

REPORT

of the Supervisory Board of Budimex SA

- on the results of examination of the Report on the Activities of the Company in 2012, including the financial statements, as to their compliance with the books of account, the documents and the actual status, as well as the Management Board proposal for 2012 profit distribution;
- on the assessment of the Company standing, including evaluation of the internal control system and risk management system for the risks significant to the Company (in accordance with Principle 1.1 Division III of the corporate governance principles set out in “The Code of Best Practice for WSE Listed Companies”);

for the 2013 Annual General Meeting (AGM) of Budimex SA.

Pursuant to Article 382 § 3 and § 4 of the Code of Commercial Companies and in accordance with § 11.1.e of the Bylaw of Budimex SA Supervisory Board, the Board – in the meeting held on 26 March 2013 – examined and assessed the Reports on the Activities of the Company and the Budimex Group, as well as the respective financial statements for the reporting year 2012, as to their compliance with the books and documents and the actual status, and also the Management Board proposal for profit distribution, as a result of which the Board states as follows.

1. During the examination of the documents referring to Budimex SA for the reporting year 2012:
 - 1) the Board read the financial statements and analysed the introduction, balance sheet, profit and loss account, statement of changes in equity capital, cash flow statement, and additional information and explanatory notes;
 - 2) the Board read the Opinion and the Report on the Financial Statements Audit by an independent statutory auditor and heard the auditor’s explanations and replies to the questions asked by the Supervisory Board Members;
 - 3) the Board read the Report on the Activities of the Company and heard explanations of the Management Board regarding that Report.
2. During the examination of the documents referring to the Budimex Group for the reporting year 2012:
 - 1) the Board read the consolidated financial statements and analysed the consolidated report on financial standing, consolidated profit and loss account, consolidated report on total revenues, consolidated statement of changes in equity capital, consolidated cash flow statement, and additional information and explanatory notes;

- 2) the Board read the Opinion and the Report on the Consolidated Financial Statements Audit by an independent statutory auditor and heard the auditor's explanations and replies to the questions asked by the Supervisory Board Members;
 - 3) the Board read the Report on the Activities of the Budimex Group and heard explanations of the Management Board regarding that Report.
3. Based on the examination of the Reports on the Activities in 2012 mentioned in clauses 1 and 2, as well as the examination of the reports on the audit of 2012 financial statements prepared by the statutory auditor, the Supervisory Board states that the information provided in those documents is a correct and fair reflection of the result of business activities of the Company and the Budimex Group, as well as the assets and the financial standing of the Company.
4. In accordance with the statement presented in clause 3, the Supervisory Board requests the Annual General Meeting of Budimex SA to pass resolutions regarding:
- 1) approval of the Report on the Activities of the Company in 2012 and the financial statements of the Company for the year ending 31 December 2012;
 - 2) approval of the Report on the Activities of the Group in 2012 and the consolidated financial statements of the Company for the year ending 31 December 2012;
 - 3) coverage of the accumulated previous years loss;
 - 4) distribution of net profit for the period from 1 January 2012 to 31 December 2012, to be assigned to the dividend;
 - 5) vote of approval in relation to the performance of duties in 2012 by the Members of the Management Board of Budimex SA;
 - 6) adherence to "The Code of Best Practice for WSE Listed Companies" at Budimex SA, in the wording set out in the Resolution of the Supervisory Board of the Warsaw Stock Exchange No 19/1307/2012 of 21 November 2012, hereinafter referred to as *DPS2012*;

and also provides its opinion on the formal contents of the resolutions regarding:

- 7) giving the vote of approval in relation to the performance of duties in 2012 by the Members of the Supervisory Board;
 - 8) selection of the membership of the Supervisory Board of the eighth term.
5. On 26 March 2013 the Supervisory Board passed Resolution No 204 on examination of the financial statements and the Reports on the Activities of the Company and the Budimex Group in 2012, as well as the proposal for the coverage of the accumulated

previous years loss, 2012 profit distribution and vote of approval for the Members of the Management Board.

Appendices to the aforesaid Resolution are draft resolutions of the AGM listed in clause 4 sub-clauses 1–5 hereof and draft resolutions on giving the vote of approval in relation to the performance of duties in 2012 by the Members of the Supervisory Board, and selection of the membership of the Supervisory Board of the eighth term, as mentioned in clause 4 sub-clauses 7 and 8 hereof.

6. On 26 March 2013 the Supervisory Board passed Resolution No 205 on recommending to the Annual General Meeting of Budimex SA the passing of a resolution with regard to adherence to “ The Code of Best Practice for WSE Listed Companies” at Budimex SA, in the wording set out in the Resolution of the Supervisory Board of the Warsaw Stock Exchange No 19/1307/2012 of 21 November 2012, hereinafter referred to as *DPS 2011*.
7. Company assessment in consideration of the internal control system and risk management system.

The basic object of Budimex SA activity is the provision of construction and assembly works, real estate development services as well as provision of management and advisory services to the Budimex Group companies. Performance of the advisory, management and financial function by Budimex SA has the purpose of:

- fast flow of information within the Group structure;
- improvement of finance and cash management effectiveness at the particular companies;
- improvement of the Group market position.

Within the 12 months of 2012 Budimex SA generated sales revenues of PLN 5,233 million, i.e. a growth of 4.24% compared to the revenues generated in 2011.

Gross sales profit in 2012 amounted to PLN 386 million, whereas in the preceding year, the profit was PLN 382 million. Gross sales profitability in 2012 was, therefore, 7.37% compared to 7.60% in 2011.

The balance of cash in bank accounts and at the cash desk of Budimex SA at the beginning of 2012 amounted to PLN 1,570 million. Net cash flows in the period of 12 months of 2012 were negative and amounted to PLN 529 million. The balance of cash as at 31 December 2012 amounted, therefore, to PLN 1,041 million.

The Company balance of cash on investment activities dropped by PLN 69 million. The main contribution to that value was by the expenditures on the increase of capital of the related companies. Cash flows on financial activities in 2012 were negative and

amounted to PLN 295 million. The expenditures consisted of the payout of dividend by the Company in the amount of PLN 280 million and repayment of liabilities under financial lease agreement, including interest.

In 2012 the Budimex Group generated total sales revenues of PLN 6,078 million, which was higher by 10.2% than the revenues generated in 2011.

In 2012 the value of sales of construction and assembly services by the Budimex Group increased by 8% compared to 2011. Sales in the infrastructure sector grew by 5%, and in building construction sector – by 13%.

In 2012 further growth of sales value in the infrastructure segment was observed (starting from PLN 3,375 million in 2011 and ending with PLN 3,552 million in 2012). The share of the infrastructure segment in the total construction and assembly services revenues of the Group decreased from 65% in 2011 to 63% in 2012.

In 2012 the sales revenues on development activities amounted to PLN 322 million, reflecting a nearly 30% growth compared to the preceding year. The sales revenues on real estate development activities are of periodical nature, as they are recognised at the moment of transfer of the ownership title to an apartment/premises to the buyer, after the technical acceptance of the entire building.

In 2012 the situation on the real estate development market was stable, which was directly reflected in the high level of advance sales of apartments. Net advance sales throughout the year referred to 515 apartments, compared to 682 apartments in the preceding year.

In 2012 the Budimex Group companies signed construction contracts of the total value of PLN 2,803 million (excluding annexes). The construction order portfolio of the Budimex Group as at 31 December 2012 amounted to PLN 4,877 million, which represents a 43.1% drop compared to the end of 2011.

Gross sales profit in 2012 amounted to PLN 460 million, whereas in the preceding year, the profit was PLN 457 million. Gross sales profitability in 2012 was, therefore, 7.57% compared to 8.28% in 2011.

The financial standing of the Group in 2012 remained on a good level. Net cash flows in 2012 were negative and amounted to PLN 434 million. In 2012 the balance of cash on operating activities decreased by PLN 44 million. The cash flows on investment activities closed with a negative balance of PLN 99 million.

Cash flows on financial activities in 2012 were negative and amounted to PLN 291 million, which was mainly the result of the 2011 dividend payout.

The current financial standing of the Budimex Group as regards liquidity and access to external sources of finance does not pose any hazard to financing the activities in 2013.

Considering the recommendations of the Audit Committee, the Supervisory Board positively assessed the functioning of the internal control system and the risk management system as regards the risks significant to the Company.

The Supervisory Board positively assessed the activities of the Company Management Board in 2012.

8. Activities of the Supervisory Board of Budimex SA in 2012

In 2012 the Supervisory Board consisted of nine persons, which did not change throughout the year, as follows:

Chairman	Marek	Michałowski;
Deputy Chairman	Alejandro	de la Joya Ruiz de Velasco;
Secretary	Tomasz	Sielicki;
Members:	Marzenna	Weresa,
	Igor	Chalupec,
	Javier	Galindo Hernandez,
	Jose Carlos	Garrido Lestache Rodriguez,
	Piotr	Kamiński,
	Maciej	Stańczuk.

The Board held five meetings in 2012, each time analysing the current standing of the Company based on the materials and information regarding:

- acquisitions, order portfolio, major contracts awarded;
- financial results and the net cash position of the Budimex Group;
- evolution of the development activities;
- investments and divestments within the Budimex Group;
- risks in public procurement procedures.

The Board analysed also other aspects of the Company standing based on the materials and information regarding:

- financial resources for the broadly understood infrastructural purposes in the perspective of the years 2014–2020, which are expected by Poland from the European Union;
- the results of the construction companies competing with Budimex SA (on three occasions);
- credit facilities to secure the liquidity of the Company in the period of the dropping net cash position forecast in the 2012 Budget;
- results of internal audit at Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o. and

the accepted action plan, plus the current standing of that company (on three occasions);

- conditions of third party liability insurance of the Members of the Management Board and the Members of the Supervisory Board in the period from 22 June 2012 to 21 June 2013;
- methods of valuation of intangible fixed assets (know-how) and results of the methods application in the valuation of the assets transferred to Budimex by Ferrovial, including the legal aspects of applying such methods to the proposed contract solution (on two occasions);
- assessment of the situation in the construction sector on the Polish market.

The Supervisory Board prepared recommendations and requests for the Management Board, the implementation of which was accounted for in the subsequent meeting or one of the subsequent meetings of the Board.

The recommendations and requests referred to the following affairs:

- analysis of the construction market in Poland, including presentation of data which include also companies not listed on the Warsaw Stock Exchange;
- analysis of the current standing of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.;
- assumptions for the sales and profitability in the period of 2012–2016 in the context of securing the liquidity of the Company;
- method of presenting to the Board of the investment project applications considered by the Investment Committee;
- amendments to the draft cooperation agreement (Licence Agreement) by and between Budimex and Ferrovial;
- solution of the problem of licence fee payable to Ferrovial for 2011, which has not been covered by the cooperation agreement (Licence Agreement);
- legal and financial analysis (repeated analysis) based on which the Management Board made a decision of suspension of financing the activities of Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.;
- action plan for FBSerwis SA within 3-year's horizon;
- informing the Board about the process of implementing the new model of cooperation between Ferrovial and Budimex (BAPA).

On 28 March 2012 the Supervisory Board met the representatives of the external auditor, receiving information on the approach to auditing financial statements and the results of activities undertaken by the statutory auditor.

The Supervisory Board considered the Letter to the Management Board including the comments and reservations identified during the performance of 2011 audit works, including the position of the Management Board and conclusions of the Audit Committee.

Within the Supervisory Board the following three-person Board Committees were functioning in 2012:

1. **Investment Committee** whose tasks and competencies are specified in the Procedure No 09-01 of the Integrated Management System – *The Principles of providing opinions and making investment, financial and corporate decisions*, which was earlier accepted by the Board and approved by the Chairman of the Board. The competencies and tasks of the Investment Committee are also provided in § 12 Clauses 7–11 of the Bylaw of the Supervisory Board;
2. **Audit Committee** whose tasks are specified in § 12.6 of the Bylaw of Budimex SA Supervisory Board and the Rules of the Audit Committee;
3. **Remuneration Committee** whose tasks are specified in § 12.14 of the Bylaw of Budimex SA Supervisory Board and the Rules of the Remuneration Committee.

The membership of the **Supervisory Board Committees** did not change throughout 2012.

The Supervisory Board was informed about the activities and results of activities of the **Investment Committee** in each of the meetings held in 2012, based on the materials regarding the motions considered and pending consideration, which were prepared in accordance with the Procedure No 09-01 of the Integrated Management System – *The Principles of providing opinions and making investment, financial and corporate decisions*.

In 2012 the **Remuneration Committee** submitted to the Supervisory a written Report for the Reporting Year 2011, which was accepted by the Board.

The Supervisory Board was informed about the activities and results of activities of the **Remuneration Committee** during the meetings held in 2012.

The matters discussed in the Remuneration Committee Meetings in 2012 were as follows:

- analysis of the information provided by the Management Board with regard to:
 - execution of bonus indicators applicable to the business activities of the Budimex Group in 2012;
 - salary increase budget execution in 2012;
 - labour market and macroeconomic situation of Poland in the light of the planned 2013 salary increased by Budimex SA;
- determination of proposals for bonuses for the Members of Budimex SA Management Board for the year 2011;
- acceptance of the proposal for 2011 bonus indicator for Budimex Head Office staff;

- acceptance of the proposal for 2012 salary increase percentage for Budimex SA staff;
- determination of the proposal of change of the Vice President's basic remuneration and proposal of amendment of the employment agreements of the Members of the Budimex SA Management Board as regards the date of determination of bonus indicators and their weights for the particular year (resignation from the January deadline);
- determination of the proposal of the value of 2012 bonus indicators and their weights for the Members of Budimex SA Management Board;
- determination of the proposal of a form of employment, principles of remuneration and bonus granting to the new Member of Budimex SA Management Board, Mr Andrzej Artur Czynczyk;
- acceptance of the proposal of changes in the membership of the Supervisory Boards of the following subsidiary companies: Przedsiębiorstwo Napraw Infrastruktury Sp. z o.o.; Mostostal Kraków SA and Elektromontaż Poznań SA.

On 28 March 2012 the **Remuneration Committee** submitted to the Supervisory Board a written Report for the Reporting Year 2011, which was accepted by the Board.

The Supervisory Board was informed about the activities and results of activities of the **Audit Committee** by the Chairman of the Committee in three meetings of the Board. In its meetings, the Audit Committee met three times the representatives of Deloitte Audyt Sp. z o.o. audit company.

On 28 March 2012, before the Annual General Meeting (**AGM**) of Budimex SA, the **Audit Committee** recommended to the Board and the **AGM**:

- approval of the financial statements and reports of the Management Board on the activities in 2011;
- method of profit distribution;
- giving the vote of approval in relation to the performance of duties in 2011 to a Member of the Management Board – the Director of the Economic and Financial Division;
- selection of an audit company to audit the financial statements for the reporting year 2012;
- positive assessment of the internal control system and risk management system at the Company.

On 28 March 2012 the **Audit Committee** submitted to the Supervisory a written Report for the Reporting Year 2011 and on 11 September 2012 a written Report on the Activities in the First Six Months of 2012. Both Reports were accepted by the Board.

The **Supervisory Board** passed ten resolutions in 2012, regarding:

- consent to establishing by Budimex SA and Ferrovial Servicios, S.A. of a joint-stock company under the name FBSerwis SA;
- approval of the financial statements and the Reports of the Management Board on the Activities of the Company and the Budimex Group in 2011; profit distribution proposal and vote of approval for the Members of the Management Board;
- recommendation to the AGM of Budimex SA the passing of a resolution with regard to adherence to “ The Code of Best Practice for WSE Listed Companies”, in consideration of the amendments introduced by virtue of the Resolutions of the Supervisory Board of the Warsaw Stock Exchange Nos 15/1282/2011 of 31 August 2011 and 20/1287/2011 of 19 October 2011;
- acceptance of the Annual Report on the Activities of the Supervisory Board in 2011;
- appointment of an audit company to review the semi-annual financial statements for the first six months of 2012 and audit of the financial statements of Budimex SA and the selected companies of the Budimex Group, including the consolidated financial statements of the Budimex Group for the reporting year 2012;
- granting bonuses to the Members of the Management Board of Budimex SA for the year 2011;
- amendments to employment agreements with the Members of Budimex SA Management Board;
- appointment of a Member of the Budimex SA Management Board;
- providing opinion and approval of the Company intent to sign an agreement formalising the cooperation with Ferrovial on the conditions specified in the draft agreement;
- consent to Budimex SA participation in share capital increase of the joint-stock company under the name FBSerwis SA.

**For and on behalf of the Supervisory Board of
Budimex SA:**

Secretary of the Supervisory Board

Chairman of the Supervisory Board

Tomasz SIELICKI

Marek MICHAŁOWSKI