

ELSA – FP Negotiations Economic Argumentation

31 March 2016



ELSA – FP Negotiations (1/2)

Negotiations with FP regarding the acquisition by ELSA of FP's minority stakes in Electrica subsidiaries were carried in accordance with the BoD mandate and EGMS decision dated 10 November 2015.

ELSA's Offer of RON 790 million (equity value –assuming FP's 2015 dividends are attributable to ELSA) was based mainly on the following assumptions:

- The shareholdings' valuation performed by applying several methodologies, including: trading EBITDA and RAB multiples based on ELSA's market capitalization, discounted cash flow model based on prospective financial information and applicable regulatory framework, discounted dividend model; the valuation methodologies were applied using various inputs and under sensitivity scenarios;
- Long term investor considerations around the subsidiaries operations, including the regulatory risk and the level of predictability of the regulatory environment reflecting the most recent changes approved by ANRE;
- ELSA's position of sole buyer for FP's minority stakes, FP's expectation level for a transaction price as indicated during recent discussions held in Q4 2015 as well as FP's previous offer dated March 2015;

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ELSA – FP Negotiations (2/2)

To allow for a meaningful comparison to ELSA proposal of RON 790 million, **the FP offer must be considered in terms of its total equity value of RON 875 million** –transaction price proposed by FP RON of 805 million plus 2015 dividends remaining with FP of RON 70 million (RON 106 million total dividends attributable and payable for 2015 less RON 36 million to be paid by FP to ELSA according to negotiations). Our point of view concerning FP Offer is that the increase of the Transaction price of RON 805 million by the amount of 2015 dividends of RON 70 million is not supported from an economic or valuation standard standpoint, as dividends are already included in the net cash position and therefore part of equity value.

ELSA's offer of RON 790 million represents a discount of around 6% compared to FP's NAV, discount similar to other recent transactions executed by FP, while **FP's offer of RON 875 million includes a premium of around 4% on FP's NAV**. ELSA's assessment of the Transaction price has been carried independently from FP's NAV and we point out that, in our view, the following remarks are relevant relative to FP's NAV:

- FP's NAV was updated in November 2015 at RON 841 million, a 9 % increase as compared to the previous value of RON 770 million (valid since Dec 2014).
- FP's NAV is based on regulatory environment premises applicable as of the NAV valuation date (September 2015) and does not factor in regulatory framework changes subsequently approved by ANRE; therefore, we believe that the NAV is not based on a reasonable level of predictability over the regulatory environment in light of its amendments approved by ANRE in December 2015;

We also point out that FP's shares market price on BVB and LSE is discounted by around 30% to NAV/share value.

ELSA position towards the transaction was that of a long term investor thus reflects assessment of various business inherent risks, including the regulatory risk, while FPs approach is that of a short term investor, aiming to maximize immediate profits.

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