ERBUD S.A.

Current Report No. 29 /2011
Date of Report: 2011-06-29

Topic:

Information about the planned issuance of bonds of Erbud S.A.

Legal basis: Article 56 section 1 item 2 of the Act on Public Offering - confidential information

Content of report:

ERBUD S.A. ["Company", "Issuer"] announces that it conducts activities aimed at the issue of bonds ("Bonds") in the manner referred to in Article 9 section 1 of the Act on Bonds, i.e. the public bond offering to qualified as refereed in Article 3 section 1 in conjunction with Article 7 section 3 point 1 of the Act on Public Offering. Accordingly, the Board of the Issuer passed on 29 June 2011 a resolution on the issue of bearer bonds, dematerialized, unsecured with a total nominal value of not more than PLN 50 million. The nominal value of each bond will amount to PLN 1,000 and. The maturity date was fixed at 15 July 2014. The interest of bonds will be variable and based on WIBOR 6M plus a margin.

Following the principle of equal access for all shareholders and investors to the Company's financial data, the Issuer provides the following descriptions and financial estimates contained in the bond documentation.

1. Purpose of the issue

The Issuer intends to use funds raised primarily to finance the increased demand for working capital. The value of working capital of the Erbud S.A. Capital Group at the end of March 2011 amounted to PLN 183 million and grown by PLN 105 million in comparison to the end of December 2010, when it amounted to PLN 78 million. The increase in request for working capital is a result of extension of the receivables rotation cycle from 57 days at the end of December 2010 to 86 days at the end of March 2011, and shortening the cycle of rotation of commitments from 63 days at the end of December 2010 to 61 days at the end of March 2011.

Shortening the liabilities rotation cycle against subcontractors of Erbud S.A. and financing the increased demand for working capital associated therewith this is one of the main objectives of the Bonds issue. Shorten the term of payment to subcontractors allows to negotiate lower prices for services, and thus the higher margins for the Erbud S.A. Capital Group. The Issuer intends to continue its working capital management policy consisting on reducing of the liabilities rotation

cycles and therefore expects to achieve economic benefits in the form of due improvement in margins generated by the Erbud S.A. Capital Group.

Extending the cycle of receivables rotation is associated with the current situation in the construction market, as well as results from the increase in percentage of public sector entities in the structure of the sale of the Issuer. Payment terms of public sector entities are usually longer than the payment terms of private sector companies. In 2010, the contracts signed by Erbud S.A. with the public sector entities amounted, in value terms, 39% of all concluded agreements.

The Company reserves the right to change the above described way of use of the proceeds from Bonds, if there occur unforeseen circumstances which may affect the Group's activities. Any information regarding the changes in use of proceeds from the issued Bonds will be make available to the public in the form provided for by the law, immediately after the relevant decisions will be taken.

2. Type of bonds issued

3-year unsecured bearer bonds with a par value of PLN 1,000.00 (one thousand zlotys) each. The Bonds will not have the form of a document and will be recorded in the dematerialized bonds registration system managed by the National Securities Depository S.A.

3. Issue size

The Issuer intends to issue up to 50,000 (fifty thousand) unsecured and dematerialized bonds.

4. Terms and conditions for Bond's redemption and interest payment

The Bonds will be repurchesed by the payment on the Maturity Day to the bondholders of money equal to the par value plus the interest due calculated in the manner indicated in the conditions of the Bonds issuance. The bondholders will have the right to require an early redemption of the Bonds in the event of breaches as referred to in terms and conditions of the issue of the Bonds, on terms specified in the conditions of the Bonds issue.

5. Value of commitments as at the last day of the quarter preceding the publication of the acquisition offer and the prospects of the future Issuer's liabilities until the whole redemption of bonds offered for the purchase

Liabilities as at 1 March 2011.

As of 31 March 2011, the aggregate balance of liabilities and provisions for liabilities of the dominant entity Erbud S.A. amounted to PLN 342 million, of which long-term commitments were PLN 11 million, short-term commitments - 277 million, provisions for liabilities - 20 million, and accruals - PLN 34 million.

The most important liabilities items of the parent company Erbud S.A. were:
- Liabilities due to trade and services in the amount of PLN 229 million of which PLN 24 m. due to liabilities to subsidiaries
- Short-term credits and loans of PLN 21 m.
- Other financial liabilities (finance lease) of PLN 3 m.

Moreover, the balance of cash and cash equivalents of the parent company Erbud S.A. as at 31 March 2011 amounted to PLN 28 million. Cash surplus over interest -bearing liabilities was PLN 3 million.

The off-balance sheet contingent liabilities (banking and insurance) of the dominant entity Erbud S.A. in the form of guarantees provided as at 31 March 2011 were as follows:
- Guarantees for payment of obligations equal to PLN 44 m.
- Performance bond equal to PLN 148 m.
- Remedying guarantees amounting to PLN 105 m.

The total balance of contingent liabilities in the form of guarantees granted at the end of IQ 2011 amounted to PLN 297 million.

In addition, the parent company Erbud S.A. has provided loans and guarantees to the subsidiaries within the Erbud S.A. Capital Group. The balances of loans granted to the subsidiaries as at 31 March 2011 were as follows:
- Loan granted to Budlex Sp. o.o.: PLN 24 m.
- Loan granted to Ersteel Sp. o.o.: PLN 5 m.
- Loan granted to Erbud International Sp. o.o.: PLN 9 m.

Guarantees and sureties provided by Erbud S.A. to the companies included in the Group as at 31 March 2011 were as follows:
- Erbud International Sp. o.o.: PLN 4 m.
- GWI GmbH: PLN 21 m.
- Ersteel Sp. o.o.: PLN 1 m.

As at 31 March 2011, the aggregate balance of liabilities of the Erbud S.A. Capital Group (including provisions for liabilities and accruals) amounted to PLN 445 million, of which PLN 60 million was attributed to long-term liabilities and PLN 385 million to current liabilities.

The most important liabilities items of the Erbud S.A. Capital Group were:
- Liabilities due to trade and services an other liabilities of PLN 201 m.
- Long-term bank credits and loans of PLN 19 m.

- Short-term bank credits and loans of PLN 48 m.
- Other financial liabilities (finance lease) of PLN 6 m.

As at 31 March 2011, the consolidated balance of cash and cash equivalents amounted to PLN 47 million.

Outlook for the Issuer's obligations until the whole redemption of Bonds.

The sector in which the Erbud S.A. operates is characterized by high variability in the demand for working capital. This is due to seasonal factors and the current situation in the construction market.

At the end of March 2011, the Erbud S.A. Capital Group SA had a record order backlog in its history worth PLN 1,256 million.

In connection with the cyclically increased demand for working capital the Issuer provides for a slight increase in short-term loans balance at the end of the IIQ 2011. After the Bonds issue, the parent company Erbud S.A. does not provide for the further rise of debt from loans, credits or debt securities issuance. However, an additional debt may incur by the subsidiaries included in the Erbud S.A. Capital Group, mainly by the real estate company Budlex Sp. z o.o., which business is capital intensive.

In terms of granting loans and guarantees for the subsidiaries comprising the Group, the Issuer provides for in the coming months a guarantee of PLN 15 million to Budlex Sp. o.o. and of PLN 4 million to GWI GmbH. In addition, the Issuer expects, that most of the loans granted to the subsidiaries will be repaid by the end of 2014.

The Issuer will undertake efforts to keep the conservative policies of funding to maintain the Net Debt to Equity Ratio at the Individual Level below 0.6 and the Net Debt to Equity at the Consolidated Level below 1.