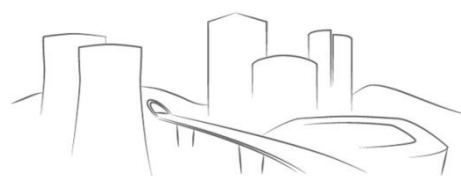


**REPORT OF THE MANAGEMENT BOARD ON OPERATIONS  
OF  
ULMA Construcccion Polska S.A.  
and  
THE CAPITAL GROUP OF  
ULMA Construcccion Polska S.A.**

**FOR THE PERIOD OF 12 MONTHS ENDED ON 31 DECEMBER 2016**



**From the beginning of your projects**



Pursuant to Art. 55.2a of the Accounting Act and Art. 83.7 of the Regulation of the Minister of Finance on current and periodic disclosures, the Company has prepared the Report of the Management Board on operations of ULMA Construcccion S.A. and the Capital Group in one document. Any other required elements of the report on operations of the Company, not disclosed in this part of the report, are identical to the Report of the Management Board on operations of the ULMA Construcccion S.A. Capital Group.

## Organisational description of the Capital Group

As at 31.12.2016, the ULMA Construcccion Polska S.A. Capital Group ("Group", "Capital Group") was composed of:

- ULMA Construcccion Polska S.A. - **parent entity** of the Capital Group with the management and administrative roles for the entire Group and responsible for commercial activities related to products and services offered by the Capital Group in the domestic market and in selected foreign markets,
- ULMA Opałubka Ukraina sp. z o.o. - **subsidiary company** responsible for commercial activities related to products and services offered by the Capital Group in the Ukrainian market,
- ULMA Opałubka Kazachstan sp. z o.o. – **subsidiary company** responsible for commercial activities related to commercial activities related to products and services offered by the Capital Group in the Kazakh market,
- ULMA Construcccion BALTIC sp. z o.o. - **subsidiary company** responsible for commercial activities related to products and services offered by the Capital Group in the Baltic countries (Lithuania and Latvia).

Additionally, the Group holds interests in the affiliated entity ULMA Cofraje S.R.L. - **affiliated company** responsible for commercial activities related to products and services offered by the Capital Group in the Romanian market.

## Scope of business activity of the Capital Group

ULMA Construcccion Polska S.A. Capital Group operates in the construction industry. The business activity of the entities which belong to the Capital Group includes sales and lease of shuttering and scaffolding systems for the needs of building construction and of engineering construction, performance of maintenance works and development of designs of application of those systems and also maintenance of shuttering and other accessories used for assembly of shuttering systems.

## Registered offices, dates of establishment and registrations of the entities which belong to the Capital Group.

- ULMA Construcccion Polska S.A., with its registered office in Koszajec 50, 05-840 Brwinów, has been operating since 01.07.1995, on the basis of the Resolution of the Shareholders Meeting transforming the limited liability company into a joint-stock company (Notarial Deed of 15.09.1995, Repertory A No. 5500/95), entered in the Register of Entrepreneurs of the National Court Register under KRS number 0000055818 by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division

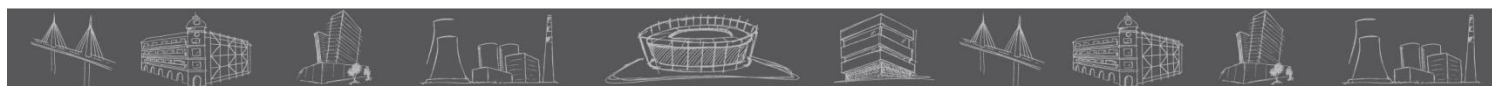
Unless specified otherwise, all the amounts are in PLN '000.



of the National Court Register. From 14.02.1989 until transformation into a joint stock company, the company operated under the name of Bauma Sp. z o.o.,

- ULMA Opałubka Ukraine with its registered office in Kiev, Gnata Juri 9, entered on 18.07.2001 to the National Register of the Republic of Ukraine under entry no. 5878/01 (ID code 31563803),
- ULMA Cofraje S.R.L with its registered office in Bragadiru at Soseaua de Centura nr 2-8 Corp C20 (Romania), entered after the change of address to the Romanian Commercial Register under number J23/289/30.01.2013,
- ULMA Opałubka Kazakhstan with its registered office in Astana at Taszenowa 25, entered on 27.08.2010 to the Register of the Ministry of Justice by the Department of Justice of the city of Astana under number 37635-1901-TOO/NU/,
- ULMA Construcccion BALTIC with its registered office in Vilnius at Pylimo 41-12, entered on 27 April 2012 in the Register of Legal Entities of the Republic of Lithuania under number 302770757.

Unless specified otherwise, all the amounts are in PLN '000.



**Core economic and financial highlights disclosed in the annual financial statements, in particular description of factors and events, including non-typical ones, with material impact on the issuer's activities and the generated profit or suffered loss in the financial year; development prospects for the issuer's activity minimum in the coming financial year**

Herebelow, there are core highlights of the consolidated financial statements of the Group and the Issuer's standalone financial statements for 2015-2016.

### **Consolidated profit and loss account and other comprehensive income**

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015	2016/2015 dynamics
Sales revenues	39,510	46,487	47,799	46,691	180,487	182,411	0.99
Costs of sold products, goods and materials	(32,579)	(37,235)	(35,970)	(38,795)	(144,579)	(145,065)	1.00
<b>Gross profit on sales</b>	<b>6,931</b>	<b>9,252</b>	<b>11,829</b>	<b>7,896</b>	<b>35,908</b>	<b>37,346</b>	<b>0.96</b>
Sales and marketing costs	(1,648)	(1,465)	(1,657)	(1,610)	(6,380)	(11,822)	0.54
Overheads	(4,361)	(4,341)	(5,099)	(2,700)	(16,501)	(17,799)	0.93
Other net operating expenses	336	408	284	2,553	3,581	1,298	2.76
<b>Profit on operating activity</b>	<b>1,258</b>	<b>3,854</b>	<b>5,357</b>	<b>6,139</b>	<b>16,608</b>	<b>9,023</b>	<b>1.84</b>
Financial income	423	330	455	427	1,635	1,128	1.45
Financial expenses	(819)	762	(571)	(219)	(847)	(2,587)	0.33
Share in profit / loss of affiliated entities	(14)	(159)	(112)	(281)	(566)	(274)	2.07
<b>Profit before tax</b>	<b>848</b>	<b>4,787</b>	<b>5,129</b>	<b>6,066</b>	<b>16,830</b>	<b>7,290</b>	<b>2.31</b>
Income tax	(417)	(1,187)	(843)	(1,491)	(3,938)	(1,782)	2.21
<b>Net profit</b>	<b>431</b>	<b>3,600</b>	<b>4,286</b>	<b>4,575</b>	<b>12,892</b>	<b>5,508</b>	<b>2.34</b>
Other revenues	(729)	1,181	(826)	784	410	(4,499)	-
Comprehensive income	(299)	4,781	3,460	5,359	13,302	1,009	13.18
Operating profitability (%)	3.19	8.29	11.21	13.15	9.20	4.95	
Net profitability (%)	1.09	7.74	8.97	9.80	7.14	3.02	

Unless specified otherwise, all the amounts are in PLN '000.



## Consolidated statement of financial position

	31.12.2016	Structure %	31.12.2015	Structure %	Dynamics
Tangible fixed assets	205,746	61	201,218	61	1.02
Other fixed assets	6,265	2	5,779	2	1.08
<b>Total fixed assets</b>	<b>212,011</b>	<b>63</b>	<b>206,997</b>	<b>63</b>	<b>1.02</b>
Inventories	3,630	1	5,847	2	0.68
Receivables	83,343	25	81,085	25	1.03
Other current assets	36,948	11	34,964	11	1.06
<b>Total current assets</b>	<b>123,921</b>	<b>37</b>	<b>121,896</b>	<b>37</b>	<b>1.02</b>
<b>Total assets</b>	<b>335,932</b>	<b>100</b>	<b>328,893</b>	<b>100</b>	<b>1.02</b>
Share capital	10,511	3	10,511	3	1.00
Supplementary capital	114,990	34	114,990	35	1.00
Currency exchange differences from	(13,971)	(4)	(14,381)	(4)	0.97
Retained profit	190,935	57	178,043	54	1.07
<b>Total equity</b>	<b>302,465</b>	<b>90</b>	<b>289,163</b>	<b>88</b>	<b>1.05</b>
Long-term liabilities	3,080	1	3,752	1	0.82
Short-term liabilities	30,387	9	35,978	11	0.84
<b>Total liabilities</b>	<b>33,467</b>	<b>10</b>	<b>39,730</b>	<b>12</b>	<b>0.84</b>
<b>Total equity and liabilities</b>	<b>335,932</b>	<b>100</b>	<b>328,893</b>	<b>100</b>	<b>1.02</b>
Return on Equity (%)	4.45	-	1.94	-	-
Debt ratio (%)	10.0	-	12.1	-	-
Rotation of trade receivables (days)	97	-	95	-	-
Rotation of trade payables (days)	47	-	33	-	-
Current liquidity ratio	4.1	-	3.4	-	-

Return on Equity =	$\frac{\text{Net profit for the financial year} \times 100\%}{\text{Equity} - \text{Net profit for the financial year}}$
Debt ratio =	$\frac{\text{Liabilities} \times 100\%}{\text{Total equity and liabilities}}$
Rotation of trade receivables =	$\frac{\text{Average trade receivables} \times 365 \text{ days}}{\text{Sales revenues}}$
Rotation of trade payables =	$\frac{\text{Average trade payables} \times 365 \text{ days}}{\text{Operating expenses}}$
Current liquidity ratio =	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$

Unless specified otherwise, all the amounts are in PLN '000.



## Standalone profit and loss account and other comprehensive income

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015	2016/2015 dynamics
Sales revenues	35,805	42,646	44,849	42,908	166,208	161,772	1.03
Costs of sold products, goods and materials	(32,386)	(35,437)	(35,018)	(35,700)	(138,541)	(144,564)	0.96
<b>Gross profit on sales</b>	<b>3,419</b>	<b>7,209</b>	<b>9,831</b>	<b>7,208</b>	<b>27,667</b>	<b>17,208</b>	<b>1.61</b>
Sales and marketing costs	(1,715)	(1,229)	(1,618)	(1,399)	(5,961)	(11,089)	0.54
Overheads	(3,201)	(3,998)	(3,253)	(3,284)	(13,736)	(12,285)	1.12
Other net operating expenses	336	415	308	2,487	3,546	1,515	2.34
<b>Profit on operating activity</b>	<b>(1,161)</b>	<b>2,397</b>	<b>5,268</b>	<b>5,012</b>	<b>11,516</b>	<b>(4,651)</b>	<b>-</b>
Financial income	476	463	557	517	2,013	4,207	0.48
Financial expenses	(538)	1,049	(711)	807	607	314	1.93
<b>Profit before tax</b>	<b>(1,223)</b>	<b>3,909</b>	<b>5,114</b>	<b>6,336</b>	<b>14,136</b>	<b>(130)</b>	<b>-</b>
Income tax	(64)	(835)	(1,114)	(1,412)	(3,425)	162	-
<b>Net profit</b>	<b>(1,287)</b>	<b>3,074</b>	<b>4,000</b>	<b>4,924</b>	<b>10,711</b>	<b>32</b>	<b>338.30</b>
Other revenues	-	-	-	-	-	-	-
Comprehensive income	(1,287)	3,074	4,000	4,924	10,711	32	338.30
Operating profitability (%)	(3.24)	5.62	11.75	11.68	6.93	(2.88)	
Net profitability (%)	(3.60)	7.21	8.92	11.48	6.44	0.02	

Unless specified otherwise, all the amounts are in PLN '000.



## Statement of financial position

	31.12.2016	Structure %	31.12.2015	Structure %	Dynamics
Tangible fixed assets	194,063	57	194,780	58	1.00
Other fixed assets	30,830	9	30,003	9	1.03
<b>Total fixed assets</b>	<b>224,893</b>	<b>66</b>	<b>224,783</b>	<b>67</b>	<b>1.00</b>
Inventories	2,374	1	2,383	1	1.00
Receivables	78,333	23	77,940	23	1.01
Other current assets	32,717	10	31,061	9	1.05
<b>Total current assets</b>	<b>113,424</b>	<b>34</b>	<b>111,384</b>	<b>33</b>	<b>1.02</b>
<b>Total assets</b>	<b>338,317</b>	<b>100</b>	<b>336,167</b>	<b>100</b>	<b>1.01</b>
Share capital	10,511	3	10,511	3	1.00
Supplementary capital	114,990	34	114,990	34	1.00
Retained profit	181,368	54	170,657	51	1.06
<b>Total equity</b>	<b>306,869</b>	<b>91</b>	<b>296,158</b>	<b>88</b>	<b>1.04</b>
Long-term liabilities	3,080	1	4,940	1	0.62
Short-term liabilities	28,368	8	35,069	11	0.81
<b>Total liabilities</b>	<b>31,448</b>	<b>9</b>	<b>40,009</b>	<b>12</b>	<b>0.79</b>
<b>Total equity and liabilities</b>	<b>338,317</b>	<b>100</b>	<b>336,167</b>	<b>100</b>	<b>1.01</b>
Return on Equity (%)	3.6	-	-	-	-
Debt ratio (%)	9.3	-	11.9	-	-
Rotation of trade receivables (days)	98	-	101	-	-
Rotation of trade payables (days)	53	-	34	-	-
Current liquidity ratio	4.0	-	3.2	-	-

Return on Equity =	$\frac{\text{Net profit for the financial year} \times 100\%}{\text{Equity} - \text{Net profit for the financial year}}$
Debt ratio =	$\frac{\text{Liabilities} \times 100\%}{\text{Total equity and liabilities}}$
Rotation of trade receivables =	$\frac{\text{Average trade receivables} \times 365 \text{ days}}{\text{Sales revenues}}$
Rotation of trade payables =	$\frac{\text{Average trade payables} \times 365 \text{ days}}{\text{Operating expenses}}$
Current liquidity ratio =	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$

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## Market environment in 2016

### Market environment in Poland

According to preliminary data of the Central Statistical Office, the economic growth rate in 2016 was 2.8% and was the lowest in the last three years. The economic growth – both throughout 2016 and in its last three months – was driven by domestic demand with a negative impact of investment demand. The annual dynamics of gross outlays on fixed assets was -5.5% which was the most profound decrease of the ratio since 2002. The unfavourable trend was primarily due to: lower inflow of EU funds for infrastructural investments, suspension of local investments related to the election cycle and uncertainty among business people related to the domestic political situation.

In terms of sectors, the poorest results were generated by construction industry which recorded the most profound crisis in over ten years. In enterprises employing more than 9 persons, construction and assembly production dropped by as much as 14.1%. The decrease affected most severely the **engineering sector** (-19.1%). Road tenders announced by GDDKiA in the autumn of 2015 practically until September 2016 remained at the pre-qualification stage and only the last quarter in the year brought about a certain change in the form of selecting contractors. It is important that the acceleration of tenders at the end of the year also covered railway investments. Improved relations between the contracting authorities and contractors showed a positive trend in 2016. That was possible due to the openness of the Ministry of Infrastructure and Construction to a more open dialogue with the sector, supporting optimisation of investment costs and development of recommendations to protect the contractors' interests to a larger extent. Some of the recommendations were incorporated in the amended Public Procurement Law.

Usually the most stable **non-residential sector** also recorded a two-digit decrease in 2016 (-15.4%), additionally becoming more severe in the next quarters. Against that backdrop, the **residential sector** had the best results with a growth rate of + 6.2% although the developers' plans to open new investments were more cautious than in 2015. In the analysed period, 9.7% more building permits were issued for the construction of new apartments for sale or rental and 1.2% of construction of new apartments were started, y/y.

In view of the continued slowdown in the sector, special note should be made of the relatively good financial result of construction enterprises as the slow market has forced the necessary restructuring programmes in many instances. According to GUS data, after 3 quarters of 2016 the net profitability ratio in the group of enterprises employing in excess of 49 employees reached +4.3%; however, it was largely differentiated within the group: from 1.0% in enterprises involved in the construction of engineering facility up to 10.6% in case of companies involved in specialist works.

On the other hand, many companies, in particular regional ones, in the road sector and specialised in finishing works, continued to operate to win any orders to cover its obligations from earlier investments. The permanent negative balance generated increasing problems with their liquidity leading to insolvency – over the year there was a 2% growth of insolvent construction companies.

### Market environment abroad

In Ukraine, the stability of the economy and financial market was a key achievement of the last year. Gross domestic product which in 2015 dropped by 9,9%, in 2016 grew by 1.8%. Inflation – which in 2015 reached the level of 43,3%, remained at a two-digit level but it was reduced in 2016 to 12.4%. The Ukrainian currency (hryvnia, UAH) continued to be unstable; however, last year it was not subject to such fluctuations and devaluation like a year earlier. In the construction sector, throughout the year there was a growth

Unless specified otherwise, all the amounts are in PLN '000.





which in the analysed period was +13.1%, reaching two-digit positive ratios in all core sectors of the construction market.

In Kazakhstan, after a period of stagnation, foreign investors started to commence financing their projects and began preparations to major investments. The planned large construction projects related to the mining and processing of oil, copper, uranium and other minerals as well as the involvement of the largest global companies in the projects generate opportunities to acquire spectacular contracts. In 2016 the Company completely restructured its operating strategy in the market, focusing on an in-depth study of investment plans in industry, establishing contacts and developing offers. The approach generated first successes in obtaining contracts in the oil and copper sectors.

According to preliminary *Statistics of Lithuania*, Lithuania's economy was growing at a rate of +2.2% annually in the analysed period. The slowed investment activity was reflected in negative ratios of the construction sector where a decrease in construction and assembly production was recorded by 9.7% y/y. As a result of the slowdown in the construction sector and a strong price pressure, the Company closed the year with a loss in the market.

## **Sales revenues**

In 2016 the Capital Group achieved PLN 180,487 thousand of total revenues from sale in comparison to PLN 182,411 thousand in the previous year (a decrease by 1.1%).

The reduced sales revenues applied primarily to the operating segment of the Capital Group of Sales of construction materials. Revenues of the segment in 2016 jointly amounted to PLN 24,196 thousand versus PLN 31,659 thousand in the equivalent period last year (drop by PLN 7,463 thousand or by 23.6%). That was due to a difficult situation in export markets, in particular in Kazakhstan. As a result, in 2016 the share of export in total sales revenues in the Capital Group accounted for about 17.9% versus 22% in 2015.

In 2016 ULMA Construcción Polska S.A. generated PLN 166,208 thousand as total sales revenues versus PLN 161,772 thousand in the previous year (growth by 2.7%)

## **Operating profitability**

In 2016 the Capital Group obtained positive result on operating activity, in the amount of PLN 16,608 thousand in comparison to PLN 9,023 thousand in the previous year (an increase by PLN 7,585 thousand). Basic values related to EBIT (operating profit) and EBITDA (operating profit + depreciation) in the analysed periods were the following:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015
Sales	39,510	46,487	47,799	46,691	180,487	182,411
<b>EBIT</b>	<b>1,258</b>	<b>3,854</b>	<b>5,357</b>	<b>6,139</b>	<b>16,608</b>	<b>9,023</b>
% of sales	3.19	8.29	11.21	13.15	9.20	4.94
Depreciation	11,281	12,221	12,959	12,498	48,959	52,969
<b>EBITDA</b>	<b>12,539</b>	<b>16,075</b>	<b>18,316</b>	<b>18,637</b>	<b>65,567</b>	<b>61,992</b>
% of sales	31.73	34.58	38.32	39.92	36.33	33.99

In 2016 the total depreciation allowances amounted to PLN 48,959 thousand in comparison to PLN 52,969 thousand in the previous year. In the overall amount of depreciation allowances specified above, the largest depreciation allowances related to scaffolding and shuttering. The amount of the allowances is primarily subject to the estimated useful life of the assets.

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In 2016 – as a result of growing revenues from the core activity of the Capital Group being services for construction projects in Poland and due to a good market condition in Ukraine, the Capital Group recorded an improved EBITDA in absolute terms by PLN 3,575 thousand (or by over 5%). EBITDA profitability (calculated as the ratio of EBITDA to sales) was over 36% in the period versus about 34% in the previous year.

In 2016 the Capital Group recognised net impairment charges to receivables (the sum of established and reversed allowances) and wrote-off lost receivables in the total amount of PLN 3,664 thousand versus PLN 9,955 thousand in the equivalent period last year (the allowances are disclosed under “Costs of sales and marketing”). The phenomenon is due to an estimate of the risk related to recovery of receivables in view of the litigation pursued by the Capital Group against its debtors.

In 2015 the scale was exceptionally high due to the need to make one-off allowance for lost receivables as a result of a settlement with a key client.

The item “Overheads” covers the actual cost of the Management Board as well as all cost items related to general administrative services to the Capital Group (accounting, IT, legal services, etc.). In 2016 the expenses amounted to PLN 16,501 thousand versus PLN 17,799 thousand in equivalent period last year (-7%).

Apart from economic effects pertaining to the settlement and valuation of hedging contracts (NDF) other operating activity includes also economic effects related to the customisation of shuttering system elements to individual customer's needs and general effects of asset management (negative and positive physical count results and provisions for impairment of inventories). In 2016 the surplus of revenues over expenses related to the above was PLN 1,808 thousand (including PLN 1,713 thousand as damages for assets lost in a fire) versus PLN 511 thousand in 2015.

The core values related to EBIT (operating profit) and EBITDA (operating profit + depreciation) in the analysed periods at ULMA Construcción Polska S.A. were as follows:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015
Sales	35,805	42,646	44,849	42,908	166,208	161,772
<b>EBIT</b>	<b>(1,161)</b>	<b>2,397</b>	<b>5,268</b>	<b>5,012</b>	<b>11,516</b>	<b>(4,651)</b>
% of sales	(3.24)	5.62	11.75	11.68	6.93	(2.88)
Depreciation	11,082	11,754	12,140	11,776	46,752	52,552
<b>EBITDA</b>	<b>9,921</b>	<b>14,151</b>	<b>17,408</b>	<b>16,788</b>	<b>58,268</b>	<b>47,901</b>
% of sales	27.71	33.18	38.81	39.13	35.06	29.61

## Foreign exchange risk hedging transactions

The Capital Group companies purchase the products (scaffoldings and shuttering systems and accessories for such systems) which are the object of their commercial and service operation from its parent entity in Spain, other ULMA Group companies' third-party companies.

Unless specified otherwise, all the amounts are in PLN '000.



Within its commercial activities, the Capital Group is active in export markets, in particular in Ukraine, Lithuania and in Kazakhstan where business is pursued via subsidiary companies Ulma Opałubka Ukraina sp. z o.o., Ulma Construcción BALTIC sp. z o.o. and Ulma Opałubka Kazachstan Sp. z o.o. As a result, companies in the Capital Group are exposed to FX risk that the Capital Group mitigates by:

- getting involved in the FX and term markets using Non Delivery Forward (NDF) contracts, or
- by adjusting the prices of the offered services and materials which is not fully effective.

All the NDF instruments held by the Capital Group are acquired only for the purposes of hedge against the FX risk and are not of asymmetric nature.

The Capital Group does not apply the so-called "hedge accounting", and therefore the results from hedge transaction execution and valuation (positive and negative) are charged to the result for the period.

## **Financial costs and other total income**

The Capital Group uses bank loans and its own funds to finance investments related to purchases of products for lease (i.e. shuttering and scaffolding systems).

In 2015 ULMA Construcción Polska S.A. fully repaid all loans contracted earlier to finance the above investments.

The parent company Ulma Construcción Polska S.A. grants long-term loans to its subsidiary companies to finance its business in export markets.

As at 31 December 2016, the amount of long-term loan granted was EUR 2,500 thousand and USD 1,500 thousand. In compliance with the International Accounting Standards (IAS 21), the loans are disclosed as "Net investments in foreign operations" and therefore all FX differences are recognised in the "statement of changes in consolidated equity" and in "other comprehensive income".

In 2016 the total amount of FX gains recognised in those statements amounted to PLN 566 thousand, of which:

- PLN +255 thousand were FX gains related to the said "net investments" (loans granted) in foreign operations. FX differences on the measurement of settlements as at the balance sheet date are recognised in equity and only afterwards – following repayment of the loans by the subsidiaries, realised FX profit/loss is recognised in the consolidated profit and loss account,
- PLN +311 thousand were FX losses due to translation of financial statements of foreign subsidiary companies and related to the depreciation of hryvnia or Tenge versus PLN in the analysed period.

In 2015 the amounts were respectively:

- PLN +2,010 thousand as FX gains related to "net investments in foreign operations", and
- PLN -6,300 thousand of FX losses due to translation of financial statements of foreign subsidiary companies.

The Capital Group has been trying to hedge the FX risk related to the internal loans in its exposure to EUR – UAH and USD – UAH in Ukraine in a natural manner – by adjusting its price lists of services and materials offered in the market to the current UAH exchange rate to USD. However, the effectiveness of those efforts is difficult to estimate due to the volume and unpredictability of UAH volatility, in particular in view of the complicated geopolitical situation in Ukraine and the military conflict in the east.

Apart from the above long-term loans, ULMA Construcción Polska S.A.

Unless specified otherwise, all the amounts are in PLN '000.



- has granted a loan to its subsidiary company ULMA Opałubka Kazachstan of USD 350 thousand. The loan was extended on arm's length basis until 31 December 2017. As at 31.12.2016, the loan balance is USD 150 thousand.
- has granted a loan to its parent company ULMA CyE S. Coop. of PLN 32,000 thousand. The loan was extended on arm's length basis until 30 December 2017.

In 2016 ULMA Construcción Polska S.A. generated PLN 1,792 thousand of interest income on the above loans.

## Net profit / (loss)

Net of income tax, the Capital Group generated in 2016 positive net profit of PLN 12,892 thousand versus positive net profit in the previous year of PLN 5,508 thousand.

The net profit of ULMA Construcción Polska S.A. generated in 2016 amounted to PLN 10,711 versus PLN 32 thousand net profit in the previous year.

## Cash flows

The table below presents the Group's abbreviated cash flow statement for the analysed periods:

	12 months of 2016	12 months of 2015	Dynamics
Net profit	12,892	5,508	2.34
Depreciation	48,959	52,969	0.92
<b>Total financial surplus</b>	<b>61,851</b>	<b>58,477</b>	<b>1.06</b>
Other elements of net operating cash flow	(57,220)	(12,012)	4.76
<b>Net cash flow on operations</b>	<b>4,631</b>	<b>46,465</b>	<b>0.1</b>
Net cash flows from investing activities	(2,319)	(33,120)	0.07
Net cash flows from financing activities	-	(10,761)	-
<b>Net cash flow</b>	<b>2,312</b>	<b>2,584</b>	<b>0.89</b>
FX (loss)/profit on valuation of cash and overdraft facility	(328)	270	-
<b>Change of cash and under overdraft facility</b>	<b>1,984</b>	<b>2,854</b>	<b>0.70</b>

The table below presents the abbreviated cash flow statement of ULMA Construcción Polska S.A. for the analysed periods:

	12 months of 2016	12 months of 2015	Dynamics
Net profit	10,711	32	338.30
Depreciation	46,752	52,552	0.89
<b>Total financial surplus</b>	<b>57,463</b>	<b>52,584</b>	<b>1.09</b>
Other elements of net operating cash flow	(53,485)	(13,413)	3.99
<b>Net cash flow on operations</b>	<b>3,978</b>	<b>39,171</b>	<b>0.10</b>
Net cash flows from investing activities	(2,163)	(25,617)	0.08
Net cash flows from financing activities	-	(10,756)	-
<b>Net cash flow</b>	<b>1,815</b>	<b>2,798</b>	<b>0.65</b>
FX (loss)/profit on valuation of cash and overdraft facility	(159)	(52)	3.06

Unless specified otherwise, all the amounts are in PLN '000.



Change of cash and under overdraft facility	1,656	2,746	0.60
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## Cash flow from operating activities

In 2016 the Capital Group recorded a major drop of cash flows from operating activities that amounted to PLN 4,631 thousand versus PLN 46,465 thousand in the previous year. The result was primarily affected by:

- in 2016 the Capital Group purchased shuttering systems and scaffolding to complete its product portfolio for PLN 53,489 thousand versus PLN 40,260 thousand in the equivalent period last year (growth by PLN 13,229 thousand or by 32.8%). The purchases were related to market demand, in particular in the domestic market,
- In 2015 the Capital Group reached a number of settlements related to the repayment of certain difficult receivables. That resulted in one-off improvement of ratios concerning the management of working capital. In 2016 the phenomenon did not have such a major scale.

In 2016 Ulma Construcción Polska S.A. recorded a major decrease of cash flows from operating activities that amounted to PLN 3,978 thousand versus PLN 39,171 thousand in the previous year. The result was primarily affected by:

- in 2016 the Company purchased shuttering systems and scaffolding to complete its product portfolio for PLN 43,934 thousand versus PLN 34,593 thousand in the equivalent period last year (growth by PLN 9,341 thousand or by 27.0%). The purchases were related to market demand, in particular in the domestic market,
- In 2015 the Capital Group reached a number of settlements related to the repayment of certain difficult receivables. That resulted in one-off improvement of ratios concerning the management of working capital. In 2016 the phenomenon did not have such a major scale.

In 2016 the Capital Group managed to retain the rotation of receivables ratio at a similar level to the one generated in 2015 (as presented in the table below).

		31 December 2016	31 December 2015
1.	Net trade receivables (net of impairment charges)	48,920	47,278
2.	Grossed-up sales revenues for the 12 month-period until the balance sheet date	221,999	224,366
3.	Number of days	365	365
4.	Turnover ratio (1*3/2)	80	77

Unless specified otherwise, all the amounts are in PLN '000.



The Capital Group tries to limit the risk related to receivables by effective implementation of internal procedures and rules on identification, measurement and monitoring of the financial and liquidity situation of the Group's customers at the point of commencing and during the cooperation.

## **Cash flows from investing activities**

The cash flow statement discloses amounts spent on other investments with the exception of those related to extension of the offered product portfolio (shuttering and scaffolding systems) that are disclosed in cash flows from operating activities.

On 30 December 2015 ULMA Construcción Polska S.A. granted a loan to its parent company ULMA C y E, S. Coop. (Spain) for PLN 32,000 thousand, repayable on 16 June 2017 – PLN 20,000 thousand and on 30 December 2017 – PLN 12,000 thousand. The loan was granted at arm's length and is secured with a registered pledge on the borrower's assets.

## **Cash flow from financing activities**

In 2016 there were no cash flows from investing activities.

In consequence of the above, in 2016 level of the Capital Group's cash and overdraft facility increased by PLN 2,312 thousand to PLN 36,948 thousand as at 31 December 2016.

In 2016 ULMA Construcción Polska S.A. recorded an increase of cash and overdraft facility by PLN 1,815 thousand to PLN 32,717 thousand as at 31 December 2016.

## **Material risk factors and hazards with the issuer's exposure thereto**

### **Risk of competition and outlooks for the construction industry in Poland**

The growth of construction and assembly production in January 2017, a relatively high (although negative) development indicators in construction in February 2017 and a visible recovery in the market of infrastructural tenders, seem to confirm that this is a beginning to an anticipated upward trend in construction industry.

The recent declarations made by the government show that the plan for the year provides for concluding contracts for a double amount versus the previous year – for road projects, and over seven times higher – for railway projects. Although, the performance of the projects as “Design and build” significantly postpones the anticipated growth of production, on the other hand the abundant experience of the Capital Group in servicing infrastructural projects and the recent high offering effectiveness are good indications for the future.

Additionally, there are advantageous projections for residential construction; however, the assumptions underlying the government project to support tenant housing may generate certain risk in the future of a gradual replacement of monolithic technologies with less expensive prefabricated elements.

However, it seems that a certain slowdown may be coming in the near months in commercial construction which by definition is most sensitive to an unfavourable political climate. Additionally, it may be expected that the low supply of projects to be commenced with an expansion of infrastructural logistics and capacities of competitors, will cause continued pressure on prices that may adversely affect improved

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profitability of the Capital Group. In some more distant future, a certain hazard for the construction market growth (in particular with reference to poorly advanced local government projects) may come from a probable revision of the allocated EU budget.

## **Commercial risk in export markets**

In the foreign markets where the Capital Group operates, optimism comes from permanent improvement indications in Ukraine, reconstructing its economy and commencing new investments after a deep recession lasting for a number of years as a result of the political conflict with Russia.

In Kazakhstan 2017 will be another year when the Capital Group will be facing deteriorating competitive advantages vis-à-vis Russian, Chinese, Turkish and local companies and an attempt to compensate for potential lost revenues in the industrial and road sector.

## **FX risk**

Companies in the Capital Group purchase products (shuttering systems and related accessories) from its parent entity in Spain and from other entities outside Poland. On the other hand, companies in the Capital Group are active in export markets. As a result, the Capital Group is exposed to FX risk which it has been trying to mitigate by acting in the FX market or in the term market and concluding FX Non-Delivery Forward contracts (NDF).

The subsidiary company Ulma Opalubka Ukraina sp. z o.o. continues to have intragroup loans denominated in USD. Due to the lack of possibilities to effectively hedge the FX risk relating to the transaction, the Company remains exposed to the risk related to its USD-UAH exposure (in the capital market in Ukraine there are no derivative instruments available with the hryvnia as the base currency). As mentioned, the Management Board has been trying to mitigate the risk by updating the prices of its offered products and services following changes to the UAH exchange rates. However, in the time of a slowdown, such actions do not mitigate the effects of hryvnia devaluation.

The risk related to financial instruments is detailed in note No. 2 in the consolidated financial statements of ULMA Construcción Polska S.A. for the period of 12 months ended on 31 December 2016.

## **Proceedings pending in courts, arbitration bodies or public administration bodies, taking into account the information concerning:**

- **proceedings relating to liabilities or receivables of ULMA Construcción Polska S.A. or its subsidiary with the value at least equal to 10% of equity of ULMA Construcción Polska S.A., specifying: the object of the proceedings, value of the dispute, date of commencement of the proceedings, parties to the proceedings and the position of the Company**
- **two or more proceedings relating to liabilities or receivables with total value corresponding to at least 10% of equity of ULMA Construcción Polska S.A., specifying total value of such proceedings for liabilities and receivables separately and describing the position of the Company in the case, and, in reference to the biggest proceedings in the groups of liabilities and receivables – specifying their object, the value of the dispute, date of commencement of the proceedings and parties thereto**

Unless specified otherwise, all the amounts are in PLN '000.



Neither ULMA Construcción Polska S.A., nor any of its subsidiaries are parties to proceedings related to payables or receivables of the Company with the value equal minimum to 10% of the Company's equity.

There are no two or more proceedings concerning payables to or receivables from one counterparty with the total value equal minimum to 10% of the Company's equity.

**Proceedings concerning receivables of ULMA Construcción Polska S.A. as at 31.12.2016:**

ULMA Construcción Polska S.A. is engaged in 54 court proceedings involving receivables (as at 31 December 2016) in the total amount of PLN 26,879 thousand. These cases include court proceedings for which the court has not issued so far an enforcement order with a writ of execution (legally binding payment order), and receivables from debtors to whom the court has issued a bankruptcy order, with both options – arrangement bankruptcy or liquidation bankruptcy.

None of the court cases pursued by ULMA Construcción Polska S.A. involves a value higher than 10% of its equity.





Particular groups of court proceedings are listed in the table below:

Item	Number of proceedings	Balance as at 31.12.2016	Current status of the case
<b>Court proceedings</b>	<b>4</b>	<b>4,251</b>	
<i>including the largest cases:</i>			
SIAC CONSTRUCTION Ltd.		4,139	The court proceedings are expected to be resumed in Poland after the remedy proceedings completed in Ireland. After an effective delivery of summons to the Debtor (earlier ones were not collected), the Court designated the date of the next hearing at 03.04.2017.
Usługi Remontowo-Budowlane Ignacy Kołodziej		78	Proceedings against the Debtor. An enforcement title against the Debtor is expected.
KABET Sp. z o.o.		21	Proceedings against the Debtor. An enforcement title against the Debtor is expected.
MUR-BETON S.A.		13	Proceedings against the Debtor. An enforcement title against the Debtor is expected.
<b>All of the above in total</b>		<b>4,251</b>	<b>100% in the total number</b>
Item	Number of proceedings	Balance as at 31.12.2016	Current status of the case
<b>Bankruptcy proceedings</b>	<b>50</b>	<b>22,598</b>	
<i>including 5 largest cases:</i>			
HYDROBUDOWA POLSKA SA		6,602	Receivables notified to the receiver in bankruptcy include amounts due from the Debtor for all completed contracts, including the construction of A4 motorway (Dębica-Rzeszów), performed by the Debtor under a consortium with SIAC

Unless specified otherwise, all the amounts are in PLN '000.



RADKO Sp. z o.o.		4,353	<p>On 20.01.2016 the Court transformed the previous bankruptcy proceedings with a settlement into bankruptcy covering the liquidation of the bankrupt's assets. Apart from the receivables reported by the Company to bankruptcy proceedings, the Company pursues several other proceedings. Those are among others:</p> <ul style="list-style-type: none"> <li>• enforced collection proceedings against guarantors (former members of the Debtor's management board),</li> <li>• enforcement proceedings from a property that was subject to actio Pauliana. The property had been validly auctioned and now the Company is waiting for the proceeds from the auction.</li> <li>• proceedings for payment against the State Treasury for damages due to the unconstitutional character of the "special Act" of 28.06.2012 (Journal of Laws, item 891). On 16.02.2015 the District Court issued a decision dismissing the Company's claim. The Company appealed against the verdict. On 05.04.2016 the Court of Appeals upheld the judgement of the first instance District Court. On 10.08.2016 the Company filed a cassation appeal against the judgement of 05.04.2016. By its decision of 07.02.2017, the Supreme Court refused to accept the cassation appeal for review. As a result, the legislative path in Poland was exhausted.</li> <li>• The Company is a party to criminal proceedings against the Debtor's former management in connection with Art. 300 of the Penal Code (purposeful disposal of assets by the Debtor's management).</li> <li>• Additionally, the Company filed a suit to the District Court in Kraków requesting a ban for the Debtor's former management to pursue business activity and sit in governing bodies of commercial companies.</li> </ul>
AEDES S.A.		1,155	On 11.02.2016 the District Court in Kraków issued a decision on opening arrangement proceedings with the Debtor. Receivables were notified to the Restructuring Adviser appointed by the Court. On 22.02.2017 a vote was held on the arrangement proposals. The Company expects the decision to become legally effective soon.
HENPOL Sp. z o.o.		1,010	The receivable was reported to the receiver.
Krokbud Sp. z o.o.		864	On 21.04.2016 the District Court in Nowy Sącz issued a decision declaring the Debtor's bankruptcy with a possible settlement. The receivable was reported to Court. The Company waits for arrangement proposals by the Debtor and voting by the creditors.
<b>All of the above in total</b>		<b>13,984</b>	<b>62% in the total number</b>
<b>Total pending proceedings:</b>	<b>54</b>	<b>26,849</b>	

Apart from the above litigation covering pending court and bankruptcy proceedings (including restructuring), the Company pursues a number of enforced collection proceedings. Those are in particular pre-judicial and enforced collection proceedings. As at the balance sheet date, the Company was involved in 188 such proceedings for the total amount of PLN 18,733 thousand.

Unless specified otherwise, all the amounts are in PLN '000.



### **Proceedings concerning receivables of subsidiary companies as at 31.12.2016:**

As at the balance sheet date, ULMA Baltic Sp. z o.o. had 6 court cases related to restructuring and bankruptcy proceedings totalling PLN 592 thousand (translated into PLN at the exchange rates as at the balance sheet date):

Aumenda	44
Decorus	11
Šebsta	138
Makey Studio	89
UAB "Architelio Statyba"	221
SIA "A.B. Tons Construction	89
Total	592

Apart from the above, ULMA Opałubka Kazachstan sp. z o.o. is involved in enforced collection proceedings against its largest debtor – Универсалстройсервис (as at 31.12.2016 the debt translated into PLN amounted to PLN 661 thousand) which were initiated due to no payment of the amounts declared in the court settlement. As a result of actions taken, the company recovered some equipment owned by ULMA from the debtor (about PLN 390 thousand) that had been sold to the debtor earlier. Now a process is under way to apply the value of the recovered equipment to cover a part of the debt. Notwithstanding the above, enforced collection proceedings continue to be pursued against the debtor.

The Group recognises impairment charges to all doubtful receivables and receivables pursued in court. The amount of such impairment charges are recognised under “Costs of sales and marketing” and the amount is equivalent to assessment as to the likelihood to recover the receivables as a result of court litigation or enforced collection.

### **Information on basic products, goods and services with details of their value and quantities and the share of each product, goods and services (if material) or groups thereof in the Issuer's total sales as well as changes in the financial year**

Rental and sale of shuttering systems and scaffolding are the core sources of the Group's revenues. Additionally, the Group sells plywood for formwork, adhesive liquids for formwork and other reinforced concrete accessories.

Ordered volumes are controlled and suited to the growth of the construction market and cooperation with the numerous entities in construction industry. The Capital Group also adapts its current products (shuttering systems and scaffolding) to the changing demand of the construction market.

In 2016 the Group was involved in commercial and servicing activities as follows:

- sale and rental of shuttering systems and scaffolding,
- preliminary assembly of shuttering elements for engineering structures,
- sale of trading goods.
- accessories for reinforced concrete works,
- formwork plywood.

### **Information on markets with a split into domestic and foreign markets and information on procurement sources of materials for production, goods and services, with details on dependence on one or more buyers and suppliers; when**

Unless specified otherwise, all the amounts are in PLN '000.



**the share of one buyer or supplier reaches minimum 10% of total sales revenues – makes of such supplier(s) or buyer(s), their share in sales or purchases and their formal relationships to the issuer**

Sales by the Group are concentrated in the domestic market. The total domestic sales accounted for 82% of the Group's revenues. About 50% of the revenues are concentrated in a group of 15 largest construction companies operating in Poland that belong to international construction capital groups from Western Europe.

Export sales are performed primarily through the Group's own sales network in East European and Asian markets. As a result, in 2016 the share of export in total sales revenues of the Group accounted for over 18% versus over 22% in 2015. Apart from Kazakhstan, products were exported to Ukraine and Lithuania as well as to Romania, the Czech Republic, Germany and Spain.

A major part of shuttering offered in various markets is acquired from the core shareholder in Spain – in 2016 the purchases from Spain accounted for 19.3% of the total sales carried out by the Group. The other shuttering systems are purchased from third party supplies from Germany, Austria, the Czech Republic and Poland.

**Information on contracts that are material for the Issuer's business, including contracts known to the Issuer concluded between shareholders, insurance, cooperation contracts**

During the period covered with the report, companies in the Capital Group did not enter into any other contracts with the shareholders apart from those specified herein. The other transactions and contracts were of typical and routine nature, were concluded at arm's length, and their nature and terms and conditions resulted from current operational activity pursued by the companies in the Capital Group.

**Transactions with related entities if the individual or total value with one related entity since the beginning of the year has exceeded PLN equivalent of EUR 500,000**

Transactions concluded in 2016 by ULMA Construcción Polska S.A. and its subsidiaries with affiliates were of typical and routine nature, were concluded at arm's length, and their nature and conditions resulted from running ongoing operations.

The major transactions were concluded with the parent entity ULMA C y E, S. Coop. (Spain), including in particular purchases of shuttering and scaffolding and rental services of shuttering and scaffolding, totalling PLN 35,927 thousand,

Pursuant to the annex of 15 September 2016, the repayment date of the loan granted to the parent entity ULMA CyE, S. Coop. with two repayment dates agreed – 16 June 2017 – PLN 20,000 thousand and 30 December 2017 – PLN 12,000 thousand.

**Information on contracted and terminated loan agreements in the financial year with details of amounts thereof, type and interest rates, currency and repayment dates**

In the financial year of 2016 ULMA Construcción Polska S.A. did not make any modifications to its loan agreements with banks.

Unless specified otherwise, all the amounts are in PLN '000.



On 3 November 2014 ULMA Opałubka Ukraina Sp. z o.o. concluded a short-term loan agreement with UkrSibbank in hryvnia in the amount equivalent to EUR 150 thousand. The repayment date of the loan is 31 December 2019. As at balance sheet of 31 December 2016 the outstanding amount under the loan was 0.

On 19 October 2016 ULMA Construcción Polska S.A. concluded an agreement with mBank S.A. "on electronic repayment of obligations" to certain of its suppliers, financed with a credit line for PLN 5,500 thousand valid until 30 June 2017. The objective of the credit line is to optimise working capital financing.

### **Information on loans granted in the financial year, including loans granted to the Issuer's related entities, with details of the amounts thereof, type and interest rates, currency and repayment dates.**

ULMA Construcción Polska S.A. granted an investment loan to its subsidiary, ULMA Opałubka Ukraine sp. z o.o., in the amount of USD 1,500 thousand USD and a fixed interest rate at the market level. As at 31 December 2016, the loan balance amounted to USD 1,500 thousand.

ULMA Construcción Polska S.A. extended to its affiliate ULMA Cofraje srl Romania a long-term loan in the amount of EUR 241,000 thousand. The loan was extended on arm's length basis until 31 December 2018. As at 31 December 2016, the loan balance amounted to EUR 221.9 thousand.

With an annex of 3 November 2014, ULMA Construcción Polska S.A. increased the investment loan granted to its subsidiary ULMA Construcción BALTIC up to EUR 2,500 thousand. The loan was extended on arm's length basis until 30 June 2018 (annex of 15 July 2014). As at 31.12.2016, the loan balance amounted to EUR 2,500 thousand.

On 30 December 2015 ULMA Construcción Polska S.A. granted a loan to its parent company ULMA C y E, S. Coop. (Spain) for PLN 32,000 thousand, repayable – pursuant to an annex of 15 September 2016 – on 16 June 2017 – PLN 20,000 thousand and on 30 December 2017 – PLN 12,000 thousand. The loan was granted at arm's length and is secured with a registered pledge on the borrower's assets.

ULMA Construcción Polska S.A. extended to its subsidiary, ULMA Opałubka Kazakhstan, a loan in the amount of USD 350 thousand. The loan was extended on arm's length basis until 31 December 2017. As at 31.12.2016, the loan balance is USD 150 thousand.

### **Information on sureties and guarantees granted and received in the financial year, including sureties and guarantees granted to the Issuer's related entities**

ULMA Construcción Polska S.A. granted a surety to UKRSIBBANK for its subsidiary company – ULMA Opałubka Ukraina Sp. z o.o. as security to repayment to a bank loan. The surety was granted for the term of the loan for EUR 150 thousand.

### **In case of an issue of securities in the period covered with the report – use by the issuer of proceeds from the issue until the date hereof**

In the period under report, ULMA Construcción Polska S.A. did not make any issue of securities.

### **Differences between financial results disclosed in the consolidated financial statements and previously published projected results for the period.**

Unless specified otherwise, all the amounts are in PLN '000.



The Capital Group does not publish any forecasts about financial results of the Group.

### **Assessment with justification concerning the management of financial resources, in particular the ability to repay its debt, with details of potential hazards and actions that the issuer has taken or intends to take to counteract the hazards**

All companies in the Capital Group have been repaying its commercial and loan obligations on time.

In 2016 the Capital Group continued to extend its assets (shuttering systems and scaffolding) by making investment purchases and transfers of assets from the countries in which the parent company (ULMA C y E S, Coop.) operates where the use thereof is low. Within the process, the shifted assets are rented subject to market terms which support the Capital Group to optimise the management of its financial resources.

As mentioned, subsidiary companies of the Capital Group are exposed to FX risk. The Capital Group has been trying to mitigate the risk by actively participating in FX and term markets or actions focused on searching for natural hedging methods. The risk applies in particular to the intragroup loan granted by ULMA Construcción Polska S.A. to Ulma Opalubka Ukraina sp. z o.o., denominated in USD. The current unstable geopolitical and economic situation in Ukraine generates a real hazard to the stability of the hryvnia (UAH).

### **Assessment of feasibility of investment projects, including capital investments, as compared to the funds available, including potential changes to the funding structure of the Group's business**

The core investment activities performed by the Capital Group in 2016 were connected with purchases of shuttering systems and scaffolding, in particular to expand the potential of the Capital Group in the industrial segment and to expand its product portfolio by OH&S systems and to make replacement investments. The scale of the investment activities was necessary to maintain the competitiveness of the Capital Group in various markets. With its financial surplus, generated in operations, the Capital Group will be able to continue the required investment purchases in the near future.

As of the date hereof, the Management Board intends to make no modifications to its funding policy of the investment activity by the Capital Group.

### **Factors and non-typical events affecting the result on operations in the financial year with details of the impact of individual factors and non-typical events on the generated result.**

In 2016 there were no non-typical events that could have materially affected the financial result of the Capital Group or such that could impact the result in the future years.

### **Characteristics of external and internal factors material to the development of the Issuer's business and business prospects including elements of its market strategy**

#### **Market in Poland**

Unless specified otherwise, all the amounts are in PLN '000.



The government has voiced its intentions to modify PBDK (Programme for National Roads Construction) the value of which as it is now is estimated at about PLN 200 billion versus PLN 107 billion approved by the previous government. In the very near future, we should learn about the investment priorities by 2023. However, no expectations are justified that in 2017 Poland will become a large infrastructural construction site in the months to come. Both with respect to new road projects and those are just about to begin, the “design and build” formula is applied. Therefore, revenue effects will be visible much later although the order portfolios of construction companies will be growing regularly. On the other hand, as announced by GDDKiA, if expenditures on road construction will actually grow from PLN 15.7 billion to PLN 23 billion annually, the second half of 2017 should generate a major growth of production.

PKP PLK also has been making up for the delays that resulted mainly from the fact that the documentation for new projects had not been prepared. For 2017 contracts are planned for about PLN 30 billion and the actual construction works are expected to commence at the end of 2017.

With respect to the largest planned projects in the segment of large industrial developments, new power plants at EC Żerań, ZA Puławy and Elektrownia Ostrołęka are now in the tender phase or preparations to tenders as well as waste incineration plants in Gdańsk and in Warsaw in the district of Targówek. The accumulated experience and a portfolio of references of the Capital Group in industrial construction underlie hopes in following the preparations to those projects; however, construction works will not start in 2017.

In the residential sector, the reduced growth of the number of building permits in the year under report and the number of commenced housing projects most probably indicates a weakened growth trends in the months to come. In 2017 the subsidies under the MdM programme will continue to support sales of apartments. The effect will stop in 2018; however, the assessment of the impact of the National Housing Programme on demand in the housing market will still have to wait.

### **Export markets**

The factors that in the near future may affect the economic condition and the Company's revenues in foreign markets, include the following:

#### **In Ukraine:**

- Stability of the political and economic situation;
- The continued two-digit growth ratios of construction and assembly production, reflecting a major improvement of the investment climate
- Almost a double growth (versus 2016) of funds for road construction and modernisation in Ukraine approved by Ukraine's Parliament (UAH 35 billion)

#### **In Kazakhstan:**

- Determination of Kazakhstan's government in implementing economic reforms and search for funds to continue long-term development programmes;
- Major development potential of the industrial sector and continued interest in getting involved in the development on the part of foreign companies,
- Change of the Company's strategy by:
  - focusing attention and commercial efforts in the industrial areas of western Kazakhstan, with specific stress on the areas of Tengiz, Kachagan and Karachaganak,

Unless specified otherwise, all the amounts are in PLN '000.





- continuation of infrastructural projects in Almata,
- gradual abandonment of residential construction projects.

In Lithuania:

- Plans to expand the Company's operations to Estonia.
- Increased interest in the market by Poland's largest construction companies that are partners of the Capital Group in the domestic market.

Internal factors influencing further development of the Capital Group include:

- holding a broad portfolio of products and services, enabling comprehensive support to investments in all sectors of the construction market, with a special focus on the following sectors: construction of roads and bridges, energy sector construction, ecological construction, and construction of high buildings,
- partial renewal in the recent years of a portfolio of products related to wall systems and addition of OH&S systems,
- a growing portfolio of reference facilities implemented in Poland with the use of advanced construction panel technologies (self-lifting system or hinged method),
- holding internal funds for flexible support of investment needs in order to expand the product portfolio with modern solutions and to replace the assets.

### **Changes to key rules of business management of the Issuer and its capital group**

In 2016 there were no changes to the key rules of business management of the parent company and the ULMA Construccjon Polska S.A. Capital Group.

### **Changes in the Issuer's managing and supervisory bodies in the last financial year, rules concerning the appointment and dismissal of members of the managing bodies and authority of the managing persons, in particular their rights to decide about issues or redemption of shares**

In accordance with the Articles of Association, the Management Board of the parent company ULMA Construccjon Polska S.A. is composed of one to five members. Members of the Management Board are appointed and dismissed by the Supervisory Board. The term of office of a member of the Management Board is determined by the Supervisory Board, however, it cannot exceed three years. The Supervisory Board also determines the number of members of the Management Board and elects the President from among them.

In accordance with the Regulations of the Management Board of ULMA Construccjon Polska S.A., the Management Board adopts resolutions on issues provided for by law and the Company's Articles of Association; however, if adoption of a resolution requires a consent of the Company's General Meeting or of the Supervisory Board, such a resolution may be adopted only upon obtaining such a consent. The Management Board adopts resolutions in particular in matters concerning:

- convening of the General Meeting of Shareholders,
- establishing a detailed organisational structure of the Company and internal regulations,
- granting and withdrawing powers of attorney for representatives and proxies,
- incurring loans,
- making investments,
- determination of the principles of establishing remuneration for Company's employees,

Unless specified otherwise, all the amounts are in PLN '000.





- determination of the principles and manner of accounting,
- determination of detailed principles of the Company's financial management,
- development of the Company's internal annual financial plans,
- development of the Company's long-term internal development plans,
- setting and announcing the distribution date of dividend approved by the General Meeting for distribution.

In accordance with the Articles of Association, the Supervisory Board of the parent company ULMA Construcción Polska S.A. is composed of five to nine members, elected by the General Meeting. The term of office of the Supervisory Board is three years.

The Supervisory Board exercises continuous supervision over the Company's operations. The obligations of the Supervisory Board include in particular:

- examination of the balance sheet,
- examination of the Management Board's report and conclusions made by the Management Board on allocation of profit or loss,
- suspension in service, for material reasons, individual members of the Management Board or the entire Management Board,
- delegating a member or members for acting temporarily as the Management Board in the case of suspension or dismissal of all the members of the Management Board or when the Management Board is unable to act for other reasons,
- approving the regulations of the Management Board,
- establishment of rules for remuneration of the Management Board members,
- granting permits for investments and purchases which exceed 4/5 (four fifth) of the share capital nominal value and for incurring loans which exceed the said value,
- appointment of the expert auditor,
- granting a consent for purchase or sale by the Management Board of a real estate or a share in a real estate.

In 2016 the following changes took place in the Issuer's supervising and managing bodies.

Felix Esperesate Gutiérrez	Member of the Supervisory Board until 16 June 2016
Rafał Alwasiak	Member of the Supervisory Board until 16 June 2016
Andrzej Kozłowski	Member of the Supervisory Board since 16 June 2016
Michał Markowski	Member of the Supervisory Board since 16 June 2016

Rodolfo Carlos Muñiz Urdampilleta	President of the Management Board since 16 June 2016
Andrzej Kozłowski	President of the Management Board until 16 June 2016

**All contracts concluded between the Issuer and managing persons providing for compensation if they resign or are dismissed from their positions without valid reasons or when such dismissal results from a merger of the Issuer by take-over**

Apart from no-competition agreements after termination of employment in Group companies, there are no contracts between companies in the ULMA Construcción Polska S.A. Capital Group and managing persons providing for compensation if they resign or are dismissed from their positions without valid reasons or when such dismissal results from a merger or take-over of the parent company ULMA Construcción Polska S.A. The no-competition agreements provide for a ban to take up competitive activities in relation to the activities in which the Group companies are involved, for a period from 6 to 18 months. The compensation

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for refraining to become involved in competitive activities – subject to each agreement – is equivalent to 3-month to 18-month average salary of the managing person.

**The amount of remuneration, bonus or benefits, including from incentive or bonus programmes, based on the issuer's equity, including programmes with pre-emption bonds, convertible bonds, subscription warrant (in cash, in kind or any other form), disbursed, disbursable or potentially due, separately for each managing or supervising person of the Issuer in the Issuer's enterprise, irrespective of the fact if they were expensed or resulted from profit distribution; when the Issuer is a parent entity or a major investor – separately information on the value of remuneration and bonus received for the performance of functions in bodies of subsidiary entities; if the information has been disclosed in the financial statements – the duty shall be deemed as complied with by identification of the location thereof in the financial statements**

The above information is disclosed in Note 30 of additional information to the consolidated financial statements.

**The total number and nominal value of all shares of the issuer and shares in the issuer's related entities, held by managing and supervising persons (separately for each person)**

To the best of our knowledge, as of the publication date hereof no proxy, member of the Management Board or Supervisory Board holds any shares in the parent company ULMA Construccjon Polska S.A.

**Shareholders that directly or indirectly via their subsidiary entities hold minimum 5% in the overall number of votes at general meetings with details of their shareholdings, their percentage share in the share capital, number of votes attached thereto and their percentage share in the overall number of votes at general meetings**

As of the date of submitting this annual report, shareholders holding more than 5% of the total number of votes include:

- ULMA C y E S, Coop. (Spain) holding directly 3,967,290 shares in ULMA Construccjon Polska S.A. which account for 75.49% of the Company's share capital and entitle to 3,967,290 votes at general meetings, accounting for 75.49% of the total number of votes.
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK holding directly 263,400 shares in ULMA Construccjon Polska S.A., which account for 5.01% of the Company's share capital and entitle to 263,400 votes at general meetings, accounting for 5.01% of the total number of votes.

**Information on any agreements (including concluded after the balance sheet date) that may in the future generate changes to the proportions of shareholdings by the existing shareholders and bondholders, known to the Issuer.**

Unless specified otherwise, all the amounts are in PLN '000.



To the best of our knowledge, there are no agreements that may in the future generate changes to the proportions of shareholdings by the existing shareholders.

## **Holders of all securities with special control rights with respect to the Issuer with details of such rights**

As at the publication date hereof, there are no securities with special control rights with respect to the parent company ULMA Construcccion Polska S.A.

## **Information on a control system of employee share schemes**

In companies in the ULMA Construcccion Polska S.A. Capital Group there are no employee share schemes.

### **Information on:**

// conclusion date by the Issuer of a contract with the statutory auditor to audit or review financial statements or consolidated financial statements, and the term of the contract.

// remuneration of the statutory auditor, disbursed or payable for the financial year, separately for:

- Audit of the annual financial statements
- Other attestation services, including reviews of financial statements
- Tax consultancy services
- Other services

A review of the interim financial statements of ULMA Construcccion Polska S.A. and audit of the financial statements of ULMA Construcccion Polska S.A. and the consolidated financial statements of the ULMA Construcccion Polska S.A. Capital Group for 2016 were performed by KPMG Audyt Sp. z o.o. spółka komandytowa pursuant to the contract concluded on 15 July 2016. The total contractual remuneration was PLN 170 thousand, including for the review of interim financial statements – PLN 80 thousand.

A review of the interim financial statements of ULMA Construcccion Polska S.A. and audit of the financial statements of ULMA Construcccion Polska S.A. and the consolidated financial statements of the ULMA Construcccion Polska S.A. Capital Group for 2015 were performed by KPMG Audyt Sp. z o.o. spółka komandytowa pursuant to the contract concluded on 03 July 2015. The total contractual remuneration was PLN 170 thousand, including for the review of interim financial statements – PLN 80 thousand.

## **Translation of selected financial data into EUR**

Translation of selected consolidated financial data into EUR is presented in the table below:

ITEM	in PLN thousand		in EUR thousand	
	12 months of 2016	12 months of 2015	12 months of 2016	12 months of 2015
Net revenues from sales of products, goods and materials	180,487	182,411	41,248	43,589
Profit (loss) on operations	16,608	9,023	3,796	2,156

Unless specified otherwise, all the amounts are in PLN '000.



Gross profit (loss)	16,830	7,290	3,846	1,742
Net profit / (loss)	12,892	5,508	2,946	1,316
Net cash flow on operations	4,631	46,465	1,058	11,103
Net cash flows from investing activities	(2,319)	(33,120)	(530)	(7,914)
Net cash flows from financing activities	-	(10,761)	-	(2,571)
Net cash flow	2,312	2,584	528	618
Diluted profit per share	2.45	1.05	0.56	0.25
Profit per ordinary share (in PLN/EUR)	2.45	1.05	0.56	0.25
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Total assets	335,932	328,893	75,934	77,178
Liabilities	33,467	39,730	7,565	9,323
Long-term liabilities	3,080	3,752	696	880
Short-term liabilities	30,387	35,978	6,869	8,443
Equity	302,465	289,163	68,369	67,855
Share capital	10,511	10,511	2,376	2,467
Weighted average number of shares	5,255,632	5,255,632	5,255,632	5,255,632
Number of shares as at the balance-sheet date	5,255,632	5,255,632	5,255,632	5,255,632
Book value per share (in PLN/EUR)	57.55	55.02	13.01	12.91

Translation of selected standalone financial data into EUR is presented in the table below:

ITEM	in PLN thousand		in EUR thousand	
	12 months of 2016	12 months of 2015	12 months of 2016	12 months of 2015
Net revenues from sales of products, goods and materials	166,208	161,772	37,984	38,657
Profit on operations	11,516	(4,651)	2,632	(1,111)
Gross profit (loss)	14,136	(130)	3,231	(31)
Net profit / (loss)	10,711	32	2,448	8
Net cash flow on operations	3,978	39,171	909	9,360
Net cash flows from investing activities	(2,163)	(25,617)	(494)	(6,121)
Net cash flows from financing activities	-	(10,756)	-	(2,570)
Net cash flow	1,815	2,798	415	669
Diluted profit per ordinary share (in PLN/EUR)	2.04	0.01	0.47	-
Basic profit per common share (in PLN/EUR)	2.04	0.01	0.47	-
	in PLN thousand		in EUR thousand	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Total assets	338,317	336,167	76,473	78,884
Liabilities	31,448	40,009	7,108	9,388
Long-term liabilities	3,080	4,940	696	1,159
Short-term liabilities	28,368	35,069	6,412	8,229

Unless specified otherwise, all the amounts are in PLN '000.



Equity	306,869	296,158	69,365	69,496
Share capital	10,511	10,511	2,376	2,467
Weighted average number of shares	5,255,632	5,255,632	5,255,632	5,255,632
Number of shares as at the balance-sheet date	5,255,632	5,255,632	5,255,632	5,255,632
Book value per share (in PLN/EUR)	58.39	56.35	13.20	13.22

Particular items of assets, equity and liabilities have been converted to EUR applying the mean exchange rates announced by the President of the National Bank of Poland, in force as on the balance sheet date. The mean EUR exchange rate as at 31 December 2016 was 4.4240 PLN/EUR and as at 31 December 2015 it was 4.2615 PLN/EUR.

The rate applied to the total revenues report items and the cash flow statement was the arithmetic mean of exchange rates effective on the last day of each month in the specified period, i.e. data for the period 1.01. – 31.12.2016 translated according to the rate = 4.3757 PLN/EUR, the data for the equivalent period of 2015 was translated according to the rate = 4.1848 PLN/EUR.

## Investor Relations

As part of the measures taken to establish proper investor relations, the Group has appointed a person responsible for contact with the Warsaw Stock Exchange (GPW), Polish Financial Supervision Authority (KNF) and shareholders.

Jolanta Szeląg  
[jolanta.szelag@ulma-c.pl](mailto:jolanta.szelag@ulma-c.pl)  
 (22) 506-70-00

## Statement on the application of the Corporate Governance Rules

The statement of the Management Board on the application of the Corporate Governance Rules in 2016 will be published along with this Report of the Management Board on operations of the ULMA Construcccion Polska S.A. Capital Group in 2016.

## Statement of the Parent Company's Management Board

The financial statements of ULMA Construcccion Polska S.A. and the consolidated financial statements of the ULMA Construcccion Polska S.A. Capital Group for the period of 12 months ended on 31 December 2016 were approved by the Management Board of ULMA Construcccion Polska S.A. on 16 March 2017.

The financial statements of ULMA Construcccion Polska S.A. and the consolidated financial statements for the period of 12 months ended on 31 December 2016 were prepared in order to present the economic and financial position and profit of ULMA Construcccion Polska S.A. and the ULMA Construcccion Polska S.A. Capital Group.

The financial statements of ULMA Construcccion Polska S.A. and the consolidated financial statements for the period of 12 months ended on 31 December 2016 were prepared in compliance with the International

Unless specified otherwise, all the amounts are in PLN '000.



Financial Reporting Standards (IFRS) and the related interpretations, published as regulations of the European Commission.

The consolidated financial statements of the ULMA Construcción Polska S.A. Capital Group for the period of 12 months ended on 31 December 2016 include:

- consolidated statement of financial position
- consolidated profit and loss account and other comprehensive income
- statement of changes in consolidated equity
- consolidated cash flow statement
- additional information.

The financial statements of ULMA Construcción Polska S.A. for the period of 12 months ended on 31 December 2016 include:

- statement of financial position
- profit and loss account and other comprehensive income
- statement of changes in equity
- cash flow statement
- additional information.

To the best of our knowledge the consolidated financial statements of the ULMA Construcción Polska S.A. Capital Group for the period of 12 month ended on 31 December 2016 and the comparable data have been prepared in accordance with the applicable accounting rules and present a true, reliable and transparent view of the economic and financial position and profit of ULMA Construcción Polska S.A. and the ULMA Construcción Polska S.A. Capital Group, and the report of the Management Board on operations of ULMA Construcción Polska S.A. and the ULMA Construcción Polska S.A. Capital Group in the period of 12 month of 2016 gives a true picture of the development, achievements and condition of the Company and of the Group, including a description of basic risks and hazards.

The entity authorised to examine financial statements that audit the financial statements of ULMA Construcción Polska S.A. and the consolidated financial statements of the ULMA Construcción Polska S.A. Capital Group for the period of 12 month ended on 31 December 2016 has been selected in accordance with applicable laws. The entity and the auditors that performed the audit meet the requirements to issue an impartial and independent opinion on the audited financial statements for the period of 12 months ended on 31 December 2016, in compliance with the applicable laws and professional standards.

### On behalf of the Management Board of ULMA Construcción Polska S.A.

Rodolfo Carlos Muñiz Urdampilleta,  
**President of the Management Board**

.....

Andrzej Sterczyński,  
**Member of the Management Board**

.....

Krzysztof Orzełowski,  
**Member of the Management Board**

.....

Ander Ollo Odriozola,  
**Member of the Management Board**

.....

Koszajec, 16 March 2017

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