INTRED S.p.A.

ECONOMIC AND FINANCIAL PLAN 2020 - 2025

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1. INTRODUCTION

This document has been prepared in order to describe in detail the assumptions of the overall economic and financial plan (hereinafter also the "Economic and Financial Plan" or "PEF") of the Intred Group (hereinafter "Intred"), currently prepared by the company's Management for the period 2020-2025, taking into account the recent acquisition of the entire share capital of Qcom S.p.A. and the proposed merger by incorporation of Qcom S.p.A. into Intred S.p.A. It is therefore made known that this Economic and Financial Plan has been prepared exclusively for the purpose of verifying the ability of the company resulting from the merger to meet the repayment obligations connected with the debt incurred for the acquisition of 100% of the share capital of Qcom, and it is not intended to be a programmatic business plan of the company itself. Therefore, this Economic and Financial Plan must not be used to evaluate any investments in Intred shares or understood as a programmatic business plan, and the company declines all responsibility in this regard.

On the basis of the pro-forma actual figures for 2018 and 2019, the company's Management has drawn up this PEF based on the following corporate strengths:

- consolidated, long-standing experience in drawing up economic and financial plans on the part of the administrative structure and first and foremost of the Chief Executive Officer: the historical analysis, in particular over the last decade, of the variances between budgeted and actual economic figures shows that the average variances for the period are below 5% (in recent years even below 3%, showing that the overall budgeting process is refined and improved more and more year after year) and that they are mainly positive, i.e. with actual figures better than the budgeted ones;
- a software tool, the main component of internal management control, which since the date of the stock market listing has been wholly owned by Intred and which has been developed in-house over the last 25 years: this software allows a reliable and timely analysis, both in the operating area and at head office, of the company's events, whether commercial, production-related and financial in nature, or historical and current in time;
- an iterative process for drawing up the annual budget, which represents the first year of the plan, which:
    i. starts from the forward-looking processing of both qualitative and quantitative historical data held in the company's records (e.g. high numbers of multi-year contracts growing continuously every year),

ii. is fed by estimates that can actually be achieved by the sales staff, all of whom are employees of the Company,

iii. is finally monitored and authorised by the company's Management, with "course" corrections where necessary to reflect specific contingent factors, as well as particular short- and medium/long-term commercial and production strategies of the company;

- a business model adopted by Intred's Management over the last decade which has, over time, rewarded the company compared with the competition, which currently tends to imitate Intred in the strategies to be adopted in the medium-long term.

2. ECONOMIC AND FINANCIAL PLAN AND ASSUMPTIONS

As part of the merger project described above, on the basis of the 2018 and 2019 historical financial statements of Intred S.p.A. and Qcom S.p.A., first the 2018-2019 aggregate historical financial statements and then the 2020-2025 forecast income statements, balance sheets and cash flow statements of post-merger Intred were prepared, by means of which to:

– determine the value of the cash flows generated by the company over a 6-year time horizon,
– estimate the annual and overall financial requirements/surpluses, mainly aimed, in this context, at confirming the company's ability to generate adequate cash flows to repay the loans provided for in the plan that are needed to carry out the investments, relating both to the acquisition of Qcom S.p.A. and to the company's overall technical investments (to achieve the synergies from the Qcom transaction and for subsequent development/consolidation),
– finally, assess the forecast balance sheet structure as a whole.

A) INVESTMENT PLAN

The forecast investments provided for in the PEF amount to a total of Euro 90 million over 6 years. The Company intends to continue the strategy adopted over the last decade, with significant technical investments for the management both of its own connection networks and of third-party networks used, through specific fifteen-year concession contracts for third-party networks (IRU - Indefeasible Right of Use), in its area of operational development, first in the municipalities of the province of Brescia and then in the municipalities of the neighbouring Lombard provinces of Bergamo (see the acquisition of Qcom in this light), Monza-Brianza, Milan, Como, Lecco,….

The investments include current maintenance investments in historical assets, investments in the development of connections (on average 80% allocated to own networks and 20% to third-party networks - IRU) and investments in goodwill for the acquisition of Qcom in 2020.

The average depreciation rate of the investments has been estimated on the basis of historical data.

Intangible assets include the goodwill arising from the aforementioned Qcom merger, whose initial amount of Euro 9,185K is allocated, at the time of drawing up this document, as PPA entirely to the Qcom customer portfolio and is progressively reduced by the amortisation for the year of approximately Euro 612K, corresponding to a prudent rate of 6.67% (15-year duration, although the aforementioned customer portfolio could also have longer durations). This amortisation will not be tax-deductible, as its tax realignment is not envisaged at present.

B) FINANCING PLAN

The investments described above will be carried out by means of:

- the liquidity existing at 31 December 2019: the aggregate NFP amounts to approximately Euro 8.5 million,
- the cash flows generated by core operations, which produce significant EBITDA (from Euro 12.5 to 27.9 million over the 6 years of the plan),
- recourse in 2020 to a specific loan of Euro 6 million at an average cost rate of 0.89% per year, with a term of 6 years and principal repayments of Euro 1 million per year. This loan will be in addition to the loans of the two companies Intred and Qcom that are already in place and being repaid.

C) FORECAST INCOME STATEMENTS

- The **value of production (VdP)** shown in the plan grows over the 6 years of the plan to the point of almost doubling the balance (from the current Euro 32.7 million in 2019 to Euro 65.7 million in 2025:
  - **Revenue from sales of services**: the sales revenue provided for in the plan grows from Euro 32.1M in 2019 to Euro 65.4M in 2025, broken down into the 7 core types (Broadband Connectivity, Ultra-Broadband Connectivity, RDSL Connectivity, Telephony, Mobile Telephony, Hosting and Housing, and Accessory Services) and into the various sub-types (ADSL, HDSL, Fibre FTTB/FTTC/FTTH, RDSL,….) and nature (Fees, Usage, Mixed Fee/One-off and One-off), determined by the company's Management through the budgeting procedures of the management control system, mentioned in the introduction with regard to its high reliability as found in the past. The economic figures are determined analytically on the basis of the average annual prices

and of the historical and forecast monthly volumes of the data lines of the various sub-types of services, determined on a historical basis and after a careful examination by Management of the current and future market situation: it should be recalled that this procedure involves the sales employees and management in a joint action which in the past has shown variances, always on the prudent side, between budgeted and actual figures that were absolutely not material.

- **Other revenue**: grows by 3% per year compared with the 2019 figure, except for a reduction of Euro 170K in 2022 due to the discontinuation of a specific revenue item ("capital grants").

- The **costs for the purchase of raw materials** have been determined on the basis of the 2019 figure (reduced by approximately Euro 300k for a former Qcom item reclassified as a fixed asset, for consistency with Intred's criteria), projected on the basis of the growth of the VdP in 2020: from 2021 onwards, as they are not a variable cost but little more than a fixed cost, they grow in the plan by 5% per year.

- The **costs for the use of third-party assets** are mainly connected with the costs of the Telecom services (chiefly for the last "mile" of the lines served in FTTC/ADSL mode) which, although they are costs mainly connected with the revenue lines alone (Ultra-Broadband Connectivity – Fibre FTTC/ADSL Fees and One-off), have been prudently quantified by the company's Management.

- As regards **costs for services**, the amount has been quantified on the basis of the 2019 pro-forma figure, prudently adjusted with a reduction of approximately Euro 650k for the costs normalised as a result of the Qcom due diligence; Management then divided these costs into fixed costs (approximately 10% of the total) and variable costs (approximately 90% of the total), which in the plan increase by 3% per year for the former and at the growth rate of the VdP for the latter, with two exceptions for the latter:

    - in 2021 and 2022 cost reductions due to Qcom synergies have been assumed, prudently equal to 15% in 2021 and a further 15% in 2022 of the aforementioned Telecom service costs of approximately Euro 3.8 million, included in Qcom's total service costs for 2019 of approximately Euro 5.5 million; the reductions in these costs are connected with the use of Intred's facilities, built with the investments provided for in the plan in 2020 and 2021;

- in 2023, 2024 and 2025 increases in service costs of approximately 500k/year have been prudently forecast;

- For **personnel costs**, an average increase of 7.8% over the 6 years of the plan has been forecast, to take into account the natural increase in salaries, the increase in staff and the bonuses to sales employees for achieving the sales targets assigned to them.
- **Depreciation and amortisation** have been calculated on the basis of what is described in point A).
- **Other operating expenses** have been prudently estimated to increase by 3% per year, both the provisions for bad debts and the other operating expenses in the strict sense.
- **Net financial expenses** have been estimated, for **interest income**, by applying a prudent interest income rate of 0.1% to any positive average cash position, in addition to the conservative estimate, as happened in 2019, of financial income on supplier cash discounts (estimated on the basis of the value recorded in 2019 with annual growth of 5%), and, for **interest expense**, by applying a prudent interest expense rate of 2% to any negative average cash position; these expenses include the total interest on the historical and forecast loans provided for as indicated in point B).
- **Income taxes** have been determined by applying the IRAP (3.9%) and IRES (24%) rates provided for by current legislation to the respective taxable bases, increased on a flat-rate basis for deductible expenses by 3% and 5% respectively, in addition to the specific non-deductibility of goodwill amortisation (Euro 612k per year).

D) FORECAST BALANCE SHEETS

- **Financial fixed assets:** these are determined on the basis of the balance at 31 December 2019, with growth in the plan of Euro 15k/year in the item Other securities.
- **Net tangible and intangible fixed assets:** this item shows the net value of these amounts on the basis of the forecast investments described in point A) and of the annual depreciation and amortisation recognised in the income statement. In fact, in the years of the plan the NBVs of the tangible and intangible fixed assets at 31 December 2019 are reduced by the depreciation and amortisation in the income statement and increased by the aforementioned investments, while the goodwill item recognised in 2020 for Euro 9,185k is progressively reduced by the amortisation for the year, determined at a rate of 6.67% per year.

- **Trade receivables:** these are determined on the basis of the value of production + VAT and of the average collection time [Receivables = (value of prod. + VAT) * payment terms / 365], where VAT is 22% and collection times have been assumed at around 53 days, estimated on the basis of the historical average figure.
- **Other receivables:** these are determined on the basis of the figure at 31 December 2019, increased in each plan year 2021-2025 as a result of the higher prepaid expenses connected with the budgeted increases in turnover for fees collected in advance.
- **Inventory:** the 2019 value relates to the Qcom inventory which, from 2020, consistently with Intred's practice, will be managed as material having the nature of a tangible fixed asset.
- **Trade payables:** these are determined on the basis of supply costs + VAT and of the average payment time [Suppliers = (Costs + VAT) * payment terms / 365], where VAT is 22% and payment times have been assumed at around 138 days, estimated on the basis of the historical average figure.
- **Other payables:** these are determined on the basis of the point figure estimated at 31 December 2020 31 December 2019, increased from 2021 to 2025 as a result of the higher deferred income connected with the increases in the costs of the periodic Telecom fees, budgeted to grow in line with the related revenue.
- **Provisions:** the provision for employee severance indemnities (TFR) has been prudently determined by assuming an annual use for advances/settlements and an increase for the provision of the TFR portion for the year, with net increases in the plan that are not material (approximately Euro 100-200k/year). The other provisions (for deferred taxes) show a balance in the plan unchanged from the 2019 figure of Euro 22k.
- **Medium/long-term financial payables:** these are determined on the basis of the 2019 balance of loans (Euro 2,725k), increased by the disbursement of Euro 6 million in 2020 and reduced by the principal repayments of the existing loans of Intred and Qcom: over the 6 years of the plan, these are Euro 600-400-300-200-170-142k for Intred and Euro 300-250-120-100-80-63k for Qcom respectively.
- **Shareholders' equity:** after the merger of Qcom into Intred, which reduces the 2019 balances by Euro 1,178k (Euro 660k of Qcom share capital and Euro 518k of Qcom reserves), and after the 2020 distribution of dividends of Euro 465k relating to the 2019 profit, the shareholders' equity items stand at Euro 10 million of share capital and Euro 16.194 million of reserves. In

the plan, in each subsequent year shareholders' equity changes as a result of the profits earned in the year and of the distribution of dividends.

Short-term financial position: once all the other balance sheet items have been identified, including those of a medium/long-term financial nature, the short-term net financial position emerges as the difference, given by the liquidity generated or absorbed by current operations as a result of the company's financial dynamics. Specifically, post-merger Intred's operations are cash-generating, so the short-term net financial position is positive in all the years of the plan, except in 2021 which, as a result of the significant investments forecast, shows a negative balance of Euro 893k.

E) FORECAST CASH FLOW STATEMENTS

The causes of the changes in short-term financial requirements / available funds are analysed in the cash flow statements according to the formats typically in use.

Once the **gross self-financing** (profit + depreciation, amortisation and provisions) has been identified, the cash flows absorbed or generated by operations are determined, i.e. the flows arising from the **change in net working capital** (changes in short-term receivables and payables and in inventory) and the flows arising from **investment / divestment** transactions (understood as changes in net investments).

To the **operating cash - flow** thus determined must be added the effects of financial management, such as **disbursements** and **repayments** of medium / long-term loans and **changes in shareholders' equity** (only those with a financial effect, not purely accounting ones), such as dividend payments.

F) SUMMARY OF THE P.E.F. DATA

Amounts in thousands of Euro	Actual 2018	Actual 2019	Plan 2020	Plan 2021	Plan 2022	Plan 2023	Plan 2024	Plan 2025
INCOME STATEMENT								
VALUE OF PRODUCTION	28,355	32,733	36,338	41,755	47,175	53,756	59,714	65,744
OPERATING INCOME (or EBIT)	4,487	6,252	7,510	9,818	12,037	13,465	14,624	15,676
INCOME BEFORE TAX	4,423	6,324	7,528	9,803	12,057	13,529	14,725	15,814
PROFIT (LOSS) FOR THE YEAR	3,382	4,653	5,187	6,808	8,417	9,466	10,318	11,093
BALANCE SHEET								
NON-CURRENT ASSETS	23,556	28,006	43,347	51,141	56,385	60,729	64,173	67,117
CURRENT ASSETS	20,230	20,086	11,698	10,747	12,431	18,233	25,397	33,853
CURRENT LIABILITIES	16,085	16,971	14,938	17,053	17,575	20,105	22,361	24,699
MEDIUM/LONG-TERM LIABILITIES	4,200	3,283	8,725	7,175	5,855	4,805	3,755	2,750
NET ASSETS	23,501	27,837	31,381	37,660	45,385	54,051	63,453	73,520
SHAREHOLDERS' EQUITY	23,501	27,837	31,381	37,660	45,385	54,051	63,453	73,520
NET FINANCIAL POSITION	**6,208**	**8,452**	**(4,513)**	**(6,069)**	**(3,563)**	**1,869**	**8,725**	**16,815**
CASH FLOW STATEMENT								
Gross self-financing		8,052	10,219	13,129	16,288	18,887	21,089	23,364
Cash generated (absorbed) by NWC		2,212	(1,345)	(140)	(76)	861	697	767
Operating cash flow		2,570	(11,311)	(1,012)	3,212	6,248	7,786	9,130
Total flows generated (absorbed)		1,184	(7,700)	(3,205)	1,085	4,132	5,606	6,885
Opening s/t financial position		8,827	10,012	2,312	(893)	192	4,325	9,930
Closing s/t financial position		10,012	2,312	(893)	192	4,325	9,930	16,815

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