ERBUD S.A.

Current Report No. 14/2014
Date of Report: 2014-03-26

Topic:
Completion of the issue of series B Bonds
Legal basis:
Article 56 section 1 item 2 of the Act on Public Offering - current and periodic information

Content of report:
The Management Board of ERBUD SA with its registered office in Warsaw [the "Company"], acting pursuant to Art. 56 par. 1 item 1 of the Act of 29 July 2005 on public offering and the conditions for introducing financial instruments to the organized trading system and on public companies [the "Act"], informs that on 26 March 2014, the Company issued a total of 5,200 bearer bonds, dematerialized, unsecured, (the "Bonds") with an aggregate nominal value of PLN 52 million (say: fifty-two million Zlotys). The par value of one Bond was PLN 10,000 (say: ten thousand). The issue price amounted to 9,587 PLN (say: nine thousand five hundred eighty-seven Zlotys). The redemption date is 26 March 2018. The interest rate on bonds is variable and based on WIBOR 6M plus a margin equal to 3.0 percentage points. The Bonds has been issued as per Art. 9 sec. 3 of the Act of 29 June 1995 on bonds (Journal of Laws of 2001 No. 120, item. 1300 as amended). The Issuer will apply for placing bonds on the trading platform for debt financial instruments carried by the Stock Exchange in Warsaw SA in the form of alternative trading system.

Basic data on the issue of the Bonds are described below.

1. Purpose of the issue

Assuming that all Bonds will be purchased by investors, it is expected that the gross proceeds from Bonds issued will amount to PLN 49,852,400 (say: forty-nine million eight hundred fifty-two thousand four hundred Zlotys). However, the Issuer's Management Board does not preclude, that a part of the Bonds will be paid by way of offsetting claims relating to Series A bonds against the payment for Bonds. In case that all or part of the Bonds issued will be settled in the above manner gross proceeds from the issue will be correspondingly lower.

The Issuer intends to use the financial means for:

(1) Redemption of Series A bonds issued by the Issuer. The Issuer does not preclude that some of investors holding bonds of Series A bonds will be interested in further supporting the development of the Issuer and may participate in the issuance of new Bonds. It cannot be ruled out that some of the investors will be willing to pay for the Bonds by offsetting claims due to Series A bonds against the payment for Bonds.

(2) Financing an increased demand for working capital associated with a record backlog of the ERBUD Capital Group. At the end of 2013, the Group had a record order portfolio in its history ever equal to PLN 1.6 billion, which represents an increase of approximately

26% as compared to 2012. Acquiring new asstes or extending the maturity for series A bonds will provide funds for the further development of the Group in subsequent years.
The Issuer reserves the right to change the above-mentioned manner of use of proceeds from the Bonds, if there are unforeseen circumstances that may have an adverse effect on the Issuer's Capital Group. Information regarding any changes in the way the use of proceeds from the issuance of Bonds will be made public in the form prescribed by applicable law, immediately after the relevant decisions has been made.

2. Type of bonds issued

Bearer Bonds, dematerialized, unsecured with a nominal value of PLN 10,000 (say: ten thousand Zlotys) each and 4-year maturity.

3. Issue size

The Issuer issued 5,200 bearer bonds, dematerialized, unsecured, with a total nominal value of not more than PLN 52,000,000 (say: fifty-two million Zlotys).

4. Nominal value and issue price

The Issuer issued bonds with a nominal value of PLN 10,000 (say: ten thousand Zlotys) and the issue price of PLN 9,587 (in words: nine thousand five hundred eighty-seven Zlotys) each.

5. Terms and conditions for redemption and interest payment

The Bonds will be redeemed by the payment of money equal to the par value plus the interest due effected to the bondholders on the Maturity Day and 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.
The interest rate on Bonds will be variable and based on WIBOR 6M plus a margin equal to 3.0 percentage points. Interest on the nominal Bonds value will accrue from the issue date (inclusive) and payable on each day of interest payment in accordance with the terms of issue of the Bonds. The last date for accrual of interest will be the day preceding the Bonds redemption date.

6. Amount and form of security and identification of the entity providing the security

The bonds are unsecured.

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

Liabilities as at 31 December 2013.

As of 31 December 2013, the total balance of liabilities of the Issuer's parent company amounted to PLN 280.0m, of which PLN 0.3m was attributed to long-term liabilities and PLN 279.7m to current liabilities.
Within the liabilities of the parent of the Issuer, the most important items were: (i) trade liabilities of PLN 211.6m (ii) liabilities due to Series A bonds of PLN 50m and (iii) other financial liabilities (financial leasing) of PLN 2.6m.
Furthermore, the balance of cash and cash equivalents of the Issuer's parent as at 31 December 2013 amounted to PLN 58.1m. Cash surplus over interest-bearing liabilities reached PLN 5.5m.
Contingent off-balance liabilities (banking and insurance) of the parent of the Issuer in the form of guarantees provided as at 31 December 2013 were as follows: (i) guarantees to pay liabilities equal to PLN 15.2m, (ii) performance bonds equal to PLN 145.5m and (iii) remedial works guarantees of PLN 127.0m.
The total balance of liabilities in the form of guarantees granted at the end of the 4Q 2013 mounted to PLN 287.7m.
In addition, the parent company of the Issuer has provided to the subsidiaries of the Issuer's Capital Group loans and guarantees. The balances of loans granted to the subsidiaries as at 31 December 2013 were as follows: (i) loans granted to Budlex SA - PLN 24.0m and (ii) loans granted to ERBUD International Sp. o.o. - PLN 11.0m.
Guarantees and sureties granted by the Issuer to the companies included in the Issuer's Capital Group as at 31 December 2013 were as follows: (i) civil surety granted on 28 September 2009 by GWI GmbH to KBC with a value of € 2m related to overdrafts (guarantee expires on 31 July 2014), (ii) guarantee of EUR 2m provided on 25 May 2011 by BRE on behalf of ERBUD SA given by GWI GmbH to Commerzbank due to overdrafts (guarantee expires on 1 July 2014), (iii) civil surety granted on 30 May 2012 by GWI GmbH, Erbud International to Euler Hermes amounted to € 7.5m due to the insurance guarantees line (expiration date: 29 May 2014), (iv) civil surety of € 3.5m granted on 27 April 2012 by GWI GmbH to Zurich (guarantee expiration date: continuing).
As of 31 December 2013, the total balance of liabilities of the Issuer's Capital Group, excluding provisions for liabilities, construction contracts and accruals amounted to PLN 368.5m, of which PLN 19.9m were long-term liabilities and PLN 348.6m short-term liabilities.
Within the liabilities of the Issuer, the most important items were: (i) trade liabilities and other liabilities - PLN 193.6m, (ii) Series A bonds in the amount of PLN 50m, (iii) long-term bank loans and borrowings: PLN 14.5m, (iv) short-term bank loans and borrowings: PLN 24.5m and (v) other financial liabilities (financial lease): PLN 5.4m.
The consolidated balance of cash and cash equivalents as of 31 December amounted to PLN 124.6m.

Prospects for the Issuer's obligations and commitments until full redemption of the Bonds.

The business sector, in which the Issuer's Capital Group is operating, is characterized by high variability in terms of demand for working capital. This is due to seasonal factors and the current situation in the construction market.
At the end of 2013, the Group had a record order portfolio in its history ever equal to PLN 1.6bn.
After the issuance of the Bonds, the Issuer's parent company does not anticipate any further increase due to loans, borrowings or debt instruments. Additional debt may still be incurred

by the subsidiaries of the Issuer's Capital Group, primarily by the development company Budlex SA, whose operations are capital intensive.
The Issuer will lead a conservative policy of funding to maintain Net Financial Debt-To-Separate Equity Rate below 0.6 and Net Financial Debt-To-Consolidated Equity Rate below 1.

8. Information for potential buyers of Bonds, which allows understanding the effects of the project to be financed from the Bond issue, and the issuer's ability to meet its obligations under the bonds if the project is determined.

The Issuer expects that the positive sentiment towards construction industry connected with entering a new cycle phase due to inflows of EU-funds in 2014-2020 will ensure the Capital Group ERBUD attractive backlog in following years. In turn, good business outlook in the branch together with smaller competition from other construction companies due to the deterioration of their liquidity should result in higher margins for the ERBUD Capital Group.