the Central Statistical Office (GUS), the GDP increased by 1.6 per cent annually in comparison with 1.9 per cent in the previous year. In the case of the construction industry, particularly significant slowdown was visible. Gross added value in the construction sector in 2013 in comparison with the previous year decreased by 9.0 per cent in comparison to increase by 0.3 per cent in 2012.

Relatively low number of public investments (in particular in the infrastructure area) and long winter made the first half of the year particularly difficult. The general trends ratio indicated negative values meaning that a significant number of the surveyed enterprises declared negative change of trends and not their improvement. Starting from the second half of 2013, first signals indicating improvement of the market atmosphere occurred, the trend ratio started to successively increase and the dynamic of GDP accelerated significantly.

In 2012, the construction and assembly production slightly decreased (-1.1 per cent in comparison to 2011), while in the previous year, the decrease was a two-digit figure. The industry has decreased by 13.6 per cent over the course of the year, mainly due to ending contracts and investments in the infrastructure segment (road construction) and residential segment.

The outlays of the key investor in the roads segment, the General Directorate for National Roads and Highways (GDDKiA) decreased significantly, from PLN 22.6 billion in 2012 to about PLN 13 billion in the previous year, namely by about PLN 5 billion less than initially planned. Lower expenditure was caused among others by financial problems of certain contractors and the related delays and the need to reissue construction tenders (e.g. in the case of sections of S5 expressway, A1 and A4 highways).

The share of civil and water engineering facilities in the structure of construction and assembly production decreased from 55.3% in 2012 to 52.1% in 2013, mainly due to an increased share of non-residential construction (from 30.8% to 34.7%).

After relatively positive 2012, when the number of flats completed and put to use increased reaching the level of 152.9 thousand, in 2013 that number decreased to 146.1 thousand flats put to use (-4.4 per cent annually). The number of flats whose construction was started decreased significantly (-10.2 per cent annually from the level of 141.8 thousand to 127.4 thousand), similarly as the number of issued construction permits (-16.0 annually from the level of 165.1 thousand to 138.7 thousand). Changes in the loan requirements, record-low interest rates resulting in relatively cheap financing and at the same time low interest rates on bank deposits and decreasing base of flats in construction (in particular in large cities) caused a significant increase of pre-booking sale by the largest developers and effectively decreased the pressure on lowering the prices of real properties on the primary market.

1.2 Market development perspectives

The year 2013 meant significant decrease of investments. It is expected that 2014 will be a period of stabilisation and restraining the strong downturn trend. This year will be characterised by a significant number of resolutions concerning new contracts financed from the budget of the European Union within the framework of the new financial perspective for the years 2014-2020. The business operations of the Budimex Group companies focus on the construction sector, which to a large degree uses aid funds obtained from the European Union. Within the framework of the new financial perspective for the years 2014-2020, Poland will receive EUR 82.5 billion and the largest operating programme will be the Infrastructure and Environment Programme with allocation at the level of EUR 27.5 billion. Large part of those funds will drive development of widely understood road and railway infrastructure in the following years.

In accordance with the provisions of the Act on State Budgets, the increase in GDP in 2014 should be 2.5 per cent, and the yearly average inflation rate - 2.4 per cent. The unemployment rate at the year-end is projected to be 13.8 per cent. Medium term construction market development perspectives are stable. Forecasts for the following years are a little more optimistic.

Undoubtedly, more challenges and also hopes are related to the roads segment. The General Directorate for National Roads and Highways estimates that in the years 2014-2015 it is going to spend about PLN 31 billion of performance of its statutory goals. Until the end of 2013, the General Directorate for National Roads and Highways announced about 50 tenders for construction of national roads and ring-roads with the total value exceeding PLN 35 billion. Their performance should be reflected in increase of the value of the roads market in the years 2015-2018. High competition on the infrastructure construction market still remains the risk factor. The

tenders recently announced by the General Directorate for National Roads and Highways are very popular and the number of applications for access to the two-stages proceeding remains at the level of 17-21.

Railway infrastructure projects are expected to experience growth in coming years. Pursuant to the Multi-year Railway Investment Plan until 2015, prepared by the Ministry of Transport, Construction and Maritime Economy, the expenditures of PKP PLK (the main investor in that segment) necessary for performance of 140 projects in the years 2013-2015 will amount to PLN 24.9 billion, including PLN 4.0 billion in 2013, whilst in 2014, they are to reach PLN 8.3 billion and in 2015 exceeding the level of PLN 12.5 billion is expected. Resolutions of new large scale tenders are expected from 2015.

Continuous financial problems of some construction companies, uncertainty of support for co-generation and unpredictable regulatory solutions caused a downturn of the investment pace in the segment of energy-related construction. The largest energy groups revise their investment plans and suspend projects with uncertain profitability. It seems that the most stable and predictable sub-segment of that market comprises energy transmission networks, where PSE, as the major investor, is going to spend even PLN 8 billion on investments in the years 2014-2018. Demanding tender conditions may constitute a significant risk factor for the potential contractors.

In the difficult 2013, the non-residential construction segment was least affected with decrease only by 2.5 per cent in comparison to the previous year. Moreover, a significant growth occurred on the market in the categories of transport, communication, industrial and warehousing buildings. The expected improvement of the general trends and economic boost in the industry, stabilisation of the orders from the public sector and better perspectives on the side of the private investors constitute a good forecast for the incoming years.

The year 2014 may bring an increase in the number of investments in development companies. Decreasing offer of the primary market combined with the expected economic boost should cause maintenance of positive trends from the second half of 2013. Simultaneously, limitation of access to bank financing caused by changes in the regulatory background should be taken into account.

The opportunity of further development of the infrastructure market may be also based on the public-private partnership (PPP) formula. PPP is still applied in Poland to a very limited degree, usually with respect to small projects. The Polish Development Investments (PIR) company, established within the framework of the Polish Investments programme, may become a catalyst of development. Out of PLN 10 billion designated for the company's operation, PIR intends to allocate 20 per cent for PPP. Besides, the European Commission indicated that the new budgeting perspective comprises more revolving and guarantee instruments and PPP will be the preferred financing model (for example by the Marguerite fund).

2 CURRENT ACTIVITIES AND DEVELOPMENT PERSPECTIVES FOR THE COMPANY

2.1 Basic information about the Company

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

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

As at 31 December 2013, Budimex SA had 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 Zweigniederlassung Köln, Pferdmenigesstr. 5, Cologne.

Report on the Company's activities for 2013

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

2.2 Structure of sales at BUDIMEX SA

Sales of construction and assembly services

In 2013, sales revenue from the construction and assembly services of the Company decreased by 23 per cent when compared to 2012. Sales in the infrastructural construction segment decreased by over 26 per cent (from PLN 3 208 million in 2012 to PLN 2 361 million in 2013) and in the facilities construction segment the decrease amounted to over 18 per cent (from PLN 1,972 million in 2012 to PLN 1 609 million in 2013). Sales in the facilities segment decreased both in the case of non-residential construction (by about 17 per cent) and residential construction (by 25 per cent).

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

Type of construction	Sales value			
	2013		2012	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	2 361	59.5%	3 208	61.9%
facilities, of which:	1 609	40.5%	1 972	38.1%
- non-residential buildings	1 409	35.5%	1 704	32.9%
- residential buildings	200	5.0%	268	5.2%
Total sales of construction and assembly services	3 970	100.00%	5 180	100.00%

Development activities and property management

In 2013, sales of the development activities and property management amounted to PLN 3 938 thousand and in 2012 - PLN 4 612 thousand.

Major construction contracts concluded by the Budimex Group companies in the year 2013:

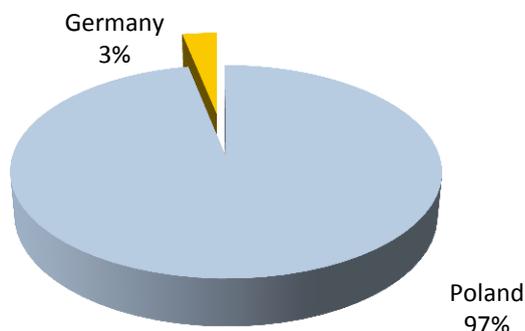
Contract date	Contract value allocated to BUDIMEX SA	Customer	Type of construction
2013-02-01	149 569	General Directorate for National Roads and Highways	Continuation of construction of A4 highway, section Rzeszów Zachód - Rzeszów Centralny junction
2013-02-11	137 753	Medical University in Białystok	Rebuilding and Development of the University Clinical Hospital of the Medical University in Białystok.
2013-04-05	106 920	"Polish Airports" State Enterprise in Warsaw	Development of the landing area at the Frederic Chopin Airport in Warsaw
2013-04-05	88 930	PRO-URBA INVEST Sp. z o.o.	Construction of apartments at Sienna/Kolejowa Str. in Warsaw - stage II
2013-04-08	36 503	Celowy Związek Gmin „PROEKOB” with its registered office in Bełżyce	Construction of the Waste Treatment Plant Bełżyce
2013-04-30	42 981	Zakład Gospodarki Wodno-Kanalizacyjnej in Tomaszów Mazowiecki	Modernisation of the water treatment plant in Tomaszów Mazowiecki
2013-05-07	582 225	Pomorska Kolej Metropolitalna SA	Designing and construction of Pomorska Kolej Metropolitalna Stage I - renovation of "Kolej Kokoszkowska"
2013-05-07	399 001	General Directorate for National Roads and Highways	Continuation of construction of A4 highway Tarnów - Rzeszów at the section from Krzyż junction to Dębica Pustynia junction
2013-05-17	61 518	The National Museum in Wrocław	Restoration and conversion of the Four Domes Pavilion (Pawilon Czterech Kopuł)
2013-06-11	55 494	Pomorska Investments Sp. z o.o.	Development of the Shopping Centre "Galeria Pomorska" in Bydgoszcz
2013-07-17	130 857	Jagiellonian University in Kraków	Construction of the building for the Faculty of Chemistry of the Jagiellonian University
2013-07-23	59 900	LC Corp Invest XII Sp. z o.o.	Construction of the A building for the first stage of the office and services investment in Katowice
2013-08-23	56 400	LEK SA	Development of the Production and Logistic Centre, construction of the Packing Centre LEK SA in Stryków
2013-08-30	40 546	Maritime Office in Słupsk	Protection of seashores within the area of the Central Proving Ground of the Air Force in Wicko Morskie
2013-09-17	63 116	Mikołaj Kopernik University in Toruń Collegium Medicum	Construction of the clinical facilities for the University Hospital in Bydgoszcz
2013-09-19	43 860	Warsaw University of Technology	Technology Transfer and Innovation Management Centre in the design and build system
2013-11-29	32 418	Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji in Warsaw	Technology modernisation in the Central Pipeline Facility, stage II

2.3 Geographic structure of sales at Budimex SA in 2013

The main markets on which Budimex SA operates are:

- Poland
- Germany

The geographical structure of revenue from sales in 2013 is as follows:



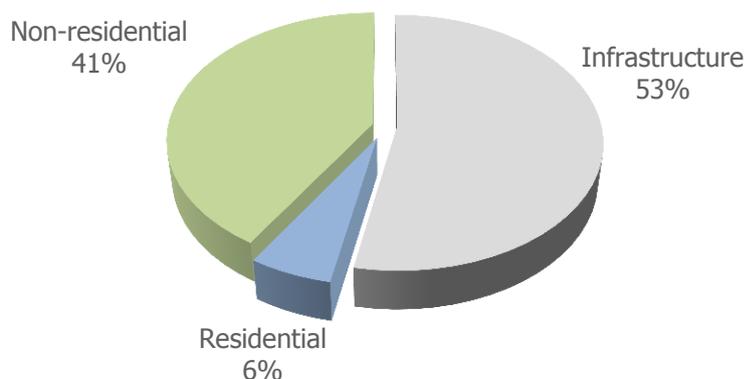
2.4 Construction activities on the German market

In 2013, only workshop services were rendered on the German market. Sales revenues in Germany amounted to PLN 124 124 thousand and were by PLN 9 574 thousand, i.e. 7.2 per cent, lower compared to 2012. The decrease occurred both on metal-related works and prefabrication ones. Despite of the lower sales revenues the operating profit generated in 2013 amounted to PLN 15 335 thousand and was by 13.4 per cent higher than in the prior year, which resulted mainly from lower costs of removing the defects of the works performed in previous years.

2.5 Budimex SA development perspectives in the forthcoming year

Next year the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market. Planning of new infrastructural projects (in particular in the roads segment) should allow the Company to win contracts in 2014 in the infrastructure segment. Besides, the Company also plans to win contracts in the facilities, energy and hydraulic engineering construction segments. In 2013, Budimex SA signed construction contracts for a total value of PLN 2 910 million (without appendices). The structure of the order portfolio as at 31 December 2013 amounted to PLN 4 209 million.

The structure of the order portfolio as at 31 December 2013 is as follows:



2.6 Evaluation of investment projects feasibility

In 2014, Budimex SA plans to incur capital expenditure of approximately PLN 13 million. The outlays will be made mainly on construction machines and IT solutions.

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

2.7 Risk factors

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

The inherent risk of any business activity is the credit risk of business partners. Despite implementing restrictive debt control procedures in 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 write-downs be recognised or that current business be financed through external borrowings.

Information concerning the financial risk management objectives and policies adopted by the Company is presented in the consolidated financial statements for the year ended 31 December 2013 (note 1b of the Additional notes and explanations).

Construction contracts are executed under specific technical and economic conditions which have effect on the level of realised margin. The Company monitors technical, organisational, legal and financial risks related to the planning and progress of contract work. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors occur that will cause that contracts will be performed with lower margins than initially planned. Such factors may include:

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

2.8 Procurement source changes

In 2013, there were no significant changes in the sources of supplies for construction sites. None of the suppliers of raw materials or services exceeded 10 per cent of the Company's sales.

3 Financial Position**3.1 Key economic and financial data of the Company**

The financial situation of the Company in 2013 is characterised by selected financial and economic data disclosed in the Balance Sheet and the Profit and Loss Account (broken down below together with the 2012 comparative data).

Balance sheet of Budimex SA

The main items of the Balance Sheet the Company as at 31 December 2013, compared to 31 December 2012, are presented in the table below:

BALANCE SHEET	31.12.2013	31.12.2012	Change	Change %
I. Non-current assets	1 169 494	1 256 112	(86 618)	-6.90%
1. Intangible assets	3 739	2 996	743	24.80%
2. Property, plant and equipment	62 713	84 079	(21 366)	-25.41%
3. Long-term receivables	-	-	-	-
4. Long-term investments	739 163	811 856	(72 693)	-8.95%
5. Long-term prepayments	363 879	357 181	6 698	1.88%

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BALANCE SHEET	31.12.2013	31.12.2012	Change	Change %
II. Current assets	2 115 965	1 820 607	295 358	16.22%
1. Inventories	105 648	143 580	(37 932)	-26.42%
2. Short-term receivables	502 263	402 875	99 388	24.67%
3. Short-term investments	1 357 793	1 043 008	314 785	30.18%
4. Short-term prepayments	150 261	231 144	(80 883)	-34.99%
Total assets	3 285 459	3 076 719	208 740	6.78%
I. Shareholders' equity	573 950	380 769	193 181	50.73%
II. Liabilities and provisions for liabilities	2 711 509	2 695 950	15 559	0.58%
1. Provisions for liabilities	280 863	280 312	551	0.20%
2. Long-term liabilities	17 044	27 740	(10 696)	-38.56%
3. Short-term liabilities	1 505 618	1 615 954	(110 336)	-6.83%
4. Accruals	907 984	771 944	136 040	17.62%
Total liabilities	3 285 459	3 076 719	208 740	6.78%

As at 31 December 2013, the total assets increased by PLN 208 740 thousand compared to 31 December 2012, and amounted to PLN 3 285 459 thousand. Changes in the balance sheet were mainly related to the following events:

Non-current assets:

Non-current assets decreased by PLN 86 618 thousand, which was mainly a result of the following events:

- decrease of long-term investments by the amount of PLN 72 693 thousand connected in particular with making a write-down for the value of shares of Budimex Nieruchomości Sp. z o.o. in the amount of PLN 54 913 thousand in relation to lower fair value agreed using the method of discounted cash flow in the income approach, besides the Company transferred the value of shares in Budimex B Sp. z o.o. in the amount of PLN 20 779 thousand to the short-term financial assets; these shares were received in exchange for the shares in Budimex Danwood Sp. z o.o. and subsequently were designated for redemption, based on resolution of Budimex B Sp. z o.o. Management Board (which is described in detail in item 7 of the Additional notes and explanations to the financial statements),
- decreased of non-current assets by PLN 21 366 thousand,
- increase of long-term prepayments by the amount of PLN 6 698 thousand, which was mainly caused by an increase of assets due to deferred tax in the amount of PLN 6 402 thousand.

Current assets:

In the same period, current assets increased by PLN 295,358 thousand, which was mainly a result of the following events:

- increase of short-term investments by the amount of PLN 314 785 thousand, mainly as a result of reclassification of the shares of Budimex B Sp. z o.o. in the amount of PLN 20 779 thousand from long-term investments and recognising revaluation of shares designated for redemption to the market value in the amount of PLN 217 821 thousand. At the same time, the balance of cash and cash equivalents increased by PLN 74 452 thousand,
- increase of prepayments by the amount of PLN 99 388 thousand, mainly as a result of increase of the current trade receivables,
- decrease of short-term prepayments by the amount of PLN 80 883 thousand, mainly as a result of decrease of recognised sales adjustment over the invoiced sales in comparison to the previous year, in relation to estimation of long-term contracts in accordance with their advancement level,
- decrease of inventories by the amount of PLN 37 932 thousand, mainly as a result of decreased amount of materials in the warehouses by the amount of PLN 31 852 thousand and the balance of advances made for deliveries by the amount of PLN 3 989 thousand.

Liabilities:

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

- increase of the balance of accruals by the amount of PLN 136 040 thousand, mainly caused by an increase of adjustment of sales due to estimation of long-term contracts by the amount of PLN 158 099 thousand and decrease of provision for contract losses by the amount of PLN 19 387 thousand,

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- decrease of the balance of short-term liabilities by the amount of PLN 110 336 thousand, mainly as a result of decrease of current trade liabilities by the amount of PLN 145 378 thousand, decrease of liabilities due to consortium settlements by the amount of PLN 8 181 thousand and increase of liabilities due to taxes, customs, insurances and other benefits by the amount of PLN 42 810 thousand,
- decrease of non-current liabilities due to finance leasing by PLN 10 696 thousand.

Profit and Loss Account of Budimex SA

PROFIT AND LOSS ACCOUNT	01.01 - 31.12.2013	01.01 - 31.12.2012	Change	Change %
I. Net sales of finished goods, goods for resale and materials	4 000 891	5 232 591	(1 231 700)	-23.54%
II. Costs of finished goods, goods for resale and raw materials sold	3 711 091	4 846 798	(1 135 707)	-23.43%
III. Gross profit (loss) on sale	289 800	385 793	(95 993)	-24.88%
IV. Selling expenses	10 625	11 024	(399)	-3.62%
V. Administrative expenses	145 933	162 206	(16 273)	-10.03%
VI. Profit (loss) on sales	133 242	212 563	(79 321)	-37.32%
VII. Other operating income	30 951	55 789	(24 838)	-44.52%
VIII. Other operating expenses	41 336	74 015	(32 679)	-44.15%
IX. Profit (loss) from operating activities	122 857	194 337	(71 480)	-36.78%
X. Financial income	281 048	86 282	194 766	225.73%
XI. Finance costs	73 778	135 372	(61 594)	-45.50%
XII. Profit (loss) on operating activities	330 127	145 247	184 880	127.29%
XIII. Results of extraordinary activities	-	-	-	-
XIV. Gross profit (loss)	330 127	145 247	184 880	127.29%
XV. Income tax	27 528	32 998	(5 470)	-16.58%
XVI. Net profit (loss)	302 599	112 249	190 350	169.58%

Within the twelve-months period of 2013, Budimex SA earned revenue from sales in the amount of PLN 4 000 891 thousand, while in 2012 it amounted to PLN 5 232 591 thousand. Decrease of Budimex revenue was consistent with limitation of the scale of performed investments, in particular regarding construction of roads and highways.

Gross profit on sales in 2013 was PLN 289 800 thousand, while in the prior year – PLN 385 793 thousand. The gross sales profitability ratio for 2013 was therefore 7.24 per cent and was similar to 2012 – 7.37 per cent.

Pursuant to the adopted accounting principles, the Company creates provision for contract losses if the budgeted costs exceed the total revenues under the agreement. In the subsequent periods, a part of the earlier created provision is reversed in proportion to the percentage of contract completion, after taking into account a total negative margin on the entire contract. As at 31 December 2012, the balance of the provision for contract losses amounted to PLN 228 412 thousand. In the twelve-months period ended 31 December 2013, the balance of the provision for contract losses was reduced by PLN 19 387 thousand.

The costs of sales in 2013 decreased by PLN 399 thousand in comparison to the previous year, while the general administrative expenses decreased by PLN 16 273 thousand. The share ratio of those expenses in the general sales amounted to 3.91 per cent in 2013 and 3.31 in 2012.

Other operating revenues in the twelve-month period of 2013 amounted to PLN 30 951 thousand. That amount comprised mainly the received compensations and liquidated damages in the amount of PLN 18 725 thousand, revenue due to reversal of receivables write-downs in the amount of PLN 2 790 and a deduction of overdue liabilities in the amount of PLN 2 496 thousand. At the same time, the Company dissolved provisions for legal proceedings and expected liabilities in the total amount of PLN 4 760 thousand.

Other operating expenses in the twelve-month period ended 31 December 2013 amounted to PLN 41 336 thousand, of which PLN 16 622 thousand related to the value of created provision for litigation and expected contractual liabilities, while the compensations and contractual penalties paid amounted to PLN 9 877 thousand. Besides, the Company made write-downs for receivables in the amount of PLN 12 498 thousand.

In the twelve-months period of 2013 the Company earned positive financial result amounting to PLN 207 270 thousand, while in the previous year the loss on finance activities amounted to PLN 49 090 thousand. Such result

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

was mainly affected by profits due to revaluation of investments in the amount of PLN 214 363 thousand in relation to estimation of the shares of Budimex B Sp. z o.o. to the market value, as well as costs due to write-down concerning the shares of Budimex Nieruchomości Sp. z o.o. in the amount of PLN 54 913 thousand in relation to loss of value by those shares. Simultaneously, in 2013 the Company received dividends in the amount of PLN 45 414 thousand.

Gross profit for 2013 amounted to PLN 330 127 thousand.

Income tax for 12 months of 2013 amounted to PLN 27 528 thousand, including:

- current tax – PLN 54 605 thousand,
- deferred tax – PLN (27 077) thousand.

In 2013, Budimex SA earned the net profit in the amount of PLN 302 599 thousand.

Cash flow statement

The balance of cash in bank accounts and at hand at the beginning of 2013 amounted to PLN 1 041 548 thousand. Net cash flow in the twelve-month period of 2013 was positive and amounted to PLN 74 552 thousand. After inclusion of negative change of exchange differences on evaluation of cash and cash equivalents in the amount of PLN 100 thousand, the balance of cash and cash equivalents as at 31 December 2013 amounted to PLN 1 116 000 thousand.

In 2013, the balance of cash from operating activities increased by PLN 162 440 thousand.

The balance of cash from investment activities of the Company increased by PLN 35 219 thousand. This amount was mainly affected by revenue due to dividends in the amount of PLN 45 409 thousand and expenses due to increases of capitals of affiliated entities in the amount of PLN 11 589 thousand. Cash flow from financing activities for 2013 showed a negative balance which amounted to PLN 123 107 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 112 077 thousand and repayment of liabilities due to finance leasing together with interest in the amount of PLN 11 030 thousand.

3.2 Managing of finance at the Company

The cash balance of Budimex SA as at 31 December 2013 amounted to PLN 1 116 000 thousand and was by PLN 74 452 thousand higher than as at 31 December 2012. In 2013, Budimex SA paid out a dividend in the amount of PLN 112 077 thousand, being a similar amount to the Company's net profit for 2012 (PLN 112 249 thousand). At the same time, the Company received dividends from the subsidiaries in the total amount of PLN 45 409 thousand and a return of contribution to the capital in the amount of PLN 10 000 thousand from Budimex Danwood Sp. z o.o. Generating cash assets at the above level was possible owing to positive profitability maintained by the Company in 2013 as well as to sustained favourable tendencies in working capital which took place in the second half of 2013.

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

The Company's indebtedness due to loans, other borrowings and the concluded finance leasing agreements is presented in the table below. The indebtedness as at 31 December 2013 decreased in relation to gradual repayment of the liabilities due to finance leasing and the fact that the Company did not incur other liabilities due to loans, other borrowings and leasing in 2013. The major part of indebtedness comprises the Company's liabilities due to finance leasing in respect of machines and equipment required to carry out road construction projects.

in PLN thousand

Financial liabilities	31.12.2013	31.12.2012
Long-term loans, borrowings and other external sources of finance	17 044	27 740
Short-term loans, borrowings and other external sources of finance	18 165	17 695
Total liabilities due to bank loans and borrowings and other external sources of finance	35 209	45 435

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At the turn of 2012 and 2013, the Company concluded the agreements on the promised short-term loans in the current accounts with the banks for the total amount of PLN 225 000 thousand (see item 4.4) in order to ensure additional sources of short-term liquidity during the year, when the engagement of cash in current assets usually increases together with decrease of the cash balance in the Company. The above loans were not used by the Company. The Company is planning to maintain the total amount of available short-term loans at the level similar to 2013.

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

Ratio	31.12.2013	31.12.2012
equity to assets ratio: <i>(shareholders' equity) / (total assets)</i>	0.17	0.12
equity to non-current assets ratio: <i>(shareholders' equity) / (non-current assets)</i>	0.49	0.30
debt ratio: <i>(total assets - shareholders' equity) / (total assets)</i>	0.83	0.88
assets to equity ratio: <i>(total assets - shareholders' equity) / (shareholders' equity)</i>	4.72	7.08

In 2013, all elements reflecting the Company's capital structure significantly improved. The equity to assets ratios increased and the indebtedness ratios decreased. It was related to a significant increase of the Company's net profit and therefore a significant increase of equity capitals.

Ratio	31.12.2013	31.12.2012
current ratio <i>(current assets) / (short-term liabilities and reserves + short-term accruals of costs and revenues)</i>	0.84	0.73
quick ratio <i>(current assets - inventories) / (short-term liabilities and reserves + short-term accruals of costs and revenues)</i>	0.80	0.67

The value of liquidity ratios increased as well. The Company's situation with respect to liquidity and access to external sources of financing is presently very good and there are no risks for financing of the Company's activities in 2014.

3.3 Off-balance sheet items at Budimex SA

Guarantees, sureties, other liabilities and contingent liabilities:

OFF-BALANCE SHEET ITEMS	31.12.2013	31.12.2012
Contingent receivables	353 267	347 223
From affiliated entities, of which:	12 765	4 208
- guarantees and sureties received	800	2 372
- promissory notes received as security	1 092	1 836
- other contingent receivables	10 793	-
From other entities, of which:	340 502	340 015
- guarantees and sureties received	338 524	338 497
- promissory notes received as security	1 978	1 518
Other	-	3 000
- other contingent receivables	-	3 000
Contingent liabilities	1 493 231	1 466 852
To affiliated entities, of which:	138 657	126 333
- guarantees and sureties issued	138 657	126 333
- promissory notes issued as security	-	-
To other entities, of which:	1 354 574	1 340 519
- guarantees and sureties issued	1 348 669	1 336 014
- promissory notes issued as security	5 905	4 505
Other contingent liabilities, of which:	143 180	143 180
- other off-balance-sheet liabilities	143 180	143 180
Total off-balance sheet items	(1 283 144)	(1 262 809)

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

Contingent liabilities arising from guarantees and sureties represent guarantees issued by banks to business partners of Budimex SA to secure their claims against the Company that may arise on the grounds of executed construction contracts. The banks are entitled to reverse claims against Budimex SA.

Other contingent liabilities include among others voluntary acceptance of enforcement constituting a security of payment up to the amount of PLN 135 010 thousand, due and payable in the case of improper performance of obligations by Budimex SA under the acquisition agreement concerning shares of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.

The table below shows loan guarantees and sureties issued by Budimex SA as at 31 December 2013:

Name of the company granting a surety for loans or borrowing or granting a guarantee	Name of the (company) entity was granted a surety or guarantee	Total amount of loans or borrowings, which were secured, in whole or in part, to the extent specified (PLN thousand)	Term for which sureties or guarantees were granted	Financial terms on which a surety or guarantee was granted	The nature of the relationship existing between BUDIMEX SA and the entity that incurred the loan or borrowing
Budimex SA	Mostostal Kraków SA	78 656	2018-11-13	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości SA	17 088	2017-07-15	free of charge	subsidiary
Budimex SA	Budimex Parking Wrocław Sp. z o.o.	2 059	2017-08-31	free of charge	subsidiary
Budimex SA	Budimex Bau GmbH	116	2015-06-30	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	38 435	2020-02-12	free of charge	subsidiary
Budimex SA	FBSerwis SA	2 303	2020-10-30	free of charge	associate
TOTAL		138 657			

3.4 Differences between forecast and actual financial results of the Budimex SA

Budimex SA did not publish any financial forecasts for 2013.

3.5 Utilisation of proceeds from issues of securities

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

4 Significant agreements

4.1 Insurance agreements covering Budimex SA

In 2013, the Budimex Group (including Budimex SA) was a party to the following General Insurance Agreements:

- General Insurance Coverage for All Construction & Assembly Risks

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

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

This agreement was concluded for the period from 5 July 2012 to 4 July 2014.

- General Third Party Liability (TPL) Agreement

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

Subject to the insurance coverage is the out-of-contract third party liability in tort of the Insured in respect of assets used to conduct business activities with insurance coverage and construction services rendered against life and non-life (material) losses caused to third parties. The sum insured was set at PLN 30 million for one

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and all events in each of the insurance settlement periods. This agreement provides for the extension of the basic insurance coverage together with sub-limits of the sum insured.

This agreement was concluded for the period from 5 July 2012 to 4 July 2014.

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

The insurer is Chartis Europe SA Branch in Poland.

Subject to the insurance coverage is the out-of-contract third party liability in tort of the Insured in respect of assets used to conduct business activities with insurance coverage and construction services rendered against life and non-life (material) losses caused to third parties. The sum insured was set at PLN 70 million for one and all events in each of the insurance settlement periods. This agreement provides for the extension of the basic insurance coverage together with sub-limits of the sum insured.

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

This agreement was concluded for the period from 21 July 2012 to 4 July 2014.

- General All-Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a defined period of time i.e. from 15 November 2013 to 14 November 2014. The Insurer is TU Allianz Polska SA. Subject to the insurance coverage are construction machines and equipment which are owned by Budimex SA and which are subject to lease agreements. The insurance coverage comprises all risks of physical loss or damage of assets, except for damage resulting from losses incurred during or in connection with the transport, loading, unloading, assembly or disassembly of the machine.

- Other significant insurance agreements:

In 2013, an extension was signed to the agreement with AIG concerning TPL insurance for Management and Supervisory Boards Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 June 2013 to 21 June 2014. The insurance coverage covers Members of Management and Supervisory Boards and authorised commercial representatives of the Budimex Group companies and of their subsidiaries. This insurance constitutes a part of the global insurance programme for the Ferrovial Group.

4.2 Cooperation agreements binding in 2013

Cooperation agreements concluded in 2013:

in PLN thousand gross

	Supplier	Scope of the agreement	Annual value	Agreement date
1	Lotos Asphalt Sp. z o.o.	road asphalts	89 877	20.02.2013
2	Orlen Asphalt Sp. z o.o.	road asphalts	61 274	13.02.2013
3	ThyssenKrupp Energostal SA	steel reinforcements, metallurgical products	28 179	04.02.2013
4	Kopalnia Granitu Kamienna Góra Sp. z o.o.	aggregates	23 162	01.02.2013
5	Pol-Miedź Trans Sp. z o.o.	aggregate transport	14 144	01.02.2013
6	ZPK Rupińscy Sp.j.	aggregates	13 567	15.01.2013
7	Górazdże Beton Sp. z o.o.	concrete	9 128	12.03.2013
8	CMC Poland Sp. z o.o.	steel reinforcements, reinforcement bars	7 950	14.10.2013

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

Cooperation agreements concluded by the Budimex Group before 2013 and effective in 2013:

in PLN thousand gross

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

	Supplier	Scope of the agreement	Annual value	Agreement date
1	Lafarge Kruszywa i Beton Sp. z o.o.	aggregates, concrete	79 485	01.06.2010
2	Cemex Polska Sp. z o.o.	aggregates, cement, concrete	34 396	23.11.2006 01.04.2009 06.12.2011
3	Stalprodukt SA	road and bridge rails	33 762	01.03.2010 18.06.2007
4	ArcelorMittal Distribution Solutions Polska Sp. z o.o.	steel reinforcements, reinforced steel	25 452	24.05.2011
5	Lotos Paliwa Sp. z o.o.	fuel oil	21 059	14.02.2005
6	Mal-Sped Sp. z o.o.	mazut	18 967	01.06.2010
7	Konsorcjum Stali Sp. z o.o.	steel reinforcements, reinforced steel	17 468	01.03.2012
8	Francisco Ros Casares Polska Sp. z o.o.	steel reinforcements, reinforced steel	13 340	02.12.2009
9	Peri Polska Sp. z o.o.	lease of casings	12 784	17.03.2006
10	Kopalnie Dolomitu w Sandomierzu SA	aggregates	12 198	10.01.2012
11	Bowim SA	steel reinforcements, reinforced steel	11 243	14.07.2009
12	Nordkalk Sp. z o.o.	aggregates	10 182	23.07.2010
13	Mineral Polska Sp. z o.o.	aggregates	9 056	29.06.2012
14	Libet SA	concrete prefabricates (cobble, edging)	8 777	11.05.2008
15	Hobas System Polska Sp. z o.o.	pipes, plastics wells	7 915	08.08.2012

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

4.3 Transactions with affiliated entities

Detailed information on transactions with affiliated entities is presented in items 7 and 8 of the Additional Notes and Explanations of the Company's financial statements.

4.4 Loans and borrowings

As at 31 December 2013, Budimex SA had the following loans and borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Bank Handlowy w Warszawie SA	Overdraft facility	24.01.2013	PLN 50 000	-	1M WIBOR + margin	05.02.2014
ING Bank Śląski SA	Overdraft facility	18.02.2013	PLN 25 000	-	1M WIBOR + margin	18.02.2014
Bank Zachodni WBK SA	Overdraft facility	04.03.2013	PLN 50 000	-	1M WIBOR + margin	03.03.2014
Bank PEKAO SA	Overdraft facility	16.04.2013	PLN 50 000	-	1M WIBOR + margin	30.06.2014
Societe Generale SA Branch in Poland	Overdraft facility	10.12.2013	PLN 50 000	-	1M WIBOR + margin	09.12.2014
Cintra Infraestructuras SA	Loan	01.12.2004	EUR 2 007	EUR 2 009	EURIBOR 12M + margin	01.12.2014
Millennium Leasing Sp. z o. o.	Finance lease (61 agreements in total)	-	-	PLN 28 187	1M WIBOR + margin	30.11.2015 - 30.06.2017
Konica Minolta	Finance lease	16.02.2012	-	PLN 852	fixed, as provided in the agreement	monthly

4.5 Information about loans granted during the accounting year, including in particular loans granted to to affiliated entities of the Issuer

On **20 June 2013**, the first tranche of the long-term loan in the amount of PLN 1 000 thousand was paid. The loan was granted by Budimex SA to Budimex Parking Wrocław Sp. z o.o (a subsidiary of Budimex SA) under the loan agreement dated 19 December 2012. Pursuant to the agreement, the loan interest was agreed as 1M WIBOR + margin. Next tranches of the loan will be available for the borrower until 30 April 2014 and the repayment period is 20 years. On **25 July 2013** and **26 August 2013**, the second and the third tranche of the long-term loan were availed, in the amount of PLN 600 thousand and PLN 200 thousand, as appropriate.

On **24 September 2013**, Budimex SA concluded a loan agreement with the company FBSerwis SA (an associate of Budimex SA) and provided FBSerwis with a loan in the amount of up to PLN 19 600 thousand. Pursuant to the agreement, the loan interest was agreed as 1M WIBOR + margin. First tranche of the loan in the amount of PLN 3 111 thousand was paid on 30 September 2013.

On **1 December 2013**, the agreement concerning a loan granted in 2004 to Budimex SA by Ferrovial Infraestructuras SA (currently Cintra Infraestructuras SA) was extended, and the interest due for the period from 1 December 2012 was capitalised. Therefore, the amount of the loan increased to EUR 2,007 thousand. The loan repayment date is 1 December 2014.

5 Other information

5.1 Agreements between the Issuer and Management Board Members

Members of the Management Board of Budimex SA, in connection with the work performed and position occupied on the Management Board, are employed at either Budimex SA or at subsidiary companies where they receive remuneration based on an employment contract concluded for a fixed term of office, with a 2-week termination notice. In addition, the employment contracts provide for severance pay in the amount of 6-12 average monthly salaries, 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 after the date of termination of the employment contract. During the period of validity of the non-competition clause, the Company will pay the employee 75 per cent of his basic monthly remuneration, if the termination of the employment contract was initiated by the Company, or 25 per cent of the basic monthly remuneration, if the termination was initiated by the employee. Contractual penalties have been established for the breach of the non-competition clause. Non-competition agreements have been concluded with all Management Board members.

Information on the remuneration of Members of the Management Board was presented in note 12 of Additional notes and explanations to the financial statements.

5.2 Information about the shareholding in the Parent Company and affiliated entities held by Members of the Management and Supervisory Boards of Budimex SA

As at 31 December 2013, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2013, Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 3 900 shares

As at 31 December 2013, members of the Management and Supervisory Boards of Budimex SA did not hold any shares in the Company's related entities.

5.3 Acquisition of own shares

In 2013, Budimex SA did not acquire its own shares.

5.4 System of control over employee share incentive programs

The Company did not operate an employee share incentive scheme.

5.5 Information about agreements acknowledged by the Company (including post-balance sheet date agreements) with a possible future effect on the current ownership structure

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

5.6 Entity authorised to audit financial statements

The Supervisory Board of Budimex SA resolved on 24 April 2013 to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. to review the Company's mid-year financial statements and consolidated financial statements of the Budimex Group for the 6-month period of 2013, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2013. The contracts with Deloitte Polska for the review and audit of financial statements were concluded on 5 July 2013 and 10 October 2013, respectively.

The remuneration for the statutory audit of separate and consolidated financial statements amounted to PLN 454 thousand, the remuneration for review of the mid-year separate and consolidated financial statements and other assurance services amounted to PLN 155 thousand, the remuneration for tax consulting amounted to PLN 36 thousand and the remuneration for other services amounted to PLN 96 thousand.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. also reviewed the mid-year separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the 6-month period of 2012 and audited the separate financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial year 2012.

The remuneration for the statutory audit of separate and consolidated financial statements amounted to PLN 444 thousand, the remuneration for review of the mid-year separate and consolidated financial statements and other assurance services amounted to PLN 235 thousand.

6 Corporate governance

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

In 2013, the Company applied the "Best Practices of WSE Listed Companies" adopted by the resolution of the WSE Supervisory Board dated 4 July 2007, as amended, while further suspending the application of Policy No. 10 point 2 and 3 of Section IV "Best Practices Applied by Shareholders" (current report in this matter was filed on 8 March 2011).

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

In relation to another amendment introduced by the Resolution No. 19/1307/2012 of 21 November 2012, the Supervisory Board of WSE adopted further amendments of the policies of 4 July 2007.

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

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

The decision in this matter was taken following an analysis covering the matters relating to both technical and legal threats to the correct and efficient execution of the General Meeting of Shareholders, whilst considering the number of shareholders who usually participate in the General Meeting of Shareholders of the Company. The

Company will start to apply Policy No. 12 in Section I and Policy No. 10 point 2 in Section IV of the "Best Practices of WSE Listed Companies" in full as soon as it clears all doubts regarding functioning in practice of the new regulations concerning the two-way real-time communication process, during which the shareholders can "take the floor" during the General Meeting of Shareholders 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 Meeting of Shareholders using electronic means of communication.

In the above Resolution No. 18 of 20 December 2012, the Management Board recommended that the Company's Supervisory Board adopted a resolution regarding the application by the Supervisory Board of the "Best Practices of WSE Listed Companies" to the extent adopted by the Management Board.

While following the application and recommendation of the Management Board, on 26 March 2013, by resolution No. 204, the Supervisory Board of the Company adopted the "Best Practices of WSE Listed Companies" to be applied from 1 January 2013, in the wording introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012, save for providing the shareholders with:

- the option to exercise voting rights in person or through an authorised legal representative during the course of the general meeting, outside of the place of the general meeting, using electronic means of communication,
- two-way real-time communication during which shareholders can take the floor during the General Meeting of Shareholders while being in a place other than the place of the meeting.

Upon request of the Management Board, by Resolution No. 206 of 26 March 2013, the Supervisory Board of the Company applied to the Ordinary General Meeting of Shareholders to adopt the resolution on observing the "Best Practices of WSE Listed Companies" in the wording introduced by Resolution No. 19/1307/2012 of the WSE Supervisory Board of 21 November 2012, save for the elements specified in the Resolution No. 204 of the Supervisory Board of the Company.

In 2013, the Ordinary General Meeting of Shareholders of the Company, by Resolution NO. 201 of 24 April 2013, adopted for use the "Best Practices of WSE Listed Companies" in their new wording, within the scope suggested by the Management Board and the Supervisory Board.

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

Under Policy No. 9 Section I of the "Best Practices of WSE Listed Companies" (Recommendations concerning best practices of public companies) concerning the balanced share of males and females performing management and supervisory functions, the Company reported that in 2013 the Company's Management Board was composed of six males.

The Supervisory Board was composed of one female and eight males throughout 2013.

Given the fact that the bodies authorising the composition of the Management and Supervisory Boards are, as appropriate, the Supervisory Board and the General Meeting of Shareholders, and that the new wording of best practice policies was authorised for use based on the Resolution of the Supervisory Board and based on the Resolution of the General Meeting of Shareholders, it is reasonable to conclude that this Policy will be a significant criterion in taking decisions by the said bodies of the Company.

6.2 Key features of the Company's internal control and risk management systems with respect to the process of the preparation of the financial statements of Budimex SA

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

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

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

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

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

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

Additionally, in 2013, the controls concerning the process of financial reporting were subject to analysis from the point of view of effectiveness and completeness conducted by independent experts.

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

Annual financial statements are subject to an audit by an independent certified auditor who presents post-audit conclusions and observations to the Audit Committee and then to the Supervisory Board.

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

According to the information available to Budimex SA, the shareholding structure of the Company as at 31 December 2013 was as follows:

Shareholder	Type of shares	Number of shares	% share in the share capital	Number of votes	% share in the number of votes at the GMS
Valivala Holdings B.V. Amsterdam (Holland) - a Ferrovial SA Group (Spain) company	ordinary	15 078 159	59.06%	15 078 159	59.06%
OFE PZU "Złota Jesień"	ordinary	2 253 988	8.83%	2 253 988	8.83%
Aviva OFE Aviva BZ WBK	ordinary	1 304 851	5.11%	1 304 851	5.11%
Other shareholders	ordinary	6 893 100	27.00%	6 893 100	27.00%
Total		25 530 098	100.00%	25 530 098	100.00%

On 25 February 2014, the shareholder OFE PZU "Złota Jesień" announced that as a result of selling the shares of Budimex SA, it decreased the number of shares held to 1 213 075, which constitutes 4.75 per cent share in the share capital and 4.75 per cent share in the number of votes at the GMS.

6.4 Holders of all securities which confer special control rights

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

6.5 Restrictions on exercising voting rights

There are no restrictions concerning exercising voting rights.

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

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

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

The Supervisory Board removes and appoints President of the Management Board and, upon his/her request, the Vice-Presidents of the Management Board or other Board Members for a joint three-year term of office.

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

The policies concerning the appointment and removal of Management Board Members, the rights of those persons, in particular the right to take decision to issue or redeem shares, included in the Articles of Association did not change in 2013.

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 the share issue price in case of a share capital increase,
- cancelling or limiting the pre-emptive right to newly issued shares upon approval by the Supervisory Board,
- defining the method of determining the share issue price or issuing shares in exchange for non-monetary contribution upon approval by the Supervisory Board,
- taking decision on the purchase or disposal of property, perpetual usufruct or share in property, machines and equipment, securities or other asset items where the unit price on acquisition or disposal does not exceed 1/5th of the Company's share capital,
- taking decision on the prepayment of year-end dividend upon 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 Meeting of Shareholders and entry in the National Court Register. These issues are regulated in par. 13 letter r) of the Articles of Association in the description of the rights of the General Meeting of Shareholders and in par. 17 section 1 letter l) of the By-laws of the General Meeting of Shareholders. Prior to taking a resolution on amending the Company's Articles of Association, a draft of such resolution should be forwarded by the Management Board to the Supervisory Board for approval. In accordance with the provisions of the Code of Commercial Companies, such resolution should be adopted with a qualified majority of votes, i.e. (i) as a rule, 3/4th of the total voting rights, and (ii) in the case of significant change to business activities - 2/3rd of votes.

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

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

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

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

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

The General Meeting of Shareholders of the Company is convened by way of posting an announcement on the Company's website and in the manner reserved for forwarding current information, in accordance with the provisions of the Act on the Public Offering and the Terms and Conditions of Introducing Financial Instruments to an Organized System of Trading and on Public Companies. The announcement should be made at least twenty-six days before the scheduled date of the General Meeting of Shareholders.

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

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

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

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

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

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

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

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

a) Composition of the Management Board

As at 31 December 2013, the Management Board of Budimex SA was composed of the following persons:

- Dariusz Blocher President of the Management Board, General Director
- Ignacio Botella Rodríguez Vice-president of the Management Board
- Jacek Daniewski Member of the Management Board, Legal and Organisational Director
- Andrzej Artur Czynczyk Member of the Management Board, Human Resources Director
- Henryk Urbański Member of the Management Board, Real Property Management Director
- Marcin Węglowski Member of the Management Board, Chief Financial Officer

From 1 January 2013 to 31 December 2013, there were no changes in the composition of the Management Board.

As at 31 December 2013, joint authorisations to represent the Company together with a member of the Management Board of Budimex SA were granted to the following persons:

- Jose Emilio Pont Pérez
- Jaime Rontome Pérez.

From 1 January 2013 to 31 December 2013, there were no changes in authorised legal representatives.

During 2013, policies concerning the appointment or removal of members of managing bodies as well as the rights of members of these bodies, including the right to take decision on share issuance or redemption, as provided in the Articles of Association, did not change.

b) Composition of the Supervisory Board and its Committees

As at 31 December 2013, the Supervisory Board of Budimex SA was composed of the following persons:

- Marek Michałowski Chairman
- Alejandro de la Joya Ruiz de Velasco Deputy Chairman
- Tomasz Sielicki Secretary
- and the following members:
- Marzenna Anna Weresa
- Igor Chalupiec
- José Carlos Garrido-Lestache Rodríguez
- Javier Galindo Hernández
- Piotr Kamiński
- Maciej Stańczuk.

During the period from 1 January 2013 to 31 December 2013, the composition of the Supervisory Board did not change.

As at 31 December 2013, the Audit Committee was composed of the following persons:

- Marzenna Weresa – President,
- Javier Galindo Hernandez – Member,
- Jose Carlos Garrido - Lestache Rodríguez – Member.

The composition of the Audit Committee did not change in 2013.

As regards the independence of an Audit Committee member, provisions of the following apply: Article 56 section 3 point 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorized to Audit Financial Statements and Public Oversight, dated 7 May 2009, and criteria of independence with regard to the company and entities materially related to the company, within the meaning of the Best Practices of WSE Listed Companies (Policy 6 Section III Best Practices for Supervisory Board Members).

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

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by Board members and based on Article 56 section 3 point 1, 3 and 5 of the Act on Statutory Auditors and their Self-Governance, Audit Firms Authorized to Audit Financial Statements and Public Oversight, dated 7 May 2009.

The Investment Committee was composed of the following persons:

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

The composition of the Investment Committee did not change in 2013.

The Remuneration Committee was composed of the following persons:

- Marek Michałowski - president,
- Igor Chalupiec - member,
- Alejandro de la Joya Ruiz de Velasco - member.

The composition of the Remuneration Committee did not change in 2013.

c) Operation of the Management Board

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

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

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

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

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

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

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

d) Operation of the Supervisory Board

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

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

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

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

- assessment of the directors' report on the company's activities and evaluation of the financial statements for the previous year,
- evaluation of profit appropriation or loss absorption proposals made by the Management Board,

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

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

e) Tasks of the Audit Committee

The role of the Audit Committee is to: recommend to the Supervisory Board an entity authorised to serve as a certified auditor and to audit the financial statements of the Company and the consolidated financial statements of the Group for the previous year, monitor the process of preparation of the financial statements of the Company and the consolidated financial statements for the previous year, perform detailed reviews of the results of those audits at each audit stage, monitor the financial audit process, monitor the effectiveness of the internal control, internal audit and risk management systems, forward to the Supervisory Board conclusions and recommendations relating to the audit and assessment of the financial statements of the Company and of the consolidated financial statements for the previous year, to assess the Management Board's proposal concerning profit appropriation or loss absorption, forward to the Supervisory Board conclusions and recommendations concerning acknowledgement of the fulfilment of duties by the Chief Financial Officer, monitor the independence of the certified auditor and the entity authorized to audit financial statements, in this case – the independence of services referred to in article 48 par. 2 of the Act on Statutory Auditors and Their Self-Governance, Audit Firms Authorized to Audit Financial Statements and Public Oversight, dated 7 May 2009, perform other tasks commissioned by the Supervisory Board depending on the current situation at the Company, and submit interim and annual reports on its activities to the Supervisory Board.

f) Tasks of the Investment Committee

The role of the Investment Committee is to provide opinions or approve decisions material for the Company from the point of view of the value of operations relating to: making investments or de-investments in non-financial assets, company incorporation or dissolution, making investments or de-investments or issuing financial assets, Budimex Group company mergers, divisions or transformations, carrying out financial operations, establishing special purpose vehicles (SPVs) to perform works or to render services based on the terms and conditions other

than those prevailing in the consortium agreements concluded by Budimex Group, preliminary agreements and non-binding initial offers, development projects and significant contracts with related entities.

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

g) Tasks of the Remuneration Committee

The tasks of the Remuneration Committee comprise:

- submitting for approval by the Supervisory Board, proposals concerning remunerating Management Board Members, especially in the form of fixed remuneration, performance-based remuneration, retirement benefit scheme and retirement benefit and long-term incentive programs, together with recommendations concerning objectives and assessment criteria for appropriate adjustment of remuneration of Management Board Members to long-term shareholder interests and the Company's objectives defined by the Supervisory Board; providing the Supervisory Board with proposals concerning remuneration of individual Management Board Members and ensuring that the remuneration proposed is consistent with the remuneration regulations adopted by the Company and assessment of work performance of individual Board Members; providing the Supervisory Board with proposals concerning the appropriate form of employment contracts for individual Board Members; providing the Supervisory Board with proposals concerning bonus ratios, their weight for Board members based on the budget for the given year; offering assistance to the Supervisory Board in supervising the process under which the Company fulfils binding regulations in the area of remuneration disclosure requirements (in particular in the area of remuneration of members of the Management Board); monitoring the level and structure of remuneration of Management Board members based on independent payroll reports, market ratios and submitting to the Supervisory Board appropriate underlying analyses and conclusions; providing opinions on the appointment and removal of members of Supervisory Boards at Budimex SA subsidiary companies, except for SPVs.
- accepting, at the request of the Management Board, the bonus ratio for employees of the Budimex SA head office to be used in calculation of previous 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 the remuneration policy for members of the Supervisory Board of Budimex SA is the General Meeting of Shareholders. On 19 May 2010, the General Meeting of Shareholders resolved that members of the Supervisory Board of Budimex SA would receive a monthly remuneration for their work in the following amounts:

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

Management Board Members

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

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

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

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

- fixed remuneration – basic monthly salary,
- performance-based remuneration (annual bonus) which is composed of the following elements: task-related bonus which is determined on the basis of annual assessment of task completion, and ratio-related bonus relating to the business activities of the Budimex Group,
- share incentive scheme of the Ferrovial Group called "Ferrovial's objective-related share incentive scheme" („Plan przyznania akcji związanych z celami Ferrovialu") which consists in conditional awarding of rights to acquire shares in the parent company. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares of the parent company. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in the following three years and on the eligible persons' remaining in the Management Board posts on the date of awarding the shares,
- additional "in-kind" benefits such as free-of-charge medical care, or payment of life insurance policy premiums.

Dariusz Blocher	President of the Management Board	.....	Henryk Urbański	Member of the Management Board	.....
Name and surname	Position	Signature	Name and surname	Position	Signature
Ignacio Botella Rodríguez	Vice-President of the Management Board	.....	Marcin Węglowski	Member of the Management Board	.....
Name and surname	Position	Signature	Name and surname	Position	Signature
Jacek Daniewski	Member of the Management Board	.....		
Name and surname	Position	Signature			
Andrzej Artur Czynczyk	Member of the Management Board	.....	Warsaw, 7 March 2014		
Name and surname	Position	Signature			