

budimex

THE BUDIMEX GROUP

BUDIMEX SA

DIRECTORS' REPORT FOR 2019

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1 BUSINESS ENVIRONMENT

1.1 General market conditions

In 2019 saw a slowdown in economic growth compared to 2018. According to preliminary estimates of the Central Statistical Office (GUS), the gross domestic product grew by 4.0 per cent at constant prices of the previous year in 2019 in comparison with 5.1 per cent in 2018. The weakening of the gross domestic product growth rate was particularly noticeable in the fourth quarter of 2019, when, according to a preliminary estimate of the Central Statistical Office, economic growth rate dropped to 3.1 per cent vs. 3.9 per cent and 4.6 per cent in the third and second quarter of 2019 respectively. Gross fixed capital formation in 2019 increased by 7.8 per cent compared to the increase by 8.9 per cent in 2018, while the investment rate in 2019, understood as the ratio of gross capital formation to gross domestic product in current prices, was at a similar level as in 2018 and amounted to 18.8 per cent in 2019 compared to 18.2 per cent in 2018. In 2019, gross value added in the construction industry increased by 2.8 per cent year on year, while in 2018 it grew by 12.2 per cent. The average annual consumer price index

in 2019 reached 2.3 per cent compared to 1.6 per cent in 2018. The year-on-year increase in inflation is attributable to an acceleration in price growth in the last months of 2019. In December 2019, the CPI reached 3.4 per cent and was 2.3 percentage points higher than in December 2018. In 2019, the unemployment rate decreased by 0.6 percentage points, from 5.8 per cent in December 2018 to 5.2 per cent in December 2019.

In 2019, the index of general economic situation in the construction industry remained relatively flat compared to 2018. Compared to the previous year that saw an increase in the percentage of businesses in the construction industry indicating a strong shortage of qualified staff, this indicator stabilised in 2019. Similar alleviation of sentiment was experienced in the area of material costs. However, a worrying development at the beginning of 2020 was a significant increase in the number of construction businesses identifying the following key barriers to their operations: high burden imposed on the state budget, labour costs, unclear legal regulations and uncertainty as to the general economic situation.

In 2019, the value of construction and assembly output recorded a single-digit year-on-year growth of 6.0 per cent in current prices, as compared to year-on-year growth of 21.3 per cent in 2018 compared to 2017. As in 2018, the scale of construction and assembly output sold by companies employing more than 9 people exceeded PLN 100 billion. The weakened growth in output was reported in all three construction industry segments, and in particular in the area of infrastructural construction, where the construction and assembly output stood at 4.2 per cent in 2019 (in current prices) compared to 23.7 per cent in 2018. The source of the weakening dynamics of construction and assembly output in infrastructural construction was road construction (year-on-year decrease by 6.8 per cent in current prices compared to a 21.0 per cent year-on-year increase in 2018). The general construction segment reported a slightly better economic situation than the infrastructure construction segment. Construction and assembly output in this area recorded an increase by 7.9 per cent (in current prices) as compared with an increase by 18.7 per cent in 2018. In 2019, the factors that contributed to this result included continued output growth in the residential construction segment, which reached 8.9 per cent compared to 17.5 per cent growth in 2018, and a higher value of work performed in the non-residential construction segment, where the value of construction and assembly output in 2019 increased by 7.4 per cent compared to a 19.4 per cent increase in 2018. The main source of growth in this construction segment was an improvement in the annual volume of production for commercial buildings as well as for industrial and warehousing buildings by, respectively, 20.9 per cent and 11.9 per cent.

In 2019, the structure of construction and assembly output did not change significantly from the previous year. The largest share in construction and assembly output is still held by civil and water engineering facilities (50 per cent in total construction and assembly production, as compared to a share of 51 per cent in 2018). The corresponding share of the non-residential and residential construction segment stood at 33 per cent and 17 per cent and is comparable to the one recorded in 2018.

The factor that determines the rate and directions of growth in the construction sector in Poland is still the pace of execution of large infrastructural projects and the related effectiveness of utilisation of EU funds. By the end of 2019, more than 58 thousand co-financing agreements with the total value of PLN 447.2 billion were signed, with the EU contribution amounting to PLN 272.0 billion, which accounts for approx. 83 per cent of total funds allocated to Poland under the cohesion policy. The value of agreements concerning road and railway infrastructure projects amounted to, respectively, PLN 95.8 billion and PLN 36.5 billion. Moreover, the value of all payment applications submitted by the end of 2019 amounted to nearly PLN 183.7 billion, with road infrastructure projects accounting for PLN 46.2 billion and railway infrastructure projects accounting for PLN 12.6 billion.

In 2019, the number of flats for sale or lease that were put to use increased to 130.9 thousand (up by 16.6 per cent in comparison with 2018). The good economic situation is supported by the number of flats for sale or lease for which a construction permit was granted (an increase by 4.6 per cent year-on-year to 167.3 thousand) and the number of flats for sale or lease whose construction was started (an increase by 7.9 per cent year-on-year to 142.0 thousand). In 2019, the development sector recorded an increase in pre-sales volume compared to 2018. In the six largest residential markets in Poland (Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź), approx. 65.4 thousand flats were pre-sold in 2019 by developers (by approx. 1 per cent more than in 2018).

1.2 Market development prospects

According to the assumptions to the 2020 state budget, made in June 2019, real GDP growth in 2020 will stand at 3.7 per cent compared to 4.0 per cent in 2019. The Institute for Economic Forecasts and Analysis (IPAG, Instytut Prognoz i Analiz Gospodarczych) points to the likelihood of a more pessimistic scenario. According to forecasts published in the first half of February 2020, GDP growth in Poland in 2020 will amount to 3.4 per cent. The slower economic growth will result primarily from the insufficient growth rate of capital expenditures in the previous years and external factors, as well as from a slowdown in consumption on the domestic market. The budget act prepared by the Sejm envisages that the current year's inflation rate will reach 2.5 per cent compared to 2.3 per cent in 2019. By analogy, the IPAG's forecast projects that inflation could rise to 3.1 per

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cent in 2020. The growth will be driven chiefly by increases in electricity prices, and the rate of inflation should slow down in the second half of 2020.

In May 2018, the European Commission published a proposed distribution of EU funds among individual Member States under the Cohesion Policy during the next EU financial perspective for 2021-2027. The proposed value of funds allocated to Poland amounts to EUR 73 billion in current prices compared to EUR 83 billion in current prices that will be allocated to Poland under the current financial perspective. Despite the reduced allocation, Poland will remain the largest beneficiary of EU funds. As at the end of 2019, there is still no information on the structure of allocations for individual measures, but the scale of assistance in the area of infrastructure projects is likely to ensure that EU funds will continue to play a significant role in the growth of the Polish construction sector in the coming years. Detailed arrangements for the allocation of EU funds should be presented to the public by the end of 2020.

In 2020, the construction market will be driven by increasing investment expenditures by the largest public investors in the area of infrastructure. High value of contracts signed in 2018-2019 in the market for large road and railway projects means that many of them will enter an advanced stage of implementation in 2020, and thus construction and assembly output in the infrastructural segment may increase in 2020 compared to 2019. Many construction companies start 2020 with a comfortable order book that secures companies' revenues for the next few quarters. Due to the continued upward trend in material and labour costs, growing revenues of construction companies are likely to be under high cost pressure, but its scale may be lower than at the time of the highest increase in input prices in 2017-2018. What is also important is the limited supply of workers in the sector, notably in the railway construction sector, and the changes in the German labour market, which liberalise the hiring of non-EU foreigners in Germany. Legislative changes may lead to the drainage of the Polish labour market which currently benefits significantly from the support of employees from across the eastern border of Poland.

In the coming years, the scale of road construction projects in Poland will be determined to a large extent by the political will to implement all projects included in the current national road construction programme and by the possibility of its financing. In September 2019, the government adopted the revised "National Road Construction Programme for 2014-2020, with perspective until 2025" (Program Budowy Dróg Krajowych, PBDK). The new document provides for an increase in the programme budget from PLN 135.2 billion to PLN 142.2 billion, while increasing the number of kilometres to be financed. The length of sections of national roads planned for completion within the revised PBDK budget amounts to 3 568 kilometres, as compared to 3 268 kilometres provided for in PBDK adopted in 2017. The scope of work covered by PBDK was extended to include the S12 Piaski – Dorohusk section, S8 Wrocław – Kłodzko section, S5 Sobótka – Bolków section, as well as a section of the A18 motorway. The reason for revising the PBDK budget was primarily the need to adjust the planned costs of road projects where the general contractor contract was terminated. In 2019, the General Directorate for National Roads and Motorways (GDDKiA) rescinded a dozen or so contracts executed under the PBDK, and the increase in the total project cost resulting from the need to commission other contractors to complete the works forced the Directorate to revise its budgets. According to the official announcement published in January 2020, between 2013 and 2019 GDDKiA announced 192 tenders under the PBDK for tasks with a total length of approx. 2 530 kilometres. According to GDDKiA's data, tenders were announced for 71% of the tasks specified in the PBDK. In 2019, the gross value of bids opened amounted to PLN 13.0 billion (including contracts for the completion of projects) which is a significant improvement from 2018, when the corresponding value was PLN 3.5 billion. As at the end of 2019, the GDDKiA is conducting tender procedures under the PBDK for sections with a total length of 120 kilometres. The gross value of significant general contracting contracts for road investment projects signed under the PBDK by the GDDKiA in 2019 amounted to PLN 5.3 billion and was lower than in 2018, when the total gross value of similar contracts reached PLN 17.8 billion. In 2019, the phenomenon of bidding above the investor's budget was continued, especially in tenders for the completion of road projects started by unreliable contractors. Moreover, many contractors in Poland are concerned about the repeated undercutting of prices in tenders by Chinese companies. In the opinion of industry organisations, the lack of experience and low execution capacity accumulated in Poland may constitute an obstacle to reliable and timely performance of contracts by companies with Chinese capital.

In 2020-2021, an accumulation of projects in the road construction segment should be expected. The growth in the volume of construction works carried out in these years will be determined by the entry of many contracts implemented under the "design&build" formula into the construction phase. After a stoppage in the announcement of tenders in 2018, in 2019 GDDKiA significantly intensified its activity, announcing 34 tenders for sections with a total length of 480 kilometres. According to the list of orders planned for announcement in 2020, published in January 2020, the GDDKiA will announce this year tenders for construction works for 25 sections with a total length of 353 kilometres and with value exceeding PLN 12.0 billion, including 15 sections of the planned S19 expressway with a total length of approx. 200 kilometres.

The pace and scale of announcing tenders by GDDKiA after 2020 is uncertain. Full implementation of the PBDK scope depends on the availability of funds provided directly by the state budget. In 2021-2030, the supply of orders on the road market will also be supported by the "Programme for Construction of 100 Ring Roads" published in February 2020. The value of the projects planned has been estimated at about PLN 28 billion, and the scope of works will include the construction of 820 kilometres of roads. Another potential source of orders on the road market may be the concept of building the Warsaw Agglomeration Ring Road, scheduled for 2025-2030. Capital expenditure under the project may reach PLN 25-30 billion.

From the general contractor's point of view, the railway infrastructure construction market will be a prospective area of the construction sector. In accordance with the financing plan for the "National Railway Programme until 2023" (KPK), updated in September 2019, between 2015 and 2023 PKP PLK will implement projects included in the basic list with a value of PLN 73.1 billion. Additionally, the reserve list includes 66 projects with a value of approx. PLN 32.6 billion, the execution of which – in the current financial perspective – depends on potential savings generated in the course of the implementation of the KPK, and the level of commitment of domestic funds. Over the past dozen or so months, the KPK budget has been revised several times, with the main focus on adjusting the investor's cost estimates to the new price realities on the market. What is also noticeable, is the adjustment of expenditure distribution over time, involving a consistent deferral of expenditure to subsequent years. Due to, among other factors, the growing scale of risks inherent in railway contracts and high cost inflation, many bids submitted in

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tenders continued to exceed the investor's budget. The surplus sometimes reached the level of 100% of the investor's cost estimate, which means that in selected cases the lowest bid submitted by the contractor was more than twice as high as the value planned by the investor. Unlike in 2018, when exceeding the investor's budgets resulted in invalidating tenders and re-opening them, in 2019 the government made successive revisions to the KPK budget in order to speed up the process of awarding projects co-financed by EU funds. A predominant share in the value of tenders published in 2015-2019 was held by large general contracting contracts of significant value. Between July 2015 and December 2019, PKP PLK announced 115 such tenders (excluding projects dedicated to the implementation of ERTMS/GSM systems), including 18 tenders that have been invalidated due to the fact that the investor's cost estimate was significantly exceeded. The net value of the lowest bids submitted by contractors amounted to about PLN 40.0 billion (excluding invalidated tenders). In mid-February 2020, PKP PLK conducted three large tender proceedings at the pre-bid stage. According to PKP PLK, in 2019 capital expenditure exceeded PLN 10.0 billion. PLK has thus failed to implement its investment plans which envisaged expenditure at the level of PLN 12.0 billion. One of the main reasons was delays in awarding contracts for large projects in seaports. According to the announcements of the CEO of PKP PLK, in 2020 the value of capital expenditure will increase to about PLN 14-15 billion, and by the end of that year over 90% of KPK's projects will be completed or in progress.

In January 2020, the level of completion of the KPK, measured by the percentage of contracts completed and in progress, exceeded 75%. As at mid-February 2020, PKP PLK has not published a procurement plan for 2020. The forthcoming end of the current EU financial perspective may increase the tender activity of PKP PLK in order to meet the deadlines for the settlement of projects co-financed from EU funds. Timely implementation of projects included in the KPK will be a great challenge for both parties to the investment process, i.e. PKP PLK and contractors. As in the case of the road construction segment, the growing volume of construction work on railway lines is likely to be subject to strong pressure from material and labour prices. There is also uncertainty about the ability of the modernised rail network to meet the needs related to the transport of construction materials. The long-term growth outlook for rail construction sector in Poland is positive. As announced by representatives of PKP PLK, the scale of railway projects in the financial perspective 2021-2027 should not be reduced in relation to the currently implemented investment programme. At present, PKP PLK is preparing documentation for railway projects worth about PLN 40 billion. The first tenders from this pool of projects are expected to arrive on the market in 2021.

The planned construction of the Central Port of Communication (CPK) will be a major challenge for the largest infrastructural investors and the execution environment. In the optimistic scenario, the CPK will be commissioned in 2027. According to the government's preliminary estimates, the value of the planned investments as part of the project is about PLN 30-35 billion, however, unofficial sources state that the expenditure is underestimated and the scale of the investment may be about twice as big. Particularly noteworthy is the railway component which provides for the construction of new railway lines with a length of about 1 600 kilometres. The main task of the CPK SPV in 2020 will be to select a strategic project advisor and draw up the so-called master plan.

The accumulation of construction work under two major investment programmes in national roads and railways, supported by the high value of general construction projects, has led to a sharp increase in prices of construction materials, subcontracting services and in labour costs in 2017-2018. The application of contractual provisions indexing the contractor's remuneration to indicators not reflecting actual price increases and restricting the compensation increase to a very low level proved to be insufficient. The unpredictability and scale of the increase in general contracting costs of infrastructural projects, particularly visible in 2017-2018, the fixed nature of the general contractor's compensation and the prolonged implementation of contracts have a highly adverse effect on the financial standing of businesses which more and more often complain about increasing pressure on margins on contracts performed for GDDKiA and PKP PLK. With regard to the scale of the problem and the high social cost of a potential wave of insolvencies, representatives of trade organisations and the executive community initiated a discussion on the necessity of introducing a real indexation of the general contractor's compensation. After prolonged talks, at the beginning of 2019 the major contracting authorities on the infrastructure market decided to introduce changes in the methodology of indexing new contracts for which no general contracting agreement was signed. In 2019, the contractors signed the first contracts containing new indexing provisions, and the assessment of their actual effectiveness will be possible at a more advanced stage of their performance. In addition to the introduction of a new methodology of indexing, one of the main procurers (GDDKiA) decided to gradually move away from off-price criteria for evaluating bids. Practice has shown their poor effectiveness which prompted the investor to return to evaluate bids solely on the basis of the price proposed by the contractor.

New priorities and challenges are being defined in the hydraulic engineering sector. Above all, it should be emphasised that there are large investment needs in the area of port investments, waterways and flood protection projects. The government's main objective in the area of development of infrastructure, transport and water management is to increase the reloading capacity of the three Polish seaports in Gdańsk, Gdynia and Świnoujście. In the next 10 years, the value of port investments may reach PLN 20-25 billion. Some of the projects will most likely be implemented in the public-private partnership formula. Moreover, in accordance with the "Assumptions to the development programme for inland waterways in Poland for the years 2016-2020, with an outlook to 2030" adopted by the government, the planned value of investments in the area of water transport infrastructure in the years 2016-2030 amounts to more than PLN 77 billion. Investments in the area of waterway transport are to be supported with an increase in expenditure on investment projects in the flood protection area, which will receive significant financial support from, among other institutions, the World Bank.

In recent years, the power engineering segment has maintained a good pace of growth following the progressive construction of several large power units with a total capacity of 5.8 GW. The projects in Jaworzno, Turowo, Stalowa Wola and at Żerań Plant in Warsaw are at the construction stage, while the units in Opole, Kozienice, Włocławek and Płock have been successfully commissioned. In September 2019 and January 2020, respectively, a contract was signed for the construction of additional power units in the Puławy power plant and the Dolna Odra power plant. The project involving the construction of a new 1 000 MW coal unit at the Ostrołęka Power Plant is in the initial phase of implementation. The Ministry of Energy emphasises that the new unit in Ostrołęka will be the last facility of this type with such a significant value built in Poland. As announced, the supply of new projects in the energy generation area will be focused on smaller facilities, predominantly based on non-carbon fuels.

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A number of major projects are at the planning or tender stage, including a "clean coal" power plant at Bogdanka mine, a combined cycle gas turbine "Nowa Czechnica" in Siechnice near Wrocław, and a combined cycle gas turbine in Grudziądz. The construction of the Bogdanka unit should start in 2020, and the projects in Siechnice and Grudziądz are at the stage of tender to select the general contractor. The recently completed and currently built large facilities in the conventional energy sector are intended to replace the production capacity of units that are below the environmental standards set by the European Union.

In the long term, i.e. after 2030, further increase in electricity generation in Poland will require a change in its structure. In November 2018, the Ministry of Energy submitted for consultation a draft version of "Energy Policy of Poland until 2040". As at the end of 2019, the document has still not been adopted by the government. The concept of diversification of power sources within the system presented in the document provides for gradual phasing out of conventional energy sources, i.e. coal-fired power plants, and increasing the scale of investments in the area of offshore wind farms, photovoltaic power plants and nuclear power plants. By 2040, the estimated value of projects implemented under the policy will amount to as much as PLN 400 billion, including the cost of a nuclear power plant estimated at PLN 120-180 billion. In 2019, several large, state-owned entities operating in the fuel and energy sector, including PKN Orlen, PGE and Energa, declared their willingness to invest in the area of offshore wind farms. The value of all potential wind projects in the Polish part of the Baltic Sea is estimated at about PLN 100-120 billion. At the turn of 2019 and 2020, the European Commission proposed the creation of the Fair Transformation Fund in the field of energy whose purpose will be to provide financial support for projects in regions where energy generation is based on high-emission raw materials, i.e. hard coal and lignite. According to the government's estimates, the Polish energy sector can expect to receive funding under the fund at the level of PLN 100 billion.

In the coming years, it is expected that investment programmes will be continued in the electricity and gas transmission and distribution markets. At the end of 2019, Polskie Sieci Elektroenergetyczne (PSE) announced public consultations on the development plan for 2021-2030. According to the draft, assuming dynamic development of wind power generation, PSE's expenditure on infrastructure development in this period is to exceed PLN 14 billion. As a result of limited activity in announcing new tenders in 2018, in 2019 PSE did not sign any major general contracting contract for a part of the power grid. For several years now, the volume of contracts on the PSE market has been significantly different from the volumes reached in 2013-2015. In February 2020, PSE held 5 significant tender procedures in the area of construction works. The increased activity of the contracting authority in 2019 with regard to the announcement of tenders means that procurement in 2020 may approach the figures recorded in 2018. Positive signals regarding the pace of implementation of the investment programme are also coming from the gas transmission market. In August 2018, Gaz-System launched public consultations on the gas network development plan for 2020-2029. According to the plan, the network will be extended by nearly 3 800 km in 2020-2029. A large part of the construction work scheduled under this programme has been contracted out over the last three years. In 2016-2019, Gaz System signed 21 contracts for the general construction of large gas pipelines with a total net value of PLN 3.4 billion. The long-term development of the aforementioned sectors depends, to a large extent, on external factors. The potential of the electricity transmission market will be strongly correlated with the pace of development of the electricity generation market, while the long-term growth on the gas transmission market will depend on the progress of works on further diversification of gas supply sources, from directions other than the east.

Despite the relatively high rate of growth of transaction prices of developer flats, especially in large cities, in 2019 there was a slight increase in the number of flats sold by development companies. 65.4 thousand flats were sold on the 6 largest markets, i.e. in Warsaw, Wrocław, Kraków, Łódź, Poznań and Tri-City, as compared to 64.9 thousand flats in 2018. In 2019, most of the leading residential developers were able to maintain or slightly improve the level of pre-sales of flats recorded in 2018, thus confirming that the increase in flat prices did not undermine the demand in the residential market. It is difficult to estimate the level of flat sales in 2020, but there are several factors that support the scenario of further growth of demand on the market. They include, among others, the continued expansion of bank's lending activity, driven by low interest rates and the growing creditworthiness of Poles. The unfulfilled housing needs in Poland, which occupies one of the last places in Europe in terms of the number of dwellings per 1 000 inhabitants, are not without significance. Recent announcements by the government also indicate the possibility of including development companies in the "Mieszkanie Plus" ("Flat Plus") programme. The number of flats completed or under construction under this programme to date is unsatisfactory and the government's main priority in the area of residential development is to accelerate the programme significantly.

The opportunity of the further development of the construction market may also be 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. A positive sign is the drafting of a strategic document "Government policy on PPP development" by a PPP team in the Ministry of Development and adoption of this policy by the government. The document assumes that at least 100 new PPP agreements will be signed between 2017 and 2020, and the share of PPP agreements signed in the capital expenditure of the national economy within the public sector should reach 5 per cent. Unfortunately, at the moment there are no significant positive effects resulting from the adoption of the aforementioned document, and it is unlikely that the aforementioned objectives will be met. In 2019, only 3 PPP contracts of significant value were signed (the Combined Heat and Power Plant in Olsztyn, Dolne Miasto in Gdańsk, High School in Piastów). It is possible that 2020 will bring a rebound in the PPP market. Currently, GDDKiA and the Ministry of Infrastructure are finalising arrangements with Eurostat with regard to the treatment of balance sheet debt resulting from the planned PPP project. In case of a positive opinion of Eurostat, GDDKiA intends to announce a tender for a project called S6 Tri-City Metropolitan Ring Road. This would be the first such high-value PPP project in Poland over the past 10 years.

1.3 Strategy adopted by the issuer and its capital group

Formally, the Management Board of Budimex did not adopt a growth strategy for the company and the Budimex group. Nonetheless, the Management Board of Budimex takes steps aimed at increasing the company's value for all shareholders. In the reporting period as well as in the perspective of the next financial year, the Management Board of Budimex intends to build the company's value by focusing on improving the margin on the order book and winning new, profitable construction contracts. In the long run, the Management Board of Budimex will consistently strive to diversify its activities both in the construction

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business (e.g. increasing its presence in such market segments as the railway segment or hydraulic engineering construction segment), as well as in the expansion of investment and service activities related to road, railway and general construction infrastructure (e.g. developer activity, PPP projects, infrastructure maintenance, management of municipal waste).

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 business activities of the Group are broadly interpreted construction and assembly services rendered in the system of general contracting at home and abroad, development activities, property management, as well as production and service activities. As part of its service activities, the Budimex Group deals with municipal waste management, comprehensive road maintenance and technical maintenance of buildings.

The main area of business activity of Budimex SA (the "Company") as the Parent Company is rendering construction and assembly services, 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 a quick flow of information across the Group,
- strengthen the efficiency of cash and financial management of individual companies,
- strengthen the market position of the Group as a whole.

Changes in the Group's organisation:

On **2 January 2019**, Budimex A Sp. z o.o. and Budimex PPP SA (not included in the consolidation scope as dormant companies) signed an agreement on the disposal of all rights and obligations related to the participation, respectively, in the partnerships Budimex SA Energetyka 2 s.j. and Budimex SA Energetyka 3 s.j. to Budimex Budownictwo Sp. z o.o. (included in the consolidation scope).

On **3 July 2019**, Budimex SA purchased 51% of shares in FBSerwis SA from Ferrovia Services International SE and thus acquired control over the company and its subsidiaries.

On **13 August 2019**, the partners of Budimex SA Energetyka 1 Sp. j. and Budimex SA Energetyka 2 Sp.j. adopted resolutions on liquidation of the partnerships without conducting liquidation proceedings. Budimex SA Energetyka 1 Sp.j. was removed from the National Court Register on 25 September 2019, while Budimex SA Energetyka 2 Sp.j. – on 9 October 2019.

On **20 September 2019**, the partners of Budimex SA Budimex Budownictwo Sp. z o.o. s.c. adopted a resolution to dissolve the partnership due to the achievement of the economic purpose for which the partnership was established.

In 2019, there were no changes in the management policies at the Budimex Group.

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

The parent company, its subsidiaries and jointly controlled entities of the Budimex Group are listed below:

Company name	Registered office	Share in the share capital and in the number of votes (%)		Consolidation method	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Parent company					
Budimex SA	Warsaw / Poland			full	full
Consolidated					
Mostostal Kraków SA	Kraków / Poland	100.00%	100.00%	full	full
Mostostal Kraków Energetyka Sp. z o.o.	Kraków / Poland	100.00%	100.00%	full	full
Budimex Bau GmbH	Cologne / Germany	100.00%	100.00%	full	full
Budimex Nieruchomości Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Budownictwo Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
SPV-PIM1 Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o.	Warsaw / Poland	51.00%	51.00%	full	full
FBSerwis SA	Warsaw / Poland	100.00%	49.00%	full	equity method
FBSerwis A Sp. z o.o.	Warsaw / Poland	100.00%	49.00%	full	equity method
FBSerwis B Sp. z o.o.	Warsaw / Poland	100.00%	49.00%	full	equity method
FBSerwis Karpatia Sp. z o.o.	Tarnów / Poland	100.00%	49.00%	full	equity method
FBSerwis Wrocław Sp. z o.o.	Bielany Wrocławskie / Poland	100.00%	49.00%	full	equity method
FBSerwis Dolny Śląsk Sp. z o.o.	Ścinawka Dolna / Poland	100.00%	49.00%	full	equity method
FBSerwis Kamieński Sp. z o.o.	Kamieński / Poland	80.00%	39.20%	full	equity method
Non-consolidated					
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A1 SA (w likwidacji) ¹	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. w upadłości likwidacyjnej	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex A Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex C Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex D Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex F Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex H Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex I Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex J Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex K Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex L Sp. z o.o.	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex PPP SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
MK Logistic Sp. z o.o. (w likwidacji)	Zabrze / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Dromex Oil Sp. z o.o. (w likwidacji)	Warsaw / Poland	97.93%	97.93%	non-consolidated	non-consolidated
PKZ Budimex GmbH	Cologne / Germany	50.00%	50.00%	non-consolidated	non-consolidated
Budimex Autostrada SA (w likwidacji) ²	Warsaw / Poland	-	100.00%	-	non-consolidated

¹⁾ On 31 July 2018, the General Meeting of Shareholders of Budimex Autostrada A1 SA adopted a resolution to complete the liquidation of the company. As at 31 December 2019, the company has not yet been removed from the National Court Register.

²⁾ On 24 October 2018, the General Meeting of Shareholders of Budimex Autostrada SA adopted a resolution to complete the liquidation of the company. The company was removed from the National Court Register on 4 February 2019.

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

A list of the jointly controlled companies of the Budimex Group:

Company name	Registered office	Share in the share capital and in the number of votes (%)		Method of recognition in the financial statements	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Joint operations					
Budimex SA - Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	-	100.00%	full	full
Budimex SA Energetyka 1 Sp.j.	Warsaw / Poland	-	100.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	100.00%	50.00%	share in assets, liabilities, revenues and costs	share in assets, liabilities, revenues and costs
Budimex SA Ferrovia Agroman SA s.c.	Warsaw / Poland	99.98%	99.98%		
Budimex SA Ferrovia Agroman SA 2 s.c.	Warsaw / Poland	95,00%	95,00%		
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua SA II s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA III s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA IV s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA – Cadagua SA V s.c.	Warsaw / Poland	99.90%	99.90%		
Budimex SA Ferrovia Agroman SA Sp. j.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Tecnicas Reunidas SA Turów s.c.	Warsaw / Poland	50.00%	50.00%		
Budimex SA Energetyka 2 Sp.j.	Warsaw / Poland	-	50.00%		

2.2 Operating segments and branches of the Parent Company

As at 31 December 2019, the Group conducted business in the following operating segments:

- construction business,
- development activities and property management,
- service activities.

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

- Budimex SA
- Mostostal Kraków SA
- Mostostal Kraków Energetyka Sp. z o.o.
- Budimex Bau GmbH
- Budimex Budownictwo Sp. z o.o.
- Budimex Kolejnictwo SA.

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-PIM1 Sp. z o.o.
- Biuro Inwestycji "Grunwald" SA (for the period from 1 February to 17 September 2018)
- 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.

The segment of services includes comprehensive services in the field of waste management, maintenance of road infrastructure, expansion and management of lighting infrastructure and technical maintenance of real estate. The service segment also includes other entities of the Group that conduct, among others, production and trading activities, as well as activities under Public-Private Partnership. Included in this operating segment are the following Group companies:

- Budimex Parking Wrocław Sp. z o.o.
- FBSerwis SA (fully consolidated since 3 July 2019)
- FBSerwis A Sp. z o.o. (fully consolidated since 3 July 2019)
- FBSerwis B Sp. z o.o. (fully consolidated since 3 July 2019)
- FBSerwis Dolny Śląsk Sp. z o.o. (fully consolidated since 3 July 2019)
- FBSerwis Wrocław Sp. z o.o. (fully consolidated since 3 July 2019)
- FBSerwis Karpatia Sp. z o.o. (fully consolidated since 3 July 2019)
- FBSerwis Kamieński Sp. z o.o. (fully consolidated since 3 July 2019)

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

- Elektromontaż Poznań SA (sold on 17 September 2018)
- Elektromontaż Import Sp. z o.o. (a subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018)
- Instal Polska Sp. z o.o. (a subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018)
- Elektromontaż Warszawa SA (a subsidiary of Elektromontaż Poznań SA, sold on 17 September 2018)

As at 31 December 2019, the Parent Company operated the following branches:

- General Construction North Branch in Poznań, ul. Wołowska 92A,
- General Construction South Branch in Kraków, ul. Ujastek 7,
- General Construction East Branch in Warsaw, ul. Siedmiogrodzka 9,
- Infrastructure North Branch in Warsaw, ul. Siedmiogrodzka 9,
- Infrastructure South Branch in Kraków, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Mokronoska 2,
- Industrial and Railway Branch in Warsaw, ul. Siedmiogrodzka 9,
- Equipment Services Branch in Pruszków, ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex Spółka Akcyjna Zweigniederlassung Köln, Pferdmeigesstr. 5, Köln.

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

- Mostostal Kraków Spółka Akcyjna Zweigniederlassung Köln, Pferdmeigesstrasse 5, Cologne.

2.3 Structure of sales revenues

2.3.1 Structure of sales revenues of the Budimex Group

Sales of the construction segment

In 2019, the construction market (measured by the value of sales of construction and assembly production) increased by 6.0 per cent in comparison with 2018 and recorded much slower growth rate than in 2018. The increase was recorded in the infrastructural construction segment (+4.2 per cent) and general construction segment (+7.9 per cent).

The increase in sales of the Budimex Group's construction segment in the reviewed period amounted to 1.5 per cent as compared to 2018.

The share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services decreased from 44.9 per cent in 2018 to 43.2 per cent in 2019. Following the acquisition of new railway contracts, the share of this segment in the Group's revenue structure increased from 9.0 per cent to 16.6 per cent in 2019. The share of the general construction segment dropped from 46.1 per cent in 2018 to 40.1 per cent in 2019.

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

Type of construction	Sales value			
	2019		2018	
	PLN million	%	PLN	%
Civil engineering (infrastructure)	3 092	43.2%	3 163	44.9%
Rail buildings and structures	1 190	16.7%	634	9.0%
General construction, of which:	2 870	40.1%	3 250	46.1%
- non-residential buildings	2 215	31.0%	2 537	36.0%
- residential buildings	655	9.2%	713	10.1%
Total sales of construction and assembly services	7 152	100.0%	7 047	100.0%

Development activities

In 2019, the revenues from sales in the development business amounted to PLN 557 811 thousand, thus recording a 1.8 per cent increase compared to the previous year. Revenues from sales of the development business are recognised upon the transfer of the ownership title to a flat/premises to the buyer after the technical acceptance report has been signed for the entire building. Notary sales of flats depend on the dates of completion of the construction projects and the delivery of finished flats to the customers. It is not a seasonal phenomenon, nor can it be compared annually.

In 2019, the entire development market experienced a slight increase in the rate of pre-sales of new apartments as compared to the previous year. In 2019, 1 655 flats offered by the Budimex Group were sold in the pre-selling system, compared to 1 208 flats pre-sold in the previous year. The 37 per cent increase in the number of pre-sold flats was significantly higher than the upward trend observed in the largest cities in Poland. The main drivers of the increase in sales were the higher number of flats under construction and increase of the land bank held in 2018.

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

As a result of the measures taken, the portfolio of projects ready for launching dropped from 10 thousand flats as at the end of 2018 to about 8 thousand as at the end of 2019.

Major construction contracts concluded by the Budimex Group companies in 2019:

Contract date	Contract value allocated to Budimex SA	Customer	Type of construction
2019-06-24	1 366 068	PKP Polskie Linie Kolejowe SA	Construction works at Gdynia Port railway station as part of the Project entitled "Improvement of railway access to the sea port in Gdynia"
2019-10-10	1 278 557	PKP Polskie Linie Kolejowe SA	Execution of construction works and implementation of a detailed design on the Most Wisła – Czechowice Dziedzice – Zabrzeg section
2019-03-29	556 417	PKP Polskie Linie Kolejowe SA	Execution of works for the modernisation of the railway line No. 7 along the Dęblin – Nałęczów section between km 107 283 and km 146 320 (originally LOT C – Dęblin – Lublin Section)
2019-07-19	347 581	Operator Gazociągów Przesyłowych GAZ-SYSTEM SA	Construction of a pipeline connecting the transmission systems of the Republic of Poland and the Slovak Republic, including the infrastructure necessary for its operation – the Strachocina pipeline – Polish border
2019-04-04	249 638	Wałbrzych Municipality and General Directorate for National Roads and Motorways branch in Wrocław	Construction of a bypass for the city of Wałbrzych along national road No. 35
2019-09-19	185 220	Zarząd Morskich Portów Szczecin i Świnoujście SA	Adaptation of the infrastructure of the ferry terminal in Świnoujście to handle intermodal transport
2019-04-24	167 000	Polski Koncern Naftowy ORLEN SA	Construction of the PKN Orlen S.A Research and Development Centre in Płock
2019-09-06	157 260	ASBUD Mokotów Sp. z o.o	Construction of residential buildings in multi-family dwelling units, at ul. Słonimskiego / Pamiętajcie o Ogrodach in Warsaw - Stage I of the Central Garden Investment
2019-07-24	155 107	General Directorate for National Roads and Motorways branch in Katowice	Continuation of works related to the construction of the A1 motorway on the Rzasawa – Blachownia node section within the scope of protective works

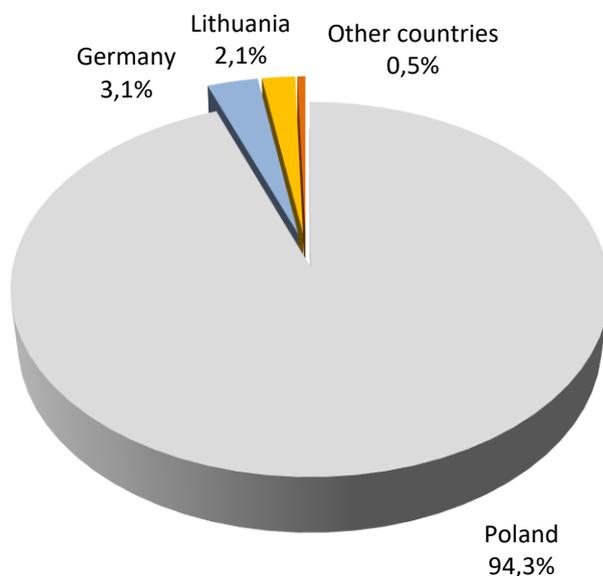
(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

Geographical structure of the Budimex Group sales in 2019

The main markets on which the Budimex Group operates are:

- Poland
- Germany
- Lithuania

The geographical structure of revenues from sales in 2019 is as follows:



2.3.2 Structure of sales revenues of Budimex SA

Sales of construction and assembly services

In 2019, sales of construction and assembly services of the Company increased by 1.9 per cent when compared to 2018. Sales of the infrastructural segment decreased to PLN 3 084 million in 2019 from PLN 3 150 million in 2018 (drop 2.1 per cent). Sales on the rail market increased significantly (by 83.9 per cent) from PLN 615 million to PLN 1 131 million in 2019. Sales in the general construction segment decreased by 10.7 per cent (from PLN 2 980 million in 2018 to PLN 2 660 million in 2019).

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

Type of construction	Sales value			
	2019		2018	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3 084	44.9%	3 150	46.7%
Rail buildings and structures	1 131	16.4%	615	9.1%
General construction, of which:	2 660	38.7%	2 980	44.2%
- non-residential buildings	2 005	29.2%	2 267	33.6%
- residential buildings	655	9.5%	713	10.6%
Total sales of construction and assembly services	6 874	100.0%	6 745	100.0%

Development activities and property management

In 2019, revenues from development activities and property management amounted to PLN 210 thousand, while in 2018 they stood at PLN 729 thousand. The downward trend in sales is related to the phasing out of the Company's activities in this segment. The leading entity carrying out development activities within the Budimex Group is a subsidiary of Budimex SA – Budimex Nieruchomości Sp. z o.o.

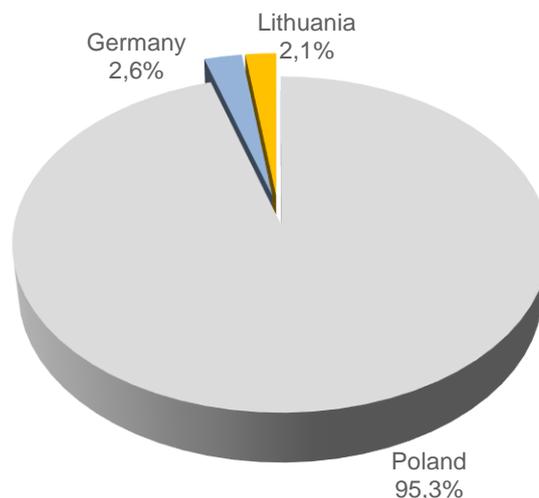
(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

Geographical structure of the Budimex Group sales in 2019

The main markets on which Budimex SA operates are:

- Poland
- Germany
- Lithuania

The geographical structure of revenues from sales in 2019 is as follows:



2.4 Construction activities of the Budimex Group on the German market

In 2019, mainly workshop services were rendered on the German market. Sales revenues amounted to PLN 208 227 thousand (of which PLN 178 440 was earned by Budimex SA) and were PLN 5 922 thousand, i.e. 2.9 per cent higher compared to 2018. An increase was recorded in the case of prefabrication works (1.7 per cent) and metal-related works (5.7 per cent). In 2019, the share of metal-related works in the sales structure increased by 0.8 percentage point as compared to 2018 and amounted to 31.0 per cent. The operating profit on the German market amounted to PLN 22 580 thousand in 2019, while in 2018 it was PLN 26 546 thousand. Profitability achieved on the prefabrication works was 0.3 per cent higher than in 2018 and profitability of the metal-related works was 2.3 per cent lower than in the previous year. Customer structure shows dispersion and only one customer exceeded 10 per cent of total turnover (it accounted for 11 per cent of total turnover).

2.5 Budimex Group and Budimex SA development prospects 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 and Lithuanian markets.

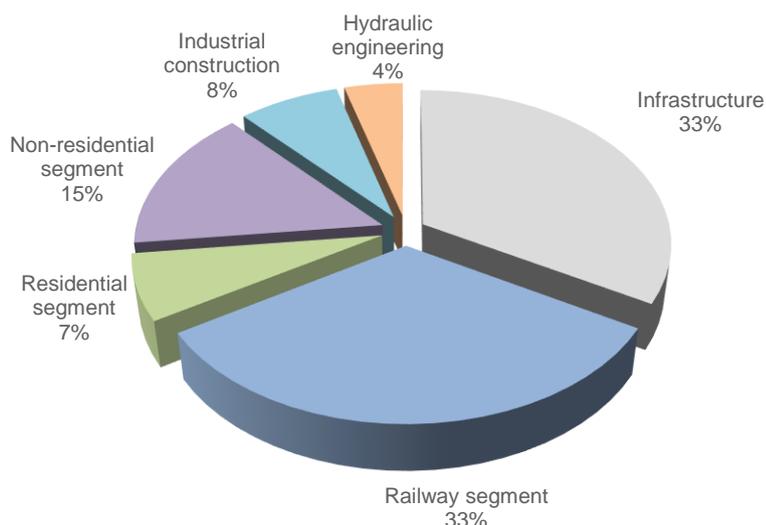
Infrastructural investments co-financed from the budget of the European Union (in particular road and railway projects) offer an opportunity for the Budimex Group to win new contracts. The value of tenders won in 2019 was 14 per cent higher to the value recorded in 2018. The investment process will continue in 2020, which should translate into new road and railway construction orders.

The Group also plans to consistently consolidate its position in the building objects construction segment and win new contracts in the industry and energy segment and in the rail segment. Further development on the market of municipal services is also contemplated, as well as engaging in new projects on the basis of public-private partnerships.

In 2019, the Budimex Group companies signed construction contracts for a total value of PLN 7 496 046 thousand (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2019 amounted to PLN 10 781 176 thousand and was 6 per cent higher in comparison with the end of 2018.

In 2019, Budimex SA in turn signed construction contracts for a total value of PLN 6 961 019 thousand (with annexes). The value of the order portfolio as at 31 December 2019 amounted to PLN 10 342 025 thousand.

The structure of the Budimex Group's order portfolio as at 31 December 2019 is as follows:



2.6 Evaluation of investment project feasibility

In 2020, the Budimex Group plans to incur capital expenditure of approx. PLN 130 million, of which approx. PLN 30 million will be incurred by Budimex SA, approx. PLN 52 million – by Budimex Kolejnictwo, and PLN 47 million by FB Serwis. Key expenditure will be incurred for the purchase of construction and railway machinery and implementation of IT projects.

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 recognised 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 2019 (note 3).

Construction contracts are executed under specific technical and economic conditions which have an effect on the level of realised margin. The Budimex Group companies rendering construction services monitor technical, organisational, legal and financial risks related to the planning and progress of contract work. Despite control and preventive measures undertaken with respect to general risks (credit, currency and third party liability risks), it is possible that certain factors occur due to which 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, limited availability or bankruptcy of subcontractors,
- increases in employment costs and limited availability of qualified employees,
- 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 2019, there were no significant changes in the procurement sources for construction sites. None of the suppliers of raw materials or services exceeded 10 per cent of the Budimex Group's and Budimex SA's sales.

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

3 FINANCIAL POSITION**3.1 Key economic and financial data****3.1.1 Key economic and financial data of the Budimex Group**

The financial situation of the Budimex Group in 2019 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2018 comparative data).

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 2019, compared to 31 December 2018, are presented in the table below:

ASSETS	31.12.2019	31.12.2018	Change	Change %
Non-current assets	1 434 542	988 641	445 901	45.1%
Property, plant and equipment	512 921	258 123	254 798	98.7%
Investment properties	7 721	28 365	(20 644)	(72.8%)
Intangible assets	168 822	28 389	140 433	494.7%
Goodwill of subordinates	168 508	73 237	95 271	130.1%
Investments in equity accounted companies	2 076	37 427	(35 351)	(94.5%)
Investments in equity instruments	7 816	9 778	(1 962)	(20.1%)
Retentions for construction contracts	59 212	49 103	10 109	20.6%
Trade and other receivables	41 887	21 807	20 080	92.1%
Concession agreement receivables	46 690	46 416	274	0.6%
Other financial assets	-	74 145	(74 145)	(100%)
Deferred tax assets	418 889	361 851	57 038	15.8%
Current assets	5 239 417	4 467 710	771 707	17.3%
Inventories	2 013 756	1 611 813	401 943	24.9%
Trade and other receivables	1 096 157	819 300	276 857	33.8%
Retentions for construction contracts	48 433	28 311	20 122	71.1%
Valuation of construction contracts	444 008	561 537	(117 529)	(20.9%)
Current tax assets	108	33 102	(32 994)	(99.7%)
Other financial assets	120 978	4 495	116 483	2 591.4%
Cash and cash equivalents	1 515 977	1 409 152	106 825	7.6%
TOTAL ASSETS	6 673 959	5 456 351	1 217 608	22.3%

As at 31 December 2019, consolidated total assets increased by PLN 1 217 608 thousand compared to 31 December 2018, due to a 45.1 per cent (PLN 445 901 thousand) increase in non-current assets and a 17.3 per cent (PLN 771 707 thousand) increase in current assets.

Non-current assets:

The change in the value of non-current assets as at 31 December 2019 compared to 31 December 2018 was caused mainly by the following:

- an increase in the balance of property, plant and equipment by PLN 254 798 thousand, mainly due to the acquisition of control over the FBSerwis Group (increase by PLN 179 299 thousand) as well as acquisition or acceptance for use under lease agreements of fixed assets in the amount of PLN 133 879 thousand. On the other hand, the balance of property, plant and equipment was decreased by depreciation charges amounting to PLN 94 216 thousand;
- an increase in the balance of intangible assets by PLN 140 433 thousand following the acquisition of control over the FBSerwis Group and recognition of new intangible assets (right to storage with the value of PLN 53 825 thousand, processing permit with the value of PLN 86 306 thousand);
- an increase in the balance of goodwill – as a result of recognising goodwill of PLN 95 271 thousand on the acquisition of a controlling interest in FBSerwis SA;
- an increase in the balance of deferred tax assets by PLN 57 038 thousand due to an increased balance of negative temporary differences on items included in liabilities.

Current assets:

In the same period, the balance of current assets increased by PLN 771 707 thousand, mainly as a result of an increase in the balance of inventories by PLN 401 943 thousand, mainly as a result of an increased number of development projects (increase in the balance of work in progress by PLN 396 532 thousand), recognition of the right-of-use asset (initial application of IFRS 16 – increase by PLN 83 756 thousand), and in relation to increased stocks of materials for contracts (increase in the balance of materials by PLN 179 596 thousand).

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

Other changes in current assets were related to:

- an increase in other short-term financial assets by PLN 116 483 thousand, mainly attributable to the acquisition of bonds issued by Polish banks in the amount of PLN 119 588 thousand,
- a decrease in the balance of valuation of long-term construction contracts by PLN 117 529 thousand, due to increased level of invoicing of work performed in the last quarter of the year. This also had an impact on the balance of trade and other receivables which increased by PLN 276 857 thousand.

EQUITY AND LIABILITIES	31.12.2019	31.12.2018	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	808 149	743 341	64 808	8.7%
Share capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	1 180	1 600	(420)	(26.3%)
Foreign exchange differences on translation of foreign operations	7 000	6 947	53	0.8%
Retained earnings	566 958	501 783	65 175	13.0%
Non-controlling interests	28 491	7 136	21 355	299.3%
Total shareholders' equity	836 640	750 477	86 163	11.5%
Liabilities	5 837 319	4 705 874	1 131 445	24.0%
Non-current liabilities	1 049 392	788 821	260 571	33.0%
Loans, borrowings and other external sources of finance	273 258	184 110	89 148	48.4%
Retentions for construction contracts	229 522	222 751	6 771	3.0%
Provisions for non-current liabilities and other charges	498 422	367 306	131 116	35.7%
Retirement benefits and similar obligations	14 979	12 639	2 340	18.5%
Other financial liabilities	19 807	2 015	17 792	883.0%
Deferred tax liabilities	13 404	-	13 404	100%
Current liabilities	4 787 927	3 917 053	870 874	22.2%
Loans, borrowings and other external sources of finance	177 108	54 823	122 285	223.1%
Trade and other payables	1 530 773	1 720 438	(189 665)	(11.0%)
Retentions for construction contracts	215 032	214 866	166	0.1%
Provisions for construction contract losses	240 677	158 035	82 642	52.3%
Valuation of construction contracts	951 448	575 183	376 265	65.4%
Deferred revenue	1 356 310	996 224	360 086	36.1%
Provisions for current liabilities and other charges	216 746	187 938	28 808	15.3%
Current tax liability	96 653	6 846	89 807	1 311.8%
Retirement benefits and similar obligations	1 877	1 412	465	32.9%
Other financial liabilities	1 303	1 288	15	1.2%
TOTAL EQUITY AND LIABILITIES	6 673 959	5 456 351	1 217 608	22.3%

Equity and liabilities:

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

- a decrease in "retained earnings" due to the payout of dividends,
- an increase in non-current liabilities by PLN 260 571 thousand, mainly due to:
 - an increase in liabilities on account of long-term loans, borrowings and other external sources of finance by PLN 89 148 thousand (initial application of IFRS 16 and acquisition of control of the FBSerwis Group),
 - an increase in liabilities on account of provisions for non-current liabilities by PLN 131 116 thousand, mainly due to an increase in provisions for warranty repairs and for penalties and damages, as well as due to acquisition of control of the FBSerwis Group, as a result of which a new type of provisions was recognised – for site restoration;
- an increase in current liabilities by PLN 870 874 thousand, of which the greatest balance movements related to the following:
 - an increase in the valuation of construction contracts by PLN 376 265 thousand, mainly due to higher involvement of investors in current financing of construction projects than in the previous year,
 - an increase in the provision for contract losses by PLN 82 642 thousand,
 - an increase in deferred revenue by PLN 360 086 thousand, mainly due to the receipt of prepayments for performed construction contracts (increase by PLN 219 774 thousand) and for the construction of flats (PLN 142 479 thousand),
 - and an increase in loans, borrowings and other external sources of finance by PLN 122 285 thousand.

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

Consolidated Profit and Loss Account of the Budimex Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT	01.01- 31.12.2019	01.01- 31.12.2018	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	7 569 663	7 387 137	182 526	2.5%
Cost of finished goods, services, goods for resale and raw materials sold	(7 018 111)	(6 758 048)	(260 063)	3.8%
Gross profit on sales	551 552	629 089	(77 537)	(12.3%)
Selling expenses	(30 478)	(30 650)	172	(0.6%)
Administrative expenses	(198 992)	(229 593)	30 601	(13.3%)
Other operating income	99 453	67 977	31 476	46.3%
Other operating expenses	(103 141)	(63 824)	(39 317)	61.6%
Gain on disposal of subsidiaries	-	44 011	(44 011)	(100.0%)
Operating profit	318 394	417 010	(98 616)	(23.6%)
Finance income	60 127	28 291	31 836	112.5%
Finance costs	(50 949)	(40 118)	(10 831)	27.0%
Shares in net profits / (losses) of equity accounted subordinates	4 785	(1 795)	6 580	(366.6%)
Gross profit	332 357	403 388	(71 031)	(17.6%)
Income tax	(103 506)	(97 904)	(5 602)	5.7%
Net profit for the period	228 851	305 484	(76 633)	(25.1%)
<i>of which:</i>				
- attributable to the shareholders of the Company	226 014	305 424	(79 410)	(26.0%)
- attributable to non-controlling interests	2 837	60	2 777	4 628.3%

In 2019, the Budimex Group earned sales revenue of PLN 7 569 663 thousand, which represents a 2.5 per cent increase compared to the revenue earned in 2018.

In 2019, construction and assembly output in Poland expressed in current prices increased by 6.0 per cent year on year (increase by 2.6 per cent in constant prices), while sales of the Budimex Group's construction segment on the domestic market decreased by 0.3 per cent in comparable periods.

In 2019, gross profit on sales was PLN 551 552 thousand, while in the previous year it was PLN 629 089 thousand. The gross sales profitability ratio for 2019 was therefore 7.3 per cent, while for 2018 it was 8.5 per cent.

In accordance with the adopted accounting policies, as soon as Group companies become aware of the fact that budgeted construction contract costs exceed the entire expected contract revenues, they create provisions for expected contract losses and recognise them in the consolidated statements of financing activities under "Provisions for construction contract losses". As at 31 December 2019, the balance of the provision for contract losses amounted to PLN 240 677 thousand. In 2019, the balance of the provision for contract losses increased by PLN 82 642 thousand.

The Budimex Group companies are required to provide guarantees for their construction services. As at 31 December 2019, the balance of provisions for warranty repairs was PLN 480 711 thousand. In the 12-month period ended 31 December 2019, the balance of provisions for warranty repairs increased by PLN 62 853 thousand (a change in the Group's composition resulted in an increase in these provisions by PLN 264 thousand).

Compared to the previous year, selling expenses decreased in the twelve-month period ended 31 December 2019 by PLN 172 thousand, while administrative expenses were PLN 30 601 thousand lower than the expenses incurred in 2018. The share of the sum total of selling and administrative expenses in total sales revenue decreased from 3.5 per cent in 2018 to 3.0 per cent in the current year.

Other operating income in 2019 amounted to PLN 99 453 thousand and other operating expenses – to PLN 103 141 thousand. Detailed analytics of other operating income and expenses are presented in note 33 to the consolidated financial statements.

In 2019, the Group posted an operating profit of PLN 318 394 thousand, representing 4.2 per cent of total sales revenues. In the previous year, the Group reported an operating profit of PLN 417 010 thousand, representing 5.6 per cent of total sales revenues.

In the 12-month period ended 31 December 2019, the Group reported gain on financing activities in the amount of PLN 9 178 thousand, while in 2018 – a loss of PLN 11 827 thousand. Detailed analytics of finance income and costs are presented in note 34 to the consolidated financial statements.

In 2019, the Group reported a gross profit of PLN 332 357 thousand, while in the previous year a gross profit of PLN 403 388 thousand.

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

Income tax expense for 2019 was PLN 103 506 thousand, of which:

- current tax – PLN 171 545 thousand (including prior years' corrections of PLN 9 070 thousand),
- deferred tax – PLN (68 039) thousand.

As at 31 December 2019, the Group recognised deferred tax assets in the amount of PLN 418 889 thousand and deferred tax liabilities in the amount of PLN 13 404 thousand, while as at 31 December 2018 the Group recorded only deferred tax assets of PLN 361 851 thousand. Items of deferred income tax asset reported in the statement of financial position of the Budimex Group 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 2019 was PLN 226 014 thousand, while the net profit attributable to the shareholders of Budimex SA for 2018 was PLN 305 424 thousand, which represents a decrease by 26 per cent.

Net profit attributable to non-controlling interest for 2019 amounted to PLN 2 837 thousand. In the previous year, net profit attributable to non-controlling interest stood at PLN 60 thousand.

3.1.2 Key economic and financial data of Budimex SA

The financial situation of Budimex SA in 2019 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (as below, together with the 2018 comparative data).

Statement of financial position of Budimex SA

The main items of the Company's Statement of Financial Position as at 31 December 2019, compared to 31 December 2018, are presented in the table below:

ASSETS	31.12.2019	31.12.2018	Change	Change %
Non-current assets	1 790 218	1 458 014	332 204	22.8%
Property, plant and equipment	211 609	169 160	42 449	25.1%
Investment properties	-	3 178	(3 178)	(100%)
Intangible assets	32 374	28 103	4 271	15.2%
Investments in subsidiaries	1 042 194	690 544	351 650	50.9%
Investments in associates	191	61 246	(61 055)	(99.7%)
Investments in other entities	4 385	6 417	(2 032)	(31.7%)
Other financial assets	2 038	75 869	(73 831)	(97.3%)
Trade and other receivables	22 823	21 807	1 016	4.7%
Retentions for construction contracts	91 740	79 665	12 075	15.2%
Deferred tax assets	382 864	322 025	60 839	18.9%

ASSETS	31.12.2019	31.12.2018	Change	Change %
Current assets	3 203 906	2 919 625	284 281	9.7%
Inventories	477 879	308 385	169 494	55.0%
Trade and other receivables	946 350	802 012	144 338	18.0%
Retentions for construction contracts	58 023	47 191	10 832	23.0%
Valuation of construction contracts	415 362	552 306	(136 944)	(24.8%)
Current tax assets	-	33 081	(33 081)	(100.0%)
Other financial assets	123 638	17 055	106 583	624.9%
Cash and cash equivalents	1 182 654	1 159 595	23 059	2.0%
TOTAL ASSETS	4 994 124	4 377 639	616 485	14.1%

As at 31 December 2019, the total assets increased by PLN 616 485 thousand as compared to 31 December 2018, and amounted to PLN 4 994 124 thousand. Changes in the Statement of Financial Position were mainly related to the following events:

Non-current assets:

Non-current assets increased by PLN 332 204 thousand, mainly as a result of:

- an increase in the balance of property, plant and equipment by PLN 42 449 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of fixed assets in the amount of PLN 86 382 thousand, as well as the initial application of IFRS 16 in the amount of PLN 29 906 thousand – at the same time, depreciation of property, plant and equipment amounted to PLN 66 327 thousand in 2019;
- an increase in the balance of investments in subsidiaries by PLN 351 650 thousand, mainly due to the purchase of shares in FBSerwis SA for a price of PLN 98 500 thousand. Before the purchase, FBSerwis SA was an associate. Consequently,

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

the balance of investments in associates decreased by PLN 61 055 thousand. The tax on transactions under civil law related to this transaction amounted to PLN 985 thousand. Moreover, as at 31 December 2019, a contribution was made to the capital increase in FBSerwis SA in the amount of PLN 136 127 thousand and in Budimex Most Wschodni SA in the amount of PLN 70 thousand. An impairment loss on shares in Budimex Nieruchomości Sp. z o.o., amounting to PLN 54 913 thousand, was also reversed;

- a decrease in the balance of long-term other financial assets mainly following the reclassification of loans granted to short-term financial assets;
- an increase in the balance of deferred tax assets by PLN 60 839 thousand due to an increased balance of negative temporary differences on items included in liabilities.

Current assets:

In the same period, the value of current assets increased by PLN 284 281 thousand, mainly as a result of the following events:

- an increase in other financial assets by PLN 106 583 thousand, mainly attributable to the acquisition of corporate bonds issued by Polish banks in the amount of PLN 119 588 thousand;
- an increase in the balance of inventories due to the accumulation of materials for contracts;
- a decrease in the balance of valuation of long-term construction contracts by PLN 136 944 thousand, due to increased level of invoicing of work performed in the last quarter of the year. This also had an impact on the balance of trade and other receivables which increased by PLN 144 338 thousand.

EQUITY AND LIABILITIES	31.12.2019	31.12.2018	Change	Change %
Share capital	145 848	145 848	-	0.0%
Share premium	80 199	80 199	-	0.0%
Other reserves	51 165	51 356	(191)	(0.4%)
Foreign exchange differences on translation of foreign operations	7 293	7 159	134	1.9%
Retained earnings / (accumulated losses)	393 896	322 012	71 884	22.3%
Total shareholders' equity	678 401	606 574	71 827	11.8%
Liabilities	4 315 723	3 771 065	544 658	14.4%
Non-current liabilities	685 524	583 886	101 638	17.4%
Loans, borrowings and other external sources of finance	106 211	88 171	18 040	20.5%
Retentions for construction contracts	213 687	213 836	(149)	(0.1%)
Provisions for non-current liabilities and other charges	353 932	271 771	82 161	30.2%
Retirement benefits and similar obligations	11 497	10 108	1 389	13.7%
Other financial liabilities	197	-	197	100.0%

EQUITY AND LIABILITIES	31.12.2019	31.12.2018	Change	Change %
Current liabilities	3 630 199	3 187 179	443 020	13.9%
Loans, borrowings and other external sources of finance	54 253	42 082	12 171	28.9%
Trade and other payables	1 300 098	1 641 899	(341 801)	(20.8%)
Retentions for construction contracts	206 465	205 048	1 417	0.7%
Provisions for construction contract losses	241 789	159 036	82 753	52.0%
Valuation of construction contracts	952 684	583 918	368 766	63.2%
Deferred revenue	585 910	378 465	207 445	54.8%
Provisions for current liabilities and other charges	208 790	174 929	33 861	19.4%
Current tax liability	78 102	-	78 102	100%
Retirement benefits and similar obligations	1 327	1 122	205	18.3%
Other financial liabilities	781	680	101	14.9%
TOTAL EQUITY AND LIABILITIES	4 994 124	4 377 639	616 485	14.1%

Equity and liabilities:

On the side of equity and liabilities, the most significant changes referred to:

- an increase in the balance of current liabilities by PLN 443 020 thousand, mainly due to:
 - an increase in the balance of deferred revenue by PLN 207 445 thousand, mainly due to the receipt of prepayments for performance of contracts,
 - an increase in the valuation of construction contracts by PLN 368 766 thousand, mainly due to higher involvement of investors in current financing of construction projects than in the previous year,
 - an increase in the provision for construction contract losses by PLN 82 753 thousand,

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

- a decrease in the balance of trade and other payables by PLN 341 801 thousand,
 - an increase in the balance of current tax liabilities by PLN 78 102 thousand.
- an increase the balance in non-current liabilities by PLN 101 638 thousand, mainly due to:
 - an increase in the balance of provisions for non-current liabilities and other charges by PLN 82 161 thousand, mainly due to an increase in provisions for warranty repairs,
 - an increase in loans, borrowings and other external sources of finance by PLN 18 040 thousand (new finance lease agreements and initial application of IFRS 16).

Profit and Loss Account of Budimex SA

PROFIT AND LOSS ACCOUNT	01.01- 31.12.2019	01.01- 31.12.2018	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	6 939 810	6 796 868	142 942	2.1%
Cost of finished goods, services, goods for resale and raw materials sold	(6 546 544)	(6 313 733)	(232 811)	3.7%
Gross profit on sales	393 266	483 135	(89 869)	(18.6%)
Selling expenses	(10 688)	(11 098)	410	(3.7%)
Administrative expenses	(167 660)	(206 328)	38 668	(18.7%)
Other operating income	71 075	45 168	25 907	57.4%
Other operating expenses	(95 619)	(49 758)	(45 861)	92.2%
Operating profit	190 374	261 119	(70 745)	(27.1%)
Finance income	155 739	171 457	(15 718)	(9.2%)
Finance costs	(36 579)	(35 812)	(767)	2.1%
Gross profit	309 534	396 764	(87 230)	(22.0%)
Income tax	(76 811)	(75 162)	(1 649)	2.2%
Net profit for the period	232 723	321 602	(88 879)	(27.6%)

In the twelve-month period of 2019, Budimex SA generated revenues from sales in the amount of PLN 6 939 810 thousand, while in 2018 they amounted to PLN 6 796 868, i.e. a 2.1 per cent increase.

Gross profit on sales in 2019 was PLN 393 266 thousand, while in the previous year it was PLN 483 135 thousand. The gross sales profitability ratio for 2019 was therefore 5.7 per cent and was higher than in 2018, when it reached 7.1 per cent.

Pursuant to the adopted accounting principles, the Company creates provision for contract losses if the budgeted costs exceed the total revenues under the agreement. In the subsequent periods, a part of the earlier created provision is reversed in proportion to the percentage of contract completion, after taking into account the total negative margin on the entire contract. As at 31 December 2018, the balance of the provision for contract losses amounted to PLN 159 036 thousand. In the twelve-month period ended 31 December 2019, the balance of the provision for contract losses was increased by PLN 82 753 thousand.

The selling expenses in 2019 decreased by PLN 410 thousand in comparison to the previous year, while the general administrative expenses declined by PLN 38 668 thousand. The share ratio of those expenses in the total sales amounted to 2.6 per cent in 2019 and 3.2 per cent in 2018.

Other operating income in the twelve-month period of 2019 amounted to PLN 71 075 thousand and other operating expenses – to PLN 95 619 thousand. Detailed analytics of other operating income and expenses are presented in note 33 to the financial statements.

In the 12-month period of 2019, the Company reported profit on financing activities of PLN 119 160 thousand. Detailed analytics of finance income and costs are presented in note 34 to the financial statements.

In 2019, the Company earned a gross profit of PLN 309 534 thousand, which means a decrease by 22.0 per cent over the previous year.

Income tax for the 12 months of 2019 amounted to PLN 76 811 thousand, including:

- current tax – PLN 137 605 thousand (including prior years' corrections of PLN 9 070 thousand),
- deferred tax – PLN (60 794) thousand.

In 2019, Budimex SA earned a net profit in the amount of PLN 232 723 thousand, which represents a decrease by 27.6 per cent over 2018.

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

3.2 Statement of Cash Flows

3.2.1 Consolidated Statement of Cash Flows of the Budimex Group

"Cash and cash equivalents" included in the Statement of Cash Flows comprise cash in hand, demand deposits, and bank deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

- security for bank guarantees,
- gathered at open housing escrow accounts,
- funds on split payment accounts,
- cash in escrow accounts and current accounts in the part due to partners performing construction contracts together with a company from the Group.

The Budimex Group entered 2019 with cash in hand and cash at bank amounting to a total of PLN 1 409 152 thousand. For the purpose of the Statement of Cash Flows, this amount was reduced by the amount of restricted cash of PLN 141 124 thousand. Net cash flow for cash flows was positive and amounted to PLN 72 615 thousand. As at 31 December 2019, the Group's reported cash balance was PLN 1515 977 thousand, of which restricted cash was PLN 175 762 thousand.

In 2019, the balance of cash from operating activities increased by PLN 574 348 thousand, mainly due to decreased financial involvement of the Group companies (and increased involvement of investors) in projects implemented.

Cash flow from investing activities came out to a negative balance of PLN 185 260 thousand, which was mainly the result of acquiring bonds issued by Polish banks and acquiring shares in FBSerwis.

Cash flow from financing activities for 2019 showed a negative balance, which amounted to PLN 316 473 thousand and resulted mainly from the 2018 dividend payment and payment of lease and loan liabilities.

3.2.2 Statement of Cash Flows of Budimex SA

The balance of cash in bank accounts and in hand at the beginning of 2019 amounted to PLN 1 159 595 thousand. For the purposes of drafting the statement of cash flows, this amount was adjusted with the value of restricted cash (in the amount of PLN 23 304 thousand), comprising mainly cash accumulated in split payment accounts and in accounts of consortia in the portion attributable to other consortium members. In the 12 months of 2019, net cash flow was positive and amounted to PLN 32 368 thousand. As at 31 December 2019, the Company reported a cash balance of PLN 1 182 654 thousand, including restricted cash in the amount of PLN 14 423 thousand.

In 2019, the balance of cash from operating activities increased by PLN 459 323 thousand.

The balance of cash from investing activities decreased by PLN 199 800 thousand which was mostly attributable to acquisition of shares in FBSerwis SA, acquisition of bonds issued by Polish banks and proceeds from repayments of loans granted.

Cash flow from financing activities for 2019 showed a negative balance of PLN 227 155 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 160 839 thousand and repayment of lease and loan liabilities.

3.3 Managing of finance

3.3.1 Managing of finance at the Budimex Group

The balance of cash, short-term bonds and liquid deposits of the Budimex Group as at 31 December 2019 amounted to PLN 1 635 698 thousand and was PLN 226 546 thousand higher than as at 31 December 2018. On the one hand, the most important factors contributing to this change in financial resources of the Budimex Group during 2019 include, on the one hand, events that affect the increase in the cash balance, such as:

- an increase in the net balance of contract prepayments from customers in the construction segment,
- a traditional seasonal decrease in financial involvement in the implementation of large infrastructure contracts in the last months of the year,
- an increase in net balance of payments received from customers in the development segment,
- an increase in the balance of cash resulting from the commencement of consolidation of FB Serwis Group companies as of July 2019.

And, on the other hand, events that affect its decline, such as:

- the payment of dividend by Budimex SA,
- purchase of land as part of development activities,
- acquisition of shares in FB Serwis SA by Budimex SA, financed using own funds.

In accordance with the Group's policy, cash surpluses were placed as bank deposits and invested in short-term debt securities of highly rated issuers. 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.

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

At the same time, 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 2019 amounted to PLN 450 366 thousand, including lease liabilities recognised in accordance with IFRS 16, amounting to PLN 175 862 thousand. The amount of the Group's external debt on account of bank loans, borrowings and leases understood in accordance with IAS 17, i.e. without lease liabilities, reported in accordance with IFRS 16, was PLN 274 504 thousand and was therefore PLN 35 571 thousand higher than as at 31 December 2018 (see table below). The Group's financial debt¹ is composed of: the debt of Budimex SA, Budimex Kolejnictwo SA and Mostostal Kraków SA under finance leases (financing the purchase of machines and equipment for performing road and railway construction contracts), debt of companies from the FB Serwis Group, a loan taken out by Budimex Parking Wrocław sp. z o.o. (financing a car park concession) and a loan taken out by Budimex Nieruchomości Sp. z o.o. (financing development projects). As at the end of 2019, the Group had no debt under bonds issued.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2019	31.12.2018	31.12.2017
- non-current	209 725	184 110	92 086
- non-current (lease liabilities – IFRS 16):	63 533	-	-
- current	64 779	54 823	30 324
- current (lease liabilities – IFRS 16):	112 329	-	-
Total	450 366	238 933	122 410

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

Ratio	31.12.2019	31.12.2018	31.12.2017
Equity to assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.12	0.14	0.15
Equity to non-current assets ratio: <i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total non-current assets)</i>	0.56	0.75	0.95

Ratio	31.12.2019	31.12.2018	31.12.2017
Debt ratio: <i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.88	0.86	0.85
Debt to equity ratio: <i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (shareholders' equity attributable to the shareholders of the Parent Company)</i>	7.26	6.34	5.80

At the end of 2019, ratios showing the sustainability of the capital structure deteriorated, i.e. there was an increase in both the total debt ratio and the debt to equity ratio. The increase in these ratios was mostly driven by: the aforementioned purchase of shares in FB Serwis SA, financed with Budimex SA's own funds and distribution of dividend by Budimex SA.

At the end of 2019, liquidity ratios (current ratio and quick ratio) stood at lower levels than in the previous years, despite the increase in the Group's cash balance, which was driven by the same factors that caused deterioration of the debt ratios and additionally by consolidation of the FB Serwis Group companies.

Ratio	31.12.2019	31.12.2018	31.12.2017
Current ratio <i>(current assets) / (current liabilities)</i>	1.09	1.14	1.13
Quick ratio <i>(current assets – inventory) / (current liabilities)</i>	0.67	0.73	0.81

Owing to the current good financial standing of the Budimex Group, the cash resources held, access to credit limits at banks as well as the insignificant level and favourable structure of financial debt, there are no threats to the Group's ability to finance its business activities in 2020.

¹ items that do not include amounts of lease liabilities reported in accordance with IFRS 16

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

3.3.2 Managing of finance at Budimex SA

The balance of cash, short-term bonds and liquid deposits of Budimex SA as at 31 December 2019 amounted to PLN 1 302 375 thousand and was PLN 142 780 thousand higher than as at 31 December 2018. On the one hand, the most important factors contributing to this change in financial resources of Budimex SA during 2019 include, on the one hand, events that affect the increase in the cash balance, such as:

- an increase in the net balance of contract prepayments from customers,
- a traditional seasonal decrease in the Company's financial involvement in the implementation of large infrastructure contracts in the last months of the year,

and, on the other hand, events that affect its decline, such as:

- the payment of dividend by Budimex SA in June 2019,
- acquisition of shares in FB Serwis SA by Budimex SA in July 2019, financed using own funds,
- payment of finance lease liabilities.

At the same time, the Company 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 2019 amounted to PLN 160 464 thousand, including lease liabilities recognised in accordance with IFRS 16, amounting to PLN 61 727 thousand. The amount of Budimex SA's external debt on account of bank loans, borrowings and leases understood in accordance with IAS 17, i.e. without lease liabilities, reported in accordance with IFRS 16, was PLN 98 737 thousand and was therefore PLN 31 516 thousand lower than as at 31 December 2018 (see table below). The amount of financial debt² of Budimex SA comprises only liabilities under finance lease agreements in respect of machines and equipment required to carry out road construction projects. As at the end of 2019, the Company had no debt under bonds issued.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2019	31.12.2018	31.12.2017
- non-current	65 118	88 171	45 885
- non-current (lease liabilities – IFRS 16):	41 093	-	-
- current	33 619	42 082	26 381
- current (lease liabilities – IFRS 16):	20 634	-	-
Total	160 464	130 253	72 266

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

Ratio	31.12.2019	31.12.2018	31.12.2017
Equity to assets ratio: <i>(shareholders' equity) / (total assets)</i>	0.14	0.14	0.15
Equity to non-current assets ratio: <i>(shareholders' equity) / (non-current assets)</i>	0.38	0.42	0.51
Debt ratio: <i>(total assets – shareholders' equity) / (total assets)</i>	0.86	0.86	0.85
Debt to equity ratio: <i>(total assets – shareholders' equity) / (shareholders' equity)</i>	6.36	6.22	5.61

At the end of 2019, the sustainability of the financing structure, as described above, deteriorated as compared to prior years. Equity to non-current assets ratio decreased and debt to equity ratio increased. The unfavourable changes in these ratios were mostly driven by: the aforementioned purchase of shares in FB Serwis SA, financed with the Company's own funds, accompanied by the distribution of dividend. These developments have had an impact on the liquidity ratios which, as at the end of 2019, decreased as compared to previous years (see table below).

Ratio	31.12.2019	31.12.2018	31.12.2017
Current ratio <i>(current assets) / (current liabilities)</i>	0.88	0.92	0.93
Quick ratio <i>(current assets – inventory) / (current liabilities)</i>	0.75	0.82	0.87

The Company's situation with respect to liquidity and access to external sources of finance is currently good and there are no risks to the financing of the Company's activities in 2020.

² items that do not include amounts of lease liabilities reported in accordance with IFRS 16

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

3.4 Contingent liabilities and contingent receivables of the Budimex Group

Guarantees, sureties, and other contingent liabilities and receivables are described in note 45 to the consolidated financial statements of the Budimex Group and in note 46 to the financial statements of Budimex SA.

The table below shows loan guarantees and sureties issued by Budimex SA or its subsidiaries as at 31 December 2019:

Company granting the surety or guarantee	Entity to which sureties or guarantees were granted	Total amount of sureties or guarantees granted	Maximum period for which sureties or guarantees were granted	Financial terms on which sureties or guarantees were granted	The nature of the relationship existing between Budimex SA and the entity that received the surety or guarantee
Budimex SA	Mostostal Kraków SA	157 427	2027-01-21	in exchange for payments	subsidiary
Budimex SA	Mostostal Kraków Energetyka Sp. z o.o.	141	2023-11-21	in exchange for payments	subsidiary
Budimex SA	Budimex Kolejnictwo SA	66 116	2027-08-31	in exchange for payments	subsidiary
Budimex SA	Budimex Bau GmbH	44	2020-12-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	306 978*	2028-10-15	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	10 110	2020-02-17	in exchange for payments	subsidiary
Budimex SA	FBSerwis SA	48 000	2029-11-30	in exchange for payments	subsidiary
TOTAL		588 816			

* the surety was granted in relation to contracts executed by Budimex SA

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

The Budimex Group did not publish any financial forecasts for 2019.

3.6 Utilisation of proceeds from issues of securities

In the period covered by the report, no securities were issued either within or outside the Budimex Group.

4 SIGNIFICANT AGREEMENTS**4.1 Insurance agreements for the Budimex Group companies**

In 2019, 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 Axa Ubezpieczenia TUiR SA with its registered office in Warsaw (40 per cent share) and the other co-insurers are STU Ergo Hestia SA with its registered office in Sopot (30 per cent share) and Generali TU SA with its registered office in Warsaw (30 per cent share).

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

This agreement was concluded for the period from 5 July 2018 to 4 July 2020.

- General Third Party Liability (TPL) Agreement

Axa TUiR SA is the insurer. 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 100 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 1 October 2018 to 4 July 2020.

- General All-Risk Insurance Coverage for Construction Machines

This insurance agreement was concluded for a fixed period of time, i.e. from 15 November 2019 to 14 November 2020. Wiener TU SA is the insurer. Subject to insurance coverage are construction machines and equipment which are owned by

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

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 2019, an extension was signed to the agreement with Allianz Polska concerning TPL insurance for Management and Supervisory Board Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 July 2019 to 22 July 2020. 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 2019

Cooperation agreements concluded in 2019:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Moris Sp.z o.o.	rails	80 525	2019-01-22
2	Lotos Asfalt Sp. z o.o.	road asphalts	45 940	2019-01-28 2019-05-13 2019-04-01
3	Petrojet Sp. z o.o.	diesel oil	28 454	2019-09-26
4	PKP Cargo SA	transport services	14 213	2019-01-15
5	Mobilbox Polska Sp. z o.o.	lease of containers	3 508	2019-12-11
6	ZPUE SA	power equipment, parts	2 002	2019-06-03
7	Grupa GT Ochrona Sp. z o.o.	property security services	1 921	2019-05-27
8	Powers Maszyny Sp. z o.o.	construction machinery maintenance services	994	2019-08-22
9	Nixor Sp. z o.o.	separators, settlement tanks, pumping stations	950	2019-07-02
10	Bitunova Sp. z o.o.	bitumen emulsions	899	2019-11-06

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

Cooperation agreements concluded before 2019 and effective in 2019:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Moris Sp.z o.o.	rails	80 525	2017-03-27
2	Track Tec SA	rail construction materials	71 635	2018-03-26
3	Orlen Asfalt Sp. z o.o.	road asphalts	68 119	2018-03-26 2016-01-19 2012-04-20
4	Cemex Polska Sp. z o.o.	ready-mixed concrete, aggregates, cement	61 184	2011-12-06
5	Lafarge Cement SA	ready-mixed concrete	55 998	2016-04-15
6	Konsorcjum Stali SA	prefabricated reinforced steel	53 557	2014-08-18 2012-03-01
7	Arcelormittal Distribution Solutions Poland Sp. z o.o.	concrete reinforcements, reinforced steel	48 759	2013-06-25 2011-05-24
8	Lotos Asfalt Sp. z o.o.	road asphalts	45 940	2018-11-27 2018-11-27 2018-03-30 2018-01-25
9	Górażdże Beton Sp. z o.o.	ready-mixed concrete	42 917	2013-03-12
10	Stalprodukt SA	road barriers	31 678	2010-03-01 2007-06-18

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

4.3 Related party transactions

Detailed information on transactions with related parties was presented in note 40 to the consolidated financial statements of the Budimex Group and in note 39 to the financial statements of Budimex SA.

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

4.4 Loans and borrowings

As at 31 December 2019, Budimex SA had the following loans, borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available	Liability incl. interest	Interest rate	Maturity date
Credit Agricole Bank Polska SA	Revolving working capital loan	13.05.2015	70 000	-	WIBOR 1M or 3M + margin	31.05.2021
ING Bank Śląski SA	Overdraft facility	15.05.2015	50 000	-	WIBOR 1M + margin	31.05.2021
Santander Bank Polska SA	Revolving loan	13.05.2015	110 000	-	WIBOR 1M or 3M or 6M + margin	31.05.2021
Bank PEKAO SA	Revolving working capital loan	14.05.2015	100 000	-	WIBOR 1M + margin	14.05.2021
Societe Generale SA Branch in Poland	Medium-term revolving loan	14.05.2015	70 000	-	WIBOR 1M + margin	31.05.2021
Millennium Leasing Sp. z o.o.	Finance lease (33 agreements in total)	-	-	6 949	WIBOR 1M + margin	31.01.2022
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	1 623	fixed, as provided in the agreement	monthly
Pekao Leasing Sp. z o.o.	Finance lease (167 agreements in total)	-	-	90 163	WIBOR 1M + margin	31.10.2024

As at 31 December 2019, 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 loan agreement	Amount available acc. to the agreement	Liability, incl. interest	Interest rate	Maturity date
Budimex Nieruchomości Sp. z o.o.						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	131	fixed, as provided in the agreement	monthly
Santander Bank Polska SA	amortised revolving loan	02.10.2019	120 000	-	WIBOR 3M + margin	20.09.2023
Bank PKO BP SA	revolving investors' loan	28.06.2019	98 276	21 753	WIBOR 3M + margin	28.06.2023
Mostostal Kraków SA						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2015	-	183	fixed, as provided in the agreement	monthly
Millennium Leasing Sp. z o.o.	Finance lease	-	-	6 873	WIBOR 1M + margin	31.01.2023
Budimex Parking Wrocław Sp. z o.o.						
Bank PKO BP SA	Concession financing loan	30.04.2012	-	28 799	WIBOR 3M + margin	31.12.2031
Fundusz Inwestycji Samorządowych Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	loan	29.10.2018	-	1 628	WIBOR 3M + margin	29.10.2038
Konica Minolta	Finance lease	30.09.2014	-	5	fixed, as	monthly

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

Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement	Liability, incl. interest	Interest rate	Maturity date
Business Solutions Sp. z o.o.					provided in the agreement	
Budimex Kolejnictwo SA						
Pekao Leasing Sp. z o.o.	Finance lease (2 agreements in total)	-	-	4 509	WIBOR 1M + margin	31.07.2025
Millennium Leasing Sp. z o.o.	Finance lease (20 agreements in total)	-	-	61 607	WIBOR 1M + margin	31.03.2028
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	-	-	8	fixed, as provided in the agreement	monthly
FBSERWIS KAMIEŃSK SP. Z O.O.						
Bank PEKAO SA	Multi-purpose credit limit	-	1 000	-	WIBOR 1M + margin	30.06.2020
NFOSIGW	Co-financing in the form of a loan	-	-	19 197	fixed, as provided in the agreement	31.03.2026
FBSERWIS DOLNY ŚLĄSK SP. Z O.O.						
ING Bank Śląski SA	Corporate investment financing loan	-	-	690	WIBOR 1M + margin	30.11.2021
ING Bank Śląski SA	Corporate investment financing loan	-	-	471	WIBOR 1M + margin	31.03.2020
FBSERWIS SA						
Societe Generale SA Branch in Poland	Overdraft facility	-	20 000	-	WIBOR 1M + margin	30.09.2020
Santander Bank Polska SA	Finance lease (60 agreements in total)	-	-	7 321	WIBOR 1M + margin	31.05.2020
Mbank SA	Finance lease (2 agreements in total)	-	-	18	fixed, as provided in the agreement	31.01.2020
FBSERWIS WROCŁAW SP. O.O.						
NFOSIGW	Co-financing in the form of a loan	-	-	4 309	fixed, as provided in the agreement	31.03.2026
Santander Bank Polska SA	Finance lease (31 agreements in total)	-	-	7 823	WIBOR 1M + margin	31.05.2020
Santander Bank Polska SA	Overdraft facility	-	8 000	4 685	WIBOR 1M + margin	28.02.2020
Mbank SA	Finance lease (2 agreements in total)	-	-	440	fixed, as provided in the agreement	15.01.2023
Caterpillar Financial Services Poland Sp. z o.o.	Finance lease (1 agreement)	-	-	425	fixed, as provided in the agreement	06.12.2020
Europejski Fundusz Leasingowy SA	Finance lease (10 agreements in total)	-	-	642	fixed, as provided in the agreement	12.09.2021

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

Lender	Title of liability	Date of signing the loan agreement	Amount available acc. to the agreement	Liability, incl. interest	Interest rate	Maturity date
FBSERWIS KARPATIA SP. Z O.O.						
Santander Bank Polska SA	Finance lease (18 agreements in total)	-	-	4 093	WIBOR 1M + margin	31.05.2020
EFL	Finance lease (2 agreements in total)	-	-	157	fixed, as provided in the agreement	24.08.2020

4.5 Major capital deposits and equity investments in 2019

In 2019, neither the Parent Company nor other Group companies made any equity investments in entities not belonging to the Budimex Group. For a description of equity investments within the Budimex Group, see Note 2.1.

4.6 Information about borrowings granted during the accounting year, including in particular borrowings granted to related parties

As at 31 December 2019, FBSerwis SA did not have any debt to Budimex SA under loan agreements. The debt under all loan agreements concluded by Budimex SA as lender and FBSerwis SA as borrower, which remained in force during 2019, was early repaid in full by FBSerwis SA on 19 December 2019.

Other details concerning the loans granted are disclosed in note 15.1 to the consolidated statements of the Budimex Group and in note 16.2 to the financial statements of Budimex SA.

5 OTHER INFORMATION

5.1 Information about the shareholding in the Parent Company and related parties held by Members of the Management and Supervisory Boards of the Parent Company

As at 31 December 2019, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2019, the Members of the Supervisory Board of Budimex SA held the following numbers of shares:

- Marek Michałowski – 4 000 shares

5.2 Acquisition of own shares

In 2019, Budimex SA did not acquire its own shares.

5.3 System of control over employee share incentive schemes

The Company did not operate an employee share incentive scheme.

5.4 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.

5.5 Entity authorised to audit financial statements

On 15 May 2019, the Supervisory Board of Budimex SA resolved to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. to review the Company's semi-annual financial statements and consolidated financial statements of the Budimex Group for a 6-month period of 2019, 2020 and 2021, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial years 2019-2021.

The contract for the review and audit of financial statements for 2019 was concluded on 1 July 2019. The remuneration for the audit of separate and consolidated financial statements amounted to PLN 424 thousand (including remuneration for the audit of the reporting package for the Ferrovial Group); the remuneration for the review of the semi-annual separate and consolidated financial statements amounted to PLN 120 thousand (including remuneration for the review of the semi-annual reporting package for the Ferrovial Group). The Audit Committee issued a written agreement to the provision of review and audit services concerning the reporting packages for the Ferrovial Group.

In 2018 and 2019, the audit firm did not provide any other services to the Group companies.

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

5.6 Information about charity and sponsorship activities

For many years, Budimex SA has implemented projects designed to support its sustainable development. In 2011, the Management Board of Budimex SA adopted the "CSR Policy", under which short-term goals for the entire Company are determined. Their implementation is supervised by the CSR Committee whose meetings are held four times a year. In 2016, the "CSR Strategy" was implemented, establishing goals for the Company for the years 2016-2020.

Since 2011, Budimex SA has been listed in the RESPECT Index – the first index of socially responsible companies in Central and Eastern Europe and since September 2019 – it has been included in the WIG-ESG Index that replaced the RESPECT Index.

In 2019, Budimex SA developed the programme: "Strefa Rodzica. Budimex Dzieciom" [Parent Zone. Budimex for Children] and initiated the "Hello ICE" programme which replaced the CSR programme (implemented since 2009) "Domofon ICE. Budimex Dzieciom" [ICE Card. Budimex for Children]. In addition, since 2015, the Company has been running an internal employee volunteer programme "Grant na Wolontariat" [Grant for Volunteering]. A new social campaign carried out by Budimex in 2019 was also the "Drzewo za ankietę" [A Tree for a Survey] project, as part of which stakeholders were asked to complete a survey on the annual report of the Budimex Group. In return, i.e. for each completed survey, the Company promised to plant one tree. Nearly 200 trees were planted in Białystok, where Budimex performs several contracts. Budimex also participated in an innovative project, #ideathon.

The objective of the "Hello ICE" programme is to increase the knowledge of the youngest pupils of primary schools (grades 1-3) and preschoolers in the field of road safety. The key elements of the campaign are: an interactive map where everyone can mark a dangerous place on the children's route to school or kindergarten and educational materials for teachers as well as games and plays for children and parents. In addition, schoolchildren are provided with plastic cards with contact details of their next of kin to be contacted in the event of an emergency. The Hello ICE programme has received honorary patronage of the Minister of Infrastructure and the Minister of National Education, as well as a positive opinion of the Good Education Association. Additionally, the campaign has a broader educational dimension as it promotes the principles of road safety and first aid among young people. By the end of 2019, nearly 300 dangerous places were reported, 8 Safety Days in primary schools and kindergartens were held and 1400 reflective ICE cards were distributed among children.

"Parent Zone. Budimex for Children" is a programme implemented at the end of 2012. The programme involves the creation of separate zones in hospital paediatric wards where hospitalised children can spend time together with their parents, and parents have the ability to prepare a meal, take a shower or sleep. Thus far, Budimex SA has launched 32 Parent Zones in paediatric units of hospitals in Poland. Annually, nearly 180 thousand children and their parents can use all 32 zones. In 2019, 4 Parent Zones were launched (in Gdańsk, Chorzów, Kraków and Płock).

In 2015, the Company launched a programme called "Grant na Wolontariat" [Grant for Volunteering] under which Budimex employees can propose their own volunteering initiatives. Employee volunteering projects can be proposed throughout the year. They are discussed during quarterly meetings of the CSR Committee which makes decisions on awarding the grants. In 2019, 75 volunteers from the company implemented 8 projects.

In 2019, Budimex SA also participated in a special project, the #ideathon. It was the first social project of its kind in Poland and an innovative example of skill-based volunteering which brought together, among others, employees of Budimex and 8 other companies, i.e. DHL Parcel Polska, Dentsu Aegis Network Polska, Orange Polska, Alior, Grupa Żywiec, PwC, Leroy Merlin and Polpharma. It was 100 people selected from the employees who stand out with creativity, talent and commitment. Together with experts from the Integracja Foundation, which has been helping people with disabilities for 25 years, during intense workshops, they worked on specific solutions that can improve the situation of people with disabilities in the job market in Poland.

In addition to the aforementioned social programs, in 2019 Budimex continued to implement social, cultural and educational initiatives, including those aimed at promoting physical culture and sport. The following initiatives are worth mentioning:

- the "Odkrywcy Diamentów" [Diamond Explorers] scholarship programme providing financial support to talented and successful groups of young people to enable them to participate in prestigious international and national scientific and technical contests, in particular in such fields as: technology, engineering, structure, industrial design, maths and management,
- support for the activity of the Demos Foundation that helps young people facing difficulties in their lives. The Foundation establishes premises for educational, therapeutic and sporting activities. It holds workshops for youth leaders and scholarship programs. It also develops publishing activities focused on social, educational and cultural issues,
- reconstruction of a Polish church in Krakowiec, Ukraine,
- support for the organisation of events and sports teams: the Polish Sailing Championships for the Disabled, "Stomil Olsztyn" Football Club, the Polish Bridge Union, the Wybrzeże Gdańsk handball team, the Sokół Ostróda football team and the "Katarzynki" Women's Basketball Sports Club in Toruń,
- other projects that fit into Budimex's social goals and are addressed to children, e.g. the Foundation for Children "Zdążyć z Pomocą", the Oncological Foundation "Nadzieja", Primary Schools and Technical Universities.

5.7 Legal proceedings

The total value of legal proceedings pending in respect of liabilities and receivables as at 31 December 2019 was PLN 448 970 thousand. Excess of the value of proceedings against Group companies over proceedings relating to claims of the Group companies amounted to PLN 65 938 thousand.

On the basis of the information held by Budimex SA, the total value of legal proceedings pending in respect of liabilities of Budimex SA and subsidiaries as at 31 December 2019 was PLN 257 454 thousand. The proceedings pending in respect of Budimex SA and subsidiaries relate to the operating activities of the Group companies.

The largest item in terms of the value of the dispute was the lawsuit against Budimex SA and Ferrovia Agroman SA in Madrid, members of the consortium related to implementation of the contract "Construction of the new premises for the Silesian Museum in Katowice" concluded on 7 June 2011, filed on 24 July 2017 by the claimant – the Silesian Museum in Katowice. The Claimant requests that the Defendants are either condemned in solidum to pay the amount of PLN 122 758 thousand plus statutory interest from the date the lawsuit was filed for improper performance of the obligation under the Contract, either alternatively the court adjudges the claim for decreasing the price by PLN 34 675 thousand as the reimbursement of part of the remuneration, which was wrongly paid in Claimant's opinion. Article 471 of the Civil Code was specified as the grounds for pursuing the main claim, and the provisions on statutory warranty were specified for the alternative claim.

In the opinion of the Management Board of Budimex SA the claims in the lawsuit are groundless. The irregularities, which in the Claimant's opinion constitute actual grounds of the claims, provided that these do exist, do not result from actions or omissions of the consortium. Moreover, proper performance of the building by the consortium was confirmed by the Claimant issuing the Work Acceptance Certificate and Implementation Certificate for the Silesian Museum building in Katowice. The Management Board assesses that the provisions for warranty repairs recognised beforehand fully cover the risks related to contract implementation. Budimex SA filed its response to the claim on 31 October 2017 and supplemented it in January 2018. The court successfully delivered a copy of the claim to Ferrovia Agroman SA on 21 September 2018. Ferrovia Agroman SA filed a reply to the statement of claim on 22 October 2018. The first hearing took place on 11 March 2019, during which the court obliged the parties to pay an advance towards the remuneration of the research institute which will prepare an opinion on the case. As at the date of the report, the date of the next hearing is not known.

Another material legal proceedings relate to the claim filed on 5 March 2008 by Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. requesting that the amount of PLN 25 252 thousand be awarded jointly and severally against the consortium to which the Budimex SA and Budimex Dromex SA belonged. The claim relates to the replacement of contractor costs incurred by the investor when the consortium rescinded the contract. The Budimex Group's share in consortium was 90%, therefore the value of the claim for which Budimex SA is liable is PLN 22 727 thousand. On 12 July 2017, the court of the first instance awarded against Budimex SA only the amount of PLN 22 thousand (towards reimbursement of the costs of expert opinions commissioned by the claimant), and dismissed the claim in its entirety. An appeal against the judgment was filed both by the claimant (against the entire judgment) and the defendant (against a part of the judgment - i.e. the amount of PLN 22 thousand). Currently, the parties await setting the date for the hearing before the court of the second instance.

As at the date of this report, the final outcome of the remaining proceedings is not known. For all legal proceedings which – according to the Group – may finish in an unfavourable way, provisions were recognised in the amount that takes into account the risk estimated by the Group.

The total value of legal proceedings pending in respect of claims of Budimex SA and its subsidiaries amounted to PLN 191 516 thousand as at 31 December 2019. The proceedings relate mainly to the recovery of overdue receivables from business partners and to additional claims in respect of the construction work performed. As at the date of this report, the final outcome of the proceedings is not known.

5.8 Significant achievements in the area of research and development

Innovative projects carried out by the Budimex Group are described in section 2.2 of the Budimex Group's Consolidated report on non-financial information for 2019. Innovative projects carried out by Budimex SA are described in section 2.2 of the Group SA's Report on non-financial information for 2019.

5.9 Retirement and similar benefit obligations toward former members of the management and supervisory boards

As at 31 December 2019, neither Budimex SA nor companies from the Budimex Group had any retirement and similar benefit obligations toward former members of management and supervisory boards.

6 CORPORATE GOVERNANCE

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

In 2019, the Company applied the "Best Practices of WSE Listed Companies 2016" adopted by a resolution of the WSE Supervisory Board, No. 26/1413/2015 dated 13 October 2015, within the scope indicated in Report No. 1/2016 of 4 January 2016, sent in the EBI system and published on the Company's website.

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

On 11 December 2015, under Resolution No. 22, the Company's Management Board adopted the new principles for use as of 1 January 2016, except for guaranteeing shareholders, using electronic means of communication:

- 1) 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 – Rule No. IV.R.2 item 2) in Chapter IV General Meeting and Shareholder Relations,
- 2) the option to exercise voting rights in person or through an authorised legal representative during the General Meeting, outside the place of the General Meeting – Rule No. IV.R.2 item 3) in Chapter IV General Meeting and Shareholder Relations.

The Company upholds its previously presented position in relation to continued doubts as to the possibility of ensuring a legally safe manner of execution of the General Meeting if shareholders are granted the above-mentioned option, in particular, taking into account the number of shareholders usually participating in the General Meeting of Budimex SA. Therefore, in the opinion of the Company, such a situation still carries technical, and consequently legal, threats to the correct and efficient execution of the General Meeting.

In the above-mentioned resolution, the Management Board also determined that:

- a. in accordance with Rule I.Z.1.15. (diversity policy) in Chapter I. Disclosure Policy and Investor Communications, the Company applies the diversity policy to its governing bodies and key managers and, as a result, it will prepare in one document the principles of this policy, covering in particular such elements as gender, education, age, professional experience, so that it is possible to publish the relevant description on its website,
- b. Rule III.Z.3. in Chapter III. Internal Systems and Functions (the independence of the person managing the internal audit function and other persons responsible for the performance of its tasks in line with generally accepted international standards of the professional internal audit practice), is applied by the Company in such a way that in accordance with the adopted division of competencies between individual bodies of the Company, matters related to employing Office of Internal Control staff, including their remuneration, are in the competencies of the Management Board of the Company, and the Audit Committee of the Supervisory Board monitors the efficiency of internal control systems and internal audit, i.e. the actions of the Office of Internal Control, is informed of the activity plan of the internal audit, and receives reports of these activities or periodic summaries from the Office of Internal Control. Employees of the Office of Internal Control are obliged to perform audits primarily at the request of the Supervisory Board and the Audit Committee of the Supervisory Board,
- c. considering that the Management Board and the Supervisory Board apply previous corporate governance principles regarding a conflict of interest, and the relevant provisions do not occur in internal regulations of the Company regarding the Supervisory Board (Bylaws of the Supervisory Board), on the basis of principle V.Z.6. of DPS 2016 it will be proposed to the Company's Supervisory Board that it supplements the Bylaws of the Supervisory Board with a provision under which a member of the Supervisory Board will inform the Supervisory Board of an existing conflict of interests which has arisen or may arise, and shall refrain from discussing such issue, including refraining from voting.

At the same time, the Management Board applied to the Supervisory Board to adopt the resolution on the application of corporate governance principles concerning the above.

On 16 December 2015, under Resolution No. 240, the Company's Supervisory Board adopted the "Best Practices of WSE Listed Companies 2016" for use as of 1 January 2016, in the scope specified in the aforesaid resolution of the Company's Management Board.

On 14 March 2016, by Resolution No. 242, the Supervisory Board introduced the aforementioned amendments to the Bylaws of the Supervisory Board by adding sec. 12b to the Bylaws. Next, at the request of the Management Board, by Resolution No. 243 of 14 March 2016, the Supervisory Board asked the Ordinary General Meeting to adopt a resolution on observing the "Best Practices of WSE Listed Companies 2016" to the extent specified in the aforementioned resolutions of the Management Board and the Supervisory Board.

In 2016, the Ordinary General Meeting of Shareholders of the Company, by Resolution No. 275 of 26 April 2016, adopted for use the "Best Practices of WSE Listed Companies 2016" as suggested by the Management Board and the Supervisory Board. The document containing corporate governance policies was and is still posted on the Company's website at <http://www.budimex.pl>.

The Diversity policy is published on the Company's website.

At the same time, it needs to be noted that the Company has been providing a broadcast of the General Meeting in real time for several years, and no changes in this respect are planned.

6.2 Compliance policy

In September 2017, the Management Board of Budimex SA adopted the Compliance Policy. Adoption of the Policy demonstrates the importance that the Company attaches to conducting its business in compliance with applicable laws, ethical standards and fair play rules. The Compliance Policy adopted aggregated the internal regulations in place at the Company, making them more formal in scope and nature. It was also important to draw the attention of both the Company's external environment and employees/associates to the importance of complying with the applicable laws and with ethical and moral principles in day-to-day business operations. The Compliance Policy contains a catalogue of prohibited activities, although this catalogue is not exhaustive, and indicates the main areas of the Company's business where there may be a risk of violation of the law. It also refers to internal legal acts in force at the Company and aimed at organising and formalising specific processes in order to mitigate the risks indicated above. The day-to-day supervision over the Policy implementation has been entrusted to the Compliance Coordinator, supported by a deputy and the Compliance Committee, consisting of representatives of the most important organisational divisions of the Company. Attention had to be paid also to the fact that the Company introduced a uniform whistleblowing system based on compliance communication channels. At subsequent meetings of the Supervisory

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

Board, the Company's Management Board provides the Supervisory Board with information on current activities carried out in the area of compliance and potential irregularities reported to the Company.

6.3 Diversity policy

Diversity and openness constitute integral parts of both the business activities of the Company and its hiring policy. The Diversity Charter signed on 8 November 2016 is a confirmation of the Company's efforts in this area.

The contents of the Diversity Charter have been published on the Company's intranet, as well as made available to employees in printed form at the Head Office and in branches of Budimex SA. In addition, information on signing the Diversity Charter has been published at www.budimex.pl.

As a company with many years of experience, Budimex is aware that employees are the most valuable assets and that it is employees who, for many years, have been contributing to the Company's strong position on the market. Having regard to the creation of a friendly working environment, Budimex puts particular emphasis on the policy of equal treatment with regard to:

- gender,
- age,
- disability,
- race, nationality,
- religion, belief,
- lifestyle,
- gender identity, sexual orientation,
- family status,
- political convictions,
- the form, scope of and basis for employment,
- other types of cooperation and other conditions exposing people to discriminatory behaviour.

The Budimex Group companies undertook to implement diversity management and equal rights policies and to promote and disseminate them among all stakeholders of the organisation — from administrative to senior management and supervisory positions.

Budimex has developed and implemented equal rights and diversity management policies in the workplace, with special emphasis placed on recruitment, access to training programs and promotion opportunities, remuneration, reconciliation of professional and family obligations, and protection from mobbing and unjustified dismissal.

The Budimex Group's staff includes people of differing gender and age, which fosters dialogue between people from different generations. The largest group of employees are 30-50 years of age, followed by the group of employees under the age of 30, with people over the age of 50 forming a slightly smaller group. Budimex also breaks down barriers associated with the health of our employees by hiring people with disabilities.

Structure of employees of the Budimex Group in 2019:

Age (in years)	Women	Men	Total
<30	473	1 008	1 481
30-50	879	3 608	4 487
> 50	100	1 406	1 506
Total employees	1 452	6 022	7 474

Age and gender structure of the Company's Management Board

	Women	Men	Total
Total Management Board, of which:	0	6	6
under 30 years of age	0	0	0
30-50 years of age	0	1	1
over 50 years of age	0	5	5
including foreign nationals	0	0	0

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

Age and gender structure of the Company's Supervisory Board

	Women	Men	Total
The Supervisory Board	3	7	10
under 30 years of age	0	0	0
30-50 years of age	1	0	1
over 50 years of age	2	7	9
including foreign nationals	0	4	4

6.4 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 the preparation of separate financial statements of Budimex SA and the 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.

The 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 an impact on the truthfulness and fairness of the financial statements. Additionally, the Budimex Group uses a computer program that supports the identification and management of risks related to the preparation of any financial information, including 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 authorisation levels for the 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.

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 the preparation of the financial statements, among others, the following control activities are carried out:

- 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 the correctness of the assumptions underlying accounting estimates,
- comparative and substantive analyses of financial data,
- verification of the arithmetical correctness and consistency of financial data,
- analysis of disclosure completeness.

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. After reviewing the contents of the financial statements and this Directors' Report as well as the auditor's report, the Supervisory Board issues an assessment on their consistency with the accounting records, supporting documentation, and the actual state of affairs.

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

6.5 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 2019 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 GSM
Ferrovial Agroman International SE	ordinary	14 078 159	55.1%	14 078 159	55.1%
Aviva OFE Aviva Santander	ordinary	2 552 000	10%	2 552 000	10%
Nationale Nederlanden OFE	ordinary	1 360 000	5.3%	1 360 000	5.3%
Other shareholders	ordinary	7 539 939	29.5%	7 539 939	29.5%
Total		25 530 098	100.0%	25 530 098	100.0%

6.6 Holders of all securities which confer special control rights

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

6.7 Restrictions on exercising voting rights

There are no restrictions concerning the exercise of voting rights.

6.8 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 the pre-approval of the Company. Such approval has to be granted by the Management Board in writing to be valid.

6.9 Regulations concerning appointment or removal of Management or Supervisory Board Members, the rights of those persons, in particular, the right to make decisions on share issue or redemption

The Supervisory Board appoints and removes the 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 a decision on share issue. The rights of the Management Board regarding the decision to redeem shares do not vary from those set forth in the Code of Commercial Companies.

During 2019, 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 make a decision on the issuance or redemption of the Company shares, as provided for in the Articles of Association, did not change.

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

- granting approval for disposal of registered (inscribed) shares,
- determining the share issue price in the 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,
- making a decision on the purchase or disposal of property, perpetual usufruct or a share in property, machines and equipment, securities or other asset items where the unit price on acquisition or disposal does not exceed one fifth of the Company's share capital,
- taking a decision on the prepayment of year-end dividend upon approval by the Supervisory Board.

6.10 Implementing changes to the Articles of Association of Budimex SA

Changes to the Articles of Association are made by way of a resolution of the General Meeting of Shareholders and an entry in the National Court Register. These issues are regulated in sec. 13 letter r) of the Articles of Association in the description of the rights of the General Meeting of Shareholders. A draft resolution on amending the Company's Articles of Association should be submitted to the Supervisory Board for approval, as is the case for all resolutions of the General Meeting. 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, three quarters of the total voting rights, and (ii) in the case of a significant change to business activities – two thirds of the votes.

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

The General Meeting of Shareholders of the Company operates on the basis of the Articles of Association, By-laws of the General Meeting (both documents are posted on the Company's 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 sec. 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 a resolution on whether the costs of convening and holding the Meeting are to be borne by the Company. The shareholders who requested that the Meeting should be convened 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 Organised 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 take place 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 one twentieth 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 request may be forwarded in an electronic form. The Management Board must immediately, but no later than 18 days before the scheduled date of the General Meeting, announce changes to the meeting agenda that were introduced at the request of the shareholders. Such announcement is executed in the manner applicable to convening the General Meetings of Shareholders.

A shareholder or shareholders representing at least one twentieth 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 items placed on the agenda of the General Meeting of Shareholders or items that are to be placed on the agenda. 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 authorised 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 electronic form does not require the use of a qualified electronic signature.

In accordance with the Articles of Association and applicable laws, the General Meeting of Shareholders adopts resolutions in particular on the following matters:

- considering and authorising 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 the 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 the incorporation of the Company, or losses resulting from performing management or supervisory functions,

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

- disposing or leasing/renting the company or its organised 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,
- an amendment to the Company's Articles of Association, especially concerning a share capital increase or decrease, or an amendment to the Company's objects,
- 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 loan, borrowing or suretyship agreement, 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 by 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.

6.12 Composition of the Management and Supervisory Boards, changes thereto 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 2019, the Management Board of Budimex SA was composed of the following persons:

- | | |
|-------------------------|--|
| • Dariusz Jacek Blocher | President of the Management Board, General Director, |
| • Artur Popko | Vice-President of the Management Board, Chief Operating Officer, |
| • Cezary Mączka | 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. |

In 2019, the composition of the Management Board changed as follows:

- on 18 June 2019, Mr Radosław Górski tendered his resignation as member of the Management Board of Budimex SA,
- on 18 June 2019, the Supervisory Board of Budimex SA, at the request of the President of the Management Board, appointed Mr Artur Popko, who had until then acted as a member of the Management Board of Budimex S.A., as Vice-President of the Management Board,
- on 31 December 2019, Mr Henryk Urbański tendered his resignation as member of the Management Board of Budimex SA.

In 2019, there were no changes as regards authorisations to represent the Company granted by the Management Board.

b) Composition of the Supervisory Board and its Committees

As at 31 December 2019, the Supervisory Board of Budimex SA was composed of the following persons:

- | | |
|--|--|
| • Marek Michałowski | Chairperson of the Supervisory Board, |
| • Juan Ignacio Gaston Najarro | Deputy Chairperson of the Supervisory Board, |
| • Igor Adam Chalupec | Supervisory Board secretary, |
| • Danuta Dąbrowska | Supervisory Board Member |
| • Agnieszka Słomka-Gołębiowska | Supervisory Board Member |
| • Marzenna Anna Weresa | Supervisory Board Member, |
| • Janusz Dedo | Supervisory Board Member |
| • Javier Galindo Hernandez | Supervisory Board Member |
| • Jose Carlos Garrido-Lestache Rodríguez | Supervisory Board Member |
| • Fernando Luis Pascual Larragoiti | Supervisory Board Member |

Due to the expiry of mandates of members of the Supervisory Board of the ninth term of office, on 16 May 2019 the Ordinary General Meeting of Budimex SA, appointed the Supervisory Board of the tenth term of office, in the above-mentioned composition. Thus, the composition of the Supervisory Board in the period from 1 January 2019 to 31 December 2019 has changed as follows:

- on 16 May 2019, in connection with the expiry of the mandate of a member of the Supervisory Board and the lack of appointment by the Ordinary General Meeting to perform the function in the Supervisory Board of the new term of office, Mr Piotr Kamiński ceased to be a member of the Supervisory Board,

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

- on 16 May 2019, the Ordinary General Meeting appointed new members to the Supervisory Board, namely Ms Danuta Dąbrowska and Ms. Agnieszka Słomka-Gołębiowska.

As at 31 December 2019, the Audit Committee was composed of the following persons:

- Danuta Dąbrowska – Chairperson,
- Javier Galindo Hernandez – Member,
- Agnieszka Słomka-Gołębiowska – Member.

During 2019, the composition of the Audit Committee changed as a result of Resolution No 290 of the Supervisory Board of 16 May 2019, under which the Supervisory Board of the new term of office appointed the Audit Committee in the composition as above. Until 16 May 2019, the Audit Committee was composed of the following persons:

- Marzenna Anna Weresa – Chairperson,
- Javier Galindo Hernandez – Member,
- Janusz Dedo – Member.

As regards the independence of an Audit Committee member, provisions of the following apply: Article 129 par. 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 and criteria of independence of Board members, within the meaning of the Best Practices of WSE Listed Companies 2016 (Rule II.Z.4. Section II Management Board and Supervisory Board, in the Best Practices of WSE Listed Companies 2016).

The status of independence of a Supervisory Board member is determined by the Company in accordance with the criteria defined in the Operating Instruction No. IO-01-07-02, relating to obtaining information from Supervisory Board members and the publication of this information, based on representations filed by Board members and based on Article 129 par. 3 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017.

As at 31 December 2019, the Investment Committee was composed of the following persons:

- Janusz Dedo – Chairperson,
- Javier Galindo Hernandez – Member,
- Fernando Luis Pascual Larragoiti – Member.

During 2019, the composition of the Investment Committee changed as a result of Resolution No. 290 of the Supervisory Board of 16 May 2019, under which the Supervisory Board of the new term of office appointed the Investment Committee in the composition as above. Until 16 May 2019, the Investment Committee was composed of the following persons:

- Piotr Kamiński – Chairperson,
- Javier Galindo Hernandez – Member,
- Fernando Luis Pascual Larragoiti – Member.

As at 31 December 2019, the Remuneration Committee was composed of the following persons:

- Marek Michałowski – Chairperson,
- Igor Chalupiec – Member,
- Juan Ignacio Gaston Najarro – Member.

The composition of the Remuneration Committee did not change in 2019. On 16 May 2019, the Supervisory Board of the new term of office appointed the Remuneration Committee in its current composition by way of Resolution No. 290.

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 commercial representative of the Company.

d) Operation of the Supervisory Board

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

The Supervisory Board takes decisions provided at least half of Board Members are present at the meeting and all its members were invited to the meeting. The Supervisory Board adopts resolutions with an absolute majority of votes. In the case of equal number of votes, the casting vote is that of the Chairperson 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 the Company Management Board members, determining the 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 should be signed by the Chairperson 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 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 sec. 12, par. 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:

1. monitor the process of preparation of the financial statements of the Company and the consolidated financial statements for the previous year, perform detailed reviews of the results of audits performed by a statutory auditor at each audit stage; monitor the process of preparation of the Directors' Report, including statements on non-financial information;
 2. monitor the effectiveness of the internal control systems, risk management systems and internal audit, also in the area of financial reporting;
-

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

3. monitor the performance of audit activities, in particular performance by an audit firm of an audit, while taking into consideration any and all motions and findings of the Audit Supervision Authority arising from the control activities carried out within the audit firm;
4. control and monitor the independence of the statutory auditor and of the audit firm, in particular when the services other than audit and review of financial statements are provided to the Company by the audit firm;
5. inform the Supervisory Board about the results of the audit and explain the manner in which the audit contributed to reliability of financial reporting at the Company and the role of the Audit Committee in the audit process;
6. assess the independence of the statutory auditor and grant consent to provision by the statutory auditor of permitted services other than the audit in the Company;
7. develop a policy for selecting the audit firm to conduct the audit;
8. develop a policy governing provision by the audit firm, entities affiliated with that audit firm and by any member of the audit firm's network of permitted services other than audit;
9. define the procedure for selection of the audit firm by the Company;
10. present to the Supervisory Board a recommendation referred to in Article 16 par. 2 of Regulation No. 537/2014 (a recommendation for the appointment of statutory auditors or audit firms) in compliance with the policies referred to items 7 and 8 above;
11. submit recommendations designed to ensure integrity of the financial reporting process at the Company;
12. forward to the Supervisory Board conclusions and recommendations relating to the audit and assessment of the financial statements of the Company and of the consolidated financial statements for the previous year, to assess the Management Board's proposal concerning profit appropriation or loss absorption;
13. forward to the Supervisory Board conclusions and recommendations concerning acknowledgement of the fulfilment of duties by the Chief Financial Officer;
14. perform other tasks commissioned by the Supervisory Board depending on the current situation of the Company;
15. submit a report on the Committee's activities to the Supervisory Board on a semi-annual basis, by the date of approval of annual financial statements and after publication of semi-annual financial statements.

In 2019, the statutory independence criterion was met by:

- Marzenna Anna Weresa and Janusz Dedo serving on the Audit Committee until 16 May 2019,
- Danuta Dąbrowska and Agnieszka Słomka-Gołębiowska serving on the Audit Committee from 16 May 2019

In the period until 16 May 2019, Ms. Marzenna Anna Weresa – professor of economic sciences, full professor at the College of World Economy of the Warsaw School of Economics, member of supervisory boards of companies listed on the Warsaw Stock Exchange – was a member of the Audit Committee with the greatest experience, knowledge and skills in the field of accounting or auditing financial statements.

During the period from 16 May 2019, members of the Audit Committee who have the most extensive experience, knowledge and skills in the field of accounting and management are:

- Ms Danuta Dąbrowska, member of the Association of Chartered Certified Accountants (ACCA), member of supervisory boards of WSE-listed companies and
- Ms Agnieszka Słomka-Gołębiowska - professor at the Chair of International Comparative Studies at the Warsaw School of Economics, member of supervisory boards of WSE-listed companies.

Mr. Javier Galindo Hernandez – long-term Chief Financial Officer of Ferrovial Agroman SA, the main company of the Ferrovial Group construction segment, is a member of the Audit Committee with the greatest experience, knowledge and skills in the broadly understood construction industry.

The Audit Committee held 6 meetings in 2019.

Key elements of the audit firm selection policy

In accordance with the Articles of Association of Budimex SA, the audit company is selected by the Supervisory Board on the basis of a recommendation of the Audit Committee. It is prohibited to introduce any contractual clauses that would require the Supervisory Board to select an audit firm from a specific category or list of audit firms. Such clauses shall be null and void by operation of law.

At the same time, the Supervisory Board – during the final selection of the audit firm – and the Audit Committee – at the stage of preparing recommendations – follow, among others, the following guidelines concerning the audit firm:

- a) the price proposed by the audit firm,
- b) the ability to ensure full range of services defined by Budimex SA,
- c) previous experience of an audit firm in auditing financial statements of entities whose business profile is similar to that of the Budimex Group and experience in auditing financial statements of public interest entities,
- d) professional qualifications and experience of persons directly involved in the audit carried out in the Budimex Group,
- e) the ability to collaborate with the Ferrovial Group auditors and to meet the deadlines for reporting to the Ferrovial Group.

The Audit Committee's recommendation to the Supervisory Board regarding the extension of agreement with audit firm to perform the audit was issued in 2019 and met the applicable conditions. The aforementioned recommendation regarding the selection of the audit firm was issued in 2017 and prepared as a result of Budimex SA's procedure for selecting an audit firm,

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

carried out in the second half of 2016 and at the beginning of 2017. The procedure for selecting an audit firm was consistent with the "Budimex SA's policy and procedure for selecting an audit firm to audit financial statements".

Key elements of Budimex SA's policy for provision of authorised non-audit services by audit firms and entities affiliated with them

The audit firm, entities affiliated with it and entities belonging to the same network may provide authorised non-audit services, as defined in Article 136 par. 2 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017, to Budimex SA, to its subsidiaries and to the parent company of Budimex SA. However, the Audit Committee is required to approve the conclusion of an agreement for such services, after prior analysis of threats to and safeguards for independence, referred to in Articles 69-73 of the Act. This approval must be recorded in the minutes of the Committee's meeting or be given in circular form and confirmed in the minutes of the next Committee meeting. If the seriousness of the threats to the independence of the audit firm is such that independence is compromised, the Audit Committee shall not approve the signing of an agreement for additional services. The services referred to above may be provided only to the extent not related to the tax policy of Budimex SA. All other non-audit services are prohibited.

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 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 parties.

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 schemes 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 the remuneration of individual Management Board Members and ensuring that the remuneration proposed is consistent with the remuneration regulations adopted by the Company and the assessment of the 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 the calculation of the previous year's bonus and the percentage ratio for salary/wage increase in the current year;
- preparation of the annual report on activities of the Remuneration Committee.

6.13 Remuneration Policy for Members of Management and Supervisory Boards, as well as key managers 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 28 April 2015, the General Meeting of Shareholders resolved that members of the Supervisory Board of Budimex SA would receive monthly remuneration for their work in the following amounts:

- Chairperson 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 1.5 ratio,
- President of the Investment 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 1.3 ratio,
- President of the Remuneration 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 1.3 ratio,

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

- Deputy Chairperson 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,
- 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 1.2 ratio,
- Supervisory Board Member – twice the amount of the average monthly remuneration in the enterprise sector without out of profit payments, calculated using the 1.1 ratio.

Management Board Members

The body authorised to determine the 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 schemes 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 Chairperson of the Supervisory Board on behalf of the Supervisory Board.

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 termination notice period resulting from the Labour Code provisions. In addition, the employment contracts provide for severance pay in the amount of 6-12 monthly salaries, depending on the position, in the case of removal or non-appointment for the next term of office of the Management Board for reasons due to the Company. Where the contract is terminated due to an employee's resignation or his/her wilful misconduct to the detriment of the Company, severance pay is not paid and only the termination notice period resulting from the applicable Labour Code provisions remains in effect.

In addition, Members of the Management Board of Budimex SA have concluded, with the Company or the company paying their remuneration, separate non-competition agreements which are valid for a period of 12 months after the date of dissolution of the respective employment contracts. During the period of validity of the non-competition clause, the Company will pay the employee 25-100 per cent of his/her basic monthly remuneration, depending on the manner in which the employment contract is terminated and the party that initiated the termination. Contractual penalties have been established for the breach of the non-competition clause by a member of the Management Board.

Information on the remuneration of Members of the Management Board was presented in note 40.1 to the consolidated financial statements of the Budimex Group and in note 39 to the financial statements of Budimex SA.

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 an annual assessment of task completion, and ratio-related bonus relating to the business activities of the Budimex Group,
- share-based remuneration under the "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 Ferrovial SA. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares in Ferrovial. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in three consecutive years and on the eligible persons' remaining employed by the Company at the date of awarding the shares.

Key managers

The body authorised to determine the remuneration policy for Key managers is the Management Board of Budimex SA. The remuneration policy has been determined in individual employment contracts.

The remuneration of key managers 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 an annual assessment of task completion, and ratio-related bonus relating to the business activities – areas under management,
- share-based remuneration under the "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 Ferrovial SA. Management Board members who have been employed at the Company for at least 36 months will be eligible to subscribe for the shares in Ferrovial. Both the fact of awarding and the number of awarded shares depends on achieving economic parameters budgeted by the Ferrovial Group in three consecutive years and on the eligible persons' remaining employed by the Ferrovial Group at the date of awarding the shares.

Non-financial components of remuneration

Non-financial components of remunerations to which individual Board Members and key managers are entitled are the same and include "in-kind" benefits such as free-of-charge medical care, payment of life insurance policy premiums, company car.

