

**THE BUDIMEX GROUP**

**DIRECTORS' REPORT  
ON THE ACTIVITIES OF THE GROUP 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 increase successively and the dynamic of GDP accelerated significantly.

In 2012, the construction and assembly production slightly decreased (-1.1 per cent in comparison to 2011), but in 2013 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.

Expenditures by the key investor in the roads segment, the General Directorate for National Roads and Highways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA), decreased 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 per cent in 2012 to 52.1 per cent in 2013, mainly due to an increased share of non-residential construction (from 30.8 per cent to 34.7 per cent).

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 should amount to 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. 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. In accordance with the assumptions contained in the Multi-Year Railway Investment Plan until 2015, prepared by the Ministry of Transport, Construction and Maritime Economy, the expenditures of PKP PLK (the main investor in 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

## Directors' Report on the activities of the Budimex Group in the year 2013

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

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 BUDIMEX GROUP

### 2.1 The Group's organisational structure, consolidated entities and changes in Group organisation

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

The main area of business activity of the parent company 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.

In 2013, the following changes occurred in the structure of the Budimex Group:

**On 4 January 2013**, Budimex SA took over the control concerning Elektromontaż Poznań SA and its subsidiaries: Elektromontaż Warszawa SA, Elektromontaż Import Sp. z o.o. and Instal Polska Sp. z o.o. As at 31 December 2013, Budimex SA holds 50.66 per cent of the shares in Elektromontaż Poznań SA.

**On 1 March 2013**, Budimex SA – Budimex Budownictwo Sp. z o.o. Spółka Cywilna was established. Budimex SA holds 95 per cent of the shares in this company and Budimex Budownictwo Sp. z o.o. holds 5 per cent of the shares.

**On 17 September 2013**, Budimex SA brought a contribution in kind in the form of 100 per cent of shares in Budimex Danwood Sp. z o.o. as a coverage of the capital in Budimex B Sp. z o.o.

**On 30 October 2013**, Budimex SA Cadagua SA Spółka Cywilna was established. Budimex SA holds 50 per cent of the shares in this company.

**On 2 December 2013**, Budimex B Sp. z o.o. sold its shares in Budimex Danwood Sp. z o.o.

**On 6 December 2013**, Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. was entered in the National Court Register. SPV-BN 2 Sp. z o.o. holds 99 per cent of the shares in this company and Budimex Nieruchomości Sp. z o.o. holds 1 per cent of the shares.

In 2013, there were no changes in the management policies at the Budimex Group.

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

Company name	Registered office	Share in the share capital and the number of votes (%)		Consolidation method
		31 December 2013	31 December 2012	
Mostostal Kraków SA	Kraków / Poland	100.00 per cent	100.00 per cent	full
Budimex Danwood Sp. z o.o. <sup>1</sup>	Bielsk Podlaski / Poland	-	100.00 per cent	full
Budimex Bau GmbH	Cologne / Germany	100.00 per cent	100.00 per cent	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
SPV-BN 1 Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
SPV-BN 2 Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00 per cent	100.00 per cent	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
Budimex B Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	full
Elektromontaż Poznań SA	Poznań / Poland	50.66 per cent	30.78 per cent	full

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

Company name	Registered office	Share in the share capital and the number of votes (%)		Consolidation method
Elektromontaż Import Sp. z o.o.	Warsaw / Poland	50.66 per cent	30.78 per cent	full
Instal Polska Sp. z o.o.	Poznań / Poland	50.66 per cent	30.78 per cent	full
Elektromontaż Warszawa SA	Warsaw / Poland	50.66 per cent	30.78 per cent	full
Budimex SA – Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00 per cent	-	full
Budimex SA Ferrovial Agroman SA s.c.	Warsaw / Poland	99.98 per cent	99.98 per cent	proportionate
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00 per cent	67.00 per cent	proportionate
Budimex SA Ferrovial Agroman SA Sp. j.	Warsaw / Poland	50.00 per cent	50.00 per cent	proportionate
Budimex SA – Cadagua SA s.c.	Warsaw / Poland	50.00 per cent	-	proportionate
Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.	Warsaw / Poland	30.00 per cent	30.00 per cent	proportionate
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in bankruptcy open to arrangements	Warsaw / Poland	100.00 per cent <sup>2</sup>	100.00 per cent <sup>2</sup>	non-consolidated
Budimex Autostrada SA	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex Autostrada A-1 SA	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Dromex Oil Sp. z o.o. (in liquidation)	Warsaw / Poland	97.93 per cent	97.93 per cent	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex E Sp. z o.o.	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
Budimex PPP SA	Warsaw / Poland	100.00 per cent	100.00 per cent	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00 per cent	50.00 per cent	non-consolidated
MK Logistic Sp. z o.o. (in liquidation)	Zabrze / Poland	100.00 per cent	100.00 per cent	non-consolidated
Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o.	Warsaw / Poland	100.00 per cent	-	non-consolidated

<sup>1)</sup> the company was sold on 2 December 2013.

<sup>2)</sup> The company was acquired on 16 November 2011. The court declared bankruptcy of the company with an arrangement option on 13 September 2012. The Budimex Group lost control over the company on 30 November 2012 as a result of removing the company's own management board and appointing a court administrator.

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

As at 31 December 2013, the Group conducted business in the following two operating segments:

- construction business,
- development activities and property management.

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

- Budimex SA,
- Mostostal Kraków SA,
- Budimex Bau GmbH,
- Budimex Budownictwo Sp. z o.o.,
- Budimex Kolejnictwo SA,
- Tecpresa – Techniki Sprężania i Usługi Dodatkowe Sp. z o.o.
- Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. in bankruptcy open to arrangements (company purchased by Budimex SA on 16 November 2011. As a result of removing the company's own management on 30 November 2012, the Budimex Group lost control over the company and the company was excluded from consolidation as of that date).

Development and property management services comprise preparation of land for investment, execution of investment projects in the field of residential building, sale of apartments and rental and management of property on own account. Included in this operating segment are the following Group companies:

- Budimex Nieruchomości Sp. z o.o.
- SPV-BN 1 Sp. z o.o.
- SPV-BN 2 Sp. z o.o.
- Budimex SA in the part relating to the development business, as a result of a merger with Budimex Inwestycje Sp. z o.o. on 13 August 2009.

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

As at 31 December 2013, the Parent Company operated 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, at ul. Jana Długosza 2-6,
- Industrial and Railway Construction Branch in Warsaw, at ul. Stawki 40,
- Equipment Services Branch in Pruszków, at ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex SA Zweigniederlassung Köln, Pferdmenesstr. 5, Cologne.

Other Group companies conducted activities abroad through the following branch offices:

- Branch in Germany of Budimex Danwood Sp. z o.o. (company sold on 2 December 2013),
- Branch in Austria of Budimex Danwood Sp. z o.o. (company sold on 2 December 2013),
- Branch in the United Kingdom of Budimex Danwood Sp. z o.o. (company sold on 2 December 2013),
- Branch in Germany of Mostostal Kraków SA,
- Tax Representative Office in Estonia (Narva) of Mostostal Kraków SA.

### 2.3 Structure of sales revenue of the Budimex Group

#### Sales of the construction segment

In 2013, the construction market (measured by the value of sales of the construction and assembly production) decreased by 13.6 per cent in comparison to 2012. In the infrastructure sector, the adjustment was slightly higher and amounted to 18.6 per cent, while in the case of road investments (highways, expressways, streets and other roads) the decrease was significantly higher and amounted to 30.9 per cent because of strong limitation of expenses of the major investor, the General Directorate for National Roads and Highways (GDDKiA). The sector of facilities construction (residential and non-residential buildings) recognised negative dynamic at the level of 7.5 per cent.

In the discussed period, the value of sales in the construction segment of the Budimex Group was by 26.1 per cent lower when compared to 2012. Sales in the infrastructural construction segment decreased by 30.9 per cent, which was compliant with the general market trends, considering significant exposure of the Group to roads construction. In the case of facilities construction segment, the decrease reached the level of 18.0 per cent in comparison to 2012 and was a result of decreased value of orders received in 2012.

In 2013, a further decrease was recorded in sales in the infrastructure segment (from PLN 3 552 million in 2012 to PLN 2 456 million in 2013). However, the share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services decreased from 63 per cent in 2012 to 59 per cent in 2013.

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	2 456	59%	3 552	63%
Buildings, of which:	1 685	41%	2 054	37%
- non-residential buildings	1 485	36%	1 786	32%
- residential buildings	200	5%	268	5%
Total sales of construction and assembly services	4 141	100%	5 606	100%

#### Development activities

In 2013, sales of the development business amounted to PLN 225 225 thousand thus recording over 30 per cent decrease compared to the previous year. Sales revenues on development activities are recognised upon transfer of the ownership title to a flat/premises to buyer after the technical acceptance report has been signed for the entire building. Notary sales of the flats depends on the dates of completion of the construction projects and delivery of finished flats to the customers. It is not a seasonal phenomenon and cannot be compared annually.

As a result of the factors specified in pt. 1.1 (general characteristics of the market), in 2013 a significant revival could be observed on the entire development market. It was directly reflected in very high level of pre-booking sale of the flats. In the year 2013, 742 flats were sold in the pre-booking system, compared to 515 flats sold in the prior year.

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In order to ensure stability of the revenue from sales in the following years, in 2013 the development of more than 750 new flats was commenced in three development projects located in Warsaw, Kraków and Poznań. As at 31 December 2013, 1 071 flats were under construction. Simultaneously, the Group holds an extensive lands stock. Within the next few years, the Group plans its diversification by selling a part of the owned plots of land and purchasing new ones. Construction of over seven thousand of new flats is possible on the presently owned lands.

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

Contract date	Contract value allocated to the Budimex Group	Customer	Type of construction
2013-01-31	118 000	KGHM Polska Miedź SA	Development of the halls, electricity and energy facility, development of the HPA together with the structure for equipment and installations
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 ul. Sienna/Kolejowa in Warsaw - stage II
2013-04-08	36 503	Celowy Związek Gmin „PROEKO” 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	88 475	LEK SA	Development of the Production and Logistic Centre LEK SA in Stryków - 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
2013-10-08	37 584 + 1 521	Jagiellonian University in Kraków	Completion of construction and assembly works in Paderevianum UJ (contract No. 1) and construction, assembly and installation works in the building of Małopolskie Centrum Biotechnologii UJ (contract No. 2).
2013-11-28	44 469	Miejski Zakład Komunikacyjny w Toruniu Sp. z o.o.	Reconstruction of the tram trackage at the city line from Toruń Miasto junction to Al. Solidarności
2013-11-29	32 418	Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji in Warsaw	Technology modernisation in the Central Pipeline Facility, stage II

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

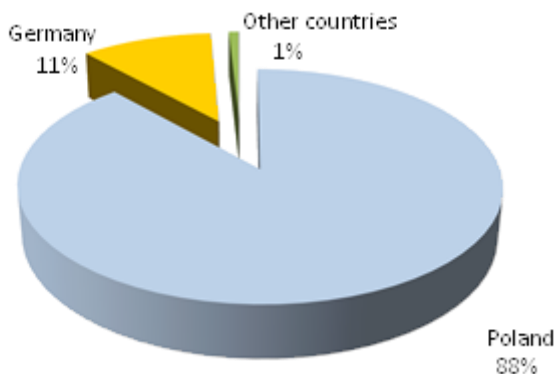
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**Geographical structure of the Budimex Group sales in 2013**

The main markets on which the Budimex Group 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 156 291 thousand and were by PLN 8 942 thousand, i.e. 5.4 per cent, lower compared to 2012. The decrease occurred both on metal-related works (8.7 per cent) and prefabrication ones (3.8 per cent). The share of metal-related works in the sales structure decreased by 1.2 per cent in 2013 and amounted to 36.4 per cent. Gross profit generated in 2013 was by 3.9 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. Profitability achieved on prefabrication works was comparable to the one achieved in 2012, while on metal-related works it was higher than in 2012. Operating profit on the German market amounted to PLN 20 104 thousand in 2013, while in 2012 it amounted to PLN 18 154 thousand. Customer structure in both segments shows dispersion and the share of each customer in total sales revenue does not exceed 10 per cent.

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

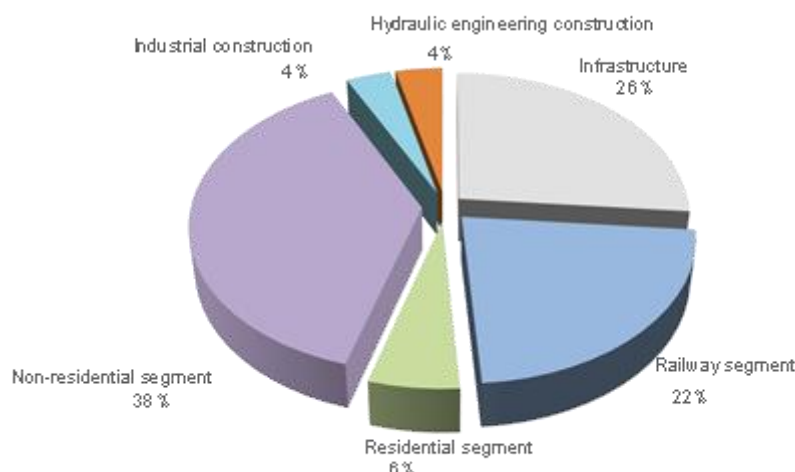
Next year the Budimex Group will continue to operate in all major sectors of the construction market in Poland, as well as on the German market.

The newly planned infrastructural projects (in particular road investments) offer an opportunity for the Budimex Group to win contracts in this segment. The Group also plans to win contracts in the facilities, energy and hydraulic engineering construction segments. Entering the market of municipal services is also considered, as well as engaging in new projects on the basis of public-private partnerships.

In 2013, the Budimex Group companies signed construction contracts for the total value of PLN 3 266 million (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2013 amounted to PLN 4 339 million and was by 11 per cent lower in comparison with the end of 2012.



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



## **2.6 Evaluation of investment projects feasibility**

In 2014, the Budimex Group plans to incur capital expenditure of approx. PLN 16 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 at the Group, the risk of investor insolvency has not been eliminated. Delays in timely repayment of debt may have adverse effects on the financial results of the Group and may require that receivables impairment write-downs be recognized or that current business be financed through external borrowings.

Information concerning the financial risk management objectives and policies adopted by the Group is presented in the consolidated financial statements for the year ended 31 December 2013 (note 4).

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

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

## **2.8 Procurement source changes**

In 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 Group's consolidated sales.

# **3 FINANCIAL POSITION**

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

The financial situation of the Budimex Group in 2013 is characterised by selected financial and economic data disclosed in the Statement of Financial Position and the Profit and Loss Account (broken down below together with the 2012 comparative data).

## Directors' Report on the activities of the Budimex Group in the year 2013

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

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

The main items of the Consolidated Statement of Financial Position of the Budimex Group as at 31 December 2013, compared to 31 December 2012, are presented in the table below:

ASSETS	31.12.2013	31.12.2012	Change	Change %
<b>Non-current assets</b>	<b>622 230</b>	<b>559 807</b>	<b>62 423</b>	<b>11.2%</b>
Property, plant and equipment	83 755	111 192	(27 437)	-24.7%
Investment properties	24 529	3 256	21 273	653.3%
Intangible assets	4 106	2 992	1 114	37.2%
Goodwill of subsidiaries	73 237	73 237	-	0.0%
Investments in equity accounted entities	3 518	16 966	(13 448)	-79.3%
Available-for-sale financial assets	8 381	17 135	(8 754)	-51.1%
Retentions for construction contracts	24 804	19 202	5 602	29.2%
Trade and other receivables	20 703	-	20 703	100.0%
Concession agreement receivables	22 376	-	22 376	100.0%
Derivative financial instruments	692	-	692	100.0%
Long-term prepayments	4 793	4 176	617	14.8%
Deferred tax assets	351 336	311 651	39 685	12.7%
<b>Current assets (short-term)</b>	<b>3 064 523</b>	<b>2 888 404</b>	<b>176 119</b>	<b>6.1%</b>
Inventories	697 046	876 206	(179 160)	-20.4%
Loans granted and other financial assets	3 164	-	3 164	100.0%
Trade and other receivables	525 675	401 836	123 839	30.8%
Retentions for construction contracts	18 217	49 419	(31 202)	-63.1%
Amounts due and receivable from customers under construction contracts	146 630	227 490	(80 860)	-35.5%
Current tax assets	331	935	(604)	-64.6%
Derivative financial instruments	131	5 724	(5 593)	-97.7%
Cash and cash equivalents	1 658 783	1 317 733	341 050	25.9%
Short-term prepayments	14 546	9 061	5 485	60.5%
<b>TOTAL ASSETS</b>	<b>3 686 753</b>	<b>3 448 211</b>	<b>238 542</b>	<b>6.9%</b>

EQUITY CAPITAL AND LIABILITIES	31.12.2013	31.12.2012	Change	Change %
<b>Shareholders' equity attributable to the shareholders of the Parent Company</b>	<b>626 323</b>	<b>433 130</b>	<b>193 193</b>	<b>44.6%</b>
Share capital	145 848	145 848	-	0.0%
Share premium	87 163	234 799	(147 636)	-62.9%
Other reserve capitals	4 584	2 705	1 879	69.5%
Foreign exchange differences on translation of foreign operations	5 101	2 190	2 911	132.9%
Retained earnings	383 627	47 588	336 039	706.1%
<b>Non-controlling interests</b>	<b>18 852</b>	<b>-</b>	<b>18 852</b>	<b>100.0%</b>
<b>Total shareholders' equity</b>	<b>645 175</b>	<b>433 130</b>	<b>212 045</b>	<b>49.0%</b>
<b>Liabilities</b>	<b>3 041 578</b>	<b>3 015 081</b>	<b>26 497</b>	<b>0.9 %</b>
<b>Non-current liabilities</b>	<b>347 985</b>	<b>382 378</b>	<b>(34 393)</b>	<b>-9.0%</b>
Loans, borrowings and other external sources of finance	34 355	75 967	(41 612)	-54.8%
Retentions for construction contracts	161 347	161 143	204	0.1%
Provisions for non-current liabilities and other charges	147 676	141 521	6 155	4.3%
Retirement benefits and similar obligations	4 381	3 747	634	16.9%
Derivative financial instruments	226	-	226	100.0%
<b>Current liabilities</b>	<b>2 693 593</b>	<b>2 632 703</b>	<b>60 890</b>	<b>2.3%</b>
Loans, borrowings and other external sources of finance	19 729	17 718	2 011	11.4%
Trade and other liabilities	1 217 984	1 287 594	(69 610)	-5.4%
Retentions for construction contracts	189 466	222 146	(32 680)	-14.7%
Amounts due and payable to customers under construction contracts	689 915	534 870	155 045	29.0%
Prepayments received	276 325	274 050	2 275	0.8%
Provisions for current liabilities and other charges	120 126	116 060	4 066	3.5%
Current tax liability	16 147	6 225	9 922	159.4%
Retirement benefits and similar obligations	1 117	1 036	81	7.8%
Derivative financial instruments	499	257	242	94.2%
Short-term accruals	156 931	161 608	(4 677)	-2.9%
Short-term deferred income	5 354	11 139	(5 785)	-51.9%
<b>EQUITY CAPITAL AND LIABILITIES</b>	<b>3 686 753</b>	<b>3 448 211</b>	<b>238 542</b>	<b>6.9%</b>

## **Directors' Report on the activities of the Budimex Group in the year 2013**

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

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As at 31 December 2013, consolidated total assets increased by PLN 238 542 thousand compared to 31 December 2012, mainly due to a 11.2 per cent (PLN 62 423 thousand) increase in non-current assets and a 6.1 per cent (PLN 176 119 thousand) increase in current assets.

### Non-current assets (long-term):

Increase in the value of non-current assets as at 31 December 2013 compared to 31 December 2012 was caused mainly by the following:

- a decrease in the balance of property, plant and equipment by PLN 27 437 thousand, mainly due to a change in the composition of the Group in the amount of PLN 5 771 thousand and due to a depreciation charge in the amount of PLN 26 446 thousand. Capital expenditures of PLN 9 537 thousand were allocated towards property, plant and equipment,
- increase in the balance of investment properties by PLN 21 273 thousand, due to change in the composition of the Group in the amount of PLN 20 225 thousand,
- increased balance of receivables due to concession agreement by PLN 22 376 thousand as a result of consolidation of Budimex Parking Wrocław Sp. z o.o. from 2013 and further development of the car park,
- increase in the balance of assets due to deferred income tax by PLN 39 685 thousand as a result of creating assets in the amount of PLN 16 824 thousand, use of the reserve in the amount of PLN 20 087 thousand and change in the composition of the Group in the amount of PLN (2 862) thousand, as well as other changes in the amount of PLN 5 636 thousand.

### Current assets (short-term):

In the same period, the value of current assets increased by PLN 176 119 thousand, mainly as a result of an increase in:

- the balance of trade and other receivables by PLN 123 839 thousand,
- the balance of cash and cash equivalents by PLN 341 050 thousand,

with a simultaneous decrease in:

- amounts due and receivable from customers under construction contracts by PLN 80 860 thousand,
- balance of inventories by PLN 179 160 thousand, mainly related to the development business and a change in the Group's composition.

### Equity capital and liabilities:

On the side of equity capital and liabilities the changes referred to:

- a decrease in the value of non-current liabilities by PLN 34 393 thousand, mainly due to a decrease in the balance of credits, loans and other external financing sources by PLN 41 612 thousand, with an increase in the balance of reserves for non-current liabilities by PLN 6 155 thousand,
- increase in current (short-term) liabilities by PLN 60 890 thousand, of which the greatest changes were related to the following:
  - a decrease in trade and other liabilities by PLN 69 610 thousand,
  - a decrease in the balance of short-term retentions for construction contracts by PLN 32 680 thousand,
  - an increase in amounts due and payable to customers under construction contracts by PLN 155 045 thousand.

**Directors' Report on the activities of the Budimex Group in the year 2013**

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

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

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>	<b>01.01 - 31.12.2013</b>	<b>01.01. - 31.12.2012</b>	<b>Change</b>	<b>Change %</b>
Net revenue from sales of products, services and goods for resale and raw materials	4 749 459	6 077 660	(1 328 201)	-21.9%
Cost of finished goods, services, goods for resale and raw materials sold	(4 354 043)	(5 617 789)	1 263 746	-22.5%
<b>Gross profit on sales</b>	<b>395 416</b>	<b>459 871</b>	<b>(64 455)</b>	<b>-14.0%</b>
Selling expenses	(28 364)	(24 371)	(3 993)	16.4%
Administrative expenses	(162 917)	(193 362)	30 445	-15.7%
Other operating income	44 181	65 780	(21 599)	-32.8%
Other operating expenses	(107 991)	(139 172)	31 181	-22.4%
Profit (loss) on derivative financial instruments	(1 131)	13 663	(14 794)	-108.3%
Profit on disposal of a subsidiary	194 112	-	194 112	100.0%
<b>Profit on operating activities</b>	<b>333 306</b>	<b>182 409</b>	<b>150 897</b>	<b>82.7%</b>
Financial income	30 498	67 063	(36 565)	-54.5%
Finance costs	(28 256)	(40 723)	12 467	-30.6%
Profit (loss) on derivative financial instruments	407	-	407	100.0%
Shares in net profits (losses) of subsidiary companies valued using equity method	(4 684)	(6 121)	1 437	-23.5%
<b>Gross profit</b>	<b>331 271</b>	<b>202 628</b>	<b>128 643</b>	<b>63.5%</b>
Income tax	(29 971)	(16 646)	(13 325)	80.0%
<b>Net profit for the period</b>	<b>301 300</b>	<b>185 982</b>	<b>115 318</b>	<b>62.0%</b>
<i>of which:</i>				
<b>Attributable to the shareholders of the Company</b>	<b>300 480</b>	<b>185 982</b>	<b>114 498</b>	<b>61.6%</b>
<i>Attributable to non-controlling interests</i>	820	-	820	100.0%

In 2013, the Budimex Group earned a sales revenue of PLN 4 749 459 thousand, which represents a 21.9 per cent decrease compared to the result for 2012.

Gross profit on sales in 2013 was PLN 395 416 thousand, while in the previous year it amounted to PLN 459 871 thousand. The gross sales profitability ratio for 2013 was therefore 8.33 per cent, while for 2012 it was 7.57 per cent.

In accordance with the adopted accounting policies, where budgeted contract costs exceed the entire expected contract revenues, Group companies create provisions for expected contract losses and recognize them under "Amounts due and payable to customers under construction contracts". In subsequent periods, a part of the earlier created provision is reversed in proportion to the percentage of contract completion, after taking into account a total negative margin on the entire contract. As at 31 December 2013, the balance of the provision for contract losses amounted to PLN 209 367 thousand. In 2013, the balance of the provision for contract losses decreased by PLN 19 072 thousand, of which PLN 594 thousand was due to starting the consolidation of Elektromontaż Poznań SA.

Compared to the prior year, selling expenses increased in the twelve-month period ended on 31 December 2013 by PLN 3 993 thousand, while administrative expenses were by PLN 30 445 thousand lower than the expenses incurred in 2012. The share of the sum total of selling and administrative expenses in total sales revenue increased from 3.58 per cent in 2012 to 4.03 per cent in the current year.

Other operating income in 2013 was PLN 44 181 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 20 174 thousand, reversal of the provision for penalties and sanctions in the amount of PLN 2 452 thousand, reversal of impairment write-downs against receivables in the amount of PLN 4 146 thousand, reversal of the write-downs for inventories in the amount of PLN 3 582 thousand, reversal of provision for restructuring in the amount of PLN 2 354 thousand, as well as deduction of overdue liabilities in the amount of PLN 3 113 thousand. In addition, in 2013, Group companies sold property, plant and equipment and investment properties and earned a profit on those sales in the total amount of PLN 1 854 thousand. The net value of the property, plant and equipment sold in 2013 was PLN 3 581 thousand.

Other operating expenses in the 12-month period ended on 31 December 2013 amounted to PLN 107 991 thousand, of which PLN 15 721 thousand related to impairment write-downs against receivables, PLN 61 881 thousand – to recognised impairment write-downs against inventories (mainly in the development activities). The costs of recognized provision for litigation amounted to PLN 3 633 thousand and recognized provision for claims and penalties amounted to PLN 13 817 thousand. The value of compensations and liquidated damages charged to the Group result in 2013 was PLN 9 983 thousand.

In 2013, the Group reported losses on valuation and realization of FX Forward derivative financial instruments (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 1 131 thousand.

On 2 December 2013, the Group sold its shares in Budimex Danwood Sp. z o.o. and earned the profit in the amount of PLN 194 112 thousand.

In 2013, the Group reported an operating profit of PLN 333 306 thousand, representing 7.02 per cent of total sales revenues, while in the previous year – an operating profit of PLN 182 409 thousand, representing 3.00 per cent of sales revenues.

In the 12-month period ended 31 December 2013, the Group reported a profit on financing activities of PLN 2 242 thousand, while in 2012 – a profit of PLN 26 340 thousand. Finance costs in 2013 represented, among others, interest costs of PLN 5 513 thousand, bank commissions on guarantees and loans of PLN 13 684 thousand paid by Group companies, cost of discounting

## Directors' Report on the activities of the Budimex Group in the year 2013

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

long-term receivables and liabilities arising from guarantee deposits in the amount of PLN 7 053 thousand, surplus of negative exchange rate differences in the amount of PLN 1 813 thousand. Finance income in 2013 represented mainly interest received in the amount of PLN 29 725 thousand and valuation of receivables due to concession agreement in the amount of PLN 524 thousand.

In 2013, the Group reported gains on valuation of interest rate swap derivative financial instruments (made with a view to limiting the interest rate risk) in the amount of PLN 407 thousand.

In 2013, the Group reported a gross profit of PLN 331 271 thousand, while in the previous year – a gross profit of PLN 202 628 thousand.

Income tax charge for 2013 was PLN 29 971 thousand, of which:

- current tax: PLN 66 697 thousand,
- deferred tax: PLN (36 726) thousand.

As at 31 December 2013, the Group recognised deferred tax assets in the amount of PLN 351 336 thousand, while as at 31 December 2012 the Group recognised a deferred tax asset of PLN 311 651 thousand. Items of deferred tax asset reported in the Statement of Financial Position result mainly from the specific method of settlement of construction contracts, under which the moment of recognition of costs as incurred and revenue as earned is different from the tax and accounting perspective.

The net profit attributable to the shareholders of Budimex SA for 2013 was PLN 300 480 thousand, while the net profit attributable to the shareholders of Budimex SA for 2012 was PLN 185 982 thousand.

Net profit attributable to non-controlling interest for 2013 amounted to PLN 820 thousand. There was no net result attributable to non-controlling interest in the same period of the previous year.

### 3.2 Statement of Cash Flow

Cash and cash equivalents included in the Statement of Cash Flow comprise cash on hand and bank deposits which have a maturity period of 3 months or less and were not included under investing activities.

Included in cash of restricted use are mainly cash items representing:

- security for bank guarantees,
- amounts gathered on escrow accounts and blocked accounts of development companies,

provided their maturity does not exceed 3 months.

The Budimex Group entered the year 2013 with cash on hand and cash in bank amounting to a total of PLN 1 317 733 thousand. For the purpose of the Statement of Cash Flow, this amount was reduced by the amount of cash of restricted use of PLN 10 987 thousand. Net cash flow for the year 2013 was positive and amounted to PLN 319 016 thousand. As at 31 December 2013, the Group's reported cash balance was PLN 1 658 783 thousand, of which the cash of restricted use was PLN 33 089 thousand.

In 2013, the balance of cash from operating activities increased by PLN 314 661 thousand.

Cash flow from investing activities came out to a positive balance of PLN 158 455 thousand, which was mainly a result of sale of Budimex Danwood Sp. z o.o.

Cash flow from financing activities for 2013 showed a negative balance which amounted to PLN 154 100 thousand and resulted mainly from the 2012 dividend payment.

### 3.3 Managing of finance at the Budimex Group

The cash balance of the Budimex Group as at 31 December 2013 amounted to PLN 1 658 783 thousand and was by PLN 341 050 thousand higher than as at 31 December 2012. In 2013, Budimex SA paid out a dividend in the amount of PLN 112 077 thousand. Generating cash assets at the above level was possible owing to positive profitability maintained by Group companies in 2013 as well as to sustained favourable tendencies in working capital at Budimex SA which took place in the second half of 2013. Besides, the sale of shares in Budimex Danwood Sp. z o.o. by Budimex B Sp. z o.o. significantly affected the increase of the cash balance in the Budimex Group providing the cash inflow of PLN 238 600 thousand.

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

The Budimex Group entities reported an external debt in respect of bank loans and borrowings and other external sources of finance, including finance lease liabilities, which as at 31 December 2013 amounted to PLN 54 084 thousand and was by PLN 39 601 thousand lower than as at 31 December 2012 (see table below). The Group's debt is mainly composed of the debt of Budimex SA under finance leases (concluded for the purpose of financing the purchase of property, plant and equipment – primarily machines and equipment for performing roadwork contracts) and the debt of Budimex Nieruchomości Sp. z o.o. under bank loans financing development activities.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2013	31.12.2012
- long-term	34 355	75 967
- short-term	19 729	17 718
<b>Total</b>	<b>54 084</b>	<b>93 685</b>

## Directors' Report on the activities of the Budimex Group in the year 2013

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

Ratio	31.12.2013	31.12.2012
<b>Equity to assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)	0.17	0.13
<b>Equity to non-current assets ratio:</b> (shareholders' equity attributable to the shareholders of the Parent Company)/ (total non-current assets)	1.01	0.77
<b>Debt ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (total assets)	0.83	0.87
<b>Assets to equity ratio:</b> (total assets - shareholders' equity attributable to the shareholders of the Parent Company)/ (shareholders' equity attributable to the shareholders of the Parent Company)	4.89	6.96

In 2013, all elements reflecting the Group's capital structure significantly improved. The equity to assets ratios increased and the indebtedness ratios decreased. This was possible because of significant increase of consolidated net profit of the Group and the related increase of its equity.

Furthermore, there was an improvement in liquidity ratios (see table below). This was possible thanks to a significant amount of cash generated both in the construction and in the development part as a result of high pre-booking of flats. Also the above transaction comprising sale of shares in Budimex Danwood Sp. z o.o. by Budimex B Sp. z o.o. had a significant positive impact on the liquidity ratios.

Ratio	31.12.2013	31.12.2012
<b>Current Ratio</b> (current assets)/(current liabilities)	1.14	1.10
<b>Quick Ratio</b> (current assets - inventory)/(current liabilities)	0.88	0.76

Due to the current very good financial standing of the Budimex Group and significant cash resources, there are no threats to the Group's ability to finance its business activities in 2014.

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

Guarantees, sureties, other liabilities and contingent liabilities:

OFF-BALANCE SHEET ITEMS	31.12.2013	31.12.2012
<b>Contingent receivables</b>	<b>366 233</b>	<b>369 358</b>
<b>From affiliated entities, of which:</b>	<b>-</b>	<b>2 372</b>
- guarantees and sureties received	-	2 372
- promissory notes received as security	-	-
<b>From other entities, of which:</b>	<b>366 233</b>	<b>363 986</b>
- guarantees and sureties received	353 159	349 791
- promissory notes received as security	13 074	14 195
<b>Other contingent receivables, of which:</b>	<b>-</b>	<b>3 000</b>
- other off-balance-sheet receivables	-	3 000
<b>Contingent liabilities</b>	<b>1 652 986</b>	<b>1 573 708</b>
<b>To affiliated entities, of which:</b>	<b>3 566</b>	<b>803</b>
- guarantees and sureties issued	3 566	803
- promissory notes issued as security	-	-
<b>To other entities, of which:</b>	<b>1 506 240</b>	<b>1 429 725</b>
- guarantees and sureties issued	1 497 507	1 423 993
- promissory notes issued as security	8 733	5 732
<b>Other contingent liabilities, of which:</b>	<b>143 180</b>	<b>143 180</b>
- other off-balance-sheet liabilities	143 180	143 180
<b>Total off-balance sheet items</b>	<b>(1 286 753)</b>	<b>(1 204 350)</b>

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

## Directors' Report on the activities of the Budimex Group in the year 2013

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

Contingent liabilities arising from guarantees and sureties represent guarantees issued by banks to business partners of Group companies to secure their claims against Group companies that may arise on the grounds of executed construction contracts. The banks are entitled to recourse claims against Group companies under these guarantees.

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 or its subsidiaries as at 31 December 2013:

Name of the company granting a surety for a loan or borrowing or granting a guarantee	Name of the (company) entity to which sureties or guarantees were granted	Total amount of loans or borrowings that has been duly guaranteed to the extent specified	Term for which sureties or guarantees were granted	Financial terms on which a surety or guarantees were granted	The nature of the relationship existing between BUDIMEX SA and the entity that incurred the loan or borrowing
		(PLN '000)			
Budimex SA	Mostostal Kraków SA	78 656	2018-11-13	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	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
Budimex Budownictwo Sp. z o.o.	FBSerwis SA	1 263	2018-11-16	free of charge	associate
<b>TOTAL</b>		<b>139 920</b>			

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

The Budimex Group did not publish any financial forecasts for 2013.

### 3.6 Utilisation of proceeds from issues of securities

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

## 4 SIGNIFICANT AGREEMENTS

### 4.1 Insurance agreements for the Budimex Group companies

In 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 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.



## Directors' Report on the activities of the Budimex Group in the year 2013

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- 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:

	Supplier	Subject of the Agreement	Annual value (in PLN thousand) gross	Agreement date
1	Lotos Asfalt Sp. z o.o.	Road asphalts	89 877	20.02.2013
2	Orlen Asfalt Sp. z o.o.	Road asphalts	61 274	13.02.2013
3	ThyssenKrupp Energostal SA	Steel reinforcements, metallurgical products	28 179	4.02.2013
4	Kopalnia Granitu Kamienna Góra Sp. z o.o.	Aggregates	23 162	1.02.2013
5	Pol-Miedź Trans Sp. z o.o.	Aggregate transport	14 144	1.02.2013
6	ZPK Rupińscy Sp.j.	Aggregates	13 567	15.01.2013
7	Góraźdże 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 the Budimex Group.



**Directors' Report on the activities of the Budimex Group in the year 2013**

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

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

	Supplier	Subject of the Agreement	Annual value (in PLN thousand) gross	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.	Fuels (fuel oil)	21 059	14.02.2005
6	Mal-Sped Sp. z o.o.	Fuels (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

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

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

**4.3 Transactions with affiliated entities**

Detailed information on transactions with affiliated entities was presented in note 50 of the consolidated financial statements of the Budimex Group.

**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 (62 agreements in total)	-	-	PLN 26 111	1M WIBOR + margin	30.11.2015 - 30.06.2017
Konica Minolta	Finance lease	16.02.2012	-	PLN 765	fixed, as provided in the agreement	monthly

## Directors' Report on the activities of the Budimex Group in the year 2013

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

As at 31 December 2013, other companies of the Budimex Group were parties to the following loan agreements and finance lease agreements:

Lender	Title of liability	Date of signing the agreement	Amount available under the agreement (in '000)	Liability, incl. interest (in '000)	Interest rate	Maturity date
<b>Budimex Nieruchomości Sp. z o.o.</b>						
LA CAIXA Branch in Poland	Investment loan	03.12.2010	PLN 15 000	-	1M WIBOR + margin	31.03.2016
Getin Noble Bank SA	Investment loan	26.06.2013	PLN 33 882	PLN 2 854	1M WIBOR + margin	30.09.2016
Getin Noble Bank SA	Investment loan	20.12.2013	PLN 20 741	-	1M WIBOR + margin	31.12.2016
Getin Noble Bank SA	Investment loan	20.12.2013	PLN 20 610	-	1M WIBOR + margin	31.12.2016
Bank PKO BP SA	Investment loan	15.05.2013	PLN 22 142	PLN 849	3M WIBOR + margin	31.12.2015
Bank PKO BP SA	Investment loan	10.12.2013	PLN 23 780	-	3M WIBOR + margin	28.02.2016
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 59	fixed, as provided in the agreement	monthly
<b>Mostostal Kraków SA</b>						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	2.01.2012	-	PLN 35	fixed, as provided in the agreement	monthly
<b>Budimex Parking Wrocław Sp. z o.o.</b>						
Bank PKO BP SA (consortium leader)	Concession financing loan	30.06.2012	PLN 19 975	PLN 13 592	3M WIBOR + margin	31.12.2031
Bank PKO BP SA (consortium leader)	VAT financing loan	30.06.2012	-	PLN 1 264	3M WIBOR + margin	30.04.2014
<b>Elektromontaż Poznań SA</b>						
Raiffeisen Leasing Polska SA	Finance lease	26.07.2011	-	PLN 47	1M WIBOR + margin	31.07.2015
Prime Car Management SA	Finance lease (6 agreements in total)	-	-	PLN 125	1M WIBOR + margin	30.05.2015 - 30.07.2016
Millennium Leasing Sp. z o. o.	Finance lease	26.01.2012	-	PLN 50	1M WIBOR + margin	30.11.2016

### 4.5 Major capital deposits and equity investments in 2013

On 1 March 2013, Budimex SA – Budimex Budownictwo Sp. z o.o. Spółka Cywilna was established. The share of the shareholders is as follows: Budimex SA - 99.975 per cent and Budimex Budownictwo Sp. z o.o. - 0.025 per cent. The contribution was made in cash and amounted to PLN 201 thousand and PLN 50, as appropriate. The company was established for the purpose and duration of performance of the investment task entitled "Development of the landing area at the Frederic Chopin Airport - conversion and development of PSS 2, PPS 4, PPS 6 (including DK D1), reconstruction of the runway strip and development of the taxiway".

On 21 March 2013, the Ordinary General Meeting of Shareholders of Budimex Danwood Sp. z o.o. (a subsidiary of Budimex SA) resolved to return the capital payment to Budimex SA in the amount of PLN 6 000 thousand. Therefore, the value of shares of Budimex SA in its subsidiary decreased from PLN 30 779 thousand to PLN 24 779 thousand. The payment was returned on 7 May 2013.

On 20 December 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 paid, in the amount of PLN 600 thousand and PLN 200 thousand, as appropriate.

On 5 August 2013, under the resolution of the Ordinary General Meeting of Shareholders of 18 June 2013, Budimex Danwood Sp. z o.o. returned the capital payment to Budimex SA in the amount of PLN 4 000 thousand. Therefore, the value of shares of Budimex SA in its subsidiary decreased from PLN 24 779 thousand to PLN 20 779 thousand.

On 16 September 2013, the Extraordinary General Meeting of Shareholders of Budimex Parking Wrocław Sp. z o.o. (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 4 150 thousand, i.e. from PLN 1 500 thousand to PLN 5 650 thousand by way of establishing 83 000 new shares with a nominal value of PLN 50 each. Budimex SA subscribed for all the shares in the increased capital. The capital increase payment was made on 20 September 2013.

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

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On 17 September 2013, Budimex SA subscribed for 4 772 000 shares in the increased capital of Budimex B Sp. z o.o. (a subsidiary of Budimex SA) with nominal value of PLN 50 each, namely with the total nominal value of PLN 238 600 thousand, in return for a contribution in kind of 100 per cent of shares in Budimex Danwood Sp. z o.o.

On 27 September 2013, the Extraordinary General Meeting of Shareholders of Budimex A Sp. z o.o. (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 100 thousand, i.e. from PLN 75 thousand to PLN 175 thousand by way of establishing 2 000 new shares with a nominal value of PLN 50 each. Budimex SA subscribed for all the shares in the increased capital. The capital increase payment was made on 30 September 2013.

On 3 October 2013, the Extraordinary General Meeting of Shareholders of Budimex PPP SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 420 thousand, i.e. from PLN 360 thousand to PLN 780 thousand by way of establishing 420 new shares with a nominal value of PLN 1 000 each. Budimex SA subscribed for all the shares in the increased capital. The capital increase payment was made on 15 October 2013.

On 3 October 2013, the Extraordinary General Meeting of Shareholders of Budimex Autostrada SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 240 thousand, i.e. from PLN 200 thousand to PLN 440 thousand by way of establishing 240 new shares with a nominal value of PLN 1 000 each. Budimex SA subscribed for all the shares in the increased capital. The capital increase payment was made on 10 October 2013.

On 3 October 2013, the Extraordinary General Meeting of Shareholders of Budimex Most Wschodni SA (a subsidiary of Budimex SA) resolved to increase the company's share capital by PLN 120 thousand, i.e. from PLN 100 thousand to PLN 220 thousand by way of establishing 120 new shares with a nominal value of PLN 1 000 each. Budimex SA subscribed for all the shares in the increased capital. The capital increase payment was made on 10 October 2013.

On 30 October 2013, Budimex SA – Cadagua SA Spółka Cywilna was established. Share of each of the shareholders amounts to 50 per cent. The company was established for the purpose and duration of performance of the investment task entitled "Modernisation of the sewage treatment plant and canalisation of a part of the city of Tomaszów Mazowiecki".

On 12 November 2013, Przedsiębiorstwo Budownictwa Mieszkaniowego Nadolnik Sp. z o.o. was established. SPV-BN 2 Sp. z o.o., a company wholly-owned by Budimex Nieruchomości Sp. z o.o., acquired 99 shares in the newly established company, with the total value of PLN 4 950. The company was entered in the National Court Register on 6 December 2013.

On 19 November 2013, the shareholders of Budimex SA Ferrovial Agroman SA Sp. j. (affiliate of Budimex SA) decided to increase contribution to the company by PLN 1 700 thousand. The shareholders made payments increasing the contribution in accordance with their shareholding, namely by 50 per cent. Budimex SA made payment of its part in the amount of PLN 850 thousand on 19 December 2013.

On 16 December 2013, the Management Board of Budimex B Sp. z o.o. resolved to decrease the company's share capital by PLN 238 600 thousand in relation to sale by Budimex B Sp. z o.o. of 100 per cent shares in Budimex Danwood Sp. z o.o., brought in the form of contribution in kind on 17 September 2013. After decrease the company's share capital will amount to PLN 75 thousand and will be divided into 1 500 shares with nominal value of PLN 50 each. Up to the date of drawing up the financial statements, the decrease of capital was not registered.

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

On 24 September 2013, Budimex SA concluded a loan agreement with its affiliate FBSerwis SA, in which it holds 49 per cent of shares. Under the agreement, Budimex SA extended to FBSerwis SA a loan for up to PLN 19 600 thousand. The loan repayment date, inclusive of interest, was scheduled for 24 September 2014. As at 31 December 2013, the loan was used by FBSerwis SA up to the amount of PLN 3 111 thousand.

On 1 December 2013, an agreement concerning a loan granted in 2004 to Budimex SA by Ferrovial Infraestructuras SA (currently Cintra Infraestructuras SA) was extended, and the interest due for the period from 1 December 2012 was capitalised. Therefore, the amount of the loan increased by EUR 26 thousand to EUR 2 007 thousand. The loan repayment date is 1 December 2014.

On 10 December 2013, Budimex SA concluded a loan agreement with its subsidiary Budimex PPP SA, in which it holds 100 per cent of the shares. Under the agreement, Budimex SA extended to Budimex PPP SA a loan of up to PLN 200 000 thousand. The loan repayment date, inclusive of interest, was scheduled for 13 December 2013, and the loan together with interest was repaid on that date.

## **5 OTHER INFORMATION**

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

Members of the Management Board of Budimex SA ("Company"), in connection with the work performed and position occupied on the Management Board, are employed at either Budimex SA or at subsidiary companies where they receive remuneration based on an employment contract concluded for a fixed term of office, with a 2-week termination notice. In addition, the employment contracts provide for 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

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

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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 50.1 to the consolidated financial statements of the Budimex Group.

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

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 was concluded on 5 July 2013 and 10 October 2013, respectively. The remuneration for the obligatory 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 certification 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 144 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 obligatory 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 certification 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.

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

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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 preparation of the financial statements of Budimex SA and the Budimex Group**

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

The obligation to prepare financial statements is 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.

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

## **Directors' Report on the activities of the Budimex Group in the year 2013**

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

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

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

During preparation of the financial statements, 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 Group or the manner of their presentation in the financial statements,
- verification of correctness of the assumptions underlying accounting estimates,
- comparative and substantive analyses of financial data,
- verification of 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 (Netherlands) - 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%
<b>Total</b>		<b>25 530 098</b>	<b>100.00%</b>	<b>25 530 098</b>	<b>100.00%</b>

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 right.

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

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

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

The Supervisory Board removes and appoints President of the Management Board and, upon his/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

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

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

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

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.

## **Directors' Report on the activities of the Budimex Group in the year 2013**

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

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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 Jacek Blocher     | President of the Management Board, General Director, |
| • Ignacio Botella Rodríguez | Vice-President of the Management Board,              |
| • Andrzej Artur Czynczyk    | Board Member, Chief HR Officer                       |
| • Jacek Daniewski           | Board Member, Chief Legal and Organisational Officer |
| • Henryk Urbański           | Board Member, Chief Real Estate Officer              |
| • Marcin Węglowski          | Board Member, 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.



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

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**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 President of the Supervisory Board,
- Alejandro de la Joya Ruiz de Velasco Vice-President of the Supervisory Board,
- Tomasz Paweł Sielicki Secretary,
- Marzenna Anna Weresa Supervisory Board Member,
- Igor Adam Chalupec Supervisory Board Member,
- Javier Galindo Hernandez Supervisory Board Member,
- José Carlos Garrido-Lestache Rodríguez Supervisory Board Member,
- Piotr Kamiński Supervisory Board Member,
- Maciej Stańczuk Supervisory Board Member.

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,
- José 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 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 Chalupec - 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.

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

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**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,
- 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 of the Group 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 of the Group 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 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.

## Directors' Report on the activities of the Budimex Group in the year 2013

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

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	.....
<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>	<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>
Ignacio Botella Rodríguez	Vice-President of the Management Board	.....	Marcin Węglowski	Member of the Management Board	.....
<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>	<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>
Jacek Daniewski	Member of the Management Board	.....			
<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>			
Andrzej Artur Czynczyk	Member of the Management Board	.....	Warsaw, 7 March 2014		
<i>Name and surname</i>	<i>Position</i>	<i>Signature</i>			