LION CAPITAL

ACTIVITY PLAN AND BUDGET FOR 2023

(approved by the Ordinary General Meeting of Shareholders of April 27, 2023)

Economic environment

The year 2023 will be a difficult year for the global economy and for Romania, as there are risks with effects at the level of the economy and in the financial sector generated by the overlapping ongoing crises and the war in Ukraine. The evolution of inflation will also represent a challenge for central banks.

Since autumn 2022, the EU economy has undergone some positive developments. Labour markets continued to perform strongly, with the EU unemployment rate remaining at an all-time low of 6.1% in December 2022. Economic growth for 2022 is estimated by the European Commission at 3.5% in both the EU, as well as in the Eurozone. It is estimated that GDP will increase by 0.8% in 2023 and by 1.6% in 2024, respectively 0.9%, and 1.5% in the Eurozone. The institution's forecasts predict that headline inflation will decrease from 9.2% in 2022 to 6.4% in 2023, and 2.8% in 2024 in the EU. In the Eurozone, it is expected to decelerate from 8.4% in 2022 to 5.6% in 2023 and to 2.5% in 2024.

As for Romania, the economic growth forecasts for 2023 and 2024 are divergent, considering the very complex and unpredictable geostrategic context. As a result, financial institutions have published forecasts with significant differences concerning Romania's GDP growth scenarios for 2023 and 2024. The IMF estimates +3.1% for 2023, the World Bank +2.6% for 2023 and +4.2% for 2024. The European Commission expects a more moderate economic growth of +2.5% in 2023, and an acceleration to +3.0% for 2024.

In the current international situation, in order to continue the economic growth, policies aimed at reducing the inflation rate and implementing the reforms from the National Recovery and Resilience Plan (PNRR) are needed, attracting European funds is essential, and the absorption of these funds would ensure the financial sustainability of our country.

Vulnerabilities of the financial system

The European Systemic Risk Board (ESRB) issued a warning in September 2022 regarding the current vulnerabilities of the financial system and the increase in systemic risks to financial stability based on the deterioration of the macroeconomic outlook. To prevent the materialization of severe risks, ESRB has issued a series of recommendations to the supervisory authorities at the Union and national level regarding the measures by which they, together with representative of the banking and non-banking financial sector, can contribute to the resilience of the financial sector of the Union.

The National Bank of Romania ascertained, following the assessment carried out in December 2022, four major risks for 2023: (i) geopolitical risk combined with energy and inflationary risk, (ii) the risk represented by internal imbalances, especially twin deficits and (iii) the risk related to the authorities' ability to attract European resources and from PNRR (iv) the level of financial confidence, existing tensions in the labour market and the transition required to fight or mitigate climate change.

Also, the National Bank of Romania required the nine systemic risk banks to increase their capital reserves and be cautious with dividend distribution. The Boards of Directors of the local banks in the Fund’s portfolio requested their shareholders to support a prudent approach and not to distribute dividends in 2023.

After the shock wave started in the United States of America by the bankruptcy of Silicon Valley Bank (SVB) and the rescue of three other banks by the FED by injecting liquidity into the economy, there was concern in Europe on the bailout of Credit Suisse, saved at the last moment by Swiss rival UBS, with which regulators have asked it to conclude an agreement.

The main cause of this crisis in the banking system is the rapid increase in benchmark interest rates by central banks around the world in response to rising inflation. The rise in interest has created a decrease in the value of fixed income assets - bonds and loans - on bank balance sheets.

Following these turbulences, most of the banking sector experienced severe stock market corrections, with a real risk of contagion.

Lion Capital's objectives for the year 2023

Lion Capital's investment strategy on long term aims at maximizing the performance of the portfolio to increase the value of the assets under management and the investment income.

The fund aims to effectively manage a diversified portfolio of high-quality assets, able to provide a steady flow of revenues, the preservation and growth of capital on the medium to long term, to increase shareholder value and attaining high return for the capital invested.

Strategic allocations by asset classes and within each class are based on assessments of the individual attractiveness of investment opportunities under the conditions of the existing market environment and analysis of prospects for each investment.

Lion Capital SA has under management a diversified portfolio, consisting of the following main categories of financial instruments: shares, bonds, and fund units. We apply an exit strategy tailored to the specificity of each investment, defined based on the investment objectives, the exit transaction (trigger) conditions.

The differentiated approach for each of its interest aims at seizing an aggregate return, generated by dividend income and capital gain.

Given the changing perception of the nature of inflation, from transient to persistent, we consider maintaining exposure to companies and/or financial instruments that benefit of such an environment.

Main lines of action in 2023

- *Calibration of the portfolio on financial assets / instruments that benefit from an inflationary context*

Lion Capital examines calibrating the portfolio to have exposure to companies that benefit from an inflationary environment. Are also considered opportunities that may arise in this extremely volatile period.

The rising cost of capital and ongoing stock market corrections can also provide excellent investment opportunities at very favourable prices. The need for liquidity of other market participants burdened by high interest rates may force over-indebted investors to sell assets or businesses well below fair value.

The *real estate* sector also presents attractiveness for us, seen both as a diversification instrument and one for the conservation/growth for the capital exposed to this sector. Although the real estate market has not adjusted, number of transactions on the residential segment has significantly decreased, and this trend is likely to continue on the short/medium term. But non-residential real estate investments can provide an alternative to medium-term value conservation and a high long-term return with a reasonable degree of risk, especially great cities in country where demand will rise, and rents can generate a real positive return, not being impacted by inflation as long as the price for most sale-purchase and rental contracts is set in euros and are protected from inflation.

• *Continuing portfolio restructuring by reducing minority interests that do not fit the Company's investment strategy*

The Fund will continue the attempts of disinvestment in non-performing companies or in those that do not meet the investment strategy, to increase the value of the portfolio under management. Shareholdings with exhausted growth potential or those that have reached the estimated target price are also considered as exit objectives.

The exit from these companies will create sources for reinvestment in assets with higher returns, maintaining the chosen risk profile of the portfolio and ensuring long-term sustainable profitability of SIF Banat-Crișana's activity, to increase shareholders value.

The year 2023 the portfolio restructuring will continue, related to the new market trends, necessary to ensure a sustainable long-term profitability.

• *Consolidation of strategic interest portfolio*

Through the policy of active engagement in the management of majority holdings, the Fund aims to develop the businesses and performances of these companies and support for a smooth transition through the current economic shock. Through Lion Capital representatives on company boards, professional management teams are promoted and supported, and competitive performance criteria are negotiated.

These holdings are the subject of continuous and rigorous analysis and monitoring by the company's analysts, with financial results, prospects, opportunities, and potential risks being tracked, in order to support the implementation of measures to improve the efficiency of their activities, as well as the introduction of good corporate governance practices and modern management techniques.

A permanent monitoring is granted equally to the companies in which the Fund has a minority stake, the activity, financial results, decisions, and strategies of the majority shareholders being constantly monitored, to have as wide and complete a picture as possible of the perspectives, benefits or potential implications affecting the minority shareholders and the defence of their rights, if applicable, in compliance with legal and statutory provisions.

• *Maintaining a diversified portfolio of assets under management*

The diversification of the portfolio both by asset class and within them pursues balanced alternatives that ensure a constant balance between risk and expected return, under regulated prudence conditions.

The aim is to maintain a diversified portfolio, by respecting the long-term investment objectives and policy declared by Lion Capital as AIFRI. Investments in financial instruments with a lower exposure in the current structure, in addition to stocks, may be fixed income financial instruments, fund units or other instruments allowed by the applicable regulations.

The management and development of the portfolio will be carried out in such a way as to adapt to the overall risk profile of the Fund and under the conditions of a rigorous risk management.

The Board of Directors intends that during 2023, in the process of managing the portfolio of financial instruments, not to substantially use the leverage effect, to fit the average risk profile assumed.

• *Implementing SFRD*

According to EU Regulation 2019/2088 on sustainability information in the financial services sector (Sustainable Finance Disclosure Regulation or SFDR), financial market participants are required to publish information on the integration of ESG risks and opportunities in their investment decisions.

Awareness and application of ESG (environmental, social, governance) criteria in investment and business become essential in the context of risks caused by climate change, adopting, and implementing ESG criteria in investment and business can help minimize these risks and improve long-term performance.

The Fund's strategy on the integration of sustainability risk in the investment decision-making process focuses on the objectives of sustainable development, the financial instruments of the issuers for which there is exposure, or the investment is intended being subject to the sustainability testing process based on ESG criteria.

By investing in companies that perform well also in terms of ESG, the Fund will be able to benefit from long-term competitive advantages, reduced risks of decline and strengthened reputation. Good corporate governance enables higher profits, lower expenses, and more innovation. It also reduces volatility by reducing financial risks and lowering funding costs. Companies that adhere to the principles of sustainable development and social and environmental standards will be able to provide high-quality products and services, which in turn will increase customer loyalty and employee motivation.

The Fund will review and revise as appropriate its internal policies on integrating sustainability risks into its investment decision-making process.

At the same time, the evaluation of the stock portfolio on ESG criteria will continue, depending on the available ESG scores and non-financial reports of the issuers.

It will also continue the qualitative assessment of the sustainability risk at the organizational level, based on the analysis of the impact of the asset management activity on the environment, and the improvement of measures for the management of social aspects, diversity, and sustainable governance.

Through its actions Lion Capital will promote professionalism, excellence, innovation, responsibility, team spirit, diversity, commitment. In applying the social responsibility policies, Lion Capital makes every effort to ensure continuous respect for fundamental human rights, encouraging and continuously developing good practices in this field.

Good corporate governance and transparency in the relationship with investors, the public, the media, and the economic environment are constant endeavours of Lion Capital's management. We are convinced that, through an improved activity and sustainable financial performances in the medium and long term, we gain both the trust of shareholders and investors in the undertakings of the Fund’s management, as well as the attractiveness of Lion Capital on the capital market.

• *Strengthening the risk management system*

The warnings issued by ESRB and BNR have drawn attention to some risks that have started to materialize. In the conditions of an economic climate marked by the increase in systemic risks to financial stability based on the deterioration of macroeconomic perspectives and the high vulnerabilities within the financial system, in accordance with the prudential recommendations issued by the authorities in the field of financial sector supervision, the Board of Directors will pay increased attention in 2023 to monitoring the evolution of risks to which the Fund is exposed, by promoting prudent behaviour and applying preventive measures aimed at mitigating or managing specific risks.

Through the adequacy of the dividend distribution policy, as a measure to mitigate the liquidity risk, it is guaranteed the consolidation of the financial position and the increase in the weight of assets with a high degree of liquidity and compliance with the investment strategy and policy assumed by the Documents of the Fund and the risk profile, increasing at the same time, the ability to react to investment opportunities that may appear during 2023.

Income and Expenses Budget for the year 2023

To substantiate the Income and Expenses Budget for the year 2022, the following hypotheses were considered:

- *achieving the revenues, expenses and net result as of December 31, 2022*;
- *inflation rate BNR forecasted for 2022 (Q4) of 7%*, with a range of uncertainty of ±2%;
- *average interest rate estimated* for bank deposits and corporate bonds denominated in RON and EURO;
- *estimated gross income from dividends* to be collected from companies in the portfolio;
- *volume of interest income,* determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2023 and the level of interest rate projected for 2023 for each category of monetary investments (bank deposits, corporate bonds, loan granted);
- *influences of MTM of assets at fair value through profit and loss* were not estimated;
- *expenses on salaries, allowances, contributions related, and similar charges proposed*, estimated based on the wage bill for January 2023, possible indexation during the year, a reward fund for employees, a reward fund for achieving the objectives/profit;
- *financial investments* depending on opportunities and market changes;
- *repurchase of shares,* generating cash outflow;
- *endowments* - mainly representing computers, office equipment and software licenses etc.

BUDGET PROPOSAL FOR THE YEAR 2023

No.	Specifications	Proposals 2023 (RON)
I	**Income**	
	Dividend income	90,850,000
	Interest income	8,000,000
II	**Gain / (Loss) on investments**	
	Gain/(Loss) from valuation of financial instruments	-
III	**Expenses**	
	Commissions expenses	5,600,000
	Other operating expenses	28,055,000
IV	**Profit before tax**	**65,195,000**
V	Tax on gross due dividend	4,071,000
VI	**Net profit for the year**	**61,124,000**

Income estimated to be achieved in 2023 include:

- **Dividend income** that represent the gross amount estimated to be collected in 2023, from portfolio companies, for the financial year 2022, as per the most probable variants of profit distribution at the date of preparing the budget draft. Dividend income estimation was based on the information released by listed companies in the portfolio on the profit allocation and assessments based on the preliminary results and the dividend policy of non-listed companies. A decrease in the volume of this income is expected as compared to the previous year, given the lower volume of dividends distributed by the banks, taking into account the prudential recommendations of BNR
- **Interest income** is related to monetary investments (bank deposits, corporate bonds and loan granted) denominated in RON and EUR, estimated on the average volume of placements estimated to be invested in 2023 in this type of assets. This item also included the interest component related to a sale of shares agreement.

Estimated gain / (loss) on investments - no amounts were estimated for this item for 2023.

Total expenses estimated for 2023 include:

- **Commission expenses** include commissions payable to ASF on market net asset, Depozitarul Central for keeping the records of shareholders, depository bank, to Bucharest Stock Exchange, and financial investment services companies (brokerage firms).
- **Other operating expenses** include:
  - **Expenses with personnel, administrators, and executives**, representing salaries, allowances, awards, social contributions, etc. Here were included the expenses with two ongoing stock option plan programs, by which shares will be granted to directors.
  - **Additional expenses** comprising costs of services, travel, maintenance costs, utilities, supplies, depreciation, etc.
  - **Other expenses** mainly include expenses for organizing the general meetings of shareholders, investor relations activities, promotional activities and publication of materials, expenses of protocol.

Gross profit estimated for the year 2023 is in the amount of RON 65.2 million.

Tax on due gross dividend (to be collected) - is estimated in the amount of RON 4.1 million and includes tax on income form gross dividends estimated to be achieved in 2023, budgeted.

The net result proposed to be achieved in 2023 is in the amount of RON 61.1 million.

NOTE: The Income and Expenses Budget was prepared based on the management's best estimates given the information available at the time of preparation, weighted with a prudent approach of the main risks affecting the outlook for 2023.

Given the current uncertainties regarding the regional geopolitical situation, and the global economic conditions and their social and economic impact on Romania, it is not possible to make reliable predictions on the potential variations in the financial performance of the Fund for the upcoming financial year of 2023.

The assumptions and estimates incorporated into the budget proposal presented for approval at the OGM will be subject to ongoing re-evaluation and we remain committed to submit to the shareholders a revised budget proposal, as soon as the socio-economic environment stabilizes, and investment prospects become clearer.

Bogdan-Alexandru DRĂGOI
Chairman of the Board of Directors