

**Report by the Board of Directors of the company under the name “METKA INDUSTRIAL-CONSTRUCTION SOCIETE ANONYME” to its General Meeting of Shareholders on the merger by absorption of the Company and the companies “ALUMINIUM OF GREECE INDUSTRIAL AND COMMERCIAL SOCIETE ANONYME”, “PROTERGIA POWER GENERATION AND SUPPLIES SOCIETE ANONYME” and “PROTERGIA AGIOS NIKOLAOS POWER SOCIETE ANONYME OF GENERATION AND SUPPLY OF ELECTRICITY” by “MYTILINEOS HOLDINGS S.A.”, pursuant to art. 69 para. 4 of Codified Law 2190/1920 and art. 4.1.4.1.3 of the Athens Exchange Rulebook**

23 March 2017

Esteemed Shareholders,

The Boards of Directors of the companies “MYTILINEOS HOLDINGS S.A.”, “METKA INDUSTRIAL – CONSTRUCTION SOCIETE ANONYME”, “ALUMINIUM OF GREECE INDUSTRIAL AND COMMERCIAL SOCIETE ANONYME”, “PROTERGIA POWER GENERATION AND SUPPLIES SOCIETE ANONYME” and “PROTERGIA AGIOS NIKOLAOS POWER SOCIETE ANONYME OF GENERATION AND SUPPLY OF ELECTRICITY” in their meeting dated 14.12.2016 passed a resolution on the initiation of the procedures for the merger by absorption of the companies “METKA INDUSTRIAL – CONSTRUCTION SOCIETE ANONYME” (hereinafter referred to as the “**Absorbed Company A**”), “ALUMINIUM OF GREECE INDUSTRIAL AND COMMERCIAL SOCIETE ANONYME” (hereinafter referred to as the “**Absorbed Company B**”), “PROTERGIA POWER GENERATION AND SUPPLIES SOCIETE ANONYME” (hereinafter referred to as the “**Absorbed Company C**”) and “PROTERGIA AGIOS NIKOLAOS POWER SOCIETE ANONYME OF GENERATION AND SUPPLY OF ELECTRICITY” (hereinafter referred to as the “**Absorbed Company D**” and jointly with Absorbed Company A, Absorbed Company B, Absorbed Company C as the “**Absorbed Companies**”) by the company under the name “MYTILINEOS HOLDINGS S.A.” (hereinafter referred to as the “**Absorbing Company**” and, jointly with the Absorbed Companies, as the “**Merging Companies**” or “**Companies to be Merged**”) pursuant to the provisions of article 68, para. 2, and articles 69-77 of Codified Law 2190/1920 in conjunction with the provisions, conditions and waivers set out in Law 4172/2013 as applicable, and in particular art. 54 thereof, article 61 of Law 4438/2016 and the commercial legislation in general, with the Company being subject to the terms and formalities specified therein.

For the purposes of the merger, a draft merger agreement was prepared in writing pursuant to law, which was approved by the Board of Directors of each of the Merging Companies on 23.3.2017 (hereinafter referred to as the “**Draft Merger Agreement**”).

The purpose of this Report is to provide an explanation and justification, from a legal and financial standpoint, of the Draft Merger Agreement for the merger by absorption of the

Absorbed Companies by the Absorbing Company, which was prepared jointly by the Boards of Directors of the Merging Companies through their duly authorized representatives. More specifically, this report contains information on the valuation of the Merging Companies and the ratio of exchange of the shares of the Absorbing Company and the Absorbed Company A to the new shares to be issued by the Company as a result of the merger. Furthermore, the methods adopted for the determination of the proposed share exchange ratio and the assumptions made are also provided in summary herein.

## **I. FINANCIAL VIEWPOINT OF THE MERGER**

### *a. Justification of the merger*

The consolidation of all business segments of the Group, of which the Company forms part, i.e. the consolidation of the business segments of construction, metallurgy and energy, is advisable from both a business and a financial standpoint having regard to the ever increasing challenges faced by the Company in the markets in which it is engaged. The fierce competition combined with the change in the manner of project contract award and by extension in the characteristics and the requirements of customers have created a pressing need for the Company to transform from an EPC Contractor to a contractor – partner sharing in the investment risk of each individual project. This change presupposes that the Company has unhindered access to broader sources of funds with consolidation of knowhow in: (i) the development and operation of infrastructure projects, (ii) the organization of complex project finance structures, and (iii) the assessment and implementation/follow-up on equity investments.

The Company shall derive considerable benefits from the merger since, in addition to economies of scale and synergy opportunities at all levels, it shall be able to improve its ability to allocate capital to projects with the higher return, minimize its exposure by diversifying its operations and reducing the risks inherent to its business model, resulting in amplified anticipation of future profits. The Company is mature for the transformation contemplated and the integration of its operations to those of the Merging Companies.

The merger by absorption of the Absorbed Companies by the Absorbing Company shall enhance the flexibility of moving towards the implementation of the overall strategic planning of the parties involved, affording significant economies of scale through the full utilization of the operational independence of the individual businesses of the Merging Companies and optimal utilization of human resources, knowhow and capital, reinforcing the international competitiveness of the group.

The new structure shall, as an indication, strengthen the alignment of operational and financing cash flows, the consolidation of cash flows as a result of the diversified portfolio, financial flexibility with considerable benefits in terms of cash management, enabling at the same time an optimal allocation of funds to high-return investments and a reduction of cost on a group level. The transformation contemplated shall generate more value for the

shareholders of the Company, boosting productivity and paving the way for its further growth.

*b. Determination of the Exchange Ratio*

In order to determine the share exchange ratios, the Boards of Directors of the Company and the Absorbing Company have taken into account the provisions of article 71 of Codified Law 2190/1920 and art. 4.1.4.1.3 of the Athens Exchange Rulebook, as applicable.

**Opinion, pursuant to art. 4.1.4.1.3 of the Athens Exchange Rulebook, on the fairness and reasonableness of the share exchange ratio**

The proposed exchange ratio, as set out in the Draft Merger Agreement, falls within the share exchange ratio range determined by Barclays Bank PLC, acting through its Investment Bank (hereinafter referred to as “**Barclays**”), that has been engaged by Absorbed Company A as an independent valuation expert in order to provide a report on the fairness and reasonableness of the proposed exchange ratio, as set out in art. 4.1.4.1.3 of the Athens Exchange Rulebook. On this basis, Barclays has opined in its report dated 22.3.2017 (addressed for the attention of the Board of Directors of the Company and being made available to the shareholders of the Company), subject to the qualifications, limitations and assumptions contained in the said report, that the proposed share exchange ratio is fair and reasonable from a financial point of view to the holders of the shares in Absorbed Company A.

Barclays stated that the valuation methods utilized in the said report are appropriate for the purposes of conducting a valuation of both the Absorbed Company A and the Absorbing Company within the context of the Merger and that, save as indicated in the qualifications and limitations set out in its report, it has not encountered any other difficulties when applying the described valuation methods or in arriving at the value per share in the Absorbed Company A or in the Absorbing Company or at the share exchange ratio mentioned in the report following the application of the said valuation methods.

More specifically, the valuation of the Merging Companies was done by applying the following methodologies:

**(A) Absorbed Company A**

In arriving at the valuation of Absorbed Company A, Barclay’s approach considered the following valuation methodologies:

- i) unlevered discounted cash flow (“UDCF”) valuation
- ii) trading multiples of comparable companies

Barclays considered the results of the methodologies utilized as a whole and attributed weight to each single methodology as considered appropriate taking into account the circumstances of the Merger contemplated. The analyses in this respect do not constitute appraisals and should not be considered to be reflective of the price at which the shares in Absorbed Company A will or should trade at any time.

i) UCDF valuation

This method was considered to be the most relevant to the valuation of the shares of Absorbed Company A because of its flexibility in capturing the complexity of cash flows and prospects of Absorbed Company A. Given that the Absorbed Company's expected construction projects are different in terms of margins, duration and invested capital requirement, varying cash flow profiles result which can only be fully appreciated using the UDCF valuation method.

This method was applied on the basis of the business plan of Absorbed Company A and certain assumptions made by the management of the company, which Barclays has taken into account on the basis of the assumptions and limitations described in its report.

The terminal value has been calculated in line with the business plan of Absorbed Company A assuming a normalized state. The unlevered after tax free cash flows for the years 2017 through 2025, and the terminal value as well as the expected receivables until 2032 referring to projects completed during the business plan period were discounted at a weighted average cost of capital (WACC) reflecting assumptions that are consistent with market benchmarks relating to the cost of debt and cost of equity of Absorbed Company A.

ii) Trading multiples of comparable companies

Barclays applied this method on the basis of a selected set of comparable companies operating in the construction sector as deemed relevant to the analysis.

Given the uniqueness of the business model of each construction company it is difficult to identify a narrow set of directly comparable peers and as a result a broader set of comparable companies was used in the analysis.

The trading multiples valuation range has been determined by applying the enterprise value / earnings before interest, tax, depreciation and amortization ("EBITDA") multiples as derived from the trading price of the selected set of comparable companies to the EBITDA figures of Absorbed Company A for the financial years 2017 and 2018 as resulting from the Company's business plan and the Company's management's updated estimates based on their latest expectations around realization timing of certain projects.

Without prejudice to the factors, hypotheses and limitations described in its report, Barclays is of the opinion that the minimum and maximum equity value, in relation to the shares of Absorbed Company A, resulting from the above described valuation methodologies, corresponds to between € 530 million and € 610 million or €10.20 and €11.74 per share of Absorbed Company A.

**Publicly available information**

In arriving at its valuation Barclays relied on the outcome of the UDCF and trading multiples of comparable companies analysis but as a part of the review note was also taken of the following publicly available value data points:

i) The historical trading prices of the shares in Absorbed Company A in the period from 14 December 2015 to 14 December 2016 (i.e. 12 months prior to the joint announcement on the contemplated Merger on 14.12.2016).

The range in historical trading prices has been determined on the basis of the minimum and maximum price observed in the above mentioned period.

ii) The target prices for the shares of Absorbed Company A from a sample of research analysts' research reports. Barclays observed the target prices for such shares from a sample of reports published by research analysts covering the Company in the period from 14 June 2016 to 14 December 2016 (i.e. 6 months prior to the joint announcement of the contemplated Merger on 14.12.2016).

### **(B) ABSORBING COMPANY**

The Absorbing Company operates in three major business segments: metallurgy, energy and construction. Barclays has valued each of these segments separately utilizing the following valuation methodologies:

- i. UDCF valuation, and
- ii. trading multiples of comparable companies

For each segment Barclays considered the results of the methodologies utilized as a whole and attributed weight to each single methodology as considered appropriate taking into account the circumstances of the contemplated Merger. The relevant analyses do not constitute appraisals and should not be considered to be reflective of the price at which the Absorbing Company's shares will or should trade at any time.

#### **Metallurgy Business Segment**

The Absorbing Company's metallurgy segment consists of two major business units: Aluminium of Greece, a vertically integrated bauxite, alumina and aluminium production company, and Sometra, a zinc-lead recycling company.

i) UDCF valuation. Barclays applied this methodology on the basis of the business plans provided by the Company and certain assumption made by the Absorbing Company's management, which were taken into account on the basis of the assumptions and limitations described in Barclays report. Terminal values were calculated in line with each business unit's business plan assuming a normalized state. The unlevered after tax free cash flows and the terminal value were discounted at WACC reflecting assumption that are consistent with market benchmarks relating to the cost of debt and cost of equity for each of the companies.

ii) Trading multiples of comparable companies. Barclays identified a set of companies that operate in the aluminium and alumina production as deemed relevant to Aluminium of Greece and a second set of companies that operated in the zinc-lead recycling/smelting sector as deemed relevant to Sometra.

The (valuation) range has been determined by applying the enterprise value/EBITDA multiples as derived from the trading price of the selected set of comparable companies to each of Aluminium of Greece and Sometra's EBITDA figures for the financial years 2017, 2018 and 2019 as resulting from their respective business plan adjusted for broker consensus aluminium and zinc-lead pricing.

Without prejudice to the factors, hypotheses and limitations described in its report, Barclays is of the opinion that the maximum and minimum value in relation to the Absorbing Company's metallurgy business segment, resulting from the above described valuation methodologies corresponds to between €739 million and €793 million.

### **Energy Business Segment**

The Absorbing Company's energy segment consists of two gas-fired power plants in Korinthos and Viotia, a number of renewable generation assets and an electricity retail supply business.

#### **i) UDCF Valuation**

Barclays applied this methodology on the basis of the business plans provided by the Company and certain assumptions made by the Absorbing Company's management taken into account on the basis of the assumptions and limitations described in its report. Terminal values have been calculated in line with each business unit's business plan assuming a normalized state. The unlevered after tax free cash flows were discounted at WACC reflecting assumptions that are consistent with market benchmarks relating to the cost of debt and cost of equity for each of the companies.

#### **ii) Trading multiples of comparable companies.**

Three distinct set of companies were identified to compare with each of the energy units of the Absorbing Company. A set of companies that operate in the production of energy that was deemed relevant to gas-fired generation assets, a set of companies that operate in the renewable energy sector that was deemed relevant to the renewable generation assets and a set of companies that operate in the supply of electricity that was deemed relevant for the electricity retail supply business.

The trading multiples valuation range has been determined by applying the Enterprise Value / EBITDA multiples ad derived from the trading price of the selected set of comparable companies to each relevant business unit's EBITDA figures for the financial years 2017 and 2018 as resulting from the business unit's business plan.

Without prejudice to the factors, hypotheses and limitations described in its report, Barclays is of the opinion that the maximum and minimum value in relation to the Absorbing Company's energy business segment, resulting from the above described valuation methodologies corresponds to between €257 million and €285 million.

### **Construction Business Segment**

The Absorbing Company's construction segment consists of Absorbing Company A. For the latter's valuation see above under (A). In computing the overall valuation of Absorbed Company A, Barclays only attributed 50% plus one share of the value ascribed to Absorbed Company A, in line with the Absorbing Company's current level of ownership in Absorbed Company A.

Without prejudice to the factors, hypotheses and limitations described in its report, Barclays is of the opinion that the maximum and minimum value in relation to the Absorbing Company's shares, resulting from the individual valuations of the metallurgy, energy and construction business segments and also considering the net debt of the group's holding company of €77 million (which was not accounted for as part of the value assessment of the business segments), corresponds to between €1,184 million and €1,306 million, or €10.13 and €11.17 per Absorbing Company's share.

### **Publicly Available Information**

In arriving at its valuation, Barclays relied on the outcome of the UDCF and trading multiples of comparable companies analysis but as part of its review note was also taken of the following publicly available value data points:

i) The historical trading prices of the shares of the Absorbing Company in the period from 14 December 2015 to 14 December 2016 (i.e. 12 months prior to the joint announcement on the contemplated Merger on 14.12.2016).

The range in historical trading prices has been determined on the basis of the minimum and maximum price observed in the above mentioned period.

ii) The target prices for the shares of the Absorbing Company from a sample of research analysts' research reports. Barclays observed the target prices for such shares from a sample of reports published by research analysts covering the Company in the period from 14 June 2016 to 14 December 2016 (i.e. 6 months prior to the joint announcement of the contemplated Merger on 14.12.2016).

Having analysed and assessed the historical trading prices of the shares of the Absorbing Company and Absorbed Company A (as referenced above), Barclays observed that both these shares were trading at a discount to the par share value ranges implied by the fundamental valuations Barclays has arrived at as a result of its assessments in relation to each of these entities.

### **Exchange ratio range for the shares of the Absorbing Company and Absorbed Company A**

Based on the above share price ranges for Absorbed Company A and the Absorbing Company, the resulting exchange ratio range stands at between 0.94 and 1.12 Absorbing Company's shares in exchange for 1 share of Absorbed Company A. The exchange ratio

proposed as per the Draft Merger Agreement and the relevant report by the Board of Directors falls within the exchange ratio range above.

### **Report / Valuation of the assets of the Merging Companies as per article 71 of Codified Law 2190/1920**

The assets of the Merging Companies were valued by PKF pursuant to the provisions of art. 9, para. 4, and art. 71 of Codified Law 2190/1920 who, acting on behalf of the Absorbing Company and the Absorbed Company A jointly, prepared a report to the General Meeting of shareholders of the said companies (hereinafter referred to as the “**Report**”). The said Report shall be made available to shareholders. Under the said Report by PKF, the share exchange ratio range is from **0.91** to **1.10**.

#### *c. Opinion on the exchange ratio*

Barclays, as well as certified public accountants Mr. Antonios A. Prokopidis and Mr. Dimos Pitelis, both of “PKF Euroauditing S.A.”, a Certified Public Accountants Firm, have reviewed the proposed share exchange ratio, as set out in the Draft Merger Agreement, in order to determine whether the proposed share exchange ratio is fair and reasonable. With respect to the share exchange ratio, the Draft Merger Agreement sets out as follows:

- for each (1) existing common registered voting share having a nominal value of thirty two eurocents (€0.32) in Absorbed Company A, its holder shall receive one (1) common registered voting share of a nominal value of ninety seven eurocents (€0.97) in the share capital of the Absorbing Company.

The said share exchange ratio implies the following equity ratio:

- 2.2500 : 1.0000

The above exchange ratio falls within the respective exchange ratio range obtained under the valuation of the Merging Companies and the Report, as above set out, and therefore the proposed ratio is fair and reasonable pursuant to the provisions of article 71 of Codified Law 2190/1920 and art. 4.1.4.1.3 of the Athens Exchange Rulebook, as applicable.

## **II. LEGAL VIEWPOINT OF THE MERGER**

1. The merger by absorption of the Absorbed Companies by the Absorbing Company shall be effected in application of articles 69 through 78 of Codified Law 2190/1920 (“On Corporations”), as currently applicable, in conjunction with the provisions, conditions and waivers stipulated in Law 4172/2013, as applicable, and in particular article 54 thereof, article 61 of Law 4438/2016, and the commercial legislation in general, being subject to the terms and formalities specified therein. The implementation of the merger pursuant to the above provisions is appropriate as it allows (a) that, upon the merger completion, the Absorbing Company shall, by operation of law and without any other formality being required, become sole owner, holder and beneficiary over all the rights and obligations of the Absorbed Companies (including administrative licenses or permits) and profits and losses of the

Absorbed Companies can be carried in one consolidated entry in the books of the Absorbing Company, and (b) tax advantages to be had, such as (i) the merger involves no taxation on surplus values, which are calculated on the basis of the difference between the market value of the assets and liabilities being transferred and their taxable value, and (ii) the contract, contribution and transfer of the assets of the Companies to be merged, any relevant deed or agreement relevant to the contribution or transfer of assets or liabilities or other rights and obligations and any beneficial or contractual right, the resolutions by the competent bodies of the Merging Companies, the shareholding in the capital of the Absorbing Company, as well as any other agreement or instrument as may be required for the merger, the publication thereof in the General Commercial Register (GEMI) and the registration of the relevant deeds are exempt of any tax, stamp duty or any other duty in favor of the State, as well as any other fee, contribution or dues in favor of any third party, subject to capital concentration tax.

2. The exchange ratio of 1 to 1 for the exchange of shares of Absorbed Company A to shares of the Absorbing Company has been found to be fair and reasonable. For each (1) existing common registered voting share of a nominal value of thirty two eurocents (€0.32) in the Absorbed Company A its holder shall receive one (1) common registered voting share of a nominal value of ninety seven eurocents (€0.97) in the share capital of the Absorbing Company, as such share capital shall stand following the share capital increase referred to in clause 4.1 below. There shall be no additional offsetting cash payment to the above shareholders, as provided for in article 68 para 2. of Codified Law 2190/1920.

3. Pursuant to the provisions of para. 4 of art. 75 of Codified Law 2190/1920 the shares in the share capital of Absorbed Company A which are owned by the Absorbing Company shall not be exchanged for shares in the share capital of the Absorbing Company.

4. The shares in the share capital of Absorbed Company B and Absorbed Company C shall not be exchanged with shares in the share capital of the Absorbing Company, given that these shares are wholly owned by the Absorbing Company. The same also applies in the case of the shares in the share capital of Absorbed Company D, given that its entire stock is owned by Absorbed Company C and therefore, upon the completion of the merger, they shall be transferred to the Absorbing Company.

5. The number of shares in the Absorbing Company to which the shareholders of Absorbed Company A (other than the Absorbing Company) are entitled is 25,975,299.

6. The shareholding, by the shareholders of Absorbed Company A, in the new share capital of the Absorbing Company shall be  $25,975,299 / 142,891,161 = 18.178\%$  and that of the existing shareholders of the Absorbing Company shall be  $116,915,862 / 142,891,161 = 81.822\%$ .

7. The share capital of the Absorbing Company shall be increased by the amount of €25,196,040.03 through the issue of 25,975,299 new common registered voting shares each of a nominal value of €0.97, which (without prejudice to para. 3 above) shall be allocated to the shareholders of Absorbed Company A on the basis of the above share exchange ratio. The

share capital of the Absorbing Company following the merger shall amount to 138,604,426.17 Euros divided into 142,891,161 shares each of a nominal value of €0.97.

8. The said increase a) by the amount of eight million three hundred twelve thousand ninety five Euros and sixty eight eurocents (€8,312,095.68) shall be covered by means of the contribution of nominal share capital of Absorbed Company A outstanding following writing off of the participating interest of the Absorbing Company in Absorbed Company A due to merger in the amount of eight million three hundred twelve thousand ninety six Euros and thirty two eurocents (€8,312,096.32) and b) by the amount of sixteen million eight hundred eighty three thousand nine hundred forty four Euros and thirty five eurocents (€16,883,944.35) shall be covered by means of capitalization of the Absorbing Company's share premium reserve. The difference, to result from the writing off of the participating interest of the Absorbing Company in Absorbed Company A due to merger and the part of the nominal share capital that the Absorbing Company holds in the Absorbed Company A, shall be carried to the Absorbing Company's account "Difference under a merger".

9. Given that, as per the above, Absorbed Companies B, C and D are wholly-owned, directly or indirectly, by the Absorbing Company, the contributed net market value of their total assets shall not result in the increase of the share capital of the Absorbing Company, pursuant also to the provisions of para. 4 above, but rather a corresponding amount shall be written off from the Absorbing Company's account "Participating Interests" and any balance shall be carried to equity accounts as a difference under a merger.

10. The Board of Directors reports that no special difficulties have occurred up until the date hereof and no special difficulties are expected to occur with respect to the valuation of the assets and during the process of the merger of the Companies to be Merged.

Following all the above, in the interest of the Company and its shareholders, we move and recommend for the approval of the merger, in accordance with the terms of the Draft Merger Agreement.

Athens, 23.3.2017

For the Board of Directors

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