About preferential shares

Preferred shares are hybrid instruments that combine the benefits of bonds with shares. They work for holders similar to a bond that provides a "guaranteed" return, because the issuer undertakes to distribute amounts of priority net profit over any other allocation of profits.

We propose to the shareholders the amendment of the constitutive act, in the sense of allowing the company to issue such shares, and the approval of a first public offer of this type on the Bucharest Stock Exchange. What we propose is to make an issuance of preferential shares to attract from the market an amount of approximately 20 million lei, **WITHOUT DILUTING THE VOTING RIGHT OF THE NON-PARTICIPATING SHAREHOLDERS.**

The way in which the profit allocations are calculated gives to the potential investors in preferential shares the security of the existence of the necessary amounts to cover the distributions. Specifically, the total amount of payment as dividends to the holders of preferred shares is thought that, at the minimum dividend distribution threshold, it can be covered for the next 5 years only from the profit of 2021, without considering any future profit, reduction of interest expenses, the bonds repayment, or other reserves already existing on 31.12.2021.

Extract from the articles of association:

7.5.1. The company may issue "Preferential Shares" (with priority dividend and without voting rights) under the conditions provided by Law 31/1990 and in accordance with the following terms:

1. *The Preferred Shares will have a nominal value equal to that of the ordinary shares, respectively 0.1 lei (10 bani);*
2. *The Preferred Shares will never represent more than 25% of the share capital.*
3. *The Preferred Shares entitle their holders to a priority dividend calculated as follows:*
    a. *The minimum limit of the priority dividend is 0.05 lei (5 bani) per preferred share.*
    b. *The maximum limit of the priority dividend is 0.1 lei (10 bani) per preferred share.*
    c. *The allocation of the priority dividend from the consolidated net profit of the previous fiscal year is calculated as a multiple of 1.75 applied to the percentage represented by the preferential shares in the total share capital.*

7.5.2. The Preferred Shares are equal to each other, which gives their holders the right to the same Priority Dividend per share and the same rights.

The procedure is meant to generate benefits for all the actors involved - one of the principles on which we built the Bittnet story.

Benefits

For investors in preferred shares (other than current bondholders)

Investors in Bittnet preferred shares will benefit both from the payment of annual sums and from the possibility of increasing the underlying asset (increase in the price of the preferred shares) - which is not characteristic of bonds.

The wording proposed in the articles of association will oblige a dividend allocation between 5 bani and 10 bani per share, depending on the company's profit. The minimum limit of 5 bani per share protects investors in these instruments, guaranteeing the minimum return. Taking into account the current vision of the management regarding the issue price, it would be about a yield of approximately 8%. The annual dividend payment amount would be approximately 1.8 million lei, which means that the profit of 2021 can support the payment of this dividend for over 5 years.

If we return all or part of the company's bonds, the amounts that are currently paid as interest will become available for the payment of priority dividends to holders of preferred shares. In other words, it is already accepted by the market that these amounts will exist, since the bonds are traded at prices around 100%.

In order to protect investors in a first issue of preferred shares against the dilution of their rights in the event of new issues of preferred shares, we formulated the rate of profit allocation to priority dividends taking into account the proportion of preferred shares in the company's total shares.

Thus, if the preferred shares represent 10% of the total shares, they will be allocated 17.5% of the net distributable profit. On the other hand, if there is a new issue, and the total of the preferred shares would reach 20% of the share capital, they will be allocated a total of 35% of the distributable profit - so that doubling the preferred shares does not result in halving the dividend received by investors.

In addition to the interest received in the form of bonds on bonds, the taxation of dividends is favorable to investors in preferential shares (half of the taxation of interest) - generating that, of the same amount paid by the company, a higher proportion to actually reach the investors' pockets.

For Bittnet bondholders

In the case of Bittnet bondholders who wish to participate in this issue of preferred shares - 'replacement of bonds with preferred shares' may generate a positive effect. From the same amount paid by the company, investors keep a higher net amount, due to the different taxation of dividends compared to interest.

In terms of the risk assumed, this is similar to bonds - the risk that the issuer will not record enough operating profit to pay the amounts due (as interest or as priority dividends).

Conversely, in the case of preferred shares, due to the proposed percentage allocation, the distribution per share may double - which should (under normal market conditions) lead to a doubling of the price of preferred shares (to maintain the initial market return) .

For current shareholders (for the company)

From the point of view of the Bittnet shareholders, therefore of the company, we identify the following advantages: on the one hand, the financial condition of the company will be a stronger one - the increase of the own capitals by over 20 million lei.

On the other hand, like the bonds, the preferential shares do not give voting rights to their holders, so the capital increase will be done **without diluting the voting position of the existing shareholders** . On the contrary, they will have the option to be among the first investors in the preferred shares.

In the years prior to the listing, but also in 2015-2018 inclusive, the amounts paid by the company as interest were insignificant compared to the financial statements, the gross (and net) profit being quite close to the operational profit. Starting with 2019 (together with the major transaction with Crescendo) we informed the shareholders that, during the lifetime of the current bonds, it will be important to analyze the operational profit in order to better understand the evolution of the company.

If we briefly analyze the interest expenses in relation to the net profit, and we adjust the financial results only in this sense, they would have looked like this:

* figures in RON thousand	2021	2020	2019	2018	2017
Net income	14478	1025	-2630	4407	1205
iNTEREST	-3020	-3356	-3177	-1317	-884
Profit Adjusted	17478	4381	547	5724	2089