REPORT OF THE ADMINISTRATIVE BODY OF INTRED S.P.A. AND QCOM S.P.A. ON THE MERGER PLAN FOR THE MERGER BY INCORPORATION OF QCOM S.P.A. INTO INTRED S.P.A.

(PURSUANT TO ARTICLES 2501 *BIS* AND *QUINQUIES* OF THE ITALIAN CIVIL CODE)

The Board of Directors of Intred S.p.A. ("**Intred**" or the "**Incorporating Company**") and the Sole Director of Qcom S.p.A. ("**Qcom**" or the "**Company to be Incorporated**") have drawn up, pursuant to and for the purposes of Articles 2501-*bis* and 2501-*quinquies* of the Italian Civil Code, the following report of the administrative body concerning the merger (the "**Merger**") by incorporation of Qcom into Intred (the Company to be Incorporated and the Incorporating Company, together, the "**Companies Participating in the Merger**").

This report sets out the reasons justifying the Merger transaction and contains an economic and financial plan, attached hereto as Annex A (the "**Plan**"), with an indication of the sources of the financial resources and a description of the objectives that Intred, as the company resulting from the Merger, intends to achieve.

In this regard, it should be considered that the aforementioned Plan was prepared by the Companies Participating in the Merger 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 the Shareholding, and it is not intended to be a programmatic business plan of those companies. Therefore, this Plan must not be used to evaluate any investments in the shares of the Incorporating Company or understood as a programmatic business plan, and the Incorporating Company declines all responsibility in this regard.

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1. INTRODUCTION

Given the nature of the transaction, it can be qualified as a Merger following an acquisition with borrowing (merger leveraged buy-out), governed by Article 2501-*bis* of the Italian Civil Code, introduced by the company law reform through Legislative Decree 6/2003. Article 2501-*bis* of the Italian Civil Code requires the preparation of the following documents:

- the merger plan, pursuant to and for the purposes of Articles 2501-*bis* and 2501-*ter* of the Italian Civil Code, which includes all the information required by law in the interest of the shareholders ("**Merger Plan**");

- this report of the administrative body of the Companies Participating in the Merger, pursuant to and for the purposes of Articles 2501-*bis* and 2501-*quinquies* of the Italian Civil Code, which includes the reasons justifying the transaction, the Plan with an indication of the source of the financial resources and a description of the objectives to be achieved ("**Report**");

- the report of the audit firm Brixia Revisione S.r.l., appointed by the Court of Brescia on 27 March 2020 as expert pursuant to Articles 2501-*bis* and 2501-*sexies* of the Italian Civil Code, which certifies the reasonableness of the information contained in the Merger Plan regarding the financial resources envisaged to satisfy the obligations of the company resulting from the Merger ("**Expert's Report**"); in this regard, it is expressly acknowledged that the above expert has also been asked to assess the possibility of issuing the certification provided for by Article 2503 of the Italian Civil Code, under which it would be expressly stated that the financial position of the Companies Participating in the Merger makes particular guarantees to protect creditors unnecessary. If the Expert's Report – which will be prepared and delivered after this Merger Plan – does in fact contain the certification referred to in Article 2503 of the Italian Civil Code, the 60-day period from the registration of the shareholders' resolution on the Merger required by the same provision will no longer be necessary, thereby allowing the merger deed to be executed immediately after the registration of the shareholders' resolution on the merger; and

- the report of the auditor BDO S.p.A., pursuant to Article 2501-*bis*, paragraph 5, of the Italian Civil Code, as the party responsible for the statutory audit of the accounts of the Incorporating Company.

Given that, as better specified in Paragraph 2.2 below, the share capital of Qcom is wholly owned by Intred and that the merger provides for the incorporation of the subsidiary into the parent company, no exchange ratio is envisaged and, consequently, this Report does not contain, pursuant to Article 2501-*quinquies* of the Italian Civil Code, any indication regarding the exchange ratio.

The Companies Participating in the Merger do not have other financial instruments that carry voting rights.

2. DESCRIPTION OF THE TRANSACTION, REASONS AND OBJECTIVES

2.1 Description of the activities of the companies participating in the Merger

In order to understand and assess the reasons supporting the decision on the Merger, it is necessary to briefly illustrate the current situation of the Companies Participating in the Merger.

The information on the Companies Participating in the Merger (registered office, share capital, etc.) is included in the Merger Plan.

Company to be Incorporated

Qcom was founded in 1997 as an Internet Service Provider through the will and enterprise of the Erri family. Since then this business has been significantly transformed, thanks in part to deliberate growth through acquisitions: the merger with Orobiacom S.p.A. gave rise to the current Qcom, which was then further expanded with the acquisitions, among others, of Sonic S.r.l. and Telefonika S.r.l. and with the shareholding in the share capital of Coriweb S.r.l. As at today's date, with over 23 years of experience, it offers exclusive services covering the entire spectrum of fixed telecommunications and embracing the digital world, targeting an exclusively business market based mainly in the most industrial provinces of Lombardy.

Specifically, in addition to fixed-line telephony (for which it holds a ministerial authorisation at national level), it provides broadband and ultra-broadband connectivity (FTTx, xDSL and 4G), Data Centre services (hosting, domains, mailboxes, PEC, physical and virtual servers), managed IT security services (virtual firewall and backup in the cloud) and digital services. For the latter it relies on a dedicated division capable of designing websites, e-commerce and web marketing services (online advertising campaigns, consultancy).

This portfolio of services has enabled Qcom to engage with an increasingly structured and demanding type of customer. The objective of Qcom's sales force is to be recognised as a consultant capable of fostering the development of the customer's business.

Qcom is a solid business which, as at today's date, has 75 employees based at the Treviglio (BG) office and over 4,000 active business customers. In the financial year ended 31 December 2019 its value of production exceeded Euro 11,500,000.

It is expressly acknowledged that, given that the premises constituting the current registered office of Qcom in Treviglio (BG), via Roggia Vignola 9, are the subject of a lease agreement in favour of Qcom, as tenant, and that this agreement will cease to have effect as from 31 July 2020, the Incorporating Company, as sole shareholder of Qcom, is assessing the advisability of transferring the latter's registered office from Treviglio (BG), via Roggia Vignola 9, to Brescia (BS), via Pietro Tamburini 1, where the registered office of the Incorporating Company itself is located.

Incorporating Company

Intred, founded in 1996 by Daniele Peli, current Chairman and Chief Executive Officer, is a telecommunications operator with a strong presence in Lombardy. It owns a fibre-optic network of over 3,200 kilometres (figure relating to the first quarter of 2020), 180 PoPs (Point of Presence), two Data Centres, a wireless network with 42 radio stations and a national telephone network. The company provides Business and Retail customers, the latter through the EIR brand, comprising more than 33,000 users, with broadband, ultra-broadband and wireless connectivity, fixed-line telephony, cloud services and related ancillary services.

Intred's business model is based on long-term relationships with loyal customers, which translates into a very low churn rate of around 5%. Intred's distinctive features are a technologically advanced network infrastructure managed by highly qualified staff (which generates a permanent competitive advantage and a barrier to entry for competitors), a consolidated and widespread presence in the coverage areas, a wide range of services offered to a large and varied customer base, and a turnover more than 95% of which derives from recurring revenue. Its valuable assets and a consolidated and highly scalable business model, with Euro 21,200,000 of value of production in the 2019 financial year, make Intred the ideal infrastructure technology partner, with a complete offering of high-quality, reliable and secure solutions. Intred's growth strategy envisages organic growth aimed at developing its network in Lombardy, making it more widespread in the areas where it has long had a strong presence (Brescia, Bergamo and Alto Mantovano), but above all in the neighbouring geographical areas of interest (mainly Milan, Monza, Lecco, Como and Varese), increasing sales of ultra-broadband connectivity services with FTTC (Fiber to the cabinet) and FTTH (Fiber to the home) technologies.

Partnerships with other operators help to support the expansion of the network and of commercial opportunities. In this regard, in February 2019 Intred announced that it had signed a significant agreement with Open Fiber for the use of the GPON dark fibre-optic network. This agreement follows a few months after the one signed with Telecom Italia S.p.A. (November 2018) for the acquisition of the right of use (IRU), for 15 years, of approximately 500 km of dark optical fibre. This transaction provides for the development of the Intred network in 90 municipalities in Lombardy, with significant effects in the provinces of Milan, Monza and Brianza, Lecco and Bergamo. Other significant agreements have since followed with leading companies in the sector such as Fastweb, Retelit and GTT.

The company has planned to invest at least Euro 30,000,000 in the three-year period 2019-2021 in the development of its own network. The planned investments will be financed mainly by the capital raised with the IPO, amounting to approximately Euro 10,000,000, and for the remaining part by operating cash flow.

Intred's shares were admitted, on 16 July 2018, to trading on AIM Italia, a multilateral trading facility organised and managed by Borsa Italiana S.p.A.

As at today's date, Intred's share capital consists of 15,850,500 ordinary shares and, as far as the Administrative Body of Intred is aware, also on the basis of the notifications concerning significant shareholdings, is distributed as follows:

Shareholder	Number of Shares	Percentage of share capital
DM Holding S.r.l.	10,205,387	64.39%

Shareholder	Number of Shares	Percentage of share capital
Market	3,817,817	24.09%
Value First SICAF S.p.A.	1,447,796	9.13%
Employees and directors	379,500	2.39%
TOTAL	**15,850,500**	**100%**

2.2 Description of the transaction

The acquisition of Qcom by Intred (the "**Acquisition**") is part of a broader project of growth and corporate rationalisation of the Intred group which will be concluded with the Merger transaction. The Acquisition was completed on 27 February 2020 through the endorsement of the shares representing 100% of the capital of Qcom in favour of Intred, in accordance with and in execution of the share purchase agreements signed on 8 January 2020 between Intred (as purchaser) and Mr Fabio Massimo Erri, Ms Franca Tarantino and Mr Fiorenzo Erri (as sellers) and on 16 February between Fabio Massimo Erri (who subsequently appointed Intred as third party pursuant to Article 1401 of the Italian Civil Code) and the minority shareholders of Qcom. As a result of the Acquisition, Intred became the sole shareholder of Qcom, holding its entire share capital.

The Acquisition allows Intred to achieve external growth, intended to develop its network and expand its number of customers. In fact, it makes it possible to accelerate growth and to achieve economies of scale and extremely high margins (especially in places where Intred is already operational). Indeed, Qcom has a very valuable customer base located in areas of strong interest for Intred (Bergamo, Brescia, Monza, Milan, Como, Lecco and Varese), where the network is in most cases already present and where it is therefore possible to quickly move Qcom's customers from the networks of other operators (mainly TIM) to Intred's network.

2.3 Legal and economic reasons for the Merger

The Merger achieves the objectives of the broader project of corporate rationalisation that began with the Acquisition. In the context outlined, the Merger will make it possible to simplify and streamline the corporate chain of control, with improvements in terms of both management flexibility and containment of the overall costs of the corporate structure. Through the rationalisation and reduction of the administrative and control bodies, it will in fact be possible to unify the management processes with economic and financial benefits, thereby reducing the costs connected with the current structure.

2.4 Objectives to be achieved

The Merger, and more generally the Acquisition of Qcom from which the Merger originates, achieves, among others, the following main objectives:

- the creation of a leading group in the telecommunications market in northern Italy (with a particular focus on the Lombardy area; and

- the improvement of profitability through synergies deriving from the alignment of strategies and purchasing conditions, economies of scale and the rationalisation of certain central functions.

3. EXCHANGE RATIO

As highlighted in the Merger Plan drawn up pursuant to Articles 2501-*bis*, paragraph 2, and 2501-*ter* of the Italian Civil Code, given that the share capital of Qcom is wholly held by Intred, following the Merger the entire share capital of the Company to be Incorporated will be cancelled.

Therefore, the Merger does not require the determination of any exchange ratio and does not provide for any cash adjustment.

The expert's report, drawn up in accordance with the provisions of Articles 2501-*bis*, paragraph 4, and 2501-*sexies* of the Italian Civil Code, will therefore not include an opinion on the reasonableness of the exchange ratio or of the cash adjustment. The expert will express an opinion solely on the reasonableness of the financial resources described in the Merger Plan.

4. DEBT POSITIONS OF THE COMPANIES PARTICIPATING IN THE MERGER

As anticipated in Paragraph 2.2 of this Report, the Merger follows the acquisition by Intred of the shareholdings representing 100% of the share capital of Qcom (the "**Shareholding**").

Payment of the purchase price of the Shareholding by Intred was made, in part, through the use of its own funds and, in another part, by incurring debts, for a total of Euro 10,260,800.00. In particular:

(i) as regards its own funds, these derived from the cash available to Intred itself, for an amount of Euro 7,260,880.00; and

(ii) as regards the amount obtained as debt, on 25 February 2020 Intesa Sanpaolo S.p.A. granted Intred an unsecured loan for a total amount of Euro 6,000,000.00, with a term of 6 years, of which Euro 3,000,000.00 is intended to support the purchase of the Shareholding and the remainder is intended for capex investments.

It can therefore be inferred from the structure of the transaction briefly described above that, following the Merger, the assets of Qcom will constitute a general guarantee for the repayment of the debts incurred by Intred in order to acquire the Shareholding. It is understood that, also in light of Intred's financial strength, the assets of Qcom will not constitute an exclusive guarantee for the repayment of the obligations incurred for the acquisition of the Shareholding, but such repayment will also be guaranteed by the assets and cash flows generated by Intred itself, as resulting from the completion of the Merger.

In view of the above, the Merger transaction is also subject to the rules set out in Article 2501-*bis* of the Italian Civil Code on mergers following an acquisition with borrowing.

As regards the assessments made by the Incorporating Company concerning the financial resources needed to satisfy its obligations following the Merger, it is stated that after the completion of the Merger, without prejudice to what is specified below, the Incorporating Company will repay the debt incurred for the acquisition of the Shareholding through the cash flows expected to be generated by Intred's core operating activities, as integrated following the acquisition of the Shareholding, also net of investments. These cash flows are more than sufficient over the years of the Plan. Furthermore, as at today's date no further recourse to bank debt is envisaged, nor are any extraordinary transactions envisaged to increase the liquidity of Intred, as resulting from the Merger.

5. BALANCE SHEETS - FINANCIAL STATEMENTS

Pursuant to Article 2501-*quater*, paragraph 2, of the Italian Civil Code, the Merger will take as reference the financial statements for the last financial year of the Companies Participating in the

Merger, closed no more than six months before the day of filing of this merger plan at the registered offices of the Companies Participating in the Merger, and therefore referring to 31 December 2019 (the "**2019 Financial Statements**"). The accounting statements of the Companies Participating in the Merger, pursuant to and for the purposes of Article 2501-*quater*, paragraph 2, of the Italian Civil Code, therefore consist of:

- the financial statements of Intred as at 31 December 2019 (attached to this Report as Annex B); and

- the financial statements of Qcom as at 31 December 2019 (attached to this Report as Annex C).

6. LEGAL PROFILE AND TAX ASPECTS OF THE MERGER TRANSACTION

6.1 Legal aspects

The Merger will be carried out, pursuant to Article 2501-*bis* of the Italian Civil Code, under the conditions set out in the Merger Plan and in the Plan. The Plan was prepared by the management of the Companies participating in the Merger with reference to the period between 2020 and 2025, on the basis of the data available in the 2019 Financial Statements.

In light of the above, the Merger Plan contains, in addition to the information required pursuant to Article 2501-*ter* of the Italian Civil Code, an indication of the financial resources envisaged to satisfy the obligations of Intred, as the company resulting from the Merger.

Pursuant to Article 2504-*bis*, paragraph 2, of the Italian Civil Code, the statutory effects of the Merger will arise from the date of the last of the registrations of the Merger deed with the Companies Registers in which the Incorporating Company and the Company to be Incorporated are registered (the "**Effective Date**"). The Merger deed may establish that the statutory effects of the Merger take effect from a later date.

From the Effective Date of the Merger, pursuant to Article 2504-*bis*, paragraph 1, of the Italian Civil Code, the Incorporating Company will assume all the rights and obligations of the Company to be Incorporated, continuing all its relationships, including legal proceedings, prior to the Merger.

6.2 Accounting aspects

The Plan was prepared with reference to the accounting principles and presentation criteria adopted by both the Company to be Incorporated and the Incorporating Company.

For accounting purposes, pursuant to Articles 2501-*ter*, paragraph 1, no. 6) and 2504-*bis*, paragraph 3, of the Italian Civil Code, the transactions of the Company to be Incorporated will be recognised in the financial statements of the Incorporating Company with effect from 1 January 2020.

6.3 Tax aspects

The Merger is a tax-neutral transaction pursuant to Article 172, paragraphs 1 and 2, of the T.U.I.R.

In fact, the Merger does not constitute a realisation or distribution of the capital gains and losses on the assets of the merged or incorporated Companies, including those relating to inventories and goodwill.

Since the date from which the accounting effects of the transaction are recognised is 1 January 2020, the tax effects of the Merger will take effect from the same date.

7. ECONOMIC AND FINANCIAL PLAN

The Plan was prepared for the sole purpose of indicating the sources of the financial resources intended to demonstrate the ability of the Incorporating Company, as the company resulting from the Merger, to satisfy its obligations strictly related to the repayment of the debt incurred to complete the Acquisition. In this regard, it seems appropriate to point out here that the underlying rationale of the Plan is extremely conservative compared with the actual economic and financial forecasts of Intred, as resulting following the Merger. Therefore, this Plan must not be used to evaluate any investments in the shares of the Incorporating Company or understood as a programmatic business plan, and the Incorporating Company declines all responsibility in this regard.

In particular, the Plan was prepared with reference to the period 2020 – 2025, on the basis of information referable to 31 December 2019, also taking into account the historical trends of that information. In particular:

- the management of the Companies participating in the Merger was consulted in order to obtain as clear a view as possible of future developments;

- the Board of Statutory Auditors of the Incorporating Company was consulted to gather information on the performance of that company;

- the 2019 Financial Statements were used as a starting point;

- the Plan takes into account the completion of the Merger;

- the Plan does not take into account the growth that could be achieved through potential extraordinary transactions (*e.g.*, M&A transactions, acquisitions of business units);

- the economic and financial forecasts drawn up and reflected in the Plan were also defined on the basis of hypothetical assumptions concerning future events and activities, partly beyond the control of the management of the Companies participating in the Merger, which will not necessarily occur and which, therefore, are characterised by a certain degree of subjectivity and uncertainty. This category of assumptions includes, purely by way of example and without limitation, the evolution of capital market conditions, the trend in interest and exchange rates, and the completion of the Merger within the established timeframe;

- for the purposes of preparing the Plan, a cash flow projection period was considered that is adequate to cover the entire term of the financial debts incurred for the Acquisition, so as to show the trend of the financial debt from its inception until its maturity and the related payments;

- the sole purpose of the Plan is to indicate the sources of the financial resources intended to demonstrate the ability of the Incorporating Company, as the company resulting from the Merger, to satisfy its obligations strictly related to the repayment of the debt incurred to complete the Acquisition, and it is not to be considered a programmatic business plan of the Incorporating Company itself.

It should also be noted that, owing to the uncertainty connected with the occurrence of any future event, both as regards whether the event will occur and as regards the extent and timing of its occurrence, the differences between actual values and the values forecast in the Plan could be significant.

7.1 Economic assumptions for the development of the forecast data

For the purposes of forecasting the income and financial components that will make up the Plan, Intred's management has as its objectives the development of the following operating strategies: (i) efficiency improvements and reduction of redundant costs; (ii) gradual and complete transfer of customers from Qcom to the Intred infrastructure to increase margins; and (iii) development of the business of Intred, as resulting from the Merger, using Qcom's sales network in Lombardy and exploiting the widespread reach of Intred's fibre-optic network.

As regards the details of the forecast assessments of Intred, as resulting from the Merger, underlying the Plan, the most significant are listed below:

- Turnover: constant growth in cumulative turnover has been forecast, prudently estimated within a decreasing range of between 15% and 10% of the last financial year of the Plan.

- Net working capital: a DSO of 53 days and a DPO of approximately 138 days have been assumed to remain constant over the financial years of the Plan.

- NFP: the net financial position (*NFP*) is affected by the planned investments but returns to positive in the last 3 years of the Plan as a result of the ever-increasing cash generation following the full effect of the synergies deriving from the Merger.

- Financial payables: regular repayment of the financial debt incurred for the Acquisition is envisaged in accordance with the respective amortisation schedules, and the possibility of resorting to further bank debt is not considered except for invoice advances and/or subject-to-collection advances (with limited debit amounts in 2021 and 2022 (equal to Euro 1,204,000 and Euro 175,000 respectively).

8. CONCLUSIONS

Although a merger following an acquisition with borrowing entails, in itself, an increase in the financial risk factor for the company resulting from the Merger, in the case in question it has been verified that, as represented by the assessments contained in the Plan, there does not appear to be any risk that the debt will be unsustainable.

From the analysis of the contractual commitments undertaken, the ability of the company resulting from the Merger to meet both its repayment obligations and all the operating debts typical of its current operations is reasonably foreseeable, it being understood that, although the Plan is based on reasonable estimates of future events, the planning of revenues and margins is by its nature liable to change, even significantly, compared with the forecast data, some of which, by their nature, are not directly controllable by the company resulting from the Merger.

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The following annexes form an integral and substantial part of this Report.

Annex A Economic and Financial Plan

Annex B Financial Statements of Intred as at 31 December 2019

Annex C Financial Statements of Qcom as at 31 December 2019

Brescia, 5 June 2020

For **Intred S.p.A.**

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Name: Daniele Peli
Title: Chairman of the Board of Directors

For **Qcom S.p.A.**

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Name: Daniele Peli
Title: Sole Director

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