

TerniEnergia S.p.A.

**Registered Office: Strada dello Stabilimento n.1, 05035, fraz. di Nera Montoro, Narni
(TR)**

VAT Code: 01339010553

Company Share Capital: 12,281,320.00

EXPLANATORY REPORT FOR THE NOTEHOLDERS' MEETING

OF

“Euro 25,000,000.00 notes due 2019”

ISIN CODE: IT0004991573

**CONVENED ON 30 JULY 2019 IN FIRST CALL AND, IF NECESSARY, ON 31 JULY 2019
IN SECOND CALL**

Milan, 28 June 2019

This explanatory report is provided by TerniEnergia S.p.A. (“**TerniEnergia**” or the “**Company**”) with reference to the noteholders' meeting, convened in Corso Magenta, n. 85, Milan on 30 July 2019 July at 11 (CET) in first call and in second call, if necessary, on 31 July 2019 in the same place and at the same time (the “**Meeting**”).

The notice of the Meeting has been published on 28 June 2019 on an Italian daily newspaper, Libero, and on TerniEnergia's website (www.ternienergia.com).

Reasons and framework in the context of which the Meeting takes place

The purpose of the Meeting is to discuss and resolve upon the following:

AGENDA

- A. **Approval of the participation of the noteholders to the recovery plan pursuant to Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 (the "Recovery Plan") within the limits of the provisions related to the Bond and consequent approval of the amendments to the terms and conditions of the Bond in order to align and ensure consistency between the aforementioned terms and conditions and the provisions of the Recovery Plan; resolutions related and consequent thereto.**

- B. **Consent required by the Company to grant a waiver for any breach of covenants which are already occurred or which may be qualified as event of defaults and / or any other event or conditions, the occurrence of which would entitle the noteholders to request an acceleration of the Bond and therefore the early redemption thereof; resolutions related and consequent thereto**

The convening of the Meeting and the need to request the noteholders' approval in relation to the items on the agenda is of great importance due to the process of industrial turnaround which has been undertaken by TerniEnergia as a consequence of a number of circumstances which led the management of the Company to move from the business consisting in the realization and sale of large-size photovoltaic plants (which represented TerniEnergia's core business), to different sectors presenting considerable margins in terms of growth. Such process of industrial turnaround, together with the adverse economic conditions involving the market in the context of which the Company is operating, brought the Company to financial difficulties. In order to face the financial tensions, the Company has promptly started negotiations with the financial creditors of the Group (as defined below), to define the contents of the recovery plan approved in accordance with Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 (the "**Recovery Plan**"), aiming at obtaining the recovery of the Group's indebtedness and ensuring the rebalancing of its financial situation. The Financial Maneuver (the "**Financial Maneuver**") upon which the Recovery Plan is to be based, provides for a moratorium of the Group's exposures, including the exposures relating to the bond "Euro 25,000,000.00 notes due 2019" issued on 6 February 2014 (the "**Bond**"). The involvement of, and the approval by, the noteholders of the Recovery Plan (and the subsequent amendments to the terms and conditions of the Bond) is

therefore necessary for the positive outcome of the transaction aimed at rebalancing the financial situation of the Group.

1. Background of the current financial situation of the Group

In recent years TerniEnergia and some of its subsidiaries (hereinafter, together with TerniEnergia, the "**Group**") faced several changes, in particular from an industrial perspective, which had an impact on its business trend.

At the end of 2014, in order to overcome the negative effects of the regulatory changes which led the management of TerniEnergia to move out from its core business consisting in the realization and sale of large-size photovoltaic plants in Italy, aiming at an industrial turnaround, the Group started an internationalization process and acquired the entire share capital of Free Energia S.p.A. ("**Free Energia**"), a company operating in the energy trading sector, creating the conditions for important synergies in the energy saving business.

At the end of 2015, after only one year from the aforementioned acquisition, due to tax disputes (reported in detail in the financial statements as of 31 December 2015) that involved Free Energia itself, such company was excluded from the perimeter of the Group. This event took place at the end of the year in the course of which the Group recorded its best results ever, in terms of incomes and profitability, also by means of significant orders obtained in South Africa for the realization and sale of large-size photovoltaic plants. Consequently year 2016 was characterized by a repositioning process aiming at an industrial turnaround of the Group that ended up with the acquisition of Softeco Sismat S.r.l. ("**Softeco**") and Selesoft Consulting S.r.l. (now merged by way of incorporation into Softeco), which enabled TerniEnergia to enter into the sector of digital energy, which presents significant potential in terms of growth and profitability. The repositioning process of the Group should have been combined with certain transitional measures (such as the sale of certain going concerns (*rami d'azienda*) of Softeco, the sale of Greenled Industry S.p.A. and the sale of the Calimera plant) in order to manage the turnaround of the business, also considering the failure to obtain new significant orders for the realization of large size photovoltaic plants in Italy and abroad. The failure to implement such transitional measures, which would have ensured the maintenance of a financial balance, led to a worsening of the Group's financial situation which had a negative impact on the Group's capability to repay its indebtedness *vis-a-vis* suppliers, financial creditors and bondholders.

In order to obtain the recovery of the Group's indebtedness and ensure the rebalancing of its financial situation, the management of the Company has entered into negotiations with its financial institutions and the noteholders, with the aim of implementing the Recovery Plan.

2. Main contents of the Recovery Plan

Introduction

The most relevant milestone of the Recovery Plan in order for the whole restructuring transaction to be successful is represented by the disposal of the photovoltaic plants and of those assets related to the Business Unit Clean Tech by and no later than 31 December 2020. In particular the Recovery Plan envisages: (i) the disposal of the photovoltaic plants (owned by TerniEnergia directly or indirectly through special purpose vehicles); (ii) the sale of the plants for the treatment and recycling of used tires; (iii) the sale of the liquids purification plant (*impianto di depurazione di liquidi*) at Nera Montoro; (iv) the sale of the biodigester (*biodigestore*) at Nera Montoro; and (v) the sale of the pyrogasification plant at Borgosesia.

Notwithstanding the unfavorable economic and financial situation of the Group, the Company has successfully carried out the disposal of the assets described above. The Company's commitment to find third parties interested in the purchase of its asset, has led to:

- i. the sale of photovoltaic plants to Sonnedix for an amount equal to Euro 5,700,000.00 used to bear the cost of the current activity carried out by the Company (e.g. the payment of financial costs and part of the overdue suppliers payables);
- ii. the execution of a preliminary sale and purchase agreement among some companies controlled by TerniEnergia, as sellers, TerniEnergia as guarantor, Mareccio Energia S.r.l. (an Italian special purpose vehicle controlled by the Basalt fund) in partnership with *LCF Alliance* (through the Italian special purpose vehicle Italia T1 Roncolo S.r.l.), as purchasers, for the transfer of no. 22 photovoltaic plants with a total capacity of 19.3 MW. The closing of such transaction is scheduled within 30 November 2019 (the effectiveness of which is subject to certain conditions precedent). The main economic terms of the transaction are the following: (a) equity value equal to Euro 28.875 million; (b) enterprise value equal to Euro 59 million; (c) an amount equal to Euro 2.5 million that will be paid into an escrow account in order to secure the performance of the obligations established under the sale and purchase agreement and any indemnities in favor of the purchaser for any breach by the sellers of their representation and warranties; (d) the assumption of the plants financial debts by the purchaser for an amount equal to Euro 43.3 million. The aforementioned agreement provides for the sale of further 3 companies owners of 3 photovoltaic plants, with a total capacity of 4.6 MW, for an amount equal to Euro 3.3 million, with the assumption by the

purchaser of the companies' financial indebtedness for an amount equal to Euro 9.4 million, subject to the obtainment of an agreement between the seller and the relevant purchaser for the management of the pending litigations;

- iii. the conclusion of a preliminary quota purchase agreement between Next Power II Alpha S.r.l., an investment vehicle managed by the London merchant bank NextEnergy Capital (as purchaser), and TerniEnergia (as seller) to take over 50% of the share capital of the company Next Power II Prima S.r.l., owner of 2 photovoltaic plants with a total capacity of 1.9 MW. The closing of such transaction is scheduled on 8 August 2019 (the execution of which is subject to conditions precedent). The value of the transaction has been set at Euro 1,300,000.00 plus the assumption of the financial debts by the purchaser for an amount equal to Euro 4 million (the details of such transactions are available on the website of TerniEnergia).

In addition to the above, negotiations for the disposal of further assets, whose sale is set out by the Recovery Plan, are still ongoing.

The choice to subordinate the positive outcome of the Recovery Plan to the disposal of the assets described above, is linked to the willingness of the Group to opt for its repositioning on the market from its current core business consisting in the realization and sale of large-size photovoltaic plants in Italy to the up-and-coming sector of digital energy with a view to an industrial turnaround of the Group (the acquisition of Softeco and Selesoft was a clear sign of this). The disposal of its assets should allow the Group to decrease its exposure to financial institutions and to the Bond, existing at the date of 31 March 2018 (the "**Reference Date**"), with the aim of ensuring the recovery (*risanamento*) of the financial indebtedness and the rebalancing of the company's financial situation.

For these purposes, the Recovery Plan provides for the merger by incorporation of Softeco into TerniEnergia, 100% owned by the latter, which operates in high tech and in digital energy sector.

The Financial Maneuver

On the basis of the negotiations (which are still ongoing) with the financial institutions, the management of TerniEnergia has prepared, with the help of KPMG, as industrial and financial advisor of the company, a proposal for a financial maneuver which is functional for the achievement of the recovery (*risanamento*) of the financial indebtedness and of the rebalancing of the company's financial situation, which is mainly based on the utilization of the proceeds deriving from the disposal of assets, as well as of those deriving from the

operational management of TerniEnergia (post completion of the merger with Softeco). It is worth mentioning that compared to the version of the Recovery Plan approved by the board of directors of TerniEnergia on 25 October 2018, the Financial Maneuver contained therein has not been subject to substantial changes in terms of setting and structure, as it is still mainly based on the disposal of assets no longer considered core, as well as, as mentioned, on the continuity of the business related to "smart solution and services".

The amendments to the Financial Maneuver are rather the consequence of an activity carried out by the expert, dott. Massimiliano Bonamini, appointed by the Company to carry out the analysis required by the law in order to ascertain mainly the truthfulness of the Company's financial data and the feasibility of the Recovery Plan. As part of these analysis, the assumptions of the Plan were in fact subjected to important stress tests that led to amendments of the Financial Maneuver. In detail, the sensitivity analysis carried out by the expert are of a different nature and, in particular:

- a) industrial sensitivity: (i) significant reduction of Softeco's revenues; (ii) worsening of operating performance in terms of invoicing of contracts with effects on warehouse hours (LIC); (iii) increase of costs related to external consultancy to support business growth (starting from 2020); and (iv) generic contingencies;
- b) sensitivity disposals (in relation to the value and timing of such disposals): (i) postponement to 2020 of collections related to the sale of Cheremule, Bonannaro and Oristano plants; and (ii) postponement to 2020 of the sales of environmental plants (from which the Calimera plant has been excluded) and of the photovoltaic plants not included in the perimeter of sale to LCF, with a reduction of the proceeds deriving therefrom (compared to those envisaged by the original Recovery Plan) equal to 10%;
- c) other sensitivities: (i) increase in the cost of TerniEnergia personnel in 2019; and (ii) higher payments resulting from tax and social security due diligence activities in relation to TerniEnergia and Softeco.

The current proposal of Financial Maneuver therefore includes (unlike the previous version thereof) the effects of the aforementioned sensitivities in terms of cash available for the service of the Company's indebtedness. As a consequence, compared to the previous version of the Recovery Plan: (i) noteholders and financial institutions that do not adhere to the partial write-off of their claims vis a vis the Company see their satisfaction reduced from around 47% to around 36% (of which about 14% by 31 December 2019 and about 22% by 31 December 2020); (ii) financial institutions participating to the partial write-off (which has to

be implemented on 31 December 2020) see their satisfaction reduced as at 31 December 2020 from around 67% to around 59.5%; and (iii) noteholders and financial institutions that do not adhere to the partial and write-off see the amortization period for the full repayment of their receivables extended from 31 December 2026 to 31 December 2027.

Taking into account the foregoing as well as the expected timing for the disposal of the assets (*i.e.* no later than 31 December 2020), the Group's indebtedness towards financial institutions and noteholders, outstanding as at the Reference Date, would be reduced by 31 December 2020 from around Euro 142 million to approximately Euro 33.5 million. The residual exposures as at 31 December 2020 would be reimbursed *pari passu* among the different types of exposures (described below), with the proceeds deriving from the business continuity of TerniEnergia (post merger with Softeco), until full repayment of the indebtedness towards financial institutions (with the exception of the lenders having financial exposures towards Softeco) and noteholders, scheduled for December 31, 2027.

In detail, the new Financial Maneuver proposal provides as follows:

- a) standstill of the short-term credit facilities within the limits of the maximum commitments (*importi affidati*) at the Reference Date (net of the short-term credit facilities granted on the Reference Date by Banca CariGe SpA and Credito Emiliano SpA) between Softeco and the relevant financial institutions, it being understood that the amount granted in relation to such credit facilities will be reduced, starting from the financial year 2021 (included), by an amount equal to (i) Euro 476,000.00 relating to the portion of short-term credit facilities granted by UniCredit; and (ii) Euro 500,000.00 relating to the portion of short-term credit facilities granted by Banco BPM S.p.A. (the **Short-Term Credit Facilities**);
- b) consolidation and rescheduling of the exposures relating to short-term credit facilities (and no longer used as such) existing on the Reference Date between the Group and the relevant financial institutions for a total amount of Euro 14.1 million (the **Consolidated Short-Term Credit Facilities**). The repayment of the Consolidated Short-Term Credit Facilities will be made by TerniEnergia in favor of the relevant financial institutions as follows:
 - i. by 31 December 2019, for a total amount of approximately Euro 2 million in order to reduce exposures related to the Consolidated Short-Term Credit Facilities of approximately 14% compared to the exposures related to the Consolidated Short-Term Credit Facilities outstanding at the Reference Date;

- ii. by 31 December 2020, for around Euro 5.2 million in order to reduce the exposures related to the Consolidated Short-Term Credit Facilities outstanding at the Reference Date of approximately 35,4%. The aforementioned amount will be used (a) for approximately Euro 3.8 million (equal to approximately 46% of the exposures of the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities at the Reference Date) to repay the portion of exposures related to the Consolidated Short-Term Credit Facilities originally granted by the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities; and (b) for approximately Euro 1.4 million (equal to approximately 22% of the exposures exposures of the financial institutions that have not adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities at the Reference Date) to repay the portion of exposures related to the Consolidated Short-Term Credit Facilities originally granted by the financial institutions that did not adhere to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities, which will therefore be paid according to the terms and conditions better described below.

The payments described under points i. and ii. mentioned above will be carried out utilizing the proceeds deriving from the disposal of assets for a total amount of approximately Euro 7.3 million. Exposures related to the Consolidated Short-Term Credit Facilities which are outstanding at December 31, 2020 equal to approximately Euro 7.5 million will be reimbursed with the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, up to their full repayment, with the last installment scheduled for 31 December 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the relevant financial institutions falling on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities; and (ii) the amount effectively paid on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities, should automatically be postponed to 31 December 2020.

- c) consolidation and rescheduling of the exposures relating to medium term-credit facilities existing on the Reference Date between the Group and the relevant financial institutions for a total amount of Euro approximately 55.9 million (the **Medium Term Credit Facilities**). The repayment of the exposures related to the Medium Term Credit Facilities will be made by TerniEnergia in favour of the relevant financial institutions as follows:
- i. by December 31, 2019, for a total amount of approximately Euro 2.9 million in order to reduce exposures related to the Medium Term Credit Facilities of approximately 14% compared to the exposures related to the Medium Term Credit Facilities outstanding at the Reference Date;
 - ii. by December 31, 2020, for around Euro 5 million. The aforementioned amount will be used (a) for approximately Euro 0.8 million (equal to 46% of the exposures of the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities outstanding at the Reference Date) to repay the portion of exposures related to the Medium Term Credit Facilities originally granted by the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities; and (b) for approximately Euro 4.2 million (equal to approximately 22% of the exposures of the financial institutions that have not adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities) to repay the portion of exposures related to the Medium Term Credit Facilities originally granted by the financial institutions that did not adhere to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities, which will therefore be paid according to the terms and conditions better described below.

The payments described under points i. and ii. mentioned above will be carried out utilizing the proceeds deriving from the disposal of assets for a total amount of approximately Euro 7.9 million. Exposures related to the Medium Term Credit Facilities which are outstanding at 31 December, 2020 equal to approximately Euro 15.3 million will be reimbursed with the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, up to their full repayment, with the last installment scheduled for 31 December 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the relevant financial institutions falling on 31 December 2019 in relation to the Medium Term Credit Facilities, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Medium Term Credit Facilities; and (ii) the amount effectively paid on 31 December 2019 in relation to the Medium Term Credit Facilities, should automatically be postponed to 31 December 2020.

- d) rescheduling of the exposure related to the Bond outstanding at the Reference Date for a total amount of approximately Euro 25 million. The repayment of the Bond will be made by TerniEnergia in favour of the noteholders as follows:
- i. by 31 December, 2019, for approximately Euro 3.6 million in order to reduce the exposure related to the Bond of approximately 14% compared to such exposure outstanding at the Reference Date;
 - ii. by 31 December 2020, for around Euro 5.7 million in order to reduce the exposure related to the Bond of additional approximately 22% compared to such exposure outstanding at the Reference Date.

The payments as per points i. and ii. mentioned above will be made through the use of the proceeds deriving from the disposal of the assets. The exposures related to the Bond outstanding at December 31, 2020 for a total of approximately Euro 16.8 million million will be reimbursed to the noteholders utilizing the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, until their full repayment, with the last instalment scheduled for December 31, 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the noteholders falling on 31 December 2019 in relation to the Bond, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Bond; and (ii) the amount effectively paid on 31 December 2019 in relation to the Bond, should automatically be postponed to 31 December 2020. The non-payment of any amount due on 31 December 2019 shall therefore not constitute an event of default under the bond regulation.

e) renegotiation of accrued and accruing interest rates starting from 1 July 2018, as follows:

- i. exposures related to Consolidated Short-Term Credit Facilities, 6-month Euribor + 150 basis points;
- ii. exposures related to Medium Term Credit Facilities exclusively related to TerniEnergia, 6-month Euribor + 150 basis points; is
- iii. exposures related to the Bond, 6-month Euribor + 150 basis points.

As previously specified it is worth mentioning the contents of the Recovery Plan and of the related Financial Maneuver are still subject to negotiation and could be subject to additional amendments also as a result of any possible additional sensitivity analysis that the expert may deem appropriate to pursue. In addition to the foregoing, dr. Bonamini has circulated to the Company a document called "*findings*" (the last version of which is dated 17 June 2019 and has been delivered to the representative of the noteholders) which reflected the preliminary results of its analyzes based on the documental evidences provided by the TerniEnergia. On the basis of this document it appears necessary that additional documentation is to be provided both for the purpose of certifying the truthfulness of the accounting data and the feasibility of the Recovery Plan and the related Financial Maneuver. Both assessments are essential for the purpose of issuing the certification by the expert. Aiming at the delivery of such certification by the end of July (such document is essential to be able to proceed with the transaction and for the realization of the Recovery Plan), dr. Bonamini delivered to the Company a list of documents which is still missing or incomplete, indicating at the same time the deadlines required for the relevant delivery and / or completion so to allow the delivery of the certification within the deadline mentioned above. Specifically, the delivery of some documental evidences (including those confirm the certainty of the completion of the transaction with LCF (including the collection of the relevant proceeds) within the scheduled timeline and according to the conditions provided under the Plan) are requested by June 28 2019, while the delivery of the remaining documentation is requested by no later than July 10 2019. In this context, particular attention is focused on: (i) the effective fulfillment of the conditions precedent to the effectiveness of the agreements executed for the sale of 22 photovoltaic plants with LCF and to the consequent collection of the proceeds deriving from such sale (in this respect, the delivery of a binding commitment by the parent company of the vehicle acting as the promissory buyer (*promissario acquirente*) to supply the latter with the funds necessary to implement the payment of the purchase price is also expected to be delivered); (ii) the completion of the analysis of the accounting data; and (iii) the procedure started by Consob in relation to the

investigation of certain accounting data included in TerniEnergia's balance sheet. The Recovery Plan and the related Financial Manouver is therefore still subject to the expert's certification in relation to the truthfulness of the accounting data as well as of the feasibility of the Recovery Plan.

3. Amendments to the Terms and Conditions requested to the noteholders in the context of the convened meeting

The participation of the noteholders at the Recovery Plan (within the limits of the provisions set out therein in relation to the Bond) and the definition of an agreement with the noteholders for the rescheduling and the renegotiation of certain terms and conditions of the Bond itself (as provided in the Financial Maneuver described above) is of crucial importance in order to implement the Recovery Plan and allow the Company to reach the recovery of its financial indebtedness and to ensure the rebalancing of its financial situation in accordance with Article 67 paragraph 3, letter d), of the Bankruptcy Law. The resolutions to be approved by the noteholders, and in particular the approval of their participation to the Recovery Plan and the amendments to the Terms and Conditions of the Bond, are therefore essential for the implementation of the Recovery Plan and to ensure the business continuity of the Company. Indeed, if such amendments should not be approved, it will not be possible to obtain the release of the necessary expert's opinion certifying the feasibility of the Recovery Plan under Article 67 paragraph 3, letter d), of the Bankruptcy Law, since the current terms and conditions of the Bond are not sustainable in light of the Recovery Plan and are inconsistent with the terms of the Financial Maneuver. It is also worth mentioning that, due to its current financial difficulty, the Company is not able to comply with its payment obligations relating to the Bond which will expire on 30 September 2019. The repayment in full of such exposure is in fact not compliant with available funds of the Company.

For the reasons mentioned above, the Company wishes to submit to the Noteholders, for their approval a proposal in relation to (i) the granting of a waiver to the Company for any breach of covenants which have occurred and can be qualified as events of default under the Terms and Conditions of the Bond, and therefore waive the exercise of any rights under the same terms and conditions; and (ii) the amendments to some terms and conditions of the Bond, in order to align them and make them consistent with the provisions of the Recovery Plan and to avoid a potential acceleration of the Bond on the current maturity date, therefore contributing to re-balance the Company's financial structure. Therefore, the failure by the Noteholders to approve such Company's proposals, would impede the implementation of the Recovery Plan which is essential to ensure the business continuity of the Company itself. It is worth specifying that in case non-effectiveness by no later than 30

September 2019 of the financial agreement to be executed for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code.

In particular, the Company wishes to submit to the Noteholders for their approval the following:

- a) the participation of the noteholders to the Recovery Plan and to the connected Financial Manouver within the limits of the provisions related to the Bond;
- b) as a result of the approval under letter a) above, the amendments to some terms and conditions of the Bond and, specifically:
 - i. the postponement of the final maturity date of the Bond from 30 September 2019 to 31 December 2027, in order to allow the Company to repay in full the Bond, as this new timeline is compatible with the cash flow generated by disposal of the assets (as described above) and by the operational management of the Company (after the merger with Softeco). Such amendment is essential since the Company is not able to comply with its payment obligations under the Bond which expires on 30 September 2019. Without prejudice to the above, the possibility to accelerate the repayment of the Bond is currently under negotiation in order to redeem the Bond before the final maturity date set out in the Financial Maneuver, in the case of overperformance of the Recovery Plan. In this context, the parties are also considering the possibility to include in the Plan mandatory prepayment provisions in case of asset disposal which would require the Company to reimburse the financial creditors and the bondholders (on a *pari passu* basis and in compliance with the priority of payments provided under the Recovery Plan) utilizing the proceeds deriving from the disposal of the assets;
 - ii. the amendment to the interest calculation period, specifying that each period will start from an interest payment date to the following interest payment date, provided that, as set out in the Recovery Plan, the first interest calculation period has started on 6 February 2018 and will end on 31 December 2019. The interest calculation period has to be amended, since the Issuer paid the last interest installment to the noteholders on 6 February 2018. As a consequence, the new first interest calculation period has started from the last interest payment date (*i.e.* 6 February 2018 (excluded)) to the first interest payment date set out in the Recovery Plan (*i.e.* 31 December 2019);

- iii. the amendment to the actual fixed interest rate to a floating rate equal to 6 Months Euribor plus 150 basis points. According to the Plan, in order to make the payment of the interest rates consistent with the cash flow generated by the Issuer with a view to preserve the *par condicio* between the Bondholders and the financial creditors, the new interest rate has to accrue starting from 1 July 2018 to the earlier of (i) the final maturity date; and (ii) the early redemption date. Considering that, as set out above, the last interest payment date was on 6 February 2018, starting from (and including) such date to (and excluded) 30 June 2018, the interest have accrued on the Notes at the original interest rate *i.e.* 6.785% (that will be paid on the first interest payment date). Moreover, in compliance with the provisions of the Recovery Plan, the interest payment dates shall occur on a semi-annual basis falling on 30 June and 31 December of each year, provided that, the first interest payment date will be on 31 December 2019. It should be noted that, the Terms and Conditions of the Bond could provide that, in the event of over-performance of the economic and financial results of the Company compared to those provided under the Recovery Plan, without prejudice to the *par condicio* among the Noteholders and the other financial creditors, such additional cash flows (net of a minimum cash level of at least Euro 3,000,000.00 retained by the Issuer and considered as non-distributable reserve) may be recognized to the Noteholders in terms of additional margin to the interest / early redemption of principal not already reimbursed;
- iv. in compliance with the provisions of the Recovery Plan, it is proposed to add a new definition for the payment date in relation to the principal component of the Notes. The original Terms and Conditions of the Bond provides for the redemption of the capital amount in a lump sum on 6 February 2019. According to the Financial Maneuver, the Bond will be redeemed on the basis of an amortization plan according to which (i) the first payment date will fall on 31 December 2019; (ii) the second payment date will fall on 31 December 2020, without prejudice to the fact that on 31 December 2020 the Bond will have to be reimbursed by the Issuer for a percentage between 37% and 42% of the total outstanding amount (the definitive percentage will be reflected in the version of the Terms and Conditions of the Bond which will be approved by the Meeting and will be equal to the percentage provided for the reimbursement of the financial creditors which do not adhere to the partial write-off of their relevant exposures under the Recovery Plan). It is

understood that, starting from 30 June 2021 until the final maturity date of the Bond (as postponed), the payment dates might be semiannual (on 30 June and 31 December of each year) or annual (31 December of each year). One of the additional amendments of the Terms and Conditions of the Bond will be the introduction of an amortization plan. Moreover, considering that the amount to be paid on the first and second payment dates (i.e. 31 December 2019 and 31 December 2020) is linked to the revenues deriving from the disposal of the assets and the timing of such disposal can't be predicted with certainty, in order to avoid the Recovery Plan to be too restrictive, the Terms and Conditions of the Bond will provide that if the Issuer will not comply with its payment obligations scheduled on 31 December 2019, such payments will be postponed on 31 December 2020 and will be equal to the difference between (i) the amount due on 31 December 2019 and (ii) the amount which will be actually corresponded on 31 December 2019. Therefore, on the basis of the above, (i) the amount due on 31 December 2020 will be equal to the sum of (a) the amount due on 31 December 2020 and (b) the difference between (x) the amount due on 31 December 2019 (capital and interest) and (y) the amount which has been actually corresponded on 31 December 2019, and (ii) the failure of the Issuer to pay the amounts due on 31 December 2019 will not be an event of default;

- v. in relation to the events of default described in Article 7 of the Terms and Conditions of the Bond, it is proposed to delete the part of Article 7, letter b) (ii) relating to the possibility of the Issuer to enter into any of the agreements provided for by article 182 bis or article 67 paragraph 3 (d) of the Bankruptcy Law;
- vi. In relation to the Covenants by the Issuer set out in Article 8 of the Terms and Conditions of the Bond, it is proposed to:
 - amend point (ii), including the possibility to carry out the extraordinary transactions provided under the Recovery Plan, in order to allow the Issuer to achieve its industrial targets to rebalance its financial situation,
 - delete point (iii), since the Recovery Plan has been drafted on the basis of the disposal of the Company's assets (as described above),
 - amend point (vii) inserting the financial covenants provided under the Recovery Plan; and

- delete lett. (c) of point (vii) “*Net Financial Debt Corporate/Ebitda*” since such covenant is not longer consistent with the transaction.
- c) in compliance with the requests of amendment above, the granting of a waiver for any breach of covenants which have occurred or which can be qualified as event of default and / or any other event or other conditions (*i.e.* the failure by the Issuer to comply with (i) its financial covenants, (ii) its payment obligation (other than those payment obligations arising from the Bond), (iii) its obligations arising from the Bond) which may entitle the noteholders to request the acceleration and therefore the early redemption of the Bond.

Additional amendments will be made to amend the definitions in Article 1 and in other sections of the Terms and Conditions of the Bond, in order to align and ensure consistency between the Terms and Condition of the Bond and the provisions of the Recovery Plan. It is understood that the amendments to Terms and Condition of the Bond (attached to this report under “Annex A”) may be subject to additional changes on the basis of the negotiations (which are still ongoing) in relation to the provisions of the Recovery Plan and the connected Financial Manouver.

Considering that the business continuity and the possibility to implement the Recovery Plan requires the availability of the of financial institutions, as well as the availability of the noteholders to support the proposal of Financial Maneuver, and the setting up of an economic and financial structure which is consistent with the current and future cash flows of the Company, it is crucial that the noteholders will approve the amendments and the waiver in the upcoming Meeting. It should be noted that, if the noteholders will not approve the items on the agenda, the Recovery Plan will not be implemented and the competent corporate bodies cannot approve the 2018 financial statement according to the business continuity. As mentioned above the Recovery Plan and its feasibility are in any case still subject to the expert’s opinion.

4. Approval of the items of the agenda

The items of the agenda together with the proposals of the Board of Directors of the Company regarding the assumption of the related resolutions are the following:

4.1 Approval of the participation of the noteholders to the recovery plan pursuant Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 within the limits of the provisions related to the Bond and consequent approval of the amendments to the terms and conditions of the Bond in order to align and ensure consistency between the

aforementioned terms and conditions and the provisions of the Recovery Plan; resolutions related and consequent thereto.

As already stated, the involvement of, and the approval by, the noteholders to the Recovery Plan (within the limits of the provisions related to the Bond) is necessary for the positive outcome of aforementioned recovery transaction of the Issuer and the Group. Therefore, the noteholders' meeting has been convened to approve the Recovery Plan, according to the guidelines set out in paragraph 2 above (*Main contents of the Recovery Plan*). As a consequence of the approval of the Recovery Plan, the noteholders' meeting has been also convened to approve the amendments to the Terms and Conditions of the Bond in order to align and ensure consistency between them and the provisions of the Recovery Plan, considering that the amendments to Terms and Conditions of the Bond as described in this explanatory report and provided in the updated version of the Terms and Condition of the Bond attached to this report under Annex A may be subject to additional changes on the basis of the negotiations (which are still ongoing) in relation to the provisions of the Recovery Plan and to the connected Financial Maneuver.

The Board of Directors therefore submits to the convened noteholders' meeting the following draft resolution in relation to the first item on the agenda:

"The noteholders' meeting of TerniEnergia S.p.A.,

Resolves

the approval of the noteholders participation in the Recovery Plan within the limits of the provisions related to the Bond, and the consequent amendments to the Terms and Conditions of the Bond as described in this explanatory report and in the updated version of the Terms and Condition of the Bond attached hereto under Annex A, in order to align and ensure consistency between them and the provisions set out the Recovery Plan, provided that such amendments may be subject to additional changes on the basis of the negotiations (which are still ongoing) connected to the Recovery Plan and to the relevant Financial Maneuver. It is understood that in case of non-effectiveness by no later than 30 September 2019 of the financial agreement to be executed for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code. In order to implement the provisions above, the noteholders' meeting resolves to grant Avv. Marzio Molinari, as common representative of the noteholders, the widest possible powers, including the power to (i) negotiate with the Company the contents of the updated version of the Terms and Condition of the Bond (due to further amendments that may be necessary in

the event of any changes to the Recovery Plan and to the linked Financial Maneuver); and (ii) execute any other formality required by law and/or deemed necessary in order to implement such resolution.

4.2 Consent required by the Company to grant a waiver for any breach of covenants which are already occurred or which may be qualified as event of defaults and / or any other event or conditions, the occurrence of which would entitle the noteholders to request an acceleration of the Bond and therefore the early redemption thereof; resolutions related and consequent thereto.

The noteholders' meeting has been called to approve the granting of a waiver for any breach of covenants which may have already occurred or which can be qualified as event of defaults and/or any other event or condition, the occurrence of which would entitle the noteholders to request an acceleration of the Bond (according to the provisions set out in the Terms and Conditions of the Bond) and the consequent obligation for the Issuer to reimburse in full the Bond.

The Board of Directors therefore submits to the convened noteholders' meeting the following draft resolution about the second item on the agenda:

"The noteholders' meeting of TerniEnergia S.p.A.,

Resolves

to grant a comprehensive waiver for any breach of conditions which may have arisen or which can be qualified as event of default and/or any other event or condition, the occurrence of which could entitle the noteholders to request an acceleration and therefore the early redemption of the Bond. It is understood that, in case non-effectiveness by no later than 30 September 2019 of the financial agreement to be stipulated for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code".

Terni Energia S.p.A.

Presidente e Amministratore Delegato

TerniEnergia S.p.A.

**Registered Office: Strada dello Stabilimento n.1, 05035, fraz. di Nera Montoro, Narni
(TR)**

VAT Code: 01339010553

Company Share Capital: 12,281,320.00

EXPLANATORY REPORT FOR THE NOTEHOLDERS' MEETING

OF

“Euro 25,000,000.00 notes due 2019”

ISIN CODE: IT0004991573

**CONVENED ON 30 JULY 2019 IN FIRST CALL AND, IF NECESSARY, ON 31 JULY 2019
IN SECOND CALL**

Milan, 28 June 2019

This explanatory report is provided by TerniEnergia S.p.A. (“**TerniEnergia**” or the “**Company**”) with reference to the noteholders' meeting, convened in Corso Magenta, n. 85, Milan on 30 July 2019 July at 11 (CET) in first call and in second call, if necessary, on 31 July 2019 in the same place and at the same time (the “**Meeting**”).

The notice of the Meeting has been published on 28 June 2019 on an Italian daily newspaper, Libero, and on TerniEnergia's website (www.ternienergia.com).

Reasons and framework in the context of which the Meeting takes place

The purpose of the Meeting is to discuss and resolve upon the following:

AGENDA

- A. **Approval of the participation of the noteholders to the recovery plan pursuant to Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 (the "Recovery Plan") within the limits of the provisions related to the Bond and consequent approval of the amendments to the terms and conditions of the Bond in order to align and ensure consistency between the aforementioned terms and conditions and the provisions of the Recovery Plan; resolutions related and consequent thereto.**

- B. **Consent required by the Company to grant a waiver for any breach of covenants which are already occurred or which may be qualified as event of defaults and / or any other event or conditions, the occurrence of which would entitle the noteholders to request an acceleration of the Bond and therefore the early redemption thereof; resolutions related and consequent thereto**

The convening of the Meeting and the need to request the noteholders' approval in relation to the items on the agenda is of great importance due to the process of industrial turnaround which has been undertaken by TerniEnergia as a consequence of a number of circumstances which led the management of the Company to move from the business consisting in the realization and sale of large-size photovoltaic plants (which represented TerniEnergia's core business), to different sectors presenting considerable margins in terms of growth. Such process of industrial turnaround, together with the adverse economic conditions involving the market in the context of which the Company is operating, brought the Company to financial difficulties. In order to face the financial tensions, the Company has promptly started negotiations with the financial creditors of the Group (as defined below), to define the contents of the recovery plan approved in accordance with Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 (the "**Recovery Plan**"), aiming at obtaining the recovery of the Group's indebtedness and ensuring the rebalancing of its financial situation. The Financial Maneuver (the "**Financial Maneuver**") upon which the Recovery Plan is to be based, provides for a moratorium of the Group's exposures, including the exposures relating to the bond "Euro 25,000,000.00 notes due 2019" issued on 6 February 2014 (the "**Bond**"). The involvement of, and the approval by, the noteholders of the Recovery Plan (and the subsequent amendments to the terms and conditions of the Bond) is

therefore necessary for the positive outcome of the transaction aimed at rebalancing the financial situation of the Group.

1. Background of the current financial situation of the Group

In recent years TerniEnergia and some of its subsidiaries (hereinafter, together with TerniEnergia, the "**Group**") faced several changes, in particular from an industrial perspective, which had an impact on its business trend.

At the end of 2014, in order to overcome the negative effects of the regulatory changes which led the management of TerniEnergia to move out from its core business consisting in the realization and sale of large-size photovoltaic plants in Italy, aiming at an industrial turnaround, the Group started an internationalization process and acquired the entire share capital of Free Energia S.p.A. ("**Free Energia**"), a company operating in the energy trading sector, creating the conditions for important synergies in the energy saving business.

At the end of 2015, after only one year from the aforementioned acquisition, due to tax disputes (reported in detail in the financial statements as of 31 December 2015) that involved Free Energia itself, such company was excluded from the perimeter of the Group. This event took place at the end of the year in the course of which the Group recorded its best results ever, in terms of incomes and profitability, also by means of significant orders obtained in South Africa for the realization and sale of large-size photovoltaic plants. Consequently year 2016 was characterized by a repositioning process aiming at an industrial turnaround of the Group that ended up with the acquisition of Softeco Sismat S.r.l. ("**Softeco**") and Selesoft Consulting S.r.l. (now merged by way of incorporation into Softeco), which enabled TerniEnergia to enter into the sector of digital energy, which presents significant potential in terms of growth and profitability. The repositioning process of the Group should have been combined with certain transitional measures (such as the sale of certain going concerns (*rami d'azienda*) of Softeco, the sale of Greenled Industry S.p.A. and the sale of the Calimera plant) in order to manage the turnaround of the business, also considering the failure to obtain new significant orders for the realization of large size photovoltaic plants in Italy and abroad. The failure to implement such transitional measures, which would have ensured the maintenance of a financial balance, led to a worsening of the Group's financial situation which had a negative impact on the Group's capability to repay its indebtedness *vis-a-vis* suppliers, financial creditors and bondholders.

In order to obtain the recovery of the Group's indebtedness and ensure the rebalancing of its financial situation, the management of the Company has entered into negotiations with its financial institutions and the noteholders, with the aim of implementing the Recovery Plan.

2. Main contents of the Recovery Plan

Introduction

The most relevant milestone of the Recovery Plan in order for the whole restructuring transaction to be successful is represented by the disposal of the photovoltaic plants and of those assets related to the Business Unit Clean Tech by and no later than 31 December 2020. In particular the Recovery Plan envisages: (i) the disposal of the photovoltaic plants (owned by TerniEnergia directly or indirectly through special purpose vehicles); (ii) the sale of the plants for the treatment and recycling of used tires; (iii) the sale of the liquids purification plant (*impianto di depurazione di liquidi*) at Nera Montoro; (iv) the sale of the biodigester (*biodigestore*) at Nera Montoro; and (v) the sale of the pyrogasification plant at Borgosesia.

Notwithstanding the unfavorable economic and financial situation of the Group, the Company has successfully carried out the disposal of the assets described above. The Company's commitment to find third parties interested in the purchase of its asset, has led to:

- i. the sale of photovoltaic plants to Sonnedix for an amount equal to Euro 5,700,000.00 used to bear the cost of the current activity carried out by the Company (e.g. the payment of financial costs and part of the overdue suppliers payables);
- ii. the execution of a preliminary sale and purchase agreement among some companies controlled by TerniEnergia, as sellers, TerniEnergia as guarantor, Mareccio Energia S.r.l. (an Italian special purpose vehicle controlled by the Basalt fund) in partnership with *LCF Alliance* (through the Italian special purpose vehicle Italia T1 Roncolo S.r.l.), as purchasers, for the transfer of no. 22 photovoltaic plants with a total capacity of 19.3 MW. The closing of such transaction is scheduled within 30 November 2019 (the effectiveness of which is subject to certain conditions precedent). The main economic terms of the transaction are the following: (a) equity value equal to Euro 28.875 million; (b) enterprise value equal to Euro 59 million; (c) an amount equal to Euro 2.5 million that will be paid into an escrow account in order to secure the performance of the obligations established under the sale and purchase agreement and any indemnities in favor of the purchaser for any breach by the sellers of their representation and warranties; (d) the assumption of the plants financial debts by the purchaser for an amount equal to Euro 43.3 million. The aforementioned agreement provides for the sale of further 3 companies owners of 3 photovoltaic plants, with a total capacity of 4.6 MW, for an amount equal to Euro 3.3 million, with the assumption by the

purchaser of the companies' financial indebtedness for an amount equal to Euro 9.4 million, subject to the obtainment of an agreement between the seller and the relevant purchaser for the management of the pending litigations;

- iii. the conclusion of a preliminary quota purchase agreement between Next Power II Alpha S.r.l., an investment vehicle managed by the London merchant bank NextEnergy Capital (as purchaser), and TerniEnergia (as seller) to take over 50% of the share capital of the company Next Power II Prima S.r.l., owner of 2 photovoltaic plants with a total capacity of 1.9 MW. The closing of such transaction is scheduled on 8 August 2019 (the execution of which is subject to conditions precedent). The value of the transaction has been set at Euro 1,300,000.00 plus the assumption of the financial debts by the purchaser for an amount equal to Euro 4 million (the details of such transactions are available on the website of TerniEnergia).

In addition to the above, negotiations for the disposal of further assets, whose sale is set out by the Recovery Plan, are still ongoing.

The choice to subordinate the positive outcome of the Recovery Plan to the disposal of the assets described above, is linked to the willingness of the Group to opt for its repositioning on the market from its current core business consisting in the realization and sale of large-size photovoltaic plants in Italy to the up-and-coming sector of digital energy with a view to an industrial turnaround of the Group (the acquisition of Softeco and Selesoft was a clear sign of this). The disposal of its assets should allow the Group to decrease its exposure to financial institutions and to the Bond, existing at the date of 31 March 2018 (the “**Reference Date**”), with the aim of ensuring the recovery (*risanamento*) of the financial indebtedness and the rebalancing of the company's financial situation.

For these purposes, the Recovery Plan provides for the merger by incorporation of Softeco into TerniEnergia, 100% owned by the latter, which operates in high tech and in digital energy sector.

The Financial Maneuver

On the basis of the negotiations (which are still ongoing) with the financial institutions, the management of TerniEnergia has prepared, with the help of KPMG, as industrial and financial advisor of the company, a proposal for a financial maneuver which is functional for the achievement of the recovery (*risanamento*) of the financial indebtedness and of the rebalancing of the company's financial situation, which is mainly based on the utilization of the proceeds deriving from the disposal of assets, as well as of those deriving from the

operational management of TerniEnergia (post completion of the merger with Softeco). It is worth mentioning that compared to the version of the Recovery Plan approved by the board of directors of TerniEnergia on 25 October 2018, the Financial Maneuver contained therein has not been subject to substantial changes in terms of setting and structure, as it is still mainly based on the disposal of assets no longer considered core, as well as, as mentioned, on the continuity of the business related to "smart solution and services".

The amendments to the Financial Maneuver are rather the consequence of an activity carried out by the expert, dott. Massimiliano Bonamini, appointed by the Company to carry out the analysis required by the law in order to ascertain mainly the truthfulness of the Company's financial data and the feasibility of the Recovery Plan. As part of these analysis, the assumptions of the Plan were in fact subjected to important stress tests that led to amendments of the Financial Maneuver. In detail, the sensitivity analysis carried out by the expert are of a different nature and, in particular:

- a) industrial sensitivity: (i) significant reduction of Softeco's revenues; (ii) worsening of operating performance in terms of invoicing of contracts with effects on warehouse hours (LIC); (iii) increase of costs related to external consultancy to support business growth (starting from 2020); and (iv) generic contingencies;
- b) sensitivity disposals (in relation to the value and timing of such disposals): (i) postponement to 2020 of collections related to the sale of Cheremule, Bonannaro and Oristano plants; and (ii) postponement to 2020 of the sales of environmental plants (from which the Calimera plant has been excluded) and of the photovoltaic plants not included in the perimeter of sale to LCF, with a reduction of the proceeds deriving therefrom (compared to those envisaged by the original Recovery Plan) equal to 10%;
- c) other sensitivities: (i) increase in the cost of TerniEnergia personnel in 2019; and (ii) higher payments resulting from tax and social security due diligence activities in relation to TerniEnergia and Softeco.

The current proposal of Financial Maneuver therefore includes (unlike the previous version thereof) the effects of the aforementioned sensitivities in terms of cash available for the service of the Company's indebtedness. As a consequence, compared to the previous version of the Recovery Plan: (i) noteholders and financial institutions that do not adhere to the partial write-off of their claims vis a vis the Company see their satisfaction reduced from around 47% to around 36% (of which about 14% by 31 December 2019 and about 22% by 31 December 2020); (ii) financial institutions participating to the partial write-off (which has to

be implemented on 31 December 2020) see their satisfaction reduced as at 31 December 2020 from around 67% to around 59.5%; and (iii) noteholders and financial institutions that do not adhere to the partial and write-off see the amortization period for the full repayment of their receivables extended from 31 December 2026 to 31 December 2027.

Taking into account the foregoing as well as the expected timing for the disposal of the assets (*i.e.* no later than 31 December 2020), the Group's indebtedness towards financial institutions and noteholders, outstanding as at the Reference Date, would be reduced by 31 December 2020 from around Euro 142 million to approximately Euro 33.5 million. The residual exposures as at 31 December 2020 would be reimbursed *pari passu* among the different types of exposures (described below), with the proceeds deriving from the business continuity of TerniEnergia (post merger with Softeco), until full repayment of the indebtedness towards financial institutions (with the exception of the lenders having financial exposures towards Softeco) and noteholders, scheduled for December 31, 2027.

In detail, the new Financial Maneuver proposal provides as follows:

- a) standstill of the short-term credit facilities within the limits of the maximum commitments (importi affidati) at the Reference Date (net of the short-term credit facilities granted on the Reference Date by Banca CariGe SpA and Credito Emiliano SpA) between Softeco and the relevant financial institutions, it being understood that the amount granted in relation to such credit facilities will be reduced, starting from the financial year 2021 (included), by an amount equal to (i) Euro 476,000.00 relating to the portion of short-term credit facilities granted by UniCredit; and (ii) Euro 500,000.00 relating to the portion of short-term credit facilities granted by Banco BPM S.p.A. (the **Short-Term Credit Facilities**);
- b) consolidation and rescheduling of the exposures relating to short-credit facilities (and no longer used as such) existing on the Reference Date between the Group and the relevant financial institutions for a total amount of Euro 14.1 million (the **Consolidated Short-Term Credit Facilities**). The repayment of the Consolidated Short-Term Credit Facilities will be made by TerniEnergia in favor of the relevant financial institutions as follows:
 - i. by 31 December 2019, for a total amount of approximately Euro 2 million in order to reduce exposures related to the Consolidated Short-Term Credit Facilities of approximately 14% compared to the exposures related to the Consolidated Short-Term Credit Facilities outstanding at the Reference Date;

- ii. by 31 December 2020, for around Euro 5.2 million in order to reduce the exposures related to the Consolidated Short-Term Credit Facilities outstanding at the Reference Date of approximately 35,4%. The aforementioned amount will be used (a) for approximately Euro 3.8 million (equal to approximately 46% of the exposures of the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities at the Reference Date) to repay the portion of exposures related to the Consolidated Short-Term Credit Facilities originally granted by the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities; and (b) for approximately Euro 1.4 million (equal to approximately 22% of the exposures exposures of the financial institutions that have not adhered to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities at the Reference Date) to repay the portion of exposures related to the Consolidated Short-Term Credit Facilities originally granted by the financial institutions that did not adhere to the proposal consisting in the partial write-off of the exposures related to the Consolidated Short-Term Credit Facilities, which will therefore be paid according to the terms and conditions better described below.

The payments described under points i. and ii. mentioned above will be carried out utilizing the proceeds deriving from the disposal of assets for a total amount of approximately Euro 7.3 million. Exposures related to the Consolidated Short-Term Credit Facilities which are outstanding at December 31, 2020 equal to approximately Euro 7.5 million will be reimbursed with the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, up to their full repayment, with the last installment scheduled for 31 December 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the relevant financial institutions falling on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities; and (ii) the amount effectively paid on 31 December 2019 in relation to the Consolidated Short-Term Credit Facilities, should automatically be postponed to 31 December 2020.

- c) consolidation and rescheduling of the exposures relating to medium term-credit facilities existing on the Reference Date between the Group and the relevant financial institutions for a total amount of Euro approximately 55.9 million (the **Medium Term Credit Facilities**). The repayment of the exposures related to the Medium Term Credit Facilities will be made by TerniEnergia in favour of the relevant financial institutions as follows:
- i. by December 31, 2019, for a total amount of approximately Euro 2.9 million in order to reduce exposures related to the Medium Term Credit Facilities of approximately 14% compared to the exposures related to the Medium Term Credit Facilities outstanding at the Reference Date;
 - ii. by December 31, 2020, for around Euro 5 million. The aforementioned amount will be used (a) for approximately Euro 0.8 million (equal to 46% of the exposures of the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities outstanding at the Reference Date) to repay the portion of exposures related to the Medium Term Credit Facilities originally granted by the financial institutions that have adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities; and (b) for approximately Euro 4.2 million (equal to approximately 22% of the exposures of the financial institutions that have not adhered to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities) to repay the portion of exposures related to the Medium Term Credit Facilities originally granted by the financial institutions that did not adhere to the proposal consisting in the partial write-off of the exposures related to the Medium Term Credit Facilities, which will therefore be paid according to the terms and conditions better described below.

The payments described under points i. and ii. mentioned above will be carried out utilizing the proceeds deriving from the disposal of assets for a total amount of approximately Euro 7.9 million. Exposures related to the Medium Term Credit Facilities which are outstanding at 31 December, 2020 equal to approximately Euro 15.3 million will be reimbursed with the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, up to their full repayment, with the last installment scheduled for 31 December 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the relevant financial institutions falling on 31 December 2019 in relation to the Medium Term Credit Facilities, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Medium Term Credit Facilities; and (ii) the amount effectively paid on 31 December 2019 in relation to the Medium Term Credit Facilities, should automatically be postponed to 31 December 2020.

- d) rescheduling of the exposure related to the Bond outstanding at the Reference Date for a total amount of approximately Euro 25 million. The repayment of the Bond will be made by TerniEnergia in favour of the noteholders as follows:
- i. by 31 December, 2019, for approximately Euro 3.6 million in order to reduce the exposure related to the Bond of approximately 14% compared to such exposure outstanding at the Reference Date;
 - ii. by 31 December 2020, for around Euro 5.7 million in order to reduce the exposure related to the Bond of additional approximately 22% compared to such exposure outstanding at the Reference Date.

The payments as per points i. and ii. mentioned above will be made through the use of the proceeds deriving from the disposal of the assets. The exposures related to the Bond outstanding at December 31, 2020 for a total of approximately Euro 16.8 million million will be reimbursed to the noteholders utilizing the proceeds deriving from the operational management of TerniEnergia (post merger with Softeco) *pari-passu* compared to the other types of exposures, until their full repayment, with the last instalment scheduled for December 31, 2027.

Without prejudice to the above, the Plan provides that should the Company for any reason whatsoever fail to comply (in whole or in part) with its payment obligations towards the noteholders falling on 31 December 2019 in relation to the Bond, then the maturity of such payment obligations, being equal to the difference between (i) the amount due on 31 December 2019 in relation to the Bond; and (ii) the amount effectively paid on 31 December 2019 in relation to the Bond, should automatically be postponed to 31 December 2020. The non-payment of any amount due on 31 December 2019 shall therefore not constitute an event of default under the bond regulation.

e) renegotiation of accrued and accruing interest rates starting from 1 July 2018, as follows:

- i. exposures related to Consolidated Short-Term Credit Facilities, 6-month Euribor + 150 basis points;
- ii. exposures related to Medium Term Credit Facilities exclusively related to TerniEnergia, 6-month Euribor + 150 basis points; is
- iii. exposures related to the Bond, 6-month Euribor + 150 basis points.

As previously specified it is worth mentioning the contents of the Recovery Plan and of the related Financial Maneuver are still subject to negotiation and could be subject to additional amendments also as a result of any possible additional sensitivity analysis that the expert may deem appropriate to pursue. In addition to the foregoing, dr. Bonamini has circulated to the Company a document called "*findings*" (the last version of which is dated 17 June 2019 and has been delivered to the representative of the noteholders) which reflected the preliminary results of its analyzes based on the documental evidences provided by the TerniEnergia. On the basis of this document it appears necessary that additional documentation is to be provided both for the purpose of certifying the truthfulness of the accounting data and the feasibility of the Recovery Plan and the related Financial Maneuver. Both assessments are essential for the purpose of issuing the certification by the expert. Aiming at the delivery of such certification by the end of July (such document is essential to be able to proceed with the transaction and for the realization of the Recovery Plan), dr. Bonamini delivered to the Company a list of documents which is still missing or incomplete, indicating at the same time the deadlines required for the relevant delivery and / or completion so to allow the delivery of the certification within the deadline mentioned above. Specifically, the delivery of some documental evidences (including those confirm the certainty of the completion of the transaction with LCF (including the collection of the relevant proceeds) within the scheduled timeline and according to the conditions provided under the Plan) are requested by June 28 2019, while the delivery of the remaining documentation is requested by no later than July 10 2019. In this context, particular attention is focused on: (i) the effective fulfillment of the conditions precedent to the effectiveness of the agreements executed for the sale of 22 photovoltaic plants with LCF and to the consequent collection of the proceeds deriving from such sale (in this respect, the delivery of a binding commitment by the parent company of the vehicle acting as the promissory buyer (*promissario acquirente*) to supply the latter with the funds necessary to implement the payment of the purchase price is also expected to be delivered); (ii) the completion of the analysis of the accounting data; and (iii) the procedure started by Consob in relation to the

investigation of certain accounting data included in TerniEnergia's balance sheet. The Recovery Plan and the related Financial Manouver is therefore still subject to the expert's certification in relation to the truthfulness of the accounting data as well as of the feasibility of the Recovery Plan.

3. Amendments to the Terms and Conditions requested to the noteholders in the context of the convened meeting

The participation of the noteholders at the Recovery Plan (within the limits of the provisions set out therein in relation to the Bond) and the definition of an agreement with the noteholders for the rescheduling and the renegotiation of certain terms and conditions of the Bond itself (as provided in the Financial Maneuver described above) is of crucial importance in order to implement the Recovery Plan and allow the Company to reach the recovery of its financial indebtedness and to ensure the rebalancing of its financial situation in accordance with Article 67 paragraph 3, letter d), of the Bankruptcy Law. The resolutions to be approved by the noteholders, and in particular the approval of their participation to the Recovery Plan and the amendments to the Terms and Conditions of the Bond, are therefore essential for the implementation of the Recovery Plan and to ensure the business continuity of the Company. Indeed, if such amendments should not be approved, it will not be possible to obtain the release of the necessary expert's opinion certifying the feasibility of the Recovery Plan under Article 67 paragraph 3, letter d), of the Bankruptcy Law, since the current terms and conditions of the Bond are not sustainable in light of the Recovery Plan and are inconsistent with the terms of the Financial Maneuver. It is also worth mentioning that, due to its current financial difficulty, the Company is not able to comply with its payment obligations relating to the Bond which will expire on 30 September 2019. The repayment in full of such exposure is in fact not compliant with available funds of the Company.

For the reasons mentioned above, the Company wishes to submit to the Noteholders, for their approval a proposal in relation to (i) the granting of a waiver to the Company for any breach of covenants which have occurred and can be qualified as events of default under the Terms and Conditions of the Bond, and therefore waive the exercise of any rights under the same terms and conditions; and (ii) the amendments to some terms and conditions of the Bond, in order to align them and make them consistent with the provisions of the Recovery Plan and to avoid a potential acceleration of the Bond on the current maturity date, therefore contributing to re-balance the Company's financial structure. Therefore, the failure by the Noteholders to approve such Company's proposals, would impede the implementation of the Recovery Plan which is essential to ensure the business continuity of the Company itself. It is worth specifying that in case non-effectiveness by no later than 30

September 2019 of the financial agreement to be executed for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code.

In particular, the Company wishes to submit to the Noteholders for their approval the following:

- a) the participation of the noteholders to the Recovery Plan and to the connected Financial Manouver within the limits of the provisions related to the Bond;
- b) as a result of the approval under letter a) above, the amendments to some terms and conditions of the Bond and, specifically:
 - i. the postponement of the final maturity date of the Bond from 30 September 2019 to 31 December 2027, in order to allow the Company to repay in full the Bond, as this new timeline is compatible with the cash flow generated by disposal of the assets (as described above) and by the operational management of the Company (after the merger with Softeco). Such amendment is essential since the Company is not able to comply with its payment obligations under the Bond which expires on 30 September 2019. Without prejudice to the above, the possibility to accelerate the repayment of the Bond is currently under negotiation in order to redeem the Bond before the final maturity date set out in the Financial Maneuver, in the case of overperformance of the Recovery Plan. In this context, the parties are also considering the possibility to include in the Plan mandatory prepayment provisions in case of asset disposal which would require the Company to reimburse the financial creditors and the bondholders (on a *pari passu* basis and in compliance with the priority of payments provided under the Recovery Plan) utilizing the proceeds deriving from the disposal of the assets;
 - ii. the amendment to the interest calculation period, specifying that each period will start from an interest payment date to the following interest payment date, provided that, as set out in the Recovery Plan, the first interest calculation period has started on 6 February 2018 and will end on 31 December 2019. The interest calculation period has to be amended, since the Issuer paid the last interest installment to the noteholders on 6 February 2018. As a consequence, the new first interest calculation period has started from the last interest payment date (*i.e.* 6 February 2018 (excluded)) to the first interest payment date set out in the Recovery Plan (*i.e.* 31 December 2019);

- iii. the amendment to the actual fixed interest rate to a floating rate equal to 6 Months Euribor plus 150 basis points. According to the Plan, in order to make the payment of the interest rates consistent with the cash flow generated by the Issuer with a view to preserve the *par condicio* between the Bondholders and the financial creditors, the new interest rate has to accrue starting from 1 July 2018 to the earlier of (i) the final maturity date; and (ii) the early redemption date. Considering that, as set out above, the last interest payment date was on 6 February 2018, starting from (and including) such date to (and excluded) 30 June 2018, the interest have accrued on the Notes at the original interest rate *i.e.* 6.785% (that will be paid on the first interest payment date). Moreover, in compliance with the provisions of the Recovery Plan, the interest payment dates shall occur on a semi-annual basis falling on 30 June and 31 December of each year, provided that, the first interest payment date will be on 31 December 2019. It should be noted that, the Terms and Conditions of the Bond could provide that, in the event of over-performance of the economic and financial results of the Company compared to those provided under the Recovery Plan, without prejudice to the *par condicio* among the Noteholders and the other financial creditors, such additional cash flows (net of a minimum cash level of at least Euro 3,000,000.00 retained by the Issuer and considered as non-distributable reserve) may be recognized to the Noteholders in terms of additional margin to the interest / early redemption of principal not already reimbursed;
- iv. in compliance with the provisions of the Recovery Plan, it is proposed to add a new definition for the payment date in relation to the principal component of the Notes. The original Terms and Conditions of the Bond provides for the redemption of the capital amount in a lump sum on 6 February 2019. According to the Financial Maneuver, the Bond will be redeemed on the basis of an amortization plan according to which (i) the first payment date will fall on 31 December 2019; (ii) the second payment date will fall on 31 December 2020, without prejudice to the fact that on 31 December 2020 the Bond will have to be reimbursed by the Issuer for a percentage between 37% and 42% of the total outstanding amount (the definitive percentage will be reflected in the version of the Terms and Conditions of the Bond which will be approved by the Meeting and will be equal to the percentage provided for the reimbursement of the financial creditors which do not adhere to the partial write-off of their relevant exposures under the Recovery Plan). It is

understood that, starting from 30 June 2021 until the final maturity date of the Bond (as postponed), the payment dates might be semiannual (on 30 June and 31 December of each year) or annual (31 December of each year). One of the additional amendments of the Terms and Conditions of the Bond will be the introduction of an amortization plan. Moreover, considering that the amount to be paid on the first and second payment dates (i.e. 31 December 2019 and 31 December 2020) is linked to the revenues deriving from the disposal of the assets and the timing of such disposal can't be predicted with certainty, in order to avoid the Recovery Plan to be too restrictive, the Terms and Conditions of the Bond will provide that if the Issuer will not comply with its payment obligations scheduled on 31 December 2019, such payments will be postponed on 31 December 2020 and will be equal to the difference between (i) the amount due on 31 December 2019 and (ii) the amount which will be actually corresponded on 31 December 2019. Therefore, on the basis of the above, (i) the amount due on 31 December 2020 will be equal to the sum of (a) the amount due on 31 December 2020 and (b) the difference between (x) the amount due on 31 December 2019 (capital and interest) and (y) the amount which has been actually corresponded on 31 December 2019, and (ii) the failure of the Issuer to pay the amounts due on 31 December 2019 will not be an event of default;

- v. in relation to the events of default described in Article 7 of the Terms and Conditions of the Bond, it is proposed to delete the part of Article 7, letter b) (ii) relating to the possibility of the Issuer to enter into any of the agreements provided for by article 182 bis or article 67 paragraph 3 (d) of the Bankruptcy Law;
- vi. In relation to the Covenants by the Issuer set out in Article 8 of the Terms and Conditions of the Bond, it is proposed to:
 - amend point (ii), including the possibility to carry out the extraordinary transactions provided under the Recovery Plan, in order to allow the Issuer to achieve its industrial targets to rebalance its financial situation,
 - delete point (iii), since the Recovery Plan has been drafted on the basis of the disposal of the Company's assets (as described above),
 - amend point (vii) inserting the financial covenants provided under the Recovery Plan; and

- delete lett. (c) of point (vii) “*Net Financial Debt Corporate/Ebitda*” since such covenant is not longer consistent with the transaction.
- c) in compliance with the requests of amendment above, the granting of a waiver for any breach of covenants which have occurred or which can be qualified as event of default and / or any other event or other conditions (*i.e.* the failure by the Issuer to comply with (i) its financial covenants, (ii) its payment obligation (other than those payment obligations arising from the Bond), (iii) its obligations arising from the Bond) which may entitle the noteholders to request the acceleration and therefore the early redemption of the Bond.

Additional amendments will be made to amend the definitions in Article 1 and in other sections of the Terms and Conditions of the Bond, in order to align and ensure consistency between the Terms and Condition of the Bond and the provisions of the Recovery Plan. It is understood that the amendments to Terms and Condition of the Bond (attached to this report under “Annex A”) may be subject to additional changes on the basis of the negotiations (which are still ongoing) in relation to the provisions of the Recovery Plan and the connected Financial Manouver.

Considering that the business continuity and the possibility to implement the Recovery Plan requires the availability of the of financial institutions, as well as the availability of the noteholders to support the proposal of Financial Maneuver, and the setting up of an economic and financial structure which is consistent with the current and future cash flows of the Company, it is crucial that the noteholders will approve the amendments and the waiver in the upcoming Meeting. It should be noted that, if the noteholders will not approve the items on the agenda, the Recovery Plan will not be implemented and the competent corporate bodies cannot approve the 2018 financial statement according to the business continuity. As mentioned above the Recovery Plan and its feasibility are in any case still subject to the expert’s opinion.

4. Approval of the items of the agenda

The items of the agenda together with the proposals of the Board of Directors of the Company regarding the assumption of the related resolutions are the following:

4.1 Approval of the participation of the noteholders to the recovery plan pursuant Article 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 within the limits of the provisions related to the Bond and consequent approval of the amendments to the terms and conditions of the Bond in order to align and ensure consistency between the

aforementioned terms and conditions and the provisions of the Recovery Plan; resolutions related and consequent thereto.

As already stated, the involvement of, and the approval by, the noteholders to the Recovery Plan (within the limits of the provisions related to the Bond) is necessary for the positive outcome of aforementioned recovery transaction of the Issuer and the Group. Therefore, the noteholders' meeting has been convened to approve the Recovery Plan, according to the guidelines set out in paragraph 2 above (*Main contents of the Recovery Plan*). As a consequence of the approval of the Recovery Plan, the noteholders' meeting has been also convened to approve the amendments to the Terms and Conditions of the Bond in order to align and ensure consistency between them and the provisions of the Recovery Plan, considering that the amendments to Terms and Conditions of the Bond as described in this explanatory report and provided in the updated version of the Terms and Condition of the Bond attached to this report under Annex A may be subject to additional changes on the basis of the negotiations (which are still ongoing) in relation to the provisions of the Recovery Plan and to the connected Financial Maneuver.

The Board of Directors therefore submits to the convened noteholders' meeting the following draft resolution in relation to the first item on the agenda:

"The noteholders' meeting of TerniEnergia S.p.A.,

Resolves

the approval of the noteholders participation in the Recovery Plan within the limits of the provisions related to the Bond, and the consequent amendments to the Terms and Conditions of the Bond as described in this explanatory report and in the updated version of the Terms and Condition of the Bond attached hereto under Annex A, in order to align and ensure consistency between them and the provisions set out the Recovery Plan, provided that such amendments may be subject to additional changes on the basis of the negotiations (which are still ongoing) connected to the Recovery Plan and to the relevant Financial Maneuver. It is understood that in case of non-effectiveness by no later than 30 September 2019 of the financial agreement to be executed for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code. In order to implement the provisions above, the noteholders' meeting resolves to grant Avv. Marzio Molinari, as common representative of the noteholders, the widest possible powers, including the power to (i) negotiate with the Company the contents of the updated version of the Terms and Condition of the Bond (due to further amendments that may be necessary in

the event of any changes to the Recovery Plan and to the linked Financial Maneuver); and (ii) execute any other formality required by law and/or deemed necessary in order to implement such resolution.

4.2 Consent required by the Company to grant a waiver for any breach of covenants which are already occurred or which may be qualified as event of defaults and / or any other event or conditions, the occurrence of which would entitle the noteholders to request an acceleration of the Bond and therefore the early redemption thereof; resolutions related and consequent thereto.

The noteholders' meeting has been called to approve the granting of a waiver for any breach of covenants which may have already occurred or which can be qualified as event of defaults and/or any other event or condition, the occurrence of which would entitle the noteholders to request an acceleration of the Bond (according to the provisions set out in the Terms and Conditions of the Bond) and the consequent obligation for the Issuer to reimburse in full the Bond.

The Board of Directors therefore submits to the convened noteholders' meeting the following draft resolution about the second item on the agenda:

"The noteholders' meeting of TerniEnergia S.p.A.,

Resolves

to grant a comprehensive waiver for any breach of conditions which may have arisen or which can be qualified as event of default and/or any other event or condition, the occurrence of which could entitle the noteholders to request an acceleration and therefore the early redemption of the Bond. It is understood that, in case non-effectiveness by no later than 30 September 2019 of the financial agreement to be stipulated for the purposes of implementing the Recovery Plan, such amendments and waivers will automatically cease to be effective without any additional resolutions, according to Article 1353 of the Italian Civil Code".

Terni Energia S.p.A.

Presidente e Amministratore Delegato