

algoWatt S.p.A.

Registered office in Corso Magenta, 85

Milan

Share capital Euro 12,281,320 fully paid-in.

Fiscal Code - Register of Companies of Milan Monza Brianza Lodi - VAT number 01339010553

**EXPLANATORY REPORT OF THE BOARD OF DIRECTORS
ON THE ITEMS ON THE AGENDA
OF THE MEETING OF THE BONDHOLDERS OF THE LOAN
"Algowatt Tv Eur6m+1.5 DC27 Amort Eur".**

Isin code: IT0004991573

Bondholders' Meeting

22 December 2020, 12.00 noon (first call)

29 December 2020, 12.00 noon (second call)

Milan, 20 November 2020

Report of the Board of Directors of algoWatt S.p.A. (the "Issuer" or the "Company") on the proposals concerning the matters on the agenda of the Bondholders' Meeting (the "Meeting") of the bond loan called "Algowatt Tv Eur6m+1.5 DC27 Amort Eur" ISIN code: IT0004991573 (the "Loan") convened in first call on 22 December 2020 at 12.00 noon and, if necessary, in second call on 29 December 2020 at 12.00 AM CET.

This illustrative report has been prepared by algoWatt S.p.A. ("algoWatt" or the "Company") with reference to the Bondholders' Meeting, called for 22 December 2020 at 12:00 noon (CET) on first call and, if necessary, for 29 December 2020, on second call (the "Bondholders' Meeting" or even just "Meeting").

The notice of call of the Bondholders' Meeting was published on 20 November 2020 in an Italian daily newspaper, "il Giornale", and on the algoWatt website (www.algowatt.com).

Context and reasons for the Meeting

The purpose of the Bondholders' Meeting is to put the following to the vote

agenda:

- information to bondholders and proposal by the Company: *(i)* to grant a *waiver of the* provisions of Article 6 ("Redemption, purchase and cancellation"), paragraphs 6.1 and 6.2 of the Bond Terms and Conditions; and *(ii)* temporary suspension of the provisions of Article 7 ("Events of default"), letters (a) and (g) of the Bond Terms and Conditions, with reference to the Company's failure to fulfil its obligations to pay the principal and interest due on the Bonds, as well as with reference to the Company's failure to fulfil its payment obligations under the certified plan for the recovery of the Company's debt exposure and the rebalancing of its financial situation *pursuant to* Article 67, paragraph 3, letter d) of the Bankruptcy Law drawn up by the Company in September 2019;
- conferment of powers in favour of the bondholders' representative, Mr. Marzio Molinari, for the completion with algoWatt S.p.A. of a *pactum de non petendo* that implements the resolutions referred to in the previous paragraph;
- as a result of the stipulation of the *pactum de non petendo* referred to in item 2 on the agenda, the company appointed an *advisor*, to be appointed by a trio of professionals indicated by the bondholders, to carry out an Independent Business Review (IBR), concerning the company's business plan.

The call of the Bondholders' Meeting and the need for bondholders to express their opinion on the items on the agenda is particularly important due to the launch by algoWatt S.p.A. of an industrial *turnaround* process, aimed at repositioning the Company on the market, as well as a revision of its business model, as part of an industrial and financial reorganisation process. In this context, in 2019, algoWatt drew up a certified plan for the recovery of the company's debt exposure and the rebalancing of its financial situation pursuant to Article 67, paragraph 3, letter d) of the Italian Bankruptcy Law (hereinafter the "**Recovery Plan**"); this Recovery Plan is now in need, in light of the spread of the Covid-19 health pandemic, which has had an impact both on the growth of the business, which was lower than expected, and in the process of disposal of industrial *assets*, an important update and a significant revision. The management of algoWatt S.p.A. therefore undertook activities aimed at developing a new financial Maneuver, also with the aim of restoring debt exposure and rebalancing the financial situation of the parent company Italeaf S.p.A..

Reasons underlying the current financial situation of algoWatt S.p.A.

By resolution dated 27 January 2014, algoWatt S.p.A. (formerly "TerniEnergia S.p.A.", later also "**algoWatt**") issued a bond loan originally called '*Algowatt Tv Eur6m+1.5 DC27 Amort Eur*', listed on the ExtraMOT PRO market, organised and managed by Borsa Italiana S.p.A. (the '**Bond Loan**'), with original maturity date set for 6 February 2019.

In 2019, in the context of a substantial revision of its *business* model and a process of industrial and financial reorganisation, the *management* of algoWatt drew up a certified plan for the recovery of the company's debt exposure and the rebalancing of its financial situation pursuant to Article 67, paragraph 3, letter d) of the Italian Bankruptcy Law (hereinafter the "**Recovery Plan**").

In order to align and make the terms and conditions of the Bond Loan compatible with what is reflected in the Recovery Plan and the related financial Maneuver, on 27 June 2019, the Board of Directors of algoWatt, as issuer of the Bond Loan, convened the Bondholders' Meeting on 27 June 2019, which, duly constituted on 30 July 2019, resolved (i) on the participation of the bondholders in, and approval of, the Recovery Plan; (ii) the adoption of the new version of the Bond Terms and Conditions, upon receipt of the necessary amendments in order to align and make the terms and conditions of the Bond Terms and Conditions compatible with what is reflected in the Recovery Plan and the related financial maneuver; as well as (iii) the granting of an all-inclusive *waiver* relating to circumstances that have already occurred in relation to the Bond Loan or otherwise specifically identifiable as constituting a relevant *event (event of default)* and/or any other event and/or circumstance, which could have led to an acceleration of the Bond Loan by the *bondholders* and therefore to its early repayment.

Following this resolution, the appropriate amendments were made to the Bond Terms and Conditions (hereinafter, the "**Terms and Conditions**"), which currently provides for the related repayment in accordance with the amortisation plan provided for in the Recovery Plan (hereinafter, the "**Bond Amortization Schedule**"), which also reflects the algoWatt exposure related to the Bond.

In execution of the Recovery Plan, algoWatt signed with, *inter alios*, Mediocredito Centrale S.p.A., Banca Nazionale del Lavoro S.p.A., Banco Desio e della Brianza S.p.A., UBI Banca S.p.A., Banco BPM S.p.A., De Lage Landen International B.V. - Milan Branch, Intesa Sanpaolo S.p.A., Banca Monte dei Paschi di Siena S.p.A., SACE SRV S.r.l., Sardaleasing S.p.A., UniCredit Leasing S.p.A., UniCredit S.p.A., AMCO S.p.A. (formerly SGA S.p.A.) (hereinafter the "**Lenders**") and with Loan Agency Services S.r.l., as agent, a financial agreement (hereinafter the "**Financial Agreement**"), concerning, *inter alia*, the amendment of certain terms and conditions of repayment of the financial exposure claimed by the Lenders to algoWatt (hereinafter the "**algoWatt Exposure**").

Italeaf S.p.A. participated, *inter alios*, in the stipulation of the Financial Agreement (hereinafter also referred to as "**Italeaf**"), as controlling shareholder of algoWatt, for the purpose, *inter alia*, of

- (i) take note of the changes made to the algoWatt Exposure as a result of the signing and conclusion of the Financial Agreement; and
- (ii) acknowledge and irrevocably and unconditionally confirm the guarantees set out in Annex 3.5 (*Existing Italeaf Guarantees*) of the Financial Agreement (the "**Italeaf Guarantees**") in favour of the Lenders as guarantee of the algoWatt Exposure.

In the *medium term*, Italeaf has started up with Intesa Sanpaolo S.p.A., Banca Monte dei Paschi di Siena S.p.A., MPS Leasing & Factoring S.p.A., Banco di Desio e della Brianza S.p.A. (formerly Banca Popolare di Spoleto S.p.A.), UniCredit S.p.A., AMCO (hereinafter referred to as the "**Italeaf Banks**") negotiations aimed at regulating the situation of temporary financial tension that has arisen, with particular reference to Italeaf's debt exposure to the Italeaf Banks (hereinafter also referred to as the "**Italeaf Exposure**").

In light of the spread of the Covid-19 health pandemic, which had an impact both on *business* growth, which was lower than expected, and in the process of disposing of industrial *assets*, the *management* of algoWatt and Italeaf saw the need to prepare a new business plan, aimed at updating and revising the provisions of the Recovery Plan, as well as activities aimed at restoring the debt exposure and rebalancing Italeaf's financial situation (hereinafter, the "**New Financial Maneuver**"), to this end appointing the financial *advisor* R&S Advisory S.r.l., as well as appointing Fallanca-Scicolone & Partners Law Firm, in the person of Marco Scicolone for legal assistance activities.

The existence of a significant interconnection between the resolution of the state of financial tension of algoWatt and that of Italeaf, taking into account the financial relations existing between them, including the Italeaf Guarantees, the New Financial Maneuver will concern both algoWatt and Italeaf and will entail the need to propose to the Bondholders' Meeting a further amendment to the Terms and Conditions, which, if

positively accepted by the Bondholders' Meeting, provides for participatory financial instruments convertible into shares at the implementation of the sale of algowatt by Italeaf (hereinafter the "**Proposal to Bondholders**").

As from June 2020, talks were started with the Lenders, Italeaf Banks, the *bondholders'* representative and a small delegation of *bondholders* bound by a confidentiality agreement, during which algoWatt and Italeaf *advisors* explained the guidelines of the New Financial Maneuver, developed on the basis of (a) a possible recovery plan aimed at a substantial financial discharge of algoWatt and (b) a financial plan based on the valuation and disposal of Italeaf's assets (hereinafter also referred to as "**June 2020 Plan Guidelines**").

During the month of October 2020, algoWatt and Italeaf, also through their *advisors*, took action in order to draw up a revision of the June 2020 Plan Guidelines, also by identifying, where necessary, a debt investor to support the New Financial Maneuver (hereinafter the "**New October 2020 Guidelines**").

On November 16, 2020, Italfondiario S.p.A. informed algoWatt and Italeaf, in its capacity as Servicer, of the sale of the credits claimed by Banca Monte dei Paschi di Siena S.p.A. (Italeaf's main creditor bank, granted by a pledge on algoWatt shares) and Banco di Desio towards algoWatt and Italeaf, to an investment fund specialising in *illiquid assets*, called "Efesto", managed by Finanziaria Internazionale Investments Finint SGR. These disposals are part of the process of creating an innovative structure by Italfondiario, in partnership with Finint Investments SGR, which provides for the transfer of UTP exposures by several banks to a specialized investment fund, managed by Finint SGR, allowing the deconsolidation of the assets while optimizing the restructuring and *turnaround* potential for SMEs. This is the first transaction on the market involving Corporate exposures from various business sectors, positioning doValue and Italfondiario as *first-mover* in this segment.

In relation to these disposals, doValue S.p.A. through its subsidiary Italfondiario S.p.A., focused on UTP, a financial intermediary regulated by article 106 of the Italian Consolidated Banking Act, will carry out all strategic *Servicing* activities, in order to negotiate and carry out restructuring and *turnaround* profitable for SMEs and hopefully also for algoWatt.

The new guidelines of the New Financial Action, which algoWatt intends to develop and submit to the Lenders and bondholders, will also take into account the *medium-term* changes in the ownership of the Company's debt exposures, as referred to above (the "**New Guidelines**").

Main contents of the New Financial Maneuver

The most important and prodromal element for the successful outcome of the recovery operation is the financial discharge and forward valuation of algoWatt, as a result of a financial plan of divestments of Italeaf, also taking into account the current structure of the Italeaf Guarantees.

Italeaf, in fact, intends to start the liquidation of its real estate assets by 31.12.2022 and of algoWatt's shareholding by 31 December 2025 and, in order to promote the financial discharge and better exploitation of algoWatt, it is willing to approve a capital increase of algoWatt to service the Proposal to Bondholders.

- **The Proposal to Bondholders**

The Proposal to Bondholders provides for the full conversion of its equity exposure into equity financial instruments ("SFP"), convertible into newly issued shares of algoWatt and representing a relative majority shareholding (compared to Italeaf's - post dilution) in the capital of algoWatt.

This conversion into shares is foreseen at the time of the change of control of algoWatt and in any case by 31 December 2025; in addition to the rules on conversion into ordinary shares, the SFP rules (and any Bondholders' agreement with Italeaf and any other relevant shareholders) shall provide for the holders of SFP (i) administrative rights on matters still to be agreed, including the right to appoint at least one member of the administrative body, (ii) the right to commence the process of sale of the majority of the share capital of algoWatt if not commenced by 30 June 2025, with a related right of dragging towards other shareholders and (iii) the right and obligation to sell all SFP or all shares resulting from their conversion in the event of the transfer of control of algoWatt.

The Proposal to Bondholders would also provide that:

- i. the participating financial instruments ("SFP") are convertible into a maximum number of ordinary algoWatt shares, and the number of newly issued shares allocated to holders of convertible participating financial instruments will be defined at the time of the sale of algoWatt on the basis of the valuation recognised by the buyer in such a way that the holders of SFP are entitled to a redemption at a maximum equal to the nominal value of the bond plus a compound annual rate of return of 10% from the date of subscription of the new financial package.
- ii. full payment in cash, by 31 December 2021, from the financial resources that will be generated by the Divestments (as defined below), of a substantial portion of the interest accrued between 6 February 2018 and the date of subscription of the new financial package.

- **Disposals to be completed**

The New Financial Action also foresees that algoWatt will complete - by December 31, 2021 - the divestments of those assets that are no longer strategic and that have not yet been identified in the Recovery Plan ("Divestments"):

- i. the sale of photovoltaic energy production plants (held by Società Agricola Fotosolara Cheremule Srl, Società Agricola Fotosolara Oristano Srl, Società Agricola Fotosolara Bonnanaro Srl and Soltarenti Srl);

- ii. the sale of end-of-life tyre treatment and recovery plants (located in Borgo Val di Taro and Nera Montoro);
- iii. the sale of the shares of the company Purify Srl, owner of the liquid purification plant in Nera Montoro (Purify);
- iv. the sale of the biodigester of Nera Montoro and the shares in the company GreenASM Srl;
- v. the sale of the pyrogasification plant fed by masses of Borgosesia.

As a result of these Disposals, the New Financial Operations envisages an overall financial benefit, in terms of equity value per algoWatt, of approximately € 13.4 million, in addition to the acceptance by the purchasers of the assets of the financial debt that insists on the assets being disposed of.

- **The Proposal to Lenders**

A similar request to implement a *pactum de non petendo* has been addressed to the Financiers, to whom the guidelines of the New Financial Maneuver will be submitted.

Starting from the observation:

- (i) that the expected business operational flows of algoWatt - as resulting from the new business plan drawn up by the *management* - *will* not allow to serve a significant financial debt;
- (ii) that the sale of algoWatt must take place on the assumption that a company that has recovered from an economic and financial equilibrium point of view will be enhanced;

the Proposal to the Lenders provided for by the New Financial Action may consist in a full and final settlement of overdue exposures.

In addition, the Lenders ensured by Italeaf's corporate guarantee, for the portion of the guaranteed exposure, will participate *pari passu* with Italeaf Banks in the repayment of the portion of the debt owed by them from the proceeds of Italeaf's real estate divestments and the investment in algoWatt, which, together with the subordinated Bondholders' credit deriving from Italeaf's subrogation, will be valued at the execution of the sale of algoWatt; the agreements regulating the purchase of the majority shareholding in algoWatt shall also regulate the repayment or purchase of the credit deriving from the subrogation of Italeaf for what it has paid to the guaranteed Lenders.

3. Resolutions required of bondholders on the called Bondholders' Meeting

In the aforesaid context, also in order to preserve the business and operational continuity of algoWatt and Italeaf in the period of time required for the drafting of the New Financial Maneuver, it is necessary for the Bondholders' Meeting to grant the Company *(i) a waiver to the provisions of article 6 ("Redemption, purchase and cancellation")*, paragraphs 6.1 and 6.2 of the Loan Terms and Conditions; and *(ii) temporary suspension of the provisions of Article 7 ("Events of default")*, letters (a) and (g) of the Loan Terms and Conditions, with

reference to the Company's failure to fulfil its obligations to pay the principal and interest due on the Bonds, as well as with reference to the Company's failure to fulfil its payment obligations under the certified plan to restore the Company's debt exposure and balance its financial situation *pursuant to* Article 67, paragraph 3, letter d) of the Italian Bankruptcy Law drawn up by the Company in September 2019.

This is done for a period of six months from the resolution passed by the Bondholders' Meeting, a period of time considered, at present, to be adequate to finalise the agreements on the basis of the drafting of the New Financial Maneuver (hereinafter the "**Moratorium Period**").

It is understood that, in the absence of an express amendment to the Terms and Conditions (which, where necessary, algoWatt reserves the right to submit to the resolution of the Bondholders' Meeting in due time before the expiry of the Moratorium Period), the amounts which, pursuant to Articles 6.1 and 6.2 of the Terms and Conditions, will be due by the Issuer in favour of the Bondholders as at 31 December 2020, will be payable by the Bondholders at the end of the Moratorium Period.

To this end, the Company requests that the Bondholders' Meeting grant all the necessary powers to the bondholders' representative, Mr Marzio Molinari, to finalise a *pactum de non petendo* with algoWatt S.p.A. to implement the requested moratorium.

As a result of the signing of the "*pactum de non petendo*", the Company - subject to a resolution passed by the Bondholders' Meeting - will appoint *advisors*, to be appointed by a trio of professionals indicated by the bondholders, to carry out an Independent Business Review (IBR), concerning the Company's business plan, in order to support the bondholders in the evaluation and subsequent resolution of the New Financial Action.

4. Approval of the items on the agenda

The items on the agenda are set out below together with the proposals of the Board of Directors concerning the adoption of the relevant resolutions:

1. information to bondholders and proposal by the Company: (i) to grant a *waiver of the* provisions of Article 6 ("*Redemption, purchase and cancellation*"), paragraphs 6.1 and 6.2 of the Bond Terms and Conditions; and (ii) temporary suspension of the provisions of Article 7 ("*Events of default*"), letters (a) and (g) of the Bond Terms and Conditions, with reference to the Company's failure to fulfil its obligations to pay the principal and interest due on the Bonds, as well as with reference to the Company's failure to fulfil its payment obligations under the certified plan for the recovery of the Company's debt exposure and the rebalancing of its financial situation *pursuant to* Article 67, paragraph 3, letter d) of the Bankruptcy Law drawn up by the Company in September 2019;
2. conferment of powers in favour of the bondholders' representative, Mr. Marzio Molinari, for the completion with algoWatt S.p.A. of a *pactum de non petendo* that implements the resolutions referred to in the previous paragraph;

3. as a result of the stipulation of the *pactum de non petendo* referred to in item 2 on the agenda, the company appointed an *advisor*, to be appointed by a trio of professionals indicated by the bondholders, to carry out an Independent Business Review (IBR), concerning the company's business plan.

The Bondholders' Meeting is called upon to resolve to grant a temporary waiver, for a period of six months from the date of the resolution passed by the Bondholders' Meeting, to implement and enforce the provisions of Article 6 ("*Redemption, purchase and cancellation*"), paragraphs 6.1 and 6.2 of the Loan Terms and Conditions, relating to the terms of payment and repayment of the Loan and to pass a resolution temporarily suspending the provisions of Article 7 ("*Events of default*"), letters (a) and (g) of the Loan Terms and Conditions with reference to the Company's failure to fulfil its obligations to pay the principal and interest due on the Bonds, as well as with reference to the Company's failure to fulfil its payment obligations under the certified plan for the recovery of the Company's debt exposure and the rebalancing of its financial situation *pursuant to Article 7. 67, paragraph 3, letter d) Italian Bankruptcy Law drawn up by the Company in September 2019.*

In order to implement the resolution requested above, the Bondholders' Meeting is also called upon to resolve to grant powers to the bondholders' representative, Mr Marzio Molinari, to finalise with the Issuer a *pactum de non petendo* that implements, regulates and coordinates with the provisions of the Terms and Conditions the resolutions referred to in the first item on the agenda

The Bondholders' Meeting is also called to resolve on the appointment by algoWatt of a financial *advisor*, to be appointed by a trio of professionals to be indicated by the bondholders, who will carry out and draw up an Independent Business Review (IBR) concerning the company's business plan.

The Board of Directors, therefore, submits the following proposal for resolution on the items on the agenda to the Bondholders' Meeting:

"The Bondholders' Meeting of algoWatt S.p.A., having taken note of the need expressed by the Company's management to preserve the business and operational continuity of algoWatt and Italeaf during the time required to draw up the New Financial Action,

Resolution

1. *the granting of a waiver to the provisions of Article 6 ("Redemption, purchase and cancellation"), paragraphs 6.1 and 6.2 of the Loan Terms and Conditions for the duration of six months; and (ii) the temporary suspension, for the duration of six months, of the provisions referred to in Article 7 ("Events of default"), letters (a) and (g) of the Loan Terms and Conditions, with reference to the Company's failure to fulfil its obligations to pay the principal and interest due on the Bonds, as well as with*

reference to the Company's failure to fulfil its payment obligations under the certified plan for the recovery of the Company's debt exposure and the rebalancing of its financial situation pursuant to Article 7. 67, paragraph 3, letter d) Bankruptcy Law drawn up by the Company in September 2019;

- 2. to grant the bondholders' representative, Mr. Marzio Molinari, the widest possible powers to finalise with the Issuer a pactum de non petendo that incorporates, regulates and coordinates the above resolutions with the provisions of the Loan Terms and Conditions;*
- 3. as a result of the stipulation of the pactum de non petendo referred to in item 2 on the agenda, the appointment by algoWatt of an advisor to be appointed as part of a trio of professionals who will be indicated separately by the bondholders, to carry out an Independent Business Review (IBR), concerning the company's business plan".*

algoWatt S.p.A.

The Chairman of the Board of Directors

Avv. Stefano Neri