<u>Report of the PJSC Enel Russia Board of Directors</u>
<u>on Economic Rationale of a Major Transaction (Sale of Reftinskaya GRES property)</u>
<u>and its Consequences for the Company</u>

Since early 2016, **PJSC Enel Russia** (hereinafter the "**Company**") has been contemplating the sale of its 3,800 MW coal-fired power plant **Reftinskaya GRES** (hereinafter "**RGRES**" or the "**Asset**") located in Sverdlovsk region (hereinafter the "**Transaction**"), currently a production branch of the Company.

The main reasons for the Company's search for a new owner for the Asset are as follows:

A. Having been built in 1970s, most of RGRES generation capacity in early 2030s will be naturally approaching the end of its useful life. Since RGRES is the most capital-intensive asset of **PJSC Enel Russia**, extension of RGRES units' lifecycle would require significant investments on the long-term horizon which, in order to be economically justified, would have to be supported by favorable, stable and sustainable regulatory framework coupled with low exposure to free market during the entire investment cycle needed to refurbish the power plant. Besides, given the highly competitive nature of the existing framework for selection of thermal power plants' capacity modernization projects at annual tenders (Government Decree No. 43 dd. 25.01.2019 *"On conducting tenders for selection of projects of modernization of generating facilities of thermal power plants"*), there is no guarantee that a sufficient number of projects aimed at RGRES's units' modernization would be awarded at the above tenders. Even with regulatory support, while modernizing RGRES, due to higher expenses needed for modernization of coal generation vs. those needed to modernize gas-fired generation, the Company is likely to face the risk of excessive leverage, which would undermine the Company's financial stability.

B. Reftinskaya GRES' EBITDA has been historically more volatile vs. that of Enel Russia's gas generation, as most of RGRES' margin depends on free electricity prices and imported coal cost dynamics. Since 2014, the cost of Ekibastuz coal (sourced in Kazakhstan) has been highly impacted by the exchange rate fluctuations. At the same time, as highlighted by **PJSC Enel Russia** during the *Enel Russia Capital Markets Day* and non-deal roadshow held in February 2019, DAM prices in the Urals hub in the recent years had demonstrated weaker dynamics vs. that of the other hubs of the Wholesale Electricity and Capacity Market: cumulative growth of year-on-year DAM price in 2013-2018 in the Urals had been 9%, while the same parameter in the Center and the South had grown by 31% and 37% respectively.

C. In the current market scenario, coal generation business seems to be more protected in a context of vertical integration along the value chain – from coal sourcing to logistics and coal consumption - which helps to preserve its long-term sustainability.
D. Environmental legislation changes in Russia expected to be adopted in the future in connection with growing needs to address the global climate change concerns and decarbonization trends are likely to impact various industries in Russia in the coming decades through restrictive measures that may lead to the need to invest substantially

into ensuring compliance of large industrial enterprises with such new regulations and norms. This would likely impact the future competitiveness of the relevant businesses and would make the owners search for adequate remediation measures.

E. A significant reduction in the Company's environmental footprint attributable to the Asset disposal would raise the Company's appeal to ESG-focused investors who currently either do not consider entry into **PJSC Enel Russia** shares or limit their exposure to the Company's shares because of the coal-fired component of Enel Russia's asset portfolio. The unlocking of Enel Russia for these investors could likely transform into a new equity story for the Company.
   As demonstrated by the ***MSCI EM (Morgan Stanley Capital Int. Emerging Markets) Index,*** that is used as a gauge of Emerging Markets' economic performance, businesses that are part of the ***MSCI ESG Leaders Index*** (i.e. comply with ESG criteria) have over-performed in the past five years (2014-2018) the rest of the companies that are covered by the ***MSCI EM index*** (i.e. companies less compliant with the ESG criteria), demonstrating a 27% value growth vs. a 11% value growth for companies that are not included into the ***ESG Leaders*** category.
   Moreover, international utility companies with lower share of fossil fuel and higher share of renewables in their technology mix (therefore, higher ESG score in most cases) are normally valued at premium in terms of market multiples (EV/EBITDA, P/E).

F. Disposal of RGRES in 2019, when there is solid interest for the Asset, would allow the Company to reinvest the sale proceeds into more sustainable, in the Company's view, and/or more dynamically growing segments of Russia's power market.

Driven by the above fundamental factors, in 2016 and 2017-2018, the Company conducted two rounds of marketing among qualified actors of the energy and utilities sector of Russia and foreign countries aimed at exploring the Asset's market value. As a result of the above competitive bidding procedure, the Company has managed to select the most interested bidder – **JSC Kuzbassenergo** (a subsidiary of **Siberian Generating Company LLC**) and on April 5th, 2019 received a binding offer (hereinafter the "**Binding Offer**") for the acquisition of RGRES from the above counterparty. The offered price is based on a fixed consideration of **21 BRUB** subject to negative/positive adjustment of up to 5% linked to Y2019 CAPEX program implementation and payable in 3 instalments (at Transaction Effective Date; at Completion; at the end of the Transition Period). In addition to the fixed component of R21 BRUB, there is a conditional component of the purchase price, which is payable in annual installments in the five years following the completion date. The size of these payments is equal to the sum of the effects from actual net output exceeding the reference net output level and from actual DAM prices exceeding the reference DAM prices. Annual payments will not exceed R600 mln each, while total payments shall not exceed 3 BRUB. Besides, the purchaser is willing to acquire at the end of the Transition Period several categories of RGRES stocks (coal, fuel oil, chemicals, spare parts) on top of the above purchase price.

In order to establish whether the consideration payable to the Company under the contemplated Transaction is fair, from a financial point of view, **PJSC Enel Russia Board of Directors** entrusted the Company to engage **Sberbank CIB JSC** as a provider of fairness opinion as to the terms and conditions of the contemplated Transaction. According to **Sberbank CIB JSC**, RGRES value based on the DCF methodology ranges from **16.5** to **19.7 BRUB**. At the same time, a multiples-based approach yields a valuation range of **15.4 - 17.5 BRUB**, based on 2019 forecast EV/EBITDA of publicly listed utility companies. Based on **Sberbank CIB JSC**'s letter dd. April 11th, 2019, the consideration receivable under the Transaction by the Company is fair, from a financial point of view, to the Company.

As required by Federal Law No. 208-FZ "*On Joint-Stock Companies*" dd. December 26, 1995 (art. 77-78), the approval by the corporate governance bodies of a public joint-stock company of any major transaction that involves sale or purchase of assets shall be based on the fair value of such assets. In order to comply with the above norms, **PJSC Enel Russia** engaged **American Appraisal LLC** to perform an independent appraisal of RGRES. The report issued by **American Appraisal LLC** as part of the aforementioned engagement on April 11th, 2019, establishes that the fair value of RGRES as of March 31st, 2019 is **17 481 MRUB**. Thus, the Transaction consideration offered by the winning bidder is above the value established for the Asset by **American Appraisal LLC**.

As for economic consequences of the contemplated Transaction for the Company, **PJSC Enel Russia Board of Directors** envisages that in case of implementation, the Transaction is likely to have the following key impacts for the Company:

- Reduction of the Company's annual EBITDA by **5-6.5 BRUB** in 2020-2021 (net of potential growth in case of allocation of proceeds from sale to projects/areas with short time to EBITDA) with the relevant impact on the Company's multiples
- Reduction of retained earnings as of December 31st, 2018, by approx. **16 BRUB** (76%) attributable to the difference between the sale price and the current book value of the Asset under the Russian Accounting Standards
- Net loss from the Transaction of **17.4 BRUB** before corporate income tax impact under RUS GAAP. Net loss from the Transaction of **6.4 BRUB** before corporate income tax impact under IFRS
- Savings thanks to optimization of the Company's annual CAPEX by approx. **2.9 BRUB** on the long-term horizon
- Major increase of liquidity due to RGRES sale proceeds (cash-in) that would be available to re-invest into alternative projects / business areas
- Expected increase of the Company share liquidity thanks to the expected inflow of ESG-driven investors
- Avoided risks of future environmental legislation toughening and future decommissioning costs.

Beside the above economic effects, the disposal of RGRES is expected to lead to a broader set of impacts that could improve the Company's general Creating Shared Value image. This is explained by RGRES' current share in the Company's environmental footprint in 2018 listed below:

- Dust emissions: 41 718 tons (99.99% of PJSC Enel Russia's total)
- SOx emissions: 133 214 tons (95.63%% of PJSC Enel Russia's total)
- NOx emissions: 74 720 tons (83.07% of PJSC Enel Russia's total)
- CO2 emissions: 18 248 416 tons (62.1% of PJSC Enel Russia's total)
- Waste production: 4 641 607 tons (99.75% of PJSC Enel Russia's total).

Based on the above considerations, and taking into account that the expected benefits of the Transaction outweigh the expected negative effects, **PJSC Enel Russia Board of Directors** recommends to **PJSC Enel Russia General Shareholder Meeting** to approve the conclusion of the sale purchase agreement (SPA) between **PJSC Enel Russia** and **JSC Kuzbassenergo**, as a major transaction, under the following essential terms and conditions:

1. Sale-purchase agreement parties	PJSC Enel Russia – the Seller JSC Kuzbassenergo – the Purchaser
2. Sale-purchase agreement subject matter	The Seller shall sell and the Purchaser shall purchase the property constituting Reftinskaya GRES, a thermal power plant located in Reftinskiy, Sverdlovsk region, including movable and immovable assets, as well as the stocks of coal, raw materials and spare parts
3. Sale-purchase agreement price	No less than 21 BRUB (net of VAT RF) subject to price adjustments (by up to 5%)
4. Timeline for Transfer of Title to RGRES property to the Purchaser	Within 18 months from signing and taking effect of the sale-purchase agreement