ERBUD S.A.

Current Report No.44/2017
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Topic:
Resolution of the Management Board of ERBUD S.A. (the “Issuer”) on the issue of C-Series bonds.

Legal basis:
Article 17(1) of the MAR – confidential information

Content of report:

The Management Board of Erbud S.A. with its registered office in Warsaw (the "Issuer"), informs that on 11 September 2017 it adopted a resolution to issue 52,000 bearer bonds, dematerialized, unsecured, interest-bearing, with a four-year maturity (the "Bonds") with a total nominal value of PLN 52,000,000 (say: fifty two million). The nominal value of one Bond will be PLN 1,000 (say: one thousand). The issue price is equal to the nominal value.
The issue date of the Bonds has been set at 27 September 2017, and the redemption date at 27 September 2021.

The interest rate on the Bonds will be variable and based on WIBOR 6M plus margin. The issue of the Bonds will be conducted in the form of a private issue addressed to less than 150 recipients referred to in Art. 33(2) of the Bonds Act of 15 January 2015 (2015 Journal of Laws, item 238, as amended). The Issuer will apply for placing the Bonds in the Alternative Trading System managed by the Warsaw Stock Exchange S.A.

The terms of the Bonds issue also include a number of conditions and obligations of the Issuer, defined on basis of market conditions, typical for similar transactions.

Basic information on the issue of the Bonds is given below.

Allocation of funds from the issue
The Issuer did not specify the purpose of the issue within the meaning of the Bonds Act. The Bonds are not revenue bonds and will be not used to finance a particular venture. Assuming all Bonds are acquired by investors, gross proceeds from the issue of the Bonds are expected to be PLN 52,000,000 (say: fifty two million).

The Issuer intends to use the financial assets:
(1) for the redemption of up to 5,200 bonds of B-series 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 after the buyout of B-series bonds some of the investors will be interested in acquiring C-series Bonds and thus continue to participate in supporting the development of the Erbud Group.
(2) to finance the increased demand for working capital associated with the record orders of the Issuer's Group. As at the end of June 2017, the Issuer's Group had a record order portfolio of PLN 2.2 billion, which represents an increase of 100% compared to 2016. Acquisition of new funds will allow financing of further development of the Issuer's Group in subsequent years.

Terms and conditions for redemption and interest payment
The Bonds will be redeemed by paying to the bondholders on the redemption date (September 27, 2021) a monetary amount corresponding to the nominal value of the Bonds plus interest due calculated in the manner indicated in the terms of the Bonds issue. 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 thereof The terms of issue do not provide for early redemption at the Issuer's request.
The interest rate on the Bonds will be variable one and based on WIBOR 6M plus margin, with the possibility of raising it, in case of violation of certain conditions of issue. Interest on the face value of the Bonds will be calculated from the issue date (inclusive) and payable on each interest payment date in accordance with terms and conditions of the Bonds issue. The last day of interest accrual will be the day preceding the day on which the Bonds will be redeemed.

The value of liabilities as at the last day of the quarter preceding the publication of the purchase offer and the prospects for the Issuer's obligations until the whole bonds offered for the purchase have been redeemed.

Liabilities as at 30 June 2017

As at 30 June 2017, the total balance of liabilities of the Parent Company of the Issuer's Group amounted to PLN 373.2 million, of which PLN 2.5 million was attributed to long-term liabilities and PLN 370.7 million to short-term liabilities.

The most important items of liabilities of the Parent Company of the Issuer's Group were: (i) trade liabilities of PLN 270,4 million (ii) B-series bonds of PLN 52 million and (iii) other financial liabilities (bank loans, financial leasing) of PLN 23.3 million.

Furthermore, the balance of cash and cash equivalents of the Parent Company of the Issuer's Group as at 30 June 2017 amounted to PLN 67.5 million. The excess of interest-bearing liabilities over cash assets amounted to PLN 7.8 million.

Contingent off-balance liabilities (bank and insurance) of the Parent Company of the Issuer's Group in the form of guarantees provided as at 30 June 2017 were as follows: (i) guarantees for liabilities of PLN 25 million; (ii) performance bonds of PLN 216 million; and (iii) remedial works guarantees of PLN 457 million.
The total balance of contingent liabilities in the form of guarantees amounted to PLN 698 million at the end of the second quarter of 2017.

In addition, the Issuer's Parent Company granted loans and sureties to the subsidiaries belonging to the Issuer's Group. The balance of loans granted to subsidiaries as at 30 June 2017 was as follows: (i) to Erbud International Sp. z o.o.: PLN 5.0 million; (ii) to GWI GmbH - PLN 20.0 million.

Guarantees and sureties granted by the Issuer to companies belonging to the Issuer's Group as at 30 June 2017 were as follows:
(i) civil guarantee with a value of EUR 3 million granted on 28 September 2009 by GWI GmbH to KBC due to overdraft facility and guarantee line (expires on 31 December 2017), (ii) guarantee issued by mBank S.A. on behalf of Erbud S.A. on May 25, 2011, given by GWI GmbH to Commerzbank due to overdraft facility with a value of EUR 2 million (expires on 1 July 2018), (iii) civil guarantee of EUR 4 million granted by GWI GmbH on 29 September 2016 to PKO BP SA due to overdraft facility and guarantee line (expires on 30 September 2019); (iiii) civil guarantee of PLN 3 million granted on 17 September 2014 to BGŻ BNP Pariba Bank S.A. for Erbud Industry Sp.z o.o. in connection with the investment loan (expires on 17 September 2022); (iiiii) civil guarantee with a value of PLN 2.7 million granted on 11 May 1025 to BGŻ BNP Pariba Bank S.A. for Erbud Industry Sp. z o.o. in connection with the investment loan (expires on 30 April 2023); (iiiiii) civil guarantee of PLN 5.0 million to mBank S.A. granted on 3 March 2015 for Erbud Industry Sp z o.o. in connection with the overdraft facility (expires on 31 December 2018); (iiiiiii) civil guarantee of PLN 25.0 million granted on 19 November 2015 to BGŻ BNP Pariba Bank S.A. for Erbud Industry Sp. with o.o. in connection with the overdraft facility (expires on 17 September 2027); (iiiiiiii) civil guarantee of PLN 6.7 million granted on 13 October 2014 to Credit Agriole S.A. for Erbud Industry Centrum Sp. z o.o. in connection with the investment loan (expires on 28 August 2020).

As of 30 June 2017, the total balance of liabilities of the Issuer's Group amounted to PLN 681.0 million, of which PLN 26.0 million were long-term liabilities and PLN 655.0 short-term liabilities.

Under the liabilities of the Issuer's Group, the most important items were: (i) trade and other payables: PLN 257.0 million; (ii) B-series bonds: PLN 52 million; (iii) long-term bank loans and borrowings: PLN 12.0 million; (iv) short-term bank loans and borrowings: PLN 88.3 million.

As of 30 June, consolidated cash and cash equivalents amounted to PLN 141.3 million.

Prospects for the obligations of the Issuer until the Bonds have been fully redeemed.

The business sector, in which the Issuer's 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 June 2017, the Issuer's Group had a record order portfolio in its history valued at PLN 2.2 billion. Expected entry of the construction sector into the new phase of the economic cycle caused by

another inflow of funds from the EU in 2017-2020 is an opportunity to acquire new orders for the Issuer's Group, which may translate into an increase in demand for foreign capital in the subsequent quarters of 2017 and in the next years.

After the issue of the Bonds, the Parent Company of the Issuer's Group does not anticipate any further increase in indebtedness due to loans, borrowings or debt instruments.
However, additional debt may be incurred by the subsidiaries of the Issuer's Group.

As regards the granting of loans and sureties to subsidiaries belonging to the Issuer's Group, the Issuer expects that most of the loans and borrowings will be repaid.

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.

Information allowing prospective purchasers of Bonds to get an idea of the effects of the project that will be financed by the Bond issue and of the Issuer's ability to meet its obligations under the Bonds if the project is defined.

Bonds are not revenue bonds; the terms and conditions of the issue do not specify the project to be financed from the Bond issue. The Issuer also did not specify the purpose of the issue within the meaning of the Bonds Act. The Issuer expects that the use of good sentiment towards construction industry related to starting the new phase of the cycle due to new inflows from the EU in 2017-2020 will allow the Erbud Group to maintain an attractive orders backlog in the coming years.

The strategy based on building a new, strong business line - service for power and industry sectors should ensure a stable level of revenues (not dependent on the economic situation in the construction industry), higher margins, and the opportunity for the growth of this segment in subsequent years. As a result, the Issuer has the ability to meet its obligations under the Bonds.

Legal basis: Art. 17(1) of the Regulation (EC) No 596/20014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) - confidential information.