

## **TerniEnergia S.p.A.**

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

**VAT no.: 01339010553**

**Share Capital: 50,529,680.00 (fully paid-in)**

### **EXPLANATORY MEMORANDUM RELATING TO THE BONDHOLDERS' MEETING**

**of**

**“TERNIENERGIA 6.875% FE19 EUR”**

**ISIN code: IT0004991573**

**CONVENED FOR OCTOBER 10, 2014 ON FIRST CALL AND, IF NECESSARY, ON OCTOBER 11, 2014  
ON SECOND CALL**

**Terni, September 10, 2014**

This explanatory memorandum has been prepared by TerniEnergia for the purpose of the meeting of the holders (“Bondholders”) of the note convened at TerniEnergia’s office in Strada dello Stabilimento 1, fraz. di Nera Montoro, Narni (TR) – Italy, on October 10, 2014, at 11:00 a.m. (CET), on the first call, and, if necessary, on October 11, 2014 at the same time and location on the second call (the “Meeting”).

The notice of Meeting (“Notice of Meeting”) was published in 10 September 2014 on Italian newspaper, MF and in TerniEnergia’s web site [www.ternienergia.com](http://www.ternienergia.com).

#### **Background and reason for Meeting**

The scope of the Meeting is to vote upon:

#### **Agenda**

- 1. Approval required by the Company, pursuant to article 8(ii) of the Terms and Conditions of the Notes “Euro 25,000,000,00 notes due 2019” (hereinafter the “Notes”), in order to proceed with the acquisition, through a contribution in kind, of an interest equal to 100% of Free Energia S.p.A., a company active in the field of trading and energetic efficiency, by means of a capital increase of the Company reserved to Free Energia S.p.A. shareholders with the exclusion of the option right pursuant to article 2441, paragraph 4, of the civil code, as extraordinary transaction whose value exceeds the 15% limit of the outstanding corporate capital of the Company.**
- 2. (...)**

**1 - Approval required by the Company, pursuant to article 8(ii) of the Terms and Conditions of the Notes “Euro 25,000,000,00 notes due 2019” (hereinafter the “Notes”), in order to proceed with the**

**acquisition, through a contribution in kind, of an interest equal to 100% of Free Energia S.p.A., a company active in the field of trading and energetic efficiency, by means of a capital increase of the Company reserved to Free Energia S.p.A. shareholders with the exclusion of the option right pursuant to article 2441, paragraph 4, of the civil code, as extraordinary transaction whose value exceeds the 15% limit of the outstanding corporate capital of the Company.**

On September 8, 2014, the Board of Directors of TerniEnergia SpA has approved the proposal to the Extraordinary shareholders' Meeting of a capital increase, with exclusion of the option rights, reserved to the shareholders of Free Energia SpA, for the acquisition of Free Energia, pursuant to the art. 2441, paragraph 4, of the Italian Civil Code.

### **Share capital increase**

The capital increase in tranche will be subscribed through contribution in kind, with the exclusion of option rights, through the issue up to no. 6,637,168 of new no par value ordinary shares. The proposed issue price is equal to Euro 2.26 per share, of which Euro 1.26 per share by way of premium. Following the capital increase, the share capital of TerniEnergia will be, therefore, from Euro 50,529,680 to a maximum of Euro 57,166,848.

The capital increase may be paid up by the contribution of n. 3,375,152 shares, representing 100% of the share capital of Free Energia SpA, or representing a lesser percentage if it were transferred a smaller number of shares of Free Energia, on the understanding that the contribution will concern shares for at least a percentage equal to 93.52% of the share capital. Consequently, will be assigned to the subscribers at least n. 6,207,080 shares, attributable to each Free Energia shareholder in proportion to the shares the same transferred.

Following this transaction, the Shareholders of Free Energia, due to the shares of TerniEnergia they will receive in exchange for the contribution in kind, will hold a cumulated market share of about 15% of the share capital of TerniEnergia post-share capital increase.

To determine the issue price, the Board of Directors of TerniEnergia has relied on the advice of Power Capital, as financial advisor. The price proposed by the Board for each newly issued share, equal to euro 2.26, is higher than the net book value per share of the Company and also is higher than the weighted arithmetic average of the share price of the last semester.

The transaction is subject to a number of conditions precedent, including the positive pronouncement of some subjects such as banks and bondholders of the Company, the resolution by the extraordinary Shareholders Meeting of TerniEnergia of the capital increase to subscribe through the transfer of the newly issued shares, the authorization by Consob to publish a prospectus for listing of the Shares to be issued by TerniEnergia. The conditions precedent have to occur before December 31, 2014.

### **Reasons for the transfer, expected benefits and impacts on the management programs of TerniEnergia**

The reasons for the transaction can be summarized as follows:

- Downstream integration of the energy value chain of TerniEnergia with the new business of energy trading, towards electric consumer customers and consolidated re-sellers, and of smart energy services, that are growing rapidly and with considerable development opportunities. These new activities will be added to those of photovoltaic power generation, guaranteed by the assets owned by TerniEnergia, and the industrial scale energy efficiency, through the subsidiary Lucos Alternative Energies;
- Integration among the electric utility industry and the digital one;
- Entry into the promising market of the management and sale of services to vegetable oil burning power plants sector, in which Free Energia aims to achieve a national leadership.

In particular, the choice to proceed with a capital increase by contribution in kind, is dictated by the following reasons of convenience:

- No cash payment for TerniEnergia;
- implementation of financial and operational synergies to start a new growth strategy, focused on developing highly complementary business between TerniEnergia and Free Energia.

#### **Report pursuant to art. 2441, comma 6, of the Italian Civil Code**

The report of the Board of Directors prepared pursuant to art. 2441, comma 6, of the Italian Civil Code, and to the articles 70, comma 3, 3 and 125-ter of CONSOB Regulation 11971/99, together with the report of the independent expert in charge of the evaluation of Free Energia SpA share value and the opinion of the independent auditors PricewaterhouseCoopers SpA on the fairness of the issue price of the shares, will be made available to shareholders accordance with the law.

#### **Requirements of independence and professionalism of the expert responsible to evaluate the shares of Free Energia SpA subject to transfer in the share capital of TerniEnergia following the related share capital increase**

The Board of Directors of TerniEnergia conducted the assessment on the existence of the requirements of independence and adequate and proven professionalism of dr. Luigi Tardella, partner of Ambers & Co., as the person in charge of the transferring company Free Energia SpA, for the evaluation of estimation of the share transferred as part of the acquisition of Free Energia referred to the Investment Agreement signed in August 1, 2014.

The assessment by the Board of Directors concluded with the confirmation of the existence of the requirements of independence and adequate and proven professionalism of that expert, pursuant to art. 2343-ter, comma 2, letter. b) of the Italian Civil Code.

### **Calling of the Ordinary and Extraordinary Shareholders' Meeting of TerniEnergia**

The Board of Directors has determined to give mandate to the Chairman and Chief Executive Officer, Mr. Stefano Neri, to call the Extraordinary Shareholders' Meeting of TerniEnergia to decide on the the share capital increase for the acquisition of Free Energia.

### **Consolidated Pro Forma Data as at June 30, 2014**

The Pro-forma Consolidated Balance Sheet and the Pro-forma Consolidated Income Statement, as stated below, were prepared by adjusting the TerniEnergia Group's historical data, taken from the Consolidated Financial Statements as at 30 June 2014 and Free Energia Group interim reports for the period from 1 January 2014 to 30 June 2014, with the aim of simulating the main effects that the transaction (capital increase at the service of the acquisition of Free Energia S.p.A) could have on TerniEnergia's financial position and income statement.

The accounting principles adopted to prepare the Pro-forma Consolidated Financial Information and the Consolidated Financial Statements are the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and adopted by the European Union.

## Reclassified Consolidated Balance Sheet as at June 30, 2014

<i>(in Euro/000)</i>	Ternienergia Group	Free Energia Pro-forma Group	Pro-forma Adjustment		TerniEnergia Group Pro-forma Total
			Recording of the Transaction	Transaction Costs	
	(A)	(B)	(C)	(E)	
Intangible assets	4,135	2,499	8,587	-	15,221
Property, plant and equipment	155,322	32	-	-	155,354
Financial fixed assets and other intangible assets	19,147	2,746	-	-	21,893
Other financial assets	-	3,324	-	-	3,324
<b>Fixed Assets</b>	<b>178,604</b>	<b>8,601</b>	<b>8,587</b>	<b>-</b>	<b>195,792</b>
Inventories	9,821	67	-	-	9,888
Trade receivables	27,568	36,209	-	-	63,777
Other assets	16,309	4,375	-	-	20,684
Trade payables	(12,371)	(33,539)	-	(320)	(46,230)
Other liabilities	(6,526)	(5,808)	-	99	(12,235)
<b>Net working capital</b>	<b>34,801</b>	<b>1,304</b>	<b>-</b>	<b>(221)</b>	<b>35,884</b>
<b>Provisions and other non-trade liabilities</b>	<b>(10,159)</b>	<b>(278)</b>	<b>-</b>	<b>-</b>	<b>(10,437)</b>
<b>Net Invested Capital</b>	<b>203,246</b>	<b>9,627</b>	<b>8,587</b>	<b>(221)</b>	<b>221,239</b>
<b>Shareholders' Equity</b>	<b>50,406</b>	<b>6,740</b>	<b>8,587</b>	<b>(221)</b>	<b>65,512</b>
Current net financial position	11,592	1,378	-	-	12,970
Non-current net financial position	141,248	1,509	-	-	142,757
<b>Total net financial position</b>	<b>152,840</b>	<b>2,887</b>	<b>-</b>	<b>-</b>	<b>155,727</b>
<b>Net Invested Capital</b>	<b>203,246</b>	<b>9,627</b>	<b>8,587</b>	<b>(221)</b>	<b>221,239</b>

## Reclassified Consolidated Income Statement as at June 30, 2014

<i>(in Euro/000)</i>	Ternienergia Group	Free Energia Pro-forma Group	Pro-forma Adjustment		TerniEnergia Group Pro-forma
			Recording of the Transaction	Transaction Costs	
	(A)	(B)	(C)	(E)	Total
Net revenues from sales and services	21,510	88,908	-	-	110,418
Production costs	(8,502)	(85,592)	-	-	(94,094)
<b>Added value</b>	<b>13,008</b>	<b>3,316</b>	-	-	<b>16,324</b>
Personnel costs	(3,226)	(331)	-	-	(3,557)
<b>EBITDA</b>	<b>9,782</b>	<b>2,985</b>	-	-	<b>12,767</b>
Amortization, depreciation, provisions and write-downs	(3,724)	(356)	-	-	(4,080)
<b>EBIT</b>	<b>6,058</b>	<b>2,629</b>	-	-	<b>8,687</b>
Financial income and charges	(4,706)	(399)	-	-	(5,105)
Portions of results attributable to the JV	(315)	-	-	-	(315)
<b>Pre-tax result</b>	<b>1,037</b>	<b>2,230</b>	-	-	<b>3,267</b>
Income taxes	167	(922)	-	-	(755)
<b>Net profit for the period</b>	<b>1,204</b>	<b>1,308</b>	-	-	<b>2,512</b>

TerniEnergia S.p.A.

Chairman and C.E.O.

(Stefano Neri)