

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 5 DECEMBER 2018 IN FIRST CALL AND, IF NECESSARY, ON 14
DECEMBER 2018 IN SECOND CALL**

Milan, 5 November 2018

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 5 December 2018 at 11 (CET) in first call and in second call, if necessary, on 14 December 2018 in the same place and at the same time (the “**Meeting**”).

The notice of the Meeting has been published on 5 November 2018 on an Italian daily newspaper, *il Giornale*, 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 required by the Company to amend the current definition of "Final Maturity Date", by postponing it to 30 September 2019, in order to give the Company the opportunity to execute the recovery plan approved in accordance with Art. 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942 (the "*Recovery Plan*");**
- B. Approval required by the Company to amend the current definition of "Interest Payment Date", only with reference to the payment date of the interests accrued in 2018 that will occur on 30 September 2019 (no amendment to the definition of "*Interest Calculation Period*" will be required);**
- C. Approval required by the Company to the Recovery Plan (*Piano di Risanamento e Rilancio*) and, therefore, to the consequent amendments to the Terms and Conditions of the Notes (to be perfected in a following Noteholders' meeting) having the purpose of rescheduling the maturity date of the Notes until 31 December 2025 or, as the case may be, depending on the financial maneuver that will be adopted, until 31 December 2026. Related and consequent resolutions; e**
- D. Approval required by the Company to the appointment of a Noteholders' representative, and determination of the due fees.**

The convening of the Meeting and the need to request the bondholders' opinion in relation to the items on the agenda is of great importance due to the process of industrial turnaround which has been started 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, aiming at obtaining the recovery of the Group's indebtedness

and ensuring the rebalancing of its financial situation. The Recovery Plan includes two different alternatives of financial maneuvers, both consisting in a general rescheduling of the Group exposures including those related to the bond. The involvement of, and the approval by, the bondholders is therefore necessary for the positive outcome of aforementioned recovery transaction. Following several meetings with the Group's financial creditors, the management of TerniEnergia, assisted by KPMG as financial and industrial advisor, submitted to the Board of Directors an updated version of the Recovery Plan, which has been approved by the Board of Directors itself on 25 October 2018. The fundamental features of the Recovery Plan are summarized below.

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 the core business of the Group.

At the end of 2014, in order to overcome the negative effects of the regulatory changes which led the management of TerniEnergia to move 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 considerable margins 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 and financial creditors.

In order to obtain the recovery of the Group's indebtedness and ensure the rebalancing of its financial situation, the management entered into negotiations with its financial creditors aimed at implementing the Recovery Plan.

2. Main contents of the Recovery Plan

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 within 31 December 2019. In particular the Recovery Plan envisages: (i) the transfer of the controlling stake of the going concern related to EPC and O&M (regarding the realization and maintenance of the photovoltaic plants); (ii) the disposal of the photovoltaic plants (owned by TerniEnergia directly or indirectly through SPVs); (iii) the sale of the plants for the treatment and recycling of used tires; (iv) the sale of the liquids purification plant (*impianto di depurazione di liquidi*) at Nera Montoro; (v) the sale of the biodigester (*biodigestore*) at Nera Montoro; and (vi) the sale of the biodigester (*biodigestore*) at Calimera. Following such sale process, the Recovery Plan provides for an overall financial advantage of Euro 125 mio. (roughly Euro 48.6 mio. as equity value and roughly Euro 77.2 mio. as reductions of the Group's indebtedness due to the assumption of debt by the purchasers of the relevant assets).

The decision to link the positive outcome of the Recovery Plan mainly on the result of the disposal process of the aforementioned assets is a consequence of the strategic choice made by the management of TerniEnergia to move from the business of the realization and sale of large-size photovoltaic plants to the up-and-coming digital energy industry (as demonstrated with the acquisition of Softeco and Selesoft), aiming at an industrial turnaround of the Group. The disposals should allow the Group to consistently reduce its indebtedness existing at the date of 31 March 2018 (the "**Reference Date**") towards its creditors, with a view to ensure the rebalancing of the Group's financial situation.

In order to implement the afore mentioned industrial turnaround, the Recovery Plan provides for the merger (by way of incorporation) of Softeco, whose share capital is fully owned by TerniEnergia and is active in the digital energy sector, into TerniEnergia itself.

On the basis of the negotiations currently ongoing with the financial creditors, the management of TerniEnergia has prepared, together with *KPMG* (as industrial and financial

advisor), two different and alternative proposals of financial maneuver, both aiming at the recovery of the Group's overall indebtedness and ensuring the rebalancing of its financial situation. It is worth mentioning that the financial maneuver providing for the partial write-off of the indebtedness *vis-a-vis* the financial creditors (as better described below) has been included in the Recovery Plan upon request by some of such creditors which were willing to explore a solution envisaging the partial payment and write-off of a portion of the outstanding financial indebtedness towards the Company as opposed to the full repayment thereof pursuant to the rescheduling plan contemplated under the *Pari Passu* Maneuver (as defined below).

2.1 The *Pari Passu* Maneuver

The first and original financial maneuver which was presented to the financial creditors is based on a *pari passu* allocation of the proceeds deriving from the disposals of the aforementioned assets without requiring the financial creditors to write-off part of their claims *vis-a-vis* the Group. Pursuant to such proposal, taking into account the timing envisaged for the disposal of the assets (*i.e.* 31 December 2019), the Group's outstanding indebtedness towards financial creditors and bondholders existing at the Reference Date would be reduced from around Euro 142 mio. to around Euro 35 mio. by 31 December 2019. The outstanding indebtedness existing at such date would be reimbursed, on a *pari passu* basis amongst the different types of exposures (see for details below), in annual installments, utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full of the financial indebtedness towards the Group's financial creditors (except for the financial creditors with exposure towards Softeco) and the bondholders, which shall occur on 31 December 2026 (the "**Pari Passu Maneuver**").

In particular, the *Pari Passu* Maneuver provides the following:

- a) maintenance and confirmation (at the relevant terms and condition and within the relevant maximum amount) of the short term credit lines existing as at the Reference Date between Softeco and the relevant financial creditors ("**Short Term Credit Lines**");
- b) consolidation and moratorium of exposures relating to short term credit lines (and no longer used as such) existing as at the Reference Date between the Group and the relevant financial creditors for a total amount of Euro 14.1 mio. (the "**Consolidated Short Term Credit Lines**") until 31 December 2019. By 31 December 2019, the Consolidated Short Term Credit Lines will be reimbursed for a total amount of Euro 6.6 mio. by utilizing the proceeds deriving from the disposal of assets. The

outstanding exposures relating to the Consolidated Short Term Credit Lines as of 31 December 2019 equal to Euro 7.5 mio. will be repaid in annual installments utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full thereof, it being understood that the last installment is scheduled on 31 December 2026 and that the reimbursement will occur on a *pari passu basis* amongst the different types of exposures;

- c) moratorium of the exposures relating to long term credit lines existing as at the Reference Date between the Group and the relevant financial creditors for a total amount of Euro 57.1 mio. (the "**Medium Term Credit Lines**") until 31 December 2019. By 31 December 2019, the Medium Term Credit Lines will be reduced for a total amount of Euro 46.5 mio. partly as a consequence of the assumption ("*accollo*") of the relevant debt by third parties acquiring the assets and partly by utilizing the proceeds deriving from the disposal of assets. The outstanding exposures relating to the Medium Term Credit Lines as of 31 December 2019 equal to Euro 10.6 mio. will be repaid in annual installments utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full thereof, it being understood that the last installment is scheduled on 31 December 2026 and that the reimbursement will occur on a *pari passu basis* amongst the different types of exposures;
- d) moratorium of the exposures relating to the bond existing as at the Reference Date between TerniEnergia and the relevant bondholders for a total amount of Euro 25 mio. (the "**Bond Exposure**") until 31 December 2019. By 31 December 2019, the Bond Exposure will be reduced for an amount equal to 47% of such Bond Exposure utilizing the proceeds deriving from the disposal of assets. The outstanding indebtedness relating to the Bond Exposure as of 31 December 2019 will be repaid in annual installments utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full thereof, it being understood that the last installment is scheduled on 31 December 2026 and that the reimbursement will occur on a *pari passu basis* amongst the different types of exposures;
- e) moratorium of the exposures relating to financial leases existing as at the Reference Date between the Group companies and the relevant financial creditors for a total amount of Euro 42.5 mio. (the "**Financial Leases**") until 31 December 2019. By 31 December 2019, the exposure relating to the Financial Leases will be entirely discharged as a consequence of the assumption ("*accollo*") of the relevant debt by third parties acquiring the assets; and

- f) renegotiation of the interest rates accrued and which will accrue starting from 1 July 2018, as follows:
- a. Consolidated Short Term Credit Lines, Euribor 6 months + 150 *basis points*;
 - b. Medium Term Credit Lines in relation to TerniEnergia (limited to an amount equal to Euro 20.1 mio.), Euribor 6 months + 150 *basis points*;
 - c. Bond Exposure, Euribor 6 months + 150 *basis points*,

in being understood that the payment of the interests accrued and unpaid starting from the Reference Date until 31 December 2018 will be paid, in a single installment, on the signing date of the restructuring agreement implementing the Recovery Plan (or in any case within 31 December 2019) utilizing the proceeds deriving from the disposal of the assets.

3.2 The Write-Off Maneuver

As opposed to the Pari Passu Maneuver, the second proposal of financial maneuver (which has been included in the Recovery Plan upon some of the financial creditors' specific request) is based on a different allocation of the proceeds deriving from the disposals of the assets. Such proposal envisages the payment of a percentage equal to 68% of the Group's outstanding financial indebtedness *vis-a-vis* the financial creditors due on 31 December 2019 and the write-off of the remaining part, which would result in a financial benefit for the Group equal to Euro 7.4 mio. The write-off would not apply in relation to the Bond Exposure. The Group's outstanding indebtedness existing as at 31 December 2019 would be reimbursed, on a *pari passu basis* amongst the different types of exposures (see for details below), in annual installments, utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full of the financial indebtedness towards the Group's financial creditors (except for the financial creditors with exposure towards Softeco) and the bondholders which should occur on 31 December 2025 (the "**Write-Off Maneuver**").

The Write-Off Maneuver provides the following:

- a) maintenance and confirmation (at the relevant terms and condition and within the relevant maximum amount) of the Short Term Credit Lines;
- b) consolidation and moratorium of the Consolidated Short Term Credit Lines until 31 December 2019. By 31 December 2019, the Consolidated Short Term Credit Lines will be entirely reimbursed as result of the write-off payment of the Consolidated Short Term Credit Lines for a total amount of Euro 9.7 mio. (equal to the 68% of

those due to the financial institutions by the Group at 31 December 2019) by utilizing the proceeds deriving from the disposal of the assets. The partial redemption (*remissione parziale*) of the debt by the relevant financial institutions would imply a financial advantage in favor of the Group approximately for an amount of Euro 4.5 mio. in respect of the Consolidated Short Term Credit Lines;

- c) moratorium of the Medium Term Credit Lines until 31 December 2019. By 31 December 2019, the Medium Term Credit Lines will be reduced for a total amount of Euro 43.5 mio. partly as a consequence of the assumption ("*accollo*") of the relevant debt by third parties acquiring the assets and partly by utilizing the proceeds deriving from the disposal of assets which will be applied towards the payment of the 68% of the Medium Term Credit Lines due to the financial institutions by the Group at 31 December 2019. The partial redemption (*remissione parziale*) of the debt by the relevant financial institutions would imply a financial advantage in favor of the Group approximately for an amount of Euro 2.9 in respect of the Medium Term Credit Lines. The outstanding exposures relating to the Medium Term Credit Lines as of 31 December 2019 will be repaid in annual installments utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full thereof, it being understood that the last installment is scheduled on 31 December 2025 and that the reimbursement will occur on a *pari passu basis* amongst the different types of exposures;
- d) moratorium of the Bond Exposure until 31 December 2019. By 31 December 2019, the Bond Exposure will be reduced for an amount equal to 47% of such Bond Exposure utilizing the proceeds deriving from the disposal of assets. The outstanding indebtedness relating to the Bond Exposure as of 31 December 2019 will be repaid in annual installments utilizing the cash flows resulting from the ordinary business conducted by TerniEnergia, until repayment in full thereof, it being understood that the last installment is scheduled on 31 December 2025 and that the reimbursement will occur on a *pari passu basis* amongst the different types of exposures;
- e) moratorium of the exposures relating to financial leases existing as at the Reference Date between the Group companies and the relevant financial creditors for the Financial Leases until 31 December 2019. By 31 December 2019, the exposure relating to the Financial Leases will be entirely discharged as a consequence of the assumption ("*accollo*") of the relevant debt by third parties acquiring the assets; and
- f) renegotiation of the interest rates accrued and which will accrue starting from 1 July 2018, as follows:

- a. Consolidated Short Term Credit Lines, Euribor 6 months + 150 *basis points*;
- b. Medium Term Credit Lines in relation to TerniEnergia (limited to an amount equal to Euro 20,100,000.00), Euribor 6 months + 150 *basis points*;
- c. Bond Exposure, Euribor 6 months + 150 *basis points*,

it being understood that the payment of the interests accrued and unpaid starting from the Reference Date until 31 December 2018 will be paid, in a single installment, on the signing date of the restructuring agreement implementing the Recovery Plan (or in any case within 31 December 2019) utilizing the proceeds deriving from the disposal of the assets.

However, as mentioned above, the proposal concerning the Write-Off Maneuver is feasible only if the financial creditors owning exposures *vis-a-vis* the Group expiring on or before 31 December 2019 adhere to such proposal (only with reference to the portion of the indebtedness which will be due and payable as at 31 December 2019 (*i.e.* not the portion of indebtedness whose maturity date falls after 31 December 2019)). Should the financial creditors pretend also the payment of the exposures having a maturity date falling after 31 December 2019, the cash flows envisaged by the Recovery Plan would not be sufficient for the Group to meet such payment obligations.

The choice of implementing of the Pari Passu Maneuver or of the Write-Off Maneuver is at the exclusive discretion of the financial creditors.

3. Resolutions requested to the bondholders in the context of the convened meeting

Currently a final agreement in relation to the contents of the Recovery Plan has not been reached yet. Therefore, even if the parties are aiming at executing the agreement with the financial creditors before the final maturity date of the Bond Exposure, it would be preferable to postpone such date (currently scheduled for 6 February 2019) to 30 September 2019, in order to avoid potential issues that might arise as a consequence of the maturity of the bond while the negotiations in relation to the definition of the contents of the Recovery Plan are still pending.

In line with the foregoing and for the same reasons underlying the request for the extension of the maturity date of the Bond Exposure mentioned above, it is also necessary to require the bondholders to postpone the interest payment date (defined in the Terms and Conditions of the bond as "*Interest Payment Date*"), currently scheduled for 6 February 2019, exclusively with reference to the interests accrued and accruing (*maturandi*) during the

interest period (defined in the bond regulation as "*Interest Calculation Period*") starting from February 6, 2018 (including) and ending on February 6, 2019 (excluding), to September 30, 2019. It is understood that the above mentioned postponement of the interest payment date will have no impact on the definition of "*Interest Calculation Period*" which will therefore not be amended.

The aforementioned amendments to the Terms and Conditions of the notes are therefore to be implemented immediately after the noteholders' meeting convened for December 5, 2019 in order to avoid potential issues that might arise as a consequence of the maturity of the bond while the negotiations in relation to the definition of the contents of the Recovery Plan are still pending.

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 required by the Company to amend the current definition of "*Final Maturity Date*", by postponing it to 30 September 2019, in order to give the Company the opportunity to execute the recovery plan in accordance with Art. 67, paragraph 3, letter d), of Italian Royal Decree number 267 of 16 March 1942.

The noteholders' meeting has been called to approve the amendment of the current definition of "*Final Maturity Date*", by postponing it to 30 September 2019, in order to give the Company the opportunity to finalize the contents of the Recovery Plan and therefore sufficient time to negotiate and execute the agreement implementing the Recovery Plan so to ensure the recovery of the Group's indebtedness and grant the rebalancing of its financial situation.

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

"The noteholders' meeting of TerniEnergia S.p.A., after acknowledging the need expressed by the management of the Company to finalize the negotiations (which are still ongoing) with the financial creditors of the Group in order to define the contents of the Recovery Plan, as well as the contents of this explanatory report

Resolves

*to approve the amendment of the current definition of "*Final Maturity Date*", by postponing it to 30 September 2019".*

4.2 Approval required by the Company to amend the current definition of "Interest Payment Date", only with reference to the payment date of the interests accrued in 2018 that will occur on 30 September 2019 (no amendment to the definition of "Interest Calculation Period" will be required).

The noteholders' meeting has been called to approve the amendment of the current definition of "Interest Payment Date" by postponing the interest payment date currently scheduled for 6 February 2019, exclusively with reference to the interests accrued and accruing (*maturandi*) during the interest period (defined in the Terms And Conditions of the notes as "Interest Calculation Period") starting from February 6, 2018 (including) and ending on February 6, 2019 (excluding), to September 30, 2019. It is understood that the postponement of the interest payment date will have no impact on the definition of "Interest Calculation Period" which will therefore not be amended. The reason for such request is the same one underlying the first item on the agenda, being the necessity to give the Company the opportunity to finalize the contents of the Recovery Plan and therefore sufficient time to negotiate and execute the agreement implementing the Recovery Plan in order to ensure the recovery of the Group's indebtedness and grant the rebalancing of its financial situation.

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., after acknowledging the need expressed by the management of the Company to finalize the negotiations (which are still ongoing) with the financial creditors of the Group in order to define the contents of the Recovery Plan, as well as the contents of this explanatory report,

Resolves

to approve the amendment of the current definition of "Interest Payment Date", only with reference to the payment date of the interests accrued in 2018, by postponing it to 30 September 2019 (no amendment to the definition of "Interest Calculation Period" is required."

4.3 Approval required by the Company to the Recovery Plan and, therefore, to the consequent amendments to the Terms and Conditions of the Notes (to be perfected in a following noteholders' meeting) having the purpose of rescheduling the maturity date of the Notes until 31 December 2025 or, as the case may be, depending on the financial maneuver that will be adopted, until 31 December 2026. Related and consequent resolutions.

As stated in this explanatory report the involvement and approval by the bondholders of the Recovery Plan is necessary for the positive outcome of the transaction aiming at the rebalancing of the Group's financial situation. The noteholders are therefore requested to resolve upon the approval of the Recovery Plan, the main term and conditions of which are described under point 2 (*Main contents of the Recovery Plan*) of this explanatory report. Should the noteholders' meeting express its consent in relation to the approval of the Recovery Plan and subject to the completion and execution of the overall transaction aiming at the rebalancing of the Group's financial situation, certain amendments to the Terms and Conditions will be required in order to make such Terms and Conditions compliant with the provisions of the Recovery Plan. Such amendments will be formalized in the context of a subsequent noteholders' meeting.

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

"The noteholders' meeting of TerniEnergia S.p.A., having acknowledged that the Company is currently negotiating with the financial creditors of the Group the contents of the Recovery Plan which is aimed at obtaining the recovery of the Group's indebtedness and ensuring the rebalancing of its financial situation, as well as the contents of this explanatory report,

Resolves

the participation of the bondholders to the Recovery Plan pursuant to the main term and conditions which are described under point 2 (Main contents of the Recovery Plan) of this explanatory report, and reserves the right to approve the amendments to Terms and Conditions of the bond in order to make such Terms and Conditions compliant with the provisions of the Recovery Plan in the context of a subsequent noteholders' meeting which will be held once the Recovery Plan transaction will be finalized.

4.4 Approval required by the Company to the appointment of a noteholders' representative, and determination of the due fees

In order to facilitate the relations between the Company and the bondholders in the context of the negotiation and implementation of the Recovery Plan, as well as the flow of information between the parties, the shareholders' meeting is called to resolve upon the appointment of a representative of bondholders together with the related remuneration.

The bondholders are therefore required to submit to the meeting some candidates for the appointment as common representative of the noteholders in due time to allow the relevant

appointment by the bondholders during the Meeting. It is understood that the Company will also propose a shortlist of candidates for this purpose.

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

"The noteholders' meeting of TerniEnergia S.p.A., having acknowledged the need expressed to appoint a common representative of the bondholders,

Resolves

the appointment of Mr. [●] as the common representative of the bondholders and determines the relative remuneration in Euro [●]."

Terni Energia S.p.A.

Presidente e Amministratore Delegato