

budimex

THE BUDIMEX GROUP

BUDIMEX SA

DIRECTORS' REPORT FOR 2018

TABLE OF CONTENTS

1	BUSINESS ENVIRONMENT	4
1.1	General market conditions	4
1.2	Market development prospects	4
1.3	Strategy adopted by the issuer and its capital group	8
2	CURRENT ACTIVITIES AND DEVELOPMENT PERSPECTIVES FOR THE BUDIMEX GROUP	8
2.1	The Group's organisational structure, consolidated entities and changes in Group organisation	8
2.2	Operating segments and branches of the Parent Company	10
2.3	Structure of sales revenues	11
2.3.1	Structure of sales revenues of the Budimex Group	11
2.3.2	Structure of sales revenues of Budimex SA	13
2.4	Construction activities of the Budimex Group on the German market	14
2.5	Budimex Group and Budimex SA development prospects in the forthcoming year	14
2.6	Evaluation of investment project feasibility	15
2.7	Risk factors	15
2.8	Procurement source changes	15
3	FINANCIAL POSITION	16
3.1	Key economic and financial data	16
3.1.1	Key economic and financial data of the Budimex Group	16
3.1.2	Key economic and financial data of Budimex SA	19
3.2	Statement of Cash Flows	22
3.2.1	Consolidated Statement of Cash Flows of the Budimex Group	22
3.2.2	Statement of Cash Flows of Budimex SA	22
3.3	Managing of finance	23
3.3.1	Managing of finance at the Budimex Group	23
3.3.1	Managing of finance at Budimex SA	24
3.4	Contingent liabilities and contingent receivables of the Budimex Group	25
3.5	Differences between forecast and actual financial results of the Budimex Group	25
3.6	Utilisation of proceeds from issues of securities	25
4	SIGNIFICANT AGREEMENTS	25
4.1	Insurance agreements for the Budimex Group companies	25
4.2	Cooperation agreements binding in 2018	26
4.3	Related party transactions	27
4.4	Loans and borrowings	27
4.5	Major capital deposits and equity investments in 2018	28
4.6	Information about borrowings granted during the accounting year, including in particular borrowings granted to related parties	28
5	OTHER INFORMATION	28
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	28
5.2	Acquisition of own shares	29
5.3	System of control over employee share incentive schemes	29
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	29
5.5	Entity authorised to audit financial statements	29
5.6	Information about charity and sponsorship activities	29
5.7	Legal proceedings	30
5.8	Significant achievements in the area of research and development	31
5.9	Information on liabilities resulting from pensions and benefits of a similar nature for former management or supervisory personnel	31
6	CORPORATE GOVERNANCE	31
6.1	Corporate governance policies at Budimex SA and public availability of the underlying document	31
6.2	Compliance policy	32
6.3	Diversity policy	32
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	33
6.5	Shareholders with direct or indirect ownership of significant blocks of shares	34
6.6	Holders of all securities which confer special control rights	34
6.7	Restrictions on exercising voting rights	34
6.8	Restrictions on transferring ownership rights to the securities of Budimex SA	34
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	35
6.10	Implementing changes to the Articles of Association of Budimex SA	35
6.11	Functioning of the General Meeting of Shareholders, its fundamental powers, rights of the shareholders and the manner of exercising those rights	35
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	36

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

6.13	Remuneration Policy for Members of the Management and Supervisory Boards, as well as key managers at Budimex SA	40
7	REPORT ON NON-FINANCIAL INFORMATION	42

1 BUSINESS ENVIRONMENT

1.1 General market conditions

2018 saw the continuation of the strong pace of economic growth from 2017. According to preliminary estimates of the Central Statistical Office (GUS), the gross domestic product grew by 5.1 per cent at constant prices of the previous year in 2018 in comparison with 4.8 per cent in 2017. Just as in 2017, the strong GDP growth was mainly driven by an increase in investments. Gross fixed capital formation in 2018 increased by 7.3 per cent compared to the increase by 3.9 per cent in 2017, while the investment rate in 2018, understood as the ratio of gross capital formation to gross domestic product in current prices, was at a similar level as in 2017 and amounted to 18.1 per cent in 2018 compared to 17.7 per cent in 2017. In 2018, gross value added in the construction industry increased by 17.0 per cent year on year, while in 2017 it grew by 6.5 per cent.

The average annual consumer price index in 2018 reached 1.6 per cent compared to 2.0 per cent in 2017. The year-on-year decline in inflation is attributable to a slowdown in price growth in the last months of 2018. In December 2018, the CPI reached 1.1 per cent and was one percentage point lower than in December 2017. In 2018, the unemployment rate decreased by 0.8 percentage points, from 6.6 per cent in December 2017 to 5.8 per cent in December 2018.

In 2018, the perception of the general economic situation in the construction industry by construction companies remained unchanged compared to 2017. More and more businesses operating in the construction sector point to a strong shortage of skilled workers in the labour market as the main source of business uncertainty. Concerns as to whether construction companies can meet their employment needs are also confirmed by the statistics published by the Central Statistical Office (GUS) which show that in 2018, the industry did not fill the employment gap compared to the record year of 2012. In 2018, there was a significant drop in the number of construction companies identifying insufficient demand for construction services and excessive competition on the market as barriers to doing business.

In 2018, the value of construction and assembly output recorded a strong double-digit year-on-year growth of 21.3 per cent in current prices. The scale of the projects implemented contributed to a very high value of construction and assembly output of companies employing more than 9 people. For the first time in history this value exceeded PLN 100 billion. The improved growth in output was mainly driven by a very strong demand for construction services in all three construction industry segments, and in particular in the area of infrastructural construction, where the construction and assembly output grew by 23.7 per cent in 2018 (in current prices) compared to 11.7 per cent in 2017. This good performance of the entire infrastructural construction sector resulted primarily from the results of the road construction segment (an increase by 21.0 per cent on a year-to-year basis, in current prices) and the railway construction segment (an increase by 37.0 per cent on a year-to-year basis, in current prices). The scale of the overall growth of the construction market in 2018 was also driven by an upturn in the general construction segment. Construction and assembly output in this area recorded an increase by 18.7 per cent (in current prices) as compared with an increase by 14.0 per cent in 2017. In 2018, the factors that contributed to this result included continued output growth in the residential construction segment, which reached 17.5 per cent compared to 14.2 per cent growth in 2017, and a high value of work performed in the non-residential construction segment, where the value of construction and assembly output in 2018 increased by 19.4 per cent compared to a 14.0 per cent increase in 2017. The main source of growth in this construction segment was a significantly stronger growth in output volume for public utility buildings (by 43.5 per cent vs 31.5 per cent in 2017) and maintained pace of growth in the area of construction of industrial facilities, where the output increased by 13.9 per cent compared to 9.9 per cent in 2017.

In 2018, 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 (51 per cent in total construction and assembly production, as compared to a share of 50 per cent in 2017). The corresponding share of the residential construction segment stood at 16 per cent and is comparable to the one recorded in 2017.

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 2018, more than 46 thousand co-financing agreements with the total value of PLN 380.6 billion were signed, with the EU contribution amounting to PLN 233.5 billion, which accounts for approx. 71 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 83.8 billion and PLN 30.3 billion. Moreover, the value of all payment applications submitted by the end of 2018 amounted to nearly PLN 112.0 billion, with road infrastructure projects accounting for PLN 34.5 billion and railway infrastructure projects accounting for PLN 7.3 billion.

In 2018, the number of flats that were put to use increased and amounted to 184.8 thousand (up by 3.6 per cent in comparison with 2017). The good economic situation is supported by the number of flats for which a construction permit was granted (an increase by 2.7 per cent annually, to the level of 257.1 thousand). Due to the slowdown in the expansion of the residential offering, in 2018 the development sector recorded a decrease in pre-sales volume compared to 2017. In the six largest residential markets in Poland (Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź), approx. 64.8 thousand flats were pre-sold in 2018 by developers (by approx. 11 per cent less than in 2017).

1.2 Market development prospects

As assumed in the 2019 state budget, real GDP growth in 2019 will stand at 3.8 per cent compared to 5.1 per cent in 2018. As announced by the Minister of Finance, Poland is set to face a slowdown in economic growth, which fits into the global economic cycle. Foreign institutions point to the likelihood of a more pessimistic scenario. According to forecasts published in the first half of February 2019, GDP growth in Poland in 2019 will amount to 3.6 per cent (forecast of the International Monetary Fund) or even 3.5 per cent (forecast of the European Commission). As estimated, the downturn will be caused by, among other factors, a slowdown in foreign demand, moderate private investment and limited potential for further growth in private consumption which may be constrained by rising inflation. The budget act adopted by the Sejm in January 2019 envisages that the current year's inflation rate will be 2.3 per cent compared to 1.6 per cent in 2018. In the wake of rising

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

electricity production costs, the inflation rate in subsequent years may be driven by potential increases in electricity prices. The state intervention in the energy market, which took place at the turn of 2018 and 2019, made it possible to halt the inflationary factors in 2019, but there is some uncertainty as to the long-term effectiveness of such efforts.

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. 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.

In 2019, the construction market will continue to be driven by increasing investment expenditures by the largest public investors in the area of infrastructure. The entry of many infrastructural projects into the advanced implementation phase should translate into a further increase in construction and assembly output, but the domestic construction sector may not be able to reach the growth rate recorded in 2018. Many construction companies start 2019 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. What is also important is the limited supply of workers in the 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 July 2017, 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 107.1 billion to PLN 135.2 billion, while reducing the number of kilometres to be financed. The increase in the financial limit, with the planned continued support from the European Union under the current Financial Perspective, means an increased contribution of national funds which are not as secured as EU funds. The length of sections of national roads planned for completion within the revised PBDK budget amounts to 3 268 kilometres, as compared to 4 783 kilometres provided for in PBDK adopted in 2015. In addition, the revised PBDK includes 40 reserve projects of a total length of 1 911 kilometres. The launching of these projects depends on the level of savings generated in the course of the programme implementation.

According to the official announcement published in January 2019, between 2013 and 2018 the General Directorate for National Roads and Motorways (Generalna Dyrekcja Dróg Krajowych i Autostrad – GDDKiA) announced 176 tenders under the PBDK for tasks with a total length of approx. 2 260 kilometres, among which approx. 80 per cent of the contracts will be executed in the design & build formula. The gross value of bids opened by the GDDKiA under the PBDK in 2014-2018, as regards general contracting contracts with a significant value, amounted to PLN 66.3 billion (excluding tenders that have been invalidated).

Assuming a 20% share of expenditures not related to the general execution of projects (such as land purchase costs, project supervision costs, feasibility study costs), the progress of implementation of PBDK, in terms of value of bids submitted, is approx. 61 per cent. In material terms, the significant value bids opened cover the implementation of 164 general contracting tasks with the total length of more than 2 120 kilometres which means that the progress of implementation of PBDK in material terms is approx. 65 per cent. In 2018, the gross value of bids opened amounted to PLN 3.5 billion which is a significant deterioration from 2017, when the corresponding value was PLN 21.6 billion. As at the end of 2018, the GDDKiA is conducting tender procedures under the PBDK for sections with a total length of 110 kilometres. The gross value of significant general contracting contracts for road investment projects signed under the PBDK by the GDDKiA in 2018 amounted to PLN 17.8 billion and was higher than in 2017, when the total gross value of similar contracts reached PLN 6.2 billion. As in 2017, a noticeable problem, casting a shadow on the GDDKiA tender market in 2018, was a dangerously long period between submission of a bid by a contractor and the conclusion of the contract. In view of the increasing rate of growth in input prices in 2017-2018, delays in the award of tenders have forced some contractors to refrain from extending their bids and to withdraw from signing the contract. The phenomenon of increasing general contracting costs of road projects, particularly intensified in 2017-2018, resulted in a number of bids whose value exceeds the investor's budget. A factor driving up the prices of materials in 2020 and subsequent years may be a potential increase in electricity prices, which will boost the costs of manufacturers of construction materials, e.g. cement works, and in consequence will translate into higher costs of general contracting in construction works. In 2019-2020, 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. The stagnation in announcing new tenders, which started in the second half of 2017, also continued in 2018. As a result of limited activity in announcing new proceedings, the value of general contracting contracts signed in 2019 may reach a relatively low level. On the other hand, 2019 is likely to see a revival in terms of announcing tenders, but due to the protracted period between the announcement of the tender and the signing of the contract, the execution of most contracts under the procedures launched in 2019 may take place no sooner than in 2020.

According to the list of orders planned for announcement in 2019, published in January 2019, the GDDKiA will announce this year tenders for construction works for 17 sections with a total length of 435 kilometres, including several sections of the planned S19 expressway with a total length exceeding 170 kilometres. The pace and scale of announcing tenders by GDDKiA after 2019 is uncertain. Full implementation of the PBDK scope depends on the availability of funds provided directly by the state budget, which means that part of the projects may not be implemented due to the potential need to introduce unpopular ideas, such as increasing the fuel fee.

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 current financing plan for the "National Railway Programme until 2023" (KPK),

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

adopted in June 2018, between 2015 and 2023 PKP PLK will implement projects included in the basic list with a value of PLN 63.8 billion. Additionally, the reserve list includes 64 projects with a value of approx. PLN 28 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. Changes in terms of the global value made in the revised KPK, as compared to the version adopted by the government in November 2016 and July 2017, are insignificant. What is noticeable, however, is the adjustment of expenditure distribution over time, involving a consistent deferral of expenditure to 2020 and beyond. As announced, a revised KPK should be published in the near future, envisaging an increase in the financial limit by PLN 4.3 billion, and the purpose of the revision is, for the most part, to increase funds for railway investments in seaports.

The estimated value of tenders announced in 2018 by PKP PLK was comparable to the value of proceedings launched in 2017. Due to, among other factors, the growing scale of risks inherent in railway contracts and high cost inflation, many bids submitted in tenders exceeded 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. This resulted in the successive invalidation and reopening of tenders. Since the beginning of 2018, PKP PLK has invalidated several large tenders in which the lowest bid exceeded the investor's budget by nearly 70 per cent on average. A predominant share in the value of tenders published in 2015-2018 was held by large general contracting contracts of significant value. Between July 2015 and December 2018, PKP PLK announced 90 such tenders (excluding projects focused on the implementation of ERTMS/GSM systems), including 12 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 PLN 25.7 billion (excluding invalidated tenders). In mid-February 2019, PKP PLK conducted one large tender proceedings at the pre-bid stage. According to PKP PLK, the net value of contracts signed for railway projects in 2018 amounted to nearly PLN 10.0 billion, which means that the record level of contracting of 2017 has not been exceeded. On the other hand, in 2018 PKP PLK recorded the historically highest value of investment expenditure which amounted to approximately PLN 10.0 billion. As at the beginning of February 2019, the value of work completed and work in progress under the KPK reached the equivalent of two thirds of the total programme value.

According to the tender schedule for 2019 published by PKP PLK, the rate of publishing tenders under the KPK in 2019 should not be lower than in 2018. A good example of a solution that speeds up the implementation of KPK is the abandonment of announcing tenders in the two-stage procedure (with pre-selection of contractors) which took place in mid-2016, and replacing it with a single-stage (open) procedure. To eliminate the situation where contractors compete based on low price only, the assessment of bids includes non-price criteria; however, the majority of such criteria have no effect on the outcome. Full 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. According to the Office of Rail Transport's data, the average delay time of freight trains exceeded 11 hours in the third quarter of 2018, while the corresponding value in the third quarter of 2017 and 2016 was, respectively, 10 hours and 8 hours. During the three quarters of 2018, almost 32 thousand freight trains were cancelled compared to 20 thousand freight trains cancelled in the same period in 2017. In addition, the weakening of the financial and operational standing of some railway companies, due to the stagnation in rail projects between 2016 and 2017, may hinder the smooth implementation of record high portfolios of railway companies' orders. 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 accumulation of construction work under two major investment programmes in national roads and railways, supported by the high value of general construction projects, has recently led to a sharp increase in prices of construction materials, subcontracting services and in labour costs. 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. The public party's proposal provides for a monthly indexation based on a basket of price-setting components, i.e. fuel, cement, asphalt, steel, aggregates or labour. Part of the scope of works will be indexed by the consumer price index, and the weights of individual components of the basket will be fixed, predetermined by the contracting authorities. The price data will be derived from the database of the Central Statistical Office. In addition, the indexation will cover only half of the value of the work invoiced, and the maximum level of additional compensation resulting from the indexation was set at 5% of the contract value. GDDKiA and PKP PLK also decided to introduce an obligation to index subcontracting agreements when the planned period of cooperation exceeds 6 months. According to the official position of trade organisations, supported by the opinion of the largest construction companies, the proposed solutions do not guarantee proper performance of construction contracts in a case of a rapid change in the market situation. The introduced changes are treated as a sign of goodwill of the public party and constitute a starting point for further discussion on the indexation of long-term contracts. In addition, the problem of lack of indexation of contracts currently in progress has still not been addressed.

New priorities and challenges continue to be defined in the hydrotechnical engineering sector. In January 2017, the president signed an act on ratification of the European agreement on main inland waterways (the AGN Convention). Under this convention, Poland undertook to bring the main river beds up to European standards. In accordance with the "Assumptions to

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

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, including nearly PLN 9 billion to be invested by 2020. The vast majority of the projects are at the stage of feasibility study and environmental impact assessment. In accordance with the project schedule for the Odra Waterway and Vistula River Waterway, in 2020 the Ministry of Marine Economy and Inland Navigation will prepare a waterway development programme that will enable a more reliable assessment of the segment's potential. 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, Opole, Turowo, Stalowa Wola and at Żerań Plant in Warsaw are at the construction stage, while the units in Kozenice, Włocławek and Płock have been successfully commissioned or completed. 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. A number of major projects are at the planning or tender stage, including a "clean coal" power plant at Bogdanka mine, two new power unit with a capacity of 700 MW each at Zespół Elektrowni Dolna Odra (Dolna Odra Power Plant) and a coal-fired generation unit in Puławy. According to the Minister of Energy, Krzysztof Tchórzewski, the construction of the Bogdanka unit should start in 2020. The tender for the construction of units in the Dolna Odra Power Plant will be announced in 2019, and the contractor for the unit in Puławy should be selected in the first quarter of 2019. 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". 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 the coming years, it is expected that investment programmes will be continued in the electricity and gas transmission and distribution markets. At the beginning of 2018, Polskie Sieci Elektroenergetyczne (PSE) announced public consultations on the development plan for 2018-2027. According to the draft, PSE's expenditure on infrastructure development in this period is to exceed PLN 12 billion. After a standstill in signing new contracts for the construction of transmission networks in 2017, the value of work contracted has increased in 2018. With three large general contracting contracts signed in 2018, the level of contracting reached the same level as in 2016, when the value of contracts signed stood at PLN 0.7 billion.

Nevertheless, these are values that are definitely far from the contracting levels reached in 2013-2015. In February 2019, PSE did not hold any major tender procedure in the area of construction works. As a result of subdued activity of the contracting authority in 2019, the low level of contracting recorded in 2017 may return. In 2018, the electricity transmission market entered the phase of growth of the volume of construction works. The maximum annual value of this volume may exceed PLN 2 billion. 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 2016-2018, Gaz System signed 15 contracts for the general construction of large gas pipelines with a total net value of PLN 2.0 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 demand and unflagging housing needs of Poles, 2018 saw a decrease in the number of flats sold by property developers. 64.8 thousand flats were sold on the 6 largest markets, i.e. in Warsaw, Wrocław, Kraków, Łódź, Poznań and Tri-City, as compared to 72.8 thousand flats in 2017. The reversal of the upward trend is also confirmed by sales figures reported by the largest property developers. The main reason for the drop in sales is a significant reduction in the residential offering of leading developers due to the extension of formal and legal processes involved in obtaining the necessary permits and approvals, and the need to adjust housing prices to the dynamic inflation of general contracting costs of residential projects. It is difficult to estimate the level of flat sales in 2019. A factor that may positively influence the market in 2019 is 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. On the other hand, increasing demand for residential space, an increase in the cost of purchasing land in large cities and an upward trend in the cost of construction of residential projects may translate into a noticeable increase in the price of flats in the near future, which may become a cooling factor in the Polish residential market. A major challenge for property developers is the planned liquidation of open trust accounts in their current form and the planned launch of the Developer Guarantee Fund, forcing property developers to pay premiums depending on the level of their sales. According to the concept of the Office of Competition and Consumer Protection, the author of the aforesaid idea, the funds accumulated in this way are to secure the interests of customers of developers who may face a difficult financial situation leading to bankruptcy. On the other hand, it is difficult to find a negative impact of the new government programme "Mieszkanie Plus" ("Flat Plus") on the structure of the residential development market. The parties most interested in the programme are local authorities of smaller cities who, in most cases, do not have a decisive impact on the shape and size of the residential offer

of the largest development companies in Poland.

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. In 2018, only two significant tenders organised in the PPP formula ended with submission of bids, one of which was invalidated due to the fact that the lowest bid significantly exceeded the contracting authority's budget. It is possible that 2019 will bring a rebound in the PPP market. Currently, the Ministry of Infrastructure is finishing business analyses which are to determine whether sections of S6 and S10 will be built in the PPP formula. The gross expenditure of the first of the four sections under analysis amounts to approx. PLN 3.7 billion (estimate for traditional construction according to PBDK).

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

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, and, to a limited extent, trading, production and transport.

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

- ensure 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 **25 April 2018**, Budimex K Sp. z o.o. was entered in the National Court Register. Budimex SA holds 100 per cent of the shares in this company.

On **26 April 2018**, Budimex L Sp. z o.o. was entered in the National Court Register. Budimex SA holds 100 per cent of the shares in this company.

On **21 June 2018**, Budimex Inwestycje "Grunwald" SA was renamed to Biuro Inwestycji "Grunwald" SA. The change was entered in the National Court Register on 2 August 2018.

On **12 July 2018**, Budimex PPP SA, a direct subsidiary of Budimex SA, sold its shares in Budimex D Sp. z o.o. to Budimex SA.

On **7 August 2018**, Budimex PPP SA, a direct subsidiary of Budimex SA, sold its shares in Budimex C Sp. z o.o., Budimex F Sp. z o.o., Budimex H Sp. z o.o., Budimex I Sp. z o.o. and Budimex J Sp. z o.o. to Budimex SA.

On **3 September 2018** the agreement between Budimex and Cadagua SA entered into force, including arrangements for reducing the share of Cadagua SA in joint operations, i.e. Budimex SA Cadagua SA II S.C., Budimex SA Cadagua SA III S.C., Budimex SA Cadagua SA IV, Budimex SA Cadagua SA V S.C. down to the level of 0.1 per cent share in each partnership.

On **17 September 2018**, Budimex SA concluded with PG Energetyka Sp. z o.o. a contract for the sale of shares in Elektromontaż Poznań SA, representing 98.95 per cent of the share capital and carrying 98.95 per cent of votes at the general meeting of the company. Along with the company sold, direct subsidiaries of Elektromontaż Poznań SA, i.e. Elektromontaż Warszawa SA in liquidation, Elektromontaż Import Sp. z o.o. in liquidation and Instal Polska Sp. z o.o. in liquidation were excluded from the consolidation. The sale of shares in Elektromontaż Poznań SA was made together with the sale of shares in Biuro Inwestycji "Grunwald" SA.

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

On **17 September 2018**, Budimex SA concluded with Raven 9 Sp. z o.o. a contract for the sale of shares in Biuro Inwestycji "Grunwald" SA, representing 98.95 per cent of the share capital and carrying 98.95 per cent of votes at the general meeting of the company.

On **29 October 2018**, 49 per cent of shares in Budimex Parking Wrocław Sp. z o.o. was sold to a new minority shareholder.

In 2018, there were no changes in the management policies at the Budimex Group.

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 2018	31 December 2017	31 December 2018	31 December 2017
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
Biuro Inwestycji "Grunwald" SA ¹	Warsaw / Poland	-	100.00%	full	non-consolidated
Budimex Kolejnictwo SA	Warsaw / Poland	100.00%	100.00%	full	full
Budimex Parking Wrocław Sp. z o.o. ²	Warsaw / Poland	51.00%	100.00%	full	full
Elektromontaż Poznań SA ³	Poznań / Poland	-	98.95%	-	full
Elektromontaż Import Sp. z o.o. ³	Warsaw / Poland	-	98.95%	-	full
Instal Polska Sp. z o.o. ³	Poznań / Poland	-	98.95%	-	full
Elektromontaż Warszawa SA ³	Warsaw / Poland	-	98.95%	-	full
Non-consolidated					
Budimex Autostrada SA (w likwidacji) ⁴	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Most Wschodni SA	Warsaw / Poland	100.00%	100.00%	non-consolidated	non-consolidated
Budimex Autostrada A1 SA (w likwidacji) ⁵	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. ⁶	Warsaw / Poland	100.00%	-	non-consolidated	-
Budimex L Sp. z o.o. ⁷	Warsaw / Poland	100.00%	-	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

¹ Budimex Inwestycje "Grunwald" SA has been fully consolidated since 1 February 2018. On 21 June 2018, it was renamed to Biuro Inwestycji "Grunwald" SA. On 17 September 2018, an agreement for the sale of shares held was concluded.

² On 29 October 2018, 49 per cent of shares in Budimex Parking Wrocław Sp. z o.o. was sold to a new minority shareholder.

³ Shares in Elektromontaż Poznań SA were sold on 17 September 2018. At the same time, direct subsidiaries of this company, i.e. Elektromontaż Import Sp. z o.o., Instal Polska Sp. z o.o. and Elektromontaż Warszawa SA, were excluded from consolidation (in addition, on 24 April 2018, the liquidation of these three companies was commenced).

⁴ On 24 October 2018, the General Meeting of Shareholders of Budimex Autostrada SA adopted a resolution to complete the liquidation of the company. As at 31 December 2018, the company has not yet been deleted from the National Court Register.

⁵ 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 2018, the company has not yet been deleted from the National Court Register.

⁶ Budimex K Sp. z o.o. was entered in the National Court Register on 25 April 2018.

⁷ Budimex L Sp. z o.o. was entered in the National Court Register on 26 April 2018.

(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 2018	31 December 2017	31 December 2018	31 December 2017
Joint operations					
Budimex SA – Budimex Budownictwo Sp. z o.o. s.c.	Warsaw / Poland	100.00%	100.00%	full	full
Budimex SA Energetyka 1 Sp.j.	Warsaw / Poland	100.00%	100.00%		
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%	share in assets, liabilities, revenues and costs	share in assets, liabilities, revenues and costs
Budimex SA Sygnity SA Sp. j.	Warsaw / Poland	67.00%	67.00%		
Budimex SA – Cadagua II SA s.c.	Warsaw / Poland	99.90%	50.00%		
Budimex SA – Cadagua SA III s.c.	Warsaw / Poland	99.90%	60.00%		
Budimex SA – Cadagua SA IV s.c.	Warsaw / Poland	99.90%	60.00%		
Budimex SA – Cadagua SA V s.c.	Warsaw / Poland	99.90%	60.00%		
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%	50.00%		
Budimex SA Energetyka 3 Sp.j.	Warsaw / Poland	50.00%	50.00%		

2.2 Operating segments and branches of the Parent Company

As at 31 December 2018, the Group conducted business in the following two operating segments:

- construction business,
- development activities and property management.

Construction business covers the rendering of broadly understood construction and assembly services at home and abroad and is carried out 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.

As at 31 December 2018, 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. Stawki 40,
- Infrastructure North Branch in Warsaw, ul. Stawki 40,
- Infrastructure South Branch in Kraków, ul. Ujastek 7,
- Infrastructure West Branch in Wrocław, ul. Mokronoska 2,
- Industrial and Railway Branch in Warsaw, ul. Stawki 40,
- Equipment Services Branch in Pruszków, ul. Przejazdowa 24,
- Branch in Rzeszów, ul. Słowackiego 24,
- Branch in Poznań, ul. Wołowska 92A,
- Budimex Spółka Akcyjna Zweigniederlassung Köln, Pferdmenesstr. 5, Cologne.

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

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

- Mostostal Kraków Spółka Akcyjna Zweigniederlassung Köln, Pferdengassestrasse 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 2018, the construction market (measured by the value of sales of construction and assembly production) increased by 21.3 per cent in comparison with 2017 and recorded the highest growth rate since 2011. The increase was recorded in the infrastructural construction segment (23.7 per cent) and general construction segment (18.7 per cent).

The increase in sales of the Budimex Group's construction segment in the reviewed period amounted to 16.1 per cent year in comparison to the year 2017.

The share of the infrastructural construction segment in total revenue from sales of the Group's construction and assembly services decreased from 48.9 per cent in 2017 to 44.9 per cent in 2018. Following the acquisition of new railway contracts, the share of this segment in the Group's revenue structure increased from 3.9 per cent to 9.0 per cent in 2018. The share of the general construction segment remained relatively flat compared with the previous year and stood at 46.1 per cent.

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

Type of construction	Sales value			
	2018		2017	
	PLN million	%	PLN	%
Civil engineering (infrastructure)	3 163	44.9%	2 967	48.9%
Rail buildings and structures	634	9.0%	237	3.9%
General construction, of which:	3 250	46.1%	2 866	47.2%
- non-residential buildings	2 537	36.0%	2 058	33.9%
- residential buildings	713	10.1%	808	13.3%
Total sales of construction and assembly services	7 047	100.0%	6 070	100.0%

Development activities

In 2018, the revenues from sales in the development business amounted to PLN 548 069 thousand, thus recording a 8.8 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 2018, the entire development market experienced a slight slowdown in the rate of pre-sales of new apartments as compared to the previous year. In 2018, 1 208 flats offered by the Budimex Group were sold in the pre-selling system, compared to 1 457 flats pre-sold in the previous year. The 17 per cent drop in the number of pre-sold flats was in line with the downward trend observed in the largest cities in Poland. The main factor holding back sales was a noticeable increase in flat prices, caused by a very rapid increase in construction costs driven mainly by more expensive construction materials and a significant increase in the costs of subcontractors' services.

In order to live up to customers' expectations and ensure stability of the revenues from sales in the following years, in 2018 the development of more than one and a half thousand new flats commenced. The Budimex Group continues to expand its land bank and in 2018 it purchased plots of land in Warsaw, Kraków, Poznań, Tri-City and Wrocław. At the end of 2018, the portfolio of projects ready for launching has increased to nearly 10 thousand flats.

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

Major construction contracts concluded by the Budimex Group companies in 2018:

Contract date	Contract value allocated to Budimex SA	Customer	Type of construction
2018-05-08	580 402	KGHM Polska Miedź SA	Construction of the Southern Section of Żelazny Most Waste Treatment Facility – Stage I (Phase 1, 2, 3)
2018-05-30	459 740	Polish History Museum	Construction of the Polish History Museum in Warsaw
2018-09-14	440 336	PKP Polskie Linie Kolejowe SA	Reconstruction of track system together with auxiliary infrastructure at the E59 railway line, Rokietnica-Wronki section as part of the project "Works on the E59 railway line at the Poznań Główny-Szczecin Dąbie section"
2018-07-04	393 730	General Directorate for National Roads and Motorways branch in Olsztyn	Design and construction of the S61 express road between Szczuczyn and Budzisko (state border) divided into tasks: Task 3: section between Wysokie junction and Raczki
2018-06-11	273 068	General Directorate for National Roads and Motorways branch in Gdańsk	Construction of the S6 Słupsk-Gdańsk express road on the section from Lębork (including Lębork bypass) to Trójmiasto bypass, divided into 2 parts: part 1: Construction of S6 Słupsk-Gdańsk express road on the section from Lębork (including Lębork bypass) to Trójmiasto bypass, Task 3 Luzino junction (without the junction) – Szemud junction (including the junction)
2018-08-09	271 155	General Directorate for National Roads and Motorways branch in Rzeszów	Design and construction of the S19 express road on the section from the Nisko Południe junction (without the junction) to the Sokołów Małopolski Północ junction (including the junction), divided into three tasks: Task B from the Podgórze junction (including the junction) to the Kamień junction (without the junction) with the length of approx. 10.5 km
2018-09-14	232 985	General Directorate for National Roads and Motorways branch in Łódź	Design and construction of A-1 Motorway: Tuszyń (without the junction) – border of Łódź and Silesia provinces from km 335+937.65 to km 399+742.51. Section C – Kamieńsk junction (without the junction) – Radomsko junction (with junction) from km 376+000.00 to km 392+720.00
2018-12-21	232 849	General Directorate for National Roads and Motorways branch in Rzeszów	Design and construction of the S19 express road on the section from the Nisko Południe junction (without the junction) to the Sokołów Małopolski Północ junction (including the junction), divided into three tasks: Task C from the Kamień junction (including the junction) to the Sokołów Małopolski Północ junction (including the junction) with the length of approx. 7.9 km
2018-10-05	228 374	General Directorate for National Roads and Motorways branch in Łódź	Design and construction of the S14 express road of the West Ring Road of Łódź. Task A – Section I "Łódź Lublinek" junction – "Łódź Teofilów" junction Task B – Section II "Łódź Teofilów" junction (without the junction) – DK91 in Słowik municipality in the scope of part No 1 of the contract: "Design and construction of the S14 express road of the West Ring Road of Łódź Task A – Section I "Łódź Lublinek" junction – "Łódź Teofilów" junction
2018-07-30	194 664	General Directorate for National Roads and Motorways branch in Łódź	Design and construction of A-1 Motorway: Tuszyń (without the junction) – border of Łódź and Silesia provinces from km 335+937.65 to km 399+742.51. Section A – Tuszyń junction (without the junction) – Bełchatów junction (including the junction) from km 335+937.65 to km 351+800.00
2018-06-08	153 707	Zarząd Portu Morskiego Gdańsk SA	Expansion of the Dworzec Drzewny Quay at the Port of Gdańsk

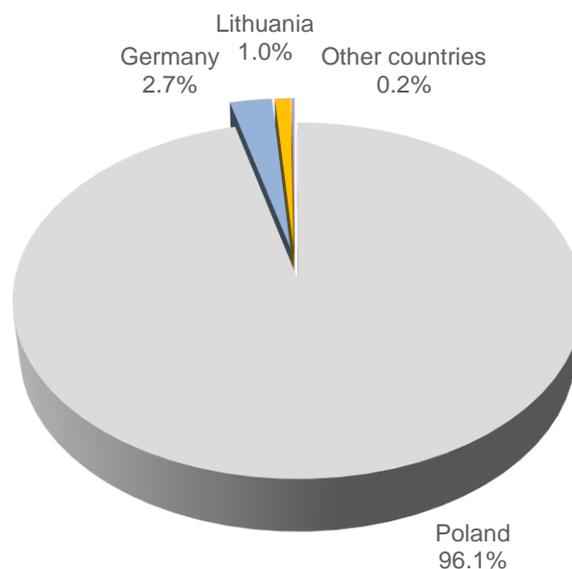
(all amounts in tables are expressed in PLN thousand, unless stated otherwise)

Geographical structure of the Budimex Group sales in 2018

The main markets on which the Budimex Group operates are:

- Poland
- Germany
- Lithuania

The geographical structure of revenues from sales in 2018 is as follows:



2.3.2 Structure of sales revenues of Budimex SA

Sales of construction and assembly services

In 2018, sales of construction and assembly services of the Company increased by 16.6 per cent when compared to 2017. Sales of the infrastructural segment increased to PLN 3 150 060 thousand in 2018 from PLN 2 957 807 thousand in 2017 (by 6.5 per cent). Sales on the rail market increased significantly (by 176.8 per cent) from PLN 222 320 thousand to PLN 615 452 thousand in 2018. Sales in the general construction segment increased by 14.3 per cent (from PLN 2 606 122 thousand in 2017 to PLN 2 979 973 thousand in 2018).

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

Type of construction	Sales value			
	2018		2017	
	PLN million	%	PLN million	%
Civil engineering (infrastructure)	3 150	46.7%	2 958	51.1%
Rail buildings and structures	615	9.1%	222	3.8%
General construction, of which:	2 980	44.2%	2 606	45.0%
- non-residential buildings	2 267	33.6%	1 798	31.1%
- residential buildings	713	10.6%	808	14.0%
Total sales of construction and assembly services	6 745	100.0%	5 786	100.0%

Development activities and property management

In 2018, revenues from development activities and property management amounted to PLN 729 thousand, while in 2017 it was PLN 844 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)

The main markets on which Budimex SA operates are:

- Poland
- Germany
- Lithuania

The geographical structure of revenues from sales in 2018 is as follows:



2.4 Construction activities of the Budimex Group on the German market

In 2018, mainly workshop services were rendered on the German market. Sales revenues amounted to PLN 202 305 thousand (of which PLN 174 260 was earned by Budimex SA) and were PLN 3 073 thousand, i.e. 1.5 per cent higher compared to 2017.

An increase was recorded in the case of prefabrication works (2.9 per cent), while a decline was recorded for metal-related works (1.5 per cent). In 2018, the share of metal-related works in the sales structure decreased by 0.9 percentage points and amounted to 30.2 per cent. The operating profit on the German market amounted to PLN 26 546 thousand in 2018, while in 2017 it was PLN 25 672 thousand. Profitability achieved on the prefabrication works was 0.2 per cent lower than in 2017 and profitability of the metal-related works was 0.9 per cent lower than in the previous year. Customer structure shows dispersion and none of the customers exceeded 10 per cent of total turnover and one of the customers exceeded 10 per cent of turnover in the metal work segment.

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 number and value of tenders won in 2018 is close to that of 2017. The investment process will continue in 2019, which should translate into new road and railway construction orders.

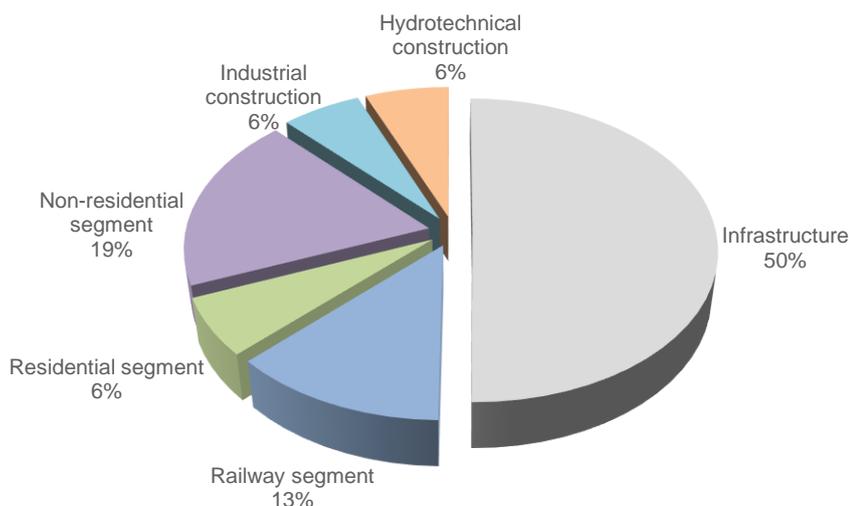
The Group also plans to consistently consolidate its position in the building objects construction segment and win new contracts in the energy and rail segments. Further development on the market of municipal services is also contemplated, as well as engaging in new projects on the basis of public-private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

In 2018, the Budimex Group companies signed construction contracts for a total value of PLN 6 568 616 million (with annexes). The value of the order portfolio of the Budimex Group as at 31 December 2018 amounted to PLN 10 131 732 thousand which is a slight decrease (by 2 per cent) from the end of 2017.

In 2018, Budimex SA in turn signed construction contracts for a total value of PLN 6 198 896 thousand (with annexes). The value of the order portfolio as at 31 December 2018 amounted to PLN 9 929 351 thousand.

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

The structure of the Budimex Group's order portfolio as at 31 December 2018 is as follows:



2.6 Evaluation of investment project feasibility

In 2019, the Budimex Group plans to incur capital expenditure of approx. PLN 50 million, of which approx. PLN 26 million will be incurred by Budimex SA and approx. PLN 13 million – by Budimex Kolejnictwo. Key expenditure will be incurred for the purchase of construction and railway machinery and implementation of IT projects.

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

2.7 Risk factors

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

The inherent risk of any business activity is the credit risk of business partners. Despite implementing restrictive debt control procedures at the Group, the risk of investor insolvency has not been eliminated. Delays in timely repayment of debt may have adverse effects on the financial results of the Group and may require that receivables impairment write-downs be 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 2018 (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 2018, 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 2018 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (broken down below together with the 2017 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 2018, compared to 31 December 2017, are presented in the table below:

ASSETS	31.12.2018	31.12.2017	Change	Change %
Non-current assets	988 641	927 334	61 307	6.6%
Property, plant and equipment	258 123	162 422	95 701	58.9%
Investment properties	28 365	24 623	3 742	15.2%
Intangible assets	28 389	30 163	(1 774)	(5.9%)
Goodwill of subordinates	73 237	73 237	-	0.0%
Investments in equity accounted companies	37 427	39 228	(1 801)	(4.6%)
Investments in equity instruments	9 778	9 501	277	2.9%
Retentions for construction contracts	49 103	30 138	18 965	62.9%
Trade and other receivables	21 807	39 341	(17 534)	(44.6%)
Concession agreement receivables	46 416	46 440	(24)	(0.1%)
Other financial assets	74 145	67 033	7 112	10.6%
Deferred tax assets	361 851	405 208	(43 357)	(10.7%)
Current assets	4 467 710	5 070 022	(602 312)	(11.9%)
Inventories	1 611 813	1 425 100	186 713	13.1%
Trade and other receivables	819 300	689 939	129 361	18.7%
Retentions for construction contracts	28 311	27 812	499	1.8%
Valuation of construction contracts	561 537	483 501	78 036	16.1%
Current tax assets	33 102	30 298	2 804	9.3%
Other financial assets	4 495	286 533	(282 038)	(98.4%)
Cash and cash equivalents	1 409 152	2 126 839	(717 687)	(33.7%)
TOTAL ASSETS	5 456 351	5 997 356	(541 005)	(9.0%)

As at 31 December 2018, consolidated total assets decreased by PLN 541 005 thousand compared to 31 December 2017, due to a 6.6 per cent (PLN 61 307 thousand) increase in non-current assets and a 11.9 per cent (PLN 602 312 thousand) decrease in current assets.

Non-current assets:

The change in the value of non-current assets as at 31 December 2018 compared to 31 December 2017 was caused mainly by the following:

- an increase in the balance of property, plant and equipment by PLN 95 701 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of fixed assets in the amount of PLN 158 147 thousand, On the other hand, the balance of property, plant and equipment was decreased by depreciation charges amounting to PLN 46 186 thousand. Items of property, plant and equipment worth PLN 8 541 thousand were sold,
- an increase in long-term retentions for construction contracts retained by customers of the Group companies by PLN 18 965 thousand, mainly due to higher sales,
- a decrease in the balance of deferred tax assets by PLN 43 357 thousand due to a decreased balance of negative temporary differences on items included in liabilities,
- granting of long-term loans to an associate, FBSerwis SA, in the amount of PLN 10 780 thousand.

Current assets:

In the same period, current assets declined by PLN 602 312 thousand mainly due to a decrease in the balance of cash and cash equivalents by PLN 717 687 thousand, primarily due to the payout of dividend and higher financial involvement in current operating activities.

Other changes in current assets were related to:

- a decrease in other financial assets by PLN 282 038 thousand, mainly attributable to the redemption of corporate bonds issued by Polish mortgage banks in the amount of PLN 278 972 thousand,

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

- an increase in inventories by PLN 186 713 thousand, mainly related to development activities (including the purchase of new plots for the construction of flats) and increased stocks of materials for rail contracts,
- and an increase in the balance of trade and other receivables by PLN 129 361 thousand and in the balance of valuation of construction contracts by PLN 78 036 thousand, following an increase in the scale of operating activities and increased involvement in projects with non-standard invoicing schemes.

EQUITY AND LIABILITIES	31.12.2018	31.12.2017	Change	Change %
Shareholders' equity attributable to the shareholders of the Parent Company	743 341	881 443	(138 102)	(15.7%)
Share capital	145 848	145 848	-	0.0%
Share premium	87 163	87 163	-	0.0%
Other reserves	1 600	2 557	(957)	(37.4%)
Foreign exchange differences on translation of foreign operations	6 947	5 342	1 605	30.0%
Retained earnings	501 783	640 533	(138 750)	(21.7%)
Non-controlling interests	7 136	685	6 451	941.8%
Total shareholders' equity	750 477	882 128	(131 651)	(14.9%)
Liabilities	4 705 874	5 115 228	(409 354)	(8.0%)
Non-current liabilities	788 821	614 923	173 898	28.3%
Loans, borrowings and other external sources of finance	184 110	92 086	92 024	99.9%
Retentions for construction contracts	222 751	203 643	19 108	9.4%
Provisions for non-current liabilities and other charges	367 306	305 858	61 448	20.1%
Retirement benefits and similar obligations	12 639	11 086	1 553	14.0%
Other financial liabilities	2 015	2 250	(235)	(10.4%)
Current liabilities	3 917 053	4 500 305	(583 252)	(13.0%)
Loans, borrowings and other external sources of finance	54 823	30 324	24 499	80.8%
Trade and other payables	1 720 438	1 697 984	22 454	1.3%
Retentions for construction contracts	214 866	217 193	(2 327)	(1.1%)
Provisions for construction contract losses	158 035	243 829	(85 794)	(35.2%)
Valuation of construction contracts	575 183	783 209	(208 026)	(26.6%)
Deferred revenue	996 224	1 345 267	(349 043)	(25.9%)
Provisions for current liabilities and other charges	187 938	170 762	17 176	10.1%
Current tax liability	6 846	3 404	3 442	101.1%
Retirement benefits and similar obligations	1 412	1 537	(125)	(8.1%)
Other financial liabilities	1 288	6 796	(5 508)	(81.0%)
TOTAL EQUITY AND LIABILITIES	5 456 351	5 997 356	(541 005)	(9.0%)

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 173 898 thousand, mainly due to:
 - an increase in liabilities on account of long-term loans, borrowings and other external sources of finance by PLN 92 024 thousand (new finance lease liabilities) and
 - an increase in liabilities on account of provisions for non-current liabilities by PLN 61 448 thousand, mainly due to an increase in non-current provisions for warranty repairs.
- a decrease in current liabilities by PLN 583 252 thousand, of which the greatest balance movements related to the following:
 - a decrease in the valuation of construction contracts by PLN 208 026 thousand, mainly due to lower involvement of investors in current financing of construction projects than in previous years,
 - a decrease in the provision for contract losses by PLN 85 794 thousand, and
 - a decrease in deferred revenue by PLN 349 043 thousand, mainly due to the settlement of prepayments for performed construction contracts.

(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 - 31.12.2018	01.01 - 31.12.2017	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	7 387 137	6 369 309	1 017 828	16.0%
Cost of finished goods, services, goods for resale and raw materials sold	(6 758 048)	(5 559 485)	(1 198 563)	21.6%
Gross profit on sales	629 089	809 824	(180 735)	(22.3%)
Selling expenses	(30 650)	(34 016)	3 366	(9.9%)
Administrative expenses	(229 593)	(216 627)	(12 966)	6.0%
Other operating income	67 977	61 070	6 907	11.3%
Other operating expenses	(63 824)	(31 933)	(31 891)	99.9%
Gain on disposal of subsidiaries	44 011	-	44 011	100.0%
Operating profit	417 010	588 318	(171 308)	(29.1%)
Finance income	28 291	37 084	(8 793)	(23.7%)
Finance costs	(40 118)	(40 771)	653	(1.6%)
Shares in net (losses) of subordinated companies valued using the equity method	(1 795)	(4 199)	2 404	(57.3%)
Gross profit	403 388	580 432	(177 044)	(30.5%)
Income tax	(97 904)	(115 838)	17 934	(15.5%)
Net profit for the period	305 484	464 594	(159 110)	(34.2%)
<i>of which:</i>				
- attributable to the shareholders of the Company	305 424	464 408	(158 984)	(34.2%)
- attributable to non-controlling interests	60	186	(126)	(67.7%)

In 2018, the Budimex Group earned sales revenue of PLN 7 387 137 thousand, which represents a 16.0 per cent increase compared to the revenue earned in 2017.

In 2018, construction and assembly output in Poland expressed in current prices increased by 21.3 per cent year on year (increase by 17.9 per cent in constant prices), while sales of the Budimex Group's construction segment on the domestic market increased by 15.7 per cent in comparable periods.

In 2018, gross profit on sales was PLN 629 089 thousand, while in the previous year it was PLN 809 824 thousand. The gross sales profitability ratio for 2018 was therefore 8.5 per cent, while for 2017 it was 12.7 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 2018, the balance of the provision for contract losses amounted to PLN 158 035 thousand. In 2018, the balance of provisions for contract losses decreased by PLN 85 794 thousand, including PLN 227 thousand due to a change in the Group's structure.

The Budimex Group companies are required to provide guarantees for their construction services. As at 31 December 2018, the balance of provisions for warranty repairs was PLN 417 858 thousand. In the 12-month period ended 31 December 2018, the balance of provisions for warranty repairs increased by PLN 63 235 thousand (a change in the Group's composition resulted in a decrease in these provisions by PLN 4 135 thousand).

Compared to the previous year, selling expenses decreased in the twelve-month period ended 31 December 2018 by PLN 3 366 thousand, while administrative expenses were PLN 12 966 thousand higher than the expenses incurred in 2017.

The share of the sum total of selling and administrative expenses in total sales revenue decreased from 3.9 per cent in 2017 to 3.5 per cent in the current year.

Other operating income in 2018 was PLN 67 977 thousand and comprised, among others, received compensations and liquidated damages in the amount of PLN 30 065 thousand, the reversal of provisions for penalties and sanctions in the amount of PLN 8 063 thousand, the reversal of provisions for litigation and compensations in the amount of PLN 1 095 thousand, the reversal of impairment write-downs against receivables and inventories in the amount of, respectively, PLN 1 545 thousand and PLN 18 726 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 778 thousand. In addition, in 2018, Group companies sold property, plant and equipment and earned a gain on those sales in the total amount of PLN 1 874 thousand. Apart from the above, in 2018, the Group also recorded a gain on the valuation of FX Forward derivative financial instruments (made with a view to limiting the FX risk on foreign currency construction contracts) in the amount of PLN 2 816 thousand.

Other operating expenses in 2018 amounted to PLN 63 824 thousand, of which PLN 18 942 thousand related to impairment write-downs against receivables and PLN 7 735 thousand to recognised impairment write-downs against inventories. The costs of recognised provisions for claims and compensations amounted to PLN 21 021 thousand. The value of compensations and liquidated damages charged to the Group in 2018 was PLN 8 074 thousand. In addition, the Group incurred costs of court fees

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

and enforcement in the amount of PLN 1 214 thousand. Moreover, in 2018 the Group also incurred a loss on the realisation of FX Forward derivative financial instruments in the amount of PLN 2 538 thousand.

In the third quarter of 2018, Budimex SA sold two subsidiaries, i.e. Elektromontaż Poznań SA and Biuro Inwestycji "Grunwald" SA, as a result of which the Budimex Group reported a gain on other activities in the amount of PLN 44 081 thousand and incurred a loss on development activities in the amount of PLN 70 thousand.

In 2018, the Group posted an operating profit of PLN 417 010 thousand, representing 5.6 per cent of total sales revenues. In the previous year, the Group reported an operating profit of PLN 588 318 thousand, representing 9.2 per cent of total sales revenues.

In the 12-month period ended 31 December 2018, the Group reported loss on financing activities in the amount of PLN 11 827 thousand, while in 2017 – a loss of PLN 3 687 thousand. Finance income in 2018 represented mainly interest received in the amount of PLN 24 729 thousand and a valuation of receivables due to the concession agreement in the amount of PLN 2 519 thousand.

Finance costs in 2018 represented, among others, interest costs of PLN 6 512 thousand, costs of bank commissions and guarantees of PLN 23 390, and the cost of discounting long-term receivables and liabilities arising from guarantee deposits in the amount of PLN 8 210 thousand. In 2018, the Group also reported a loss on the realisation of interest rate swap derivative financial instruments (made with a view to limiting the interest rate risk) in the amount of PLN 1 138 thousand.

In 2018, the Group reported a gross profit of PLN 403 388 thousand, while in the previous year a gross profit of PLN 580 432 thousand.

Income tax expense for 2018 was PLN 97 904 thousand and included:

- current tax – PLN 59 086 thousand,
- deferred tax – PLN 38 818 thousand.

As at 31 December 2018, the Group recognised deferred tax assets in the amount of PLN 361 851 thousand, while as at 31 December 2017 the Group reported deferred tax assets of PLN 405 208 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 2018 was PLN 305 424 thousand, while the net profit attributable to the shareholders of Budimex SA for 2017 was PLN 464 408 thousand, which represents a decrease by 34.2 per cent.

Net profit attributable to non-controlling interest for 2018 amounted to PLN 60 thousand. In the previous year, net profit attributable to non-controlling interest stood at PLN 186 thousand.

3.1.2 Key economic and financial data of Budimex SA

The financial situation of Budimex SA in 2018 is characterised by selected items disclosed in the Statement of Financial Position and Profit and Loss Account (as below, together with the 2017 comparative data).

Statement of financial position of Budimex SA

The main items of the Company Statement of Financial Position as at 31 December 2018, compared to 31 December 2017, are presented in the table below:

ASSETS	31.12.2018	31.12.2017	Change	Change %
Non-current assets	1 458 014	1 447 596	10 418	0.7%
Property, plant and equipment	169 160	115 521	53 639	46.4%
Investment properties	3 178	3 306	(128)	(3.9%)
Intangible assets	28 103	29 937	(1 834)	(6.1%)
Investments in subsidiaries	690 544	727 827	(37 283)	(5.1%)
Investments in associates	61 246	61 246	-	0.0%
Investments in other entities	6 417	6 417	-	0.0%
Other financial assets	75 869	70 384	5 485	7.8%
Trade and other receivables	21 807	18 124	3 683	20.3%
Retentions for construction contracts	79 665	54 685	24 980	45.7%
Deferred tax assets	322 025	360 149	(38 124)	(10.6%)

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

ASSETS	31.12.2018	31.12.2017	Change	Change %
Current assets	2 919 625	3 405 686	(486 061)	(14.3%)
Inventories	308 385	242 103	66 282	27.4%
Trade and other receivables	802 012	638 335	163 677	25.6%
Retentions for construction contracts	47 191	46 306	885	1.9%
Valuation of construction contracts	552 306	472 740	79 566	16.8%
Current tax assets	33 081	29 995	3 086	10.3%
Other financial assets	17 055	295 836	(278 781)	(94.2%)
Cash and cash equivalents	1 159 595	1 680 371	(520 776)	(31.0%)
TOTAL ASSETS	4 377 639	4 853 282	(475 643)	(9.8%)

As at 31 December 2018, the total assets decreased by PLN 475 643 thousand as compared to 31 December 2017, and amounted to PLN 4 377 639 thousand. Changes in the Statement of Financial Position were mainly related to the following events:

Non-current assets:

Non-current assets increased by PLN 10 418 thousand, which was mainly a result of the following events:

- an increase in the balance of property, plant and equipment by PLN 53 639 thousand, mainly due to the acquisition or acceptance for use under finance lease agreements of fixed assets in the amount of PLN 94 113 thousand,
- an increase in the balance of long-term retentions for construction contracts by PLN 24 980 thousand, attributable to an increase in revenues from construction and assembly works,
- a decrease in the balance of investments in subsidiaries by PLN 37 283 thousand following the disposal of shares in subsidiaries, Elektromontaż - Poznań SA and Biuro Inwestycji "Grunwald" SA, in the total amount of PLN 40 892 thousand, and the disposal of shares in a subsidiary, Budimex Parking Wrocław SA, in the amount of PLN 2 769 thousand. Additionally, Budimex SA increased the share capital in the subsidiary Budimex Kolejnictwo SA by PLN 6 000 thousand, acquired shares in Budimex C Sp. z o.o., Budimex D Sp. z o.o., Budimex F Sp. z o.o., Budimex H Sp. z o.o., Budimex I Sp. z o.o., Budimex J Sp. z o.o. in the total amount of PLN 950 thousand and established 2 new companies: Budimex K Sp. z o.o. and Budimex L Sp. z o.o., contributing share capital of PLN 100 thousand.
- a decrease in the balance of deferred tax assets by PLN 38 124 thousand due to a decreased balance of negative temporary differences on items included in liabilities.

Current assets:

In the same period, the value of current assets decreased by PLN 486 061 thousand, mainly as a result of the following events:

- a decrease in the balance of cash and cash equivalents by PLN 520 776 thousand, in particular due to the payout of dividend and higher financial involvement in current operating activities,
- a decrease in other financial assets by PLN 278 781 thousand, mainly attributable to the redemption of corporate bonds issued by Polish mortgage banks in the amount of PLN 278 972 thousand,
- an increase in the balance of valuation of long-term construction contracts by PLN 79 566 thousand, due to decreased financial involvement of investors in construction projects implemented,
- an increase in the balance of trade and other receivables by PLN 163 677 thousand, mainly as a result of an increase in trade receivables by PLN 171 693 thousand.

EQUITY AND LIABILITIES	31.12.2018	31.12.2017	Change	Change %
Share capital	145 848	145 848	-	0.0%
Share premium	80 199	80 199	-	0.0%
Other reserves	51 356	52 452	(1 096)	(2.1%)
Foreign exchange differences on translation of foreign operations	7 159	5 682	1 477	26.0%
Retained earnings / (accumulated losses)	322 012	449 995	(127 983)	(28.4%)
Total shareholders' equity	606 574	734 176	(127 602)	(17.4%)
Liabilities	3 771 065	4 119 106	(348 041)	(8.4%)
Non-current liabilities	583 886	466 678	117 208	25.1%
Loans, borrowings and other external sources of finance	88 171	45 885	42 286	92.2%
Retentions for construction contracts	213 836	192 314	21 522	11.2%
Provisions for non-current liabilities and other charges	271 771	219 909	51 862	23.6%
Retirement benefits and similar obligations	10 108	7 857	2 251	28.6%
Other financial liabilities	-	713	(713)	(100.0%)

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

EQUITY AND LIABILITIES	31.12.2018	31.12.2017	Change	Change %
Current liabilities	3 187 179	3 652 428	(465 249)	(12.7%)
Loans, borrowings and other external sources of finance	42 082	26 381	15 701	59.5%
Trade and other payables	1 641 899	1 579 248	62 651	4.0%
Retentions for construction contracts	205 048	207 272	(2 224)	(1.1%)
Provisions for construction contract losses	159 036	234 876	(75 840)	(32.3%)
Valuation of construction contracts	583 918	767 855	(183 937)	(24.0%)
Deferred revenue	378 465	671 844	(293 379)	(43.7%)
Provisions for current liabilities and other charges	174 929	157 814	17 115	10.8%
Retirement benefits and similar obligations	1 122	985	137	13.9%
Other financial liabilities	680	6 153	(5 473)	(88.9%)
TOTAL EQUITY AND LIABILITIES	4 377 639	4 853 282	(475 643)	(9.8%)

Equity and liabilities:

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

- a decrease in the balance of current liabilities by PLN 465 249 thousand, mainly due to:
 - a decrease in the balance of deferred revenue by PLN 293 379 thousand, mainly due to the settlement of prepayments for performance of contracts,
 - a decrease in the balance of valuation of construction contracts by PLN 183 937 thousand, mainly due to lower involvement of investors in current financing of construction projects than in previous years,
 - a decrease in the balance of provision for construction contract losses by PLN 75 840 thousand,
 - an increase in the balance of trade and other payables by PLN 62 651 thousand,
- an increase the balance in non-current liabilities by PLN 117 208 thousand, mainly due to:
 - an increase in the balance of provisions for non-current liabilities and other charges by PLN 51 862 thousand, mainly due an increase in warranty repair provisions by PLN 55 608 thousand,
 - an increase in loans, borrowings and other external sources of finance by PLN 42 286 thousand (new finance lease agreements).

Profit and Loss Account of Budimex SA

PROFIT AND LOSS ACCOUNT	01.01 - 31.12.2018	01.01 - 31.12.2017	Change	Change %
Net sales of finished goods and services, goods for resale and raw materials	6 796 868	5 824 859	972 009	16.7%
Cost of finished goods, services, goods for resale and raw materials sold	(6 313 733)	(5 148 144)	(1 165 589)	22.6%
Gross profit on sales	483 135	676 715	(193 580)	(28.6%)
Selling expenses	(11 098)	(10 722)	(376)	3.5%
Administrative expenses	(206 328)	(194 220)	(12 108)	6.2%
Other operating income	45 168	55 684	(10 516)	(18.9%)
Other operating expenses	(49 758)	(23 495)	(26 263)	111.8%
Operating profit	261 119	503 962	(242 843)	(48.2%)
Finance income	171 457	80 311	91 146	113.5%
Finance costs	(35 812)	(36 563)	751	(2.1%)
Gross profit	396 764	547 710	(150 946)	(27.6%)
Income tax	(75 162)	(97 875)	22 713	(23.2%)
Net profit for the period	321 602	449 835	(128 233)	(28.5%)

Within the 12-month period of 2018, Budimex SA generated revenues from sales in the amount of PLN 6 796 868 thousand, while in 2017 they amounted to PLN 5 824 859 thousand, i.e. a 16.7 per cent increase.

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

Gross profit on sales in 2018 was PLN 483 135 thousand, while in the previous year it was PLN 676 715 thousand. The gross sales profitability ratio for 2018 was therefore 7.1 per cent and was higher than in 2017, when it reached 11.6 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 2017, the balance of the provision for contract losses amounted to PLN 234 876 thousand. In the 12-month period ended 31 December 2018, the balance of the provision for contract losses was decreased by PLN 75 840 thousand.

The selling expenses in 2018 increased by PLN 376 thousand in comparison to the previous year, while the general administrative expenses grew by PLN 12 108 thousand. The share ratio of those expenses in the total sales amounted to 3.2 per cent in 2018 and 3.5 per cent in 2017.

Other operating income in the 12-month period of 2018 amounted to PLN 45 168 thousand. That amount comprised mainly received compensations and liquidated damages in the amount of PLN 28 972 thousand, revenues due to a reversal of receivables and retentions impairment write-downs in the amount of PLN 1 502 thousand, as well as a write-off of overdue liabilities in the amount of PLN 2 759 thousand. At the same time, the Company reversed provisions for litigation, penalties and compensations in the total amount of PLN 8 066 thousand. Gain on disposal of non-financial non-current assets amounted to PLN 2 973 in 2018. In 2018, the Company also earned a gain on the valuation and realisation of derivative financial instruments in the amount of PLN 549 thousand.

Other operating expenses in the 12-month period ended 31 December 2018 amounted to PLN 49 758 thousand, of which PLN 21 021 thousand related to the value of recognised provisions for penalties and compensations, while the compensations and liquidated damages paid amounted to PLN 7 655 thousand. Moreover, the Company recognised impairment write-downs on receivables and retentions in the amount of PLN 16 151 thousand, and write-downs on inventories in the amount of PLN 862 thousand. The cost of donations given was PLN 1 844 thousand.

In the 12-month period of 2018, the Company reported profit on financing activities of PLN 135 645 thousand. This was mainly attributable to dividend income of PLN 72 840 thousand, gain on disposal of shares in subsidiaries of PLN 76 991 thousand, net interest income of PLN 17 625 thousand, costs of discount of retentions for construction contracts of PLN 7 950 thousand and costs of bank commissions and guarantees of PLN 22 943 thousand.

In 2018, the Company earned a gross profit of PLN 396 764 thousand, which means a decrease by 27.6 per cent over the previous year.

Income tax for the 12 months of 2018 amounted to PLN 75 162 thousand, including:

- current tax – PLN 36 781 thousand,
- deferred tax – PLN 38 381 thousand.

In 2018, Budimex SA earned a net profit in the amount of PLN 321 602 thousand, which represents a decrease by 28.5 per cent over 2017.

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 2018 with cash in hand and cash at bank amounting to a total of PLN 2 126 839 thousand. For the purpose of the Statement of Cash Flows, this amount was reduced by the amount of cash of restricted use of PLN 164 990 thousand. Net cash flow for 2018 was negative and amounted to PLN (694 728) thousand. As at 31 December 2018, the Group's reported cash balance was PLN 1 409 152 thousand, of which cash of restricted use was PLN 141 124 thousand.

In 2018, the balance of cash from operating activities decreased by PLN 523 375 thousand, mainly due to increased financial involvement of the Group companies (and decreased involvement of investors) in projects implemented.

Cash flow from investing activities came out to a negative balance of PLN (309 684) thousand, which was mainly the result of proceeds from settled corporate bonds issued by Polish mortgage banks and from sales of shares in subsidiaries.

Cash flow from financing activities for 2018 showed a negative balance, which amounted to PLN 481 037 thousand and resulted mainly from the 2017 dividend payment and payment of lease 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 2018 amounted to PLN 1 680 371 thousand. For the purposes of drafting the statement of cash flows, this amount was adjusted with the value of cash of restricted use (in the

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

amount of PLN 40 597 thousand) mainly of consortia in the portion attributable to other consortium members. In the 12 months of 2018, net cash flow was negative and amounted to PLN (504 328) thousand. As at 31 December 2018, the Company reported a cash balance of PLN 1 159 595 thousand, including cash of restricted use in the amount of PLN 23 304 thousand.

In 2018, the balance of cash from operating activities decreased by PLN 473 145 thousand.

The balance of cash from investing activities increased by PLN 443 742 thousand which was mostly attributable to proceeds from settled corporate bonds issued by Polish mortgage banks and from sales of shares in subsidiaries.

Cash flow from financing activities for 2018 showed a negative balance of PLN 474 925 thousand. The expenses were connected with payment of the dividend made by the Company in the amount of PLN 449 585 thousand and repayment of finance lease 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 2018 amounted to PLN 1 409 152 thousand and was PLN 996 659 thousand lower than as at 31 December 2017. On the one hand, the most important factors contributing to this change in financial resources of the Budimex Group during 2018 include:

- a significant decrease – as compared to previous years – in profitability and cash generated by construction activities,
- a decrease in the net balance of contract prepayments from customers in the construction segment,
- a decrease in net balance of payments received from customers in the development segment,
- the payment of dividend by Budimex SA,
- increased financial involvement in the implementation of selected contracts in the infrastructural and industrial segments,
- purchase of land as part of development activities,
- increased financial involvement in the associated company, FBSerwis SA.

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.

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 2018 amounted to PLN 238 933 thousand and were PLN 116 523 thousand higher than as at 31 December 2017 (see table below). The Group's debt is mainly composed of: the debt of Budimex SA, Budimex Kolejnictwo SA and Mostostal Kraków SA under finance leases (concluded primarily for the purpose of financing the purchase of property, plant and equipment – primarily machines and equipment for performing road and railway construction contracts) and a loan taken out by Budimex Parking Wrocław sp. z o.o. to finance a car park concession (car park at the Centennial Hall in Wrocław). The aforementioned increase in total debt in 2018 results primarily from an increase in the debt of Budimex SA and Budimex Kolejnictwo SA under finance lease agreements. As at the end of 2018, the Group had no debt under bonds issued or bank loans financing the development activities.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2018	31.12.2017	31.12.2016
- non-current	184 110	92 086	62 333
- current	54 823	30 324	20 276
Total	238 933	122 410	82 609

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

Ratio	31.12.2018	31.12.2017	31.12.2016
Equity to assets ratio:			
<i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.14	0.15	0.14
Equity to non-current assets ratio:			
<i>(shareholders' equity attributable to the shareholders of the Parent Company) / (total non-current assets)</i>	0.75	0.95	0.94
Ratio	31.12.2018	31.12.2017	31.12.2016
Debt ratio:			
<i>(total assets – shareholders' equity attributable to the shareholders of the Parent Company) / (total assets)</i>	0.86	0.85	0.86
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>	6.34	5.80	5.98

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

At the end of 2018, the sustainability of the financing structure, as described above, deteriorated. Equity to non-current assets ratio decreased following the dividend payout. This also translated into higher debt to equity ratio, despite a decrease in total assets.

Although the current ratio remained relatively unchanged year-on-year at the end of 2018, the quick ratio decreased significantly as a result of the aforementioned significant decrease in the Group's cash balance and the simultaneous increase in the balance of inventories in both the development and the construction segments.

Ratio	31.12.2018	31.12.2017	31.12.2016
Current ratio (current assets) / (current liabilities)	1.14	1.13	1.11
Quick ratio (current assets – inventory) / (current liabilities)	0.73	0.81	0.83

Owing to the current good financial standing of the Budimex Group, the cash resources held, access to credit limits at banks and the insignificant level of financial debt, there are no threats to the Group's ability to finance its business activities in 2019.

3.3.1 Managing of finance at Budimex SA

The balance of cash, short-term bonds and liquid deposits of Budimex SA as at 31 December 2018 amounted to PLN 1 159 595 thousand and was PLN 799 748 thousand lower than as at 31 December 2017. This decline was primarily attributable to the following factors:

- a significant decrease – as compared to previous years – in profitability and cash generated by construction activities,
- a decrease in the net balance of contract prepayments from customers,
- payment of dividend by the Company in June 2018 in the amount close to the Company's net profit for 2017,
- increased financial involvement of the Company in the implementation of selected contracts in the infrastructural and industrial segments,
- increased financial involvement in the associated company, FBSerwis SA.

In 2017, the Company signed annexes to loan agreements, under which banks provided Budimex, for a period of 3.5 years, with committed credit facilities in the total amount of PLN 400 000 thousand, to hedge against future, unplanned fluctuations in financial liquidity in subsequent years. During 2017 and 2018, the Company did not use these facilities. Detailed information on loan agreements concluded is provided in Section 4.4 "Loans and borrowings".

The Company's indebtedness under borrowings, bank loans and the concluded finance lease agreements is presented in the table below. The major part of indebtedness comprises liabilities under finance lease agreements in respect of machines and equipment required to carry out road construction projects. The indebtedness as at 31 December 2018 increased significantly as a result of an increase in the level of debt under finance lease agreements in connection with continued execution and financing of the aforementioned investment purchases.

Liabilities due to bank loans and borrowings and other external sources of finance:	31.12.2018	31.12.2017	31.12.2016
- non-current	88 171	45 885	29 374
- current	42 082	26 381	18 463
Total	130 253	72 266	47 837

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

Ratio	31.12.2018	31.12.2017	31.12.2016
Equity to assets ratio: (shareholders' equity) / (total assets)	0.14	0.15	0.14
Equity to non-current assets ratio: (shareholders' equity) / (non-current assets)	0.42	0.51	0.48
Debt ratio: (total assets – shareholders' equity) / (total assets)	0.86	0.85	0.86
Debt to equity ratio: (total assets – shareholders' equity) / (shareholders' equity)	6.22	5.61	5.91

At the end of 2018, the sustainability of the financing structure, as described above, deteriorated. Equity to non-current assets ratio decreased significantly following the payout of high dividends. This also translated into significantly higher debt to equity ratio, despite a decrease in total assets.

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

Although the current ratio remained relatively unchanged year-on-year at the end of 2018, the quick ratio decreased significantly as a result of the aforementioned significant decrease in the Company's cash balance and the simultaneous increase in the balance of inventories of construction materials.

Ratio	31.12.2018	31.12.2017	31.12.2016
Current ratio (current assets) / (current liabilities)	0.92	0.93	0.91
Quick ratio (current assets – inventory) / (current liabilities)	0.82	0.87	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 2019.

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 45 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 2018:

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	130 027	2025-08-13	in exchange for payments	subsidiary
Budimex SA	Mostostal Kraków Energetyka Sp. z o.o.	471	2022-12-06	in exchange for payments	subsidiary
Budimex SA	Budimex Kolejnictwo SA	67 918	2025-10-31	in exchange for payments	subsidiary
Budimex SA	Budimex Bau GmbH	44	2019-12-31	free of charge	subsidiary
Budimex SA	Budimex Budownictwo Sp. z o.o.	115 994*	2026-12-23	free of charge	subsidiary
Budimex SA	Budimex Nieruchomości Sp. z o.o.	10 125	2020-02-17	in exchange for payments	subsidiary
Budimex SA	FBSerwis SA	1 537	2020-10-30	in exchange for payments	associate
TOTAL		326 116			

* 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 2018.

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 2018, the Budimex Group (including Budimex SA) was a party to the following General Insurance Agreements:

- General Insurance Coverage for All Construction & Assembly Risks

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

Subject to the insurance coverage are all construction and assembly contracts executed by 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.

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

This agreement was concluded for the period from 5 July 2016 to 4 July 2018.

- 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 5 July 2016 to 30 September 2018.

- 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 2018 to 14 November 2019. Gothaer TU SA is the insurer. Subject to insurance coverage are construction machines and equipment which are owned by Budimex SA and which are subject to lease agreements. The insurance coverage comprises all risks of physical loss or damage of assets, except for damage resulting from losses incurred during or in connection with the transport, loading, unloading, assembly or disassembly of the machine.

- Other significant insurance agreements:

In 2018, an extension was signed to the agreement with Colonnade concerning TPL insurance for Management and Supervisory Board Members of the Budimex Group companies. This extension of insurance coverage covers the period from 22 June 2018 to 21 June 2019. 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 2018

Cooperation agreements concluded in 2018:

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Orlen Asfalt Sp. z o. o.	road asphalts	113 301	26.03.2018 27.11.2018
2	Lotos Asfalt Sp. z o. o.	road asphalts	47 833	27.11.2018 30.03.2018 25.01.2018
3	3w Dystrybucja Budowlana S.A.	general construction materials	14 352	24.04.2018
4	Zbych-Pol & Mobet Sp. z o. o.	prefabricated concrete products	6 925	28.04.2018
5	Leca Polska Sp. z o. o.	expanded clay aggregate	6 290	20.03.2018
6	Stacja Paliw Ewa Chojnowska	general construction materials	5 696	31.12.2018
7	Polochem Wojciech Misiurny	adhesives	4 933	01.03.2018
8	P.P.H.U. Zimax-Bud Jasiński Zbigniew	general construction materials	3 598	30.04.2018
9	Mobil Serwis Sp. z o. o.	rental of machinery	2 984	03.12.2018
10	Hdmb Maszewski	general construction materials	2 645	02.01.2018

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 2018 and effective in 2018:

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

	Supplier	Subject of the Agreement	Annual value	Agreement date
1	Cemex Polska Sp. z o. o.	aggregates, cement, concrete	162 876	06.12.2011 01.04.2009 23.11.2006
2	Orlen Asphalt Sp. z o. o.	road asphalts	113 301	01.04.2017 19.01.2016
3	Moris Sp. z o. o.	rails	56 269	27.03.2017
4	Lafarge Cement SA	concrete, cement	55 716	15.04.2016
5	Zakład Produkcji Kruszyw Rupińscy Sp.J.	road and railway construction aggregates	55 272	15.01.2013
6	Freightliner PI Sp. z o. o.	rail transport	52 838	06.12.2013
7	Konsorcjum Stali SA	steel reinforcements, reinforced steel	49 637	01.03.2012
8	Lotos Asphalt Sp. z o. o.	road asphalts	47 833	11.04.2017 01.04.2017
9	Arcelormittal Distribution Solutions Poland Sp. z o.o.	steel reinforcements, reinforced steel	47 522	24.05.2011
10	Peri Polska Sp. z o. o.	lease of formwork and scaffoldings	33 021	17.03.2006

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 38 to the financial statements of Budimex SA.

4.4 Loans and borrowings

As at 31 December 2018, Budimex SA had the following loans, borrowings and finance lease agreements:

Lender	Title of liability	Date of signing the loan/borrowing agreement	Amount available (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Credit Agricole Bank Polska SA	Revolving working capital loan	13.05.2015	PLN 70 000	-	WIBOR 1M or 3M + margin	31.05.2021
ING Bank Śląski SA	Overdraft facility	15.05.2015	PLN 50 000	-	WIBOR 1M + margin	31.05.2021
Bank Zachodni WBK SA	Revolving loan	13.05.2015	PLN 110 000	-	WIBOR 1M or 3M or 6M + margin	31.05.2021
Bank PEKAO SA	Revolving working capital loan	14.05.2015	PLN 100 000	-	WIBOR 1M + margin	14.05.2021
Societe Generale SA Branch in Poland	Medium-term revolving loan	14.05.2015	PLN 70 000	-	WIBOR 1M + margin	31.05.2021
Ferrovial SA	Loan	01.12.2004	EUR 2 097	EUR 2 097	EURIBOR 12M + margin	01.12.2019
Millennium Leasing Sp. z o. o.	Finance lease (54 agreements in total)	-	-	PLN 13 480	WIBOR 1M + margin	31.05.2021
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 2 378	fixed, as provided in the agreement	monthly
Pekao Leasing Sp. z o.o.	Finance lease (152 agreements in total)	-	-	PLN 105 376	WIBOR 1M + margin	31.10.2023

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

As at 31 December 2018, 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 (in '000)	Liability incl. interest (in '000)	Interest rate	Maturity date
Budimex Nieruchomości Sp. z o.o.						
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	16.02.2012	-	PLN 145	fixed, as provided in the agreement	monthly
Mostostal Kraków SA						
Bank BGŻ BNP Paribas SA	Finance lease	13.04.2014	-	PLN 94	WIBOR 1M + margin	13.03.2019
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2015	-	PLN 141	fixed, as provided in the agreement	monthly
Millennium Leasing Sp. z o.o.	Finance lease	-	-	PLN 8 868	WIBOR 1M + margin	31.01.2023
Budimex Parking Wrocław Sp. z o.o.						
Bank PKO BP SA	Concession financing loan	30.04.2012	-	PLN 29 888	WIBOR 3M + margin	31.12.2031
Fundusz Inwestycji Samorządowych Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	loan	29.10.2018	-	PLN 1 614	WIBOR 3M + margin	29.10.2038
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	30.09.2014	-	PLN 1	fixed, as provided in the agreement	monthly
Budimex Kolejnictwo SA						
Pekao Leasing Sp. z o.o.	Finance lease (2 agreements in total)	-	-	PLN 5 187	WIBOR 1M + margin	31.07.2025
Millennium Leasing Sp. z o.o.	Finance lease (10 agreements in total)	-	-	PLN 62 732	WIBOR 1M + margin	31.12.2025
Konica Minolta Business Solutions Sp. z o.o.	Finance lease	-	-	PLN 11	fixed, as provided in the agreement	monthly

4.5 Major capital deposits and equity investments in 2018

In 2018, 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 2018, the value of loans granted by Budimex SA to FBSerwis SA amounted to PLN 74 145 thousand, of which PLN 10 788 thousand were tranches disbursed in 2018. Other details regarding loans granted were disclosed in note 14.1 of consolidated financial statements of the Budimex Group and in note 15.2 of 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 2018, Members of the Management Board of Budimex SA held the following numbers of shares:

- Marcin Węglowski – 2 830 shares

As at 31 December 2018, 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 2018, 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 28 March 2017, 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 2017 and 2018, and to audit the financial statements of Budimex SA and consolidated financial statements of the Budimex Group for the financial years 2017 and 2018. The contract for the review and audit of financial statements was concluded on 30 June 2017. The remuneration for the audit of separate and consolidated financial statements amounted to PLN 405 thousand (amount per year in 2017-2018); the remuneration for the review of the semi-annual separate and consolidated financial statements amounted to PLN 120 thousand (amount per year in 2017-2018). In 2017 and 2018, the audit firm did not provide any other services to the Group companies.

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.

In 2018, Budimex SA developed two proprietary CSR programmes: "Strefa Rodzica. Budimex Dzieciom" [Parent Zone. Budimex for Children] and "Domofon ICE. Budimex Dzieciom" [ICE Card. Budimex for Children] and an employee volunteering scheme "Grant na Wolontariat" [Grant for Volunteering]. In addition, to celebrate its 50th anniversary, Budimex launched a special anniversary social program entitled "Change the World. 50 years of Budimex".

The main idea of the "Domofon ICE. Budimex Dzieciom" programme is to provide schoolchildren with plastic cards with contact details of their next of kin to be contacted in the event of an emergency. Additionally, the campaign has a broader educational dimension as it promotes the principles of road safety and first aid among young people. All children participating in the programme receive mobile phone-shaped cards together with a fluorescent holder that can easily be fixed to a backpack. The programme was introduced in 2010 and so far it has included nearly 37 thousand children from over 400 schools nationwide. Evaluation research shows that a year after providing the children with fluorescent cards, 76 per cent of them still carry them fixed to their backpacks. In 2018, 4 500 children from 60 schools joined the programme.

"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 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 28 Parent Zones in paediatric hospitals in Poland. In 2018, all 28 Zones were used by nearly 120 thousand hospitalised children and their parents. In 2018, 5 Parent Zones were launched.

In 2015, the Company launched a new 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 2018, our volunteers implemented 8 projects.

To celebrate its anniversary, Budimex launched a special anniversary social program entitled "Change the World. 50 years of Budimex". As part of this programme, Budimex donated PLN 500 thousand for the construction of the "Puszczyk" Forest School near Białystok. In addition to the main prize, two other winners of the programme, i.e. the St. Lawrence Hospice for Children (second place and the prize awarded by Internet users) and the Habitat for Humanity Foundation Poland (third place), were also awarded financial prizes for their statutory purposes.

Apart from community activities, the Company is also engaged in charity and sponsorship activities. In 2018, the Budimex Group donated PLN 1 890 thousand, primarily to charities focused on various children's causes.

In 2018, the sponsorship activities of Budimex SA were focused mainly on sports initiatives, such as: Half marathon in Augustów, the Polish Women's Chess Championships, the Polish Sailing Championships for the Disabled, "Stomil Olsztyn" Football Club, "Wybrzeże Gdańsk" handball club, the Polish Bridge Union and "Katarzynki" Sports Club in Toruń, as well as on

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

social, cultural and educational initiatives, e.g. construction of an access road to the Children's Home in Odporyszów (Demos Foundation), "Fairy Tale Days". Moreover, Budimex was engaged in the most important economic and industry forums and conferences in Poland, such as: the Economic Forum in Krynica, the European Economic Congress in Katowice, the Polish Infrastructure Conference, the Welconomy Forum in Toruń, the Polish Road Congress, the Transport Development Congress, 5th Eastern Economic Congress and the Congress for Innovation in the Energy Sector.

5.7 Legal proceedings

The total value of legal proceedings pending in respect of liabilities and receivables as at 31 December 2018 was PLN 298 061 thousand. Excess of the value of proceedings against Group companies over proceedings relating to claims of the Group companies amounted to PLN 110 921 thousand.

On the basis of the information at hand, the total value of legal proceedings pending in respect of liabilities of Budimex SA and subsidiaries as at 31 December 2018 was PLN 204 491 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 case closed during the third quarter of 2018, pending before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, which involved the consortium members: Ferrovial Agroman SA, Budimex SA and Estudio Lamela S.L. (the FBL Consortium) and Przedsiębiorstwo Państwowe "Porty Lotnicze" (PPL). The litigation was the result of PPL serving a notice rescinding the contract for the development and modernisation of Terminal 2 of the Warsaw Frederic Chopin International Airport.

Initially, the proceedings related solely to the claim filed in 2008 by the FBL Consortium, in relation to bank guarantees realised by PPL, which were given as a performance bond for a total amount of PLN 54 382 thousand. That case was finally resolved to the benefit of the FBL Consortium by a judgement of the Court of Appeals in Warsaw in 2012. The total value of the awarded claim and the amount of statutory interest for late payment was PLN 87 920 thousand (the amount attributable to Budimex SA was PLN 35 168 thousand, of which PLN 21 612 thousand as reimbursement of the performance bond). After the cassation appeal of PPL was dismissed by the Supreme Court, the enforcement proceedings became final.

In the course of the proceedings before the Court of Arbitration, PPL filed a counter-claim of a total amount of PLN 135 719 thousand, covering claims for the redress of damage, including lost benefits, return of unjust enrichment and liquidated damages. In 2009, PPL filed to the Court of Arbitration further written statements of claim including extension of the counter-claim, changing the original amount of counter-claim from PLN 135 719 thousand to PLN 280 894 thousand. As a result of subsequent procedural steps in 2012, the PPL's claim was raised to PLN 298 892 thousand. According to the value of the shares set forth in the consortium agreement, the risk allocated to Budimex SA did not exceed the total of PLN 119 556 thousand.

Regardless of the PPL's counter-claim and in accordance with former announcements, in 2009 the FBL Consortium submitted a statement of claim including an extension of the main claim by the amount of PLN 216 458 thousand, covering: remuneration for the works performed, but not paid by the Investor, remuneration for additional works, and reimbursement for the retained amounts and interest on late payments. Under the consortium contract, the share of Budimex SA in this claim amounted to PLN 86 583 thousand.

During several hearings in the course of the proceedings, the court has examined all witnesses for the claimant and the counter-claimant with respect to the circumstances included in PPL's counter-claim. At the beginning of 2018 the hearing of evidence was completed. On 8 August 2018 the parties to the dispute entered into a court settlement before the Court of Arbitration at the Polish Chamber of Commerce. Under the settlement, the parties waived each other's claims before the Court of Arbitration and cancelled each other's costs. The payment by PPL to the Consortium included only receivables for the works and deliveries performed, including amounts retained.

Conclusion of the settlement confirmed the amicable solution by the parties of the contract linking them and ending any disputes related to its implementation. In the opinion of the Management Board of Budimex SA, the settlement was favourable for both parties to the dispute.

On 24 July 2017, a lawsuit against Budimex SA and Ferrovial 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, was filed by the petitioner – the Silesian Museum in Katowice. The petitioner requests that the Plaintiffs 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 petitioner'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 Petitioner'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 Petitioner 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 Ferrovial Agroman SA on 21 September 2018. Ferrovial 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

Another legal proceedings with a material value 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 share of the companies in the consortium was 90 per cent; therefore the value of the claim for which Budimex SA is presently 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. The appeal against court decision was filed both by the claimant (as regards the entire claim), and the defendant (as regards the part of the verdict regarding 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 93 570 thousand as at 31 December 2018. 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 were described in section 1.8 of the Budimex Group consolidated Report on non-financial information for 2018. Innovative projects carried out by Budimex SA were described in section 1.7 of the Budimex SA's Report on non-financial information for 2018.

5.9 Information on liabilities resulting from pensions and benefits of a similar nature for former management or supervisory personnel

Budimex SA and Budimex Group entities did not have any obligations resulting from pensions and benefits of a similar nature for former management or supervisory personnel as at 31 December 2018.

6 CORPORATE GOVERNANCE

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

In 2018, 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.

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

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

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 Article 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 organizing 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.

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.

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

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 2018

Age (in years)	Women	Men	Total
<30	482	1 047	1 529
30-50	774	3 354	4 128
> 50	81	1 167	1 248
Total employees	1 337	5 568	6 905

Age and gender structure of the Company's Management Board

	Women	Men	Total
Total Management Board, of which:	0	7	7
under 30 years of age	0	0	0
30-50 years of age	0	3	3
over 50 years of age	0	4	4
including foreign nationals	0	0	0

Age and gender structure of the Company's Supervisory Board

	Women	Men	Total
The Supervisory Board	1	8	9
under 30 years of age	0	0	0
30-50 years of age	0	1	1
over 50 years of age	1	7	8
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

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

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.

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 2018 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
Valivala Holdings B.V. Amsterdam (the Netherlands) – a Ferrovial SA Group (Spain) company	ordinary	14 078 159	55.1%	14 078 159	55.1%
Aviva OFE Aviva BZ WBK	ordinary	2 490 000	9.8%	2 490 000	9.8%
Nationale Nederlanden OFE	ordinary	1 360 000	5.3%	1 360 000	5.3%
Other shareholders	ordinary	7 601 939	29.8%	7 601 939	29.8%
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 2018, 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 par. 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 par. 13 of the Articles of Association. Shareholders exercise their rights in the manner specified in the Articles of Association, By-laws of the General Meeting of Shareholders and binding laws.

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

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

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 a justification for or a draft of the resolution concerning the proposed matter for the agenda. The request may be forwarded in an electronic form. The Management Board must immediately, but no later than 18 days before 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,
- 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 2018, the Management Board of Budimex SA was composed of the following persons:

- | | |
|-------------------------|---|
| • Dariusz Jacek Blocher | President of the Management Board, General Director, |
| • Radosław Górski | Board Member, General Construction Director, |
| • Cezary Mączka | Board Member, Chief HR Officer, |
| • Jacek Daniewski | Board Member, Chief Legal and Organisational Officer, |
| • Artur Popko | Board Member, Infrastructure Construction Director, |
| • Henryk Urbański | Board Member, Chief Real Estate Officer, |
| • Marcin Węglowski | Board Member, Chief Financial Officer. |

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

In 2018, there was one change in the composition of the Management Board resulting from Mr. Fernando Luis Pascual Larragoiti's resignation from the Management Board of Budimex SA as of 18 December 2018.

In 2018, 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 2018, 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, |
| • Marzenna Anna Weresa | Supervisory Board Member, |
| • Javier Galindo Hernandez | Supervisory Board Member, |
| • José Carlos Garrido-Lestache Rodríguez | Supervisory Board Member, |
| • Piotr Kamiński | Supervisory Board Member, |
| • Janusz Dedo | Supervisory Board Member, |
| • Fernando Luis Pascual Larragoiti | Supervisory Board Member. |

In 2018, the following changes to the composition and structure of the Supervisory Board took place:

- as of 18 December 2018, Mr. Alejandro de la Joya Ruiz de Velasco and Mr. Ignacio Clopes Estela resigned from membership of the Supervisory Board,
- on 19 December 2018, the Supervisory Board, exercising the powers set out in par. 16 section 3 of the Articles of Association of Budimex SA supplemented the composition of the Board by co-opting Mr Juan Ignacio Gaston Najarro to replace Mr Alejandro de la Joya Ruiz de Velasco (Resolution No. 279) and Mr Fernando Luis Pascual Larragoiti to replace Mr Ignacio Clopes Estela (Resolution No. 280). In accordance with par. 16 section 3 of the Articles of Association, the Supervisory Board decided to present the above persons for approval as members of the Supervisory Board at the next General Meeting of Shareholders.
- on 19 December 2018, Mr. Juan Ignacio Gaston Najarro was appointed to perform the function of Deputy Chairperson of the Supervisory Board (Resolution No. 281).

As at 31 December 2018, the Audit Committee was composed of the following persons:

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

The composition of the Audit Committee did not change in 2018.

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 2018, the Investment Committee was composed of the following persons:

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

In 2018, the composition of the Investment Committee changed following Mr. Alejandro de la Joya Ruiz de Velasco's resignation from the Supervisory Board. Mr. Fernando Luis Pascual Larragoiti, co-opted by the Supervisory Board, was appointed to perform a function in the Investment Committee on 19 December 2018 (Resolution No. 282).

As at 31 December 2018, the Remuneration Committee was composed of the following persons:

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

In 2018, the composition of the Remuneration Committee changed following Mr. Alejandro de la Joya Ruiz de Velasco's resignation from the Supervisory Board. Mr. Juan Ignacio Gaston Najarro, co-opted by the Supervisory Board, was appointed to perform a function in the Remuneration Committee on 19 December 2018 (Resolution No. 283).

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

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

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 the functioning of the Management Board 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 the 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 an 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,

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

- 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:

- 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;
- monitor the effectiveness of the internal control systems, risk management systems and internal audit, also in the area of financial reporting;
- 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;
- 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;
- 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;
- 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;
- develop a policy for selecting the audit firm to conduct the audit;
- 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;
- define the procedure for selection of the audit firm by the Company;
- present to the Supervisory Board a recommendation referred to in Article 16(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;
- submit recommendations designed to ensure integrity of the financial reporting process at the Company;
- forward to the Supervisory Board conclusions and recommendations relating to the audit and assessment of the financial statements of the Company and of the consolidated financial statements for the previous year, to assess the Management Board's proposal concerning profit appropriation or loss absorption;
- forward to the Supervisory Board conclusions and recommendations concerning acknowledgement of the fulfilment of duties by the Chief Financial Officer;
- perform other tasks commissioned by the Supervisory Board depending on the current situation of the Company;
- 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 2018, the statutory independence criterion was met by Marzenna Anna Weresa and Janusz Dedo.

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 – is a member of the Audit Committee with the greatest experience, knowledge and skills in the field of accounting or auditing financial statements.

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 2018.

The audit firm auditing the financial statements of Budimex SA and the consolidated financial statements of the Budimex Group – Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. – did not provide any non-audit services.

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,

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

- 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 selection of an audit firm to perform the audit was issued in 2017 and met the applicable conditions. It was prepared as a result of Budimex SA's procedure for selecting an audit firm, 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(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 the 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,

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

- 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,
- 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.

