

ACTIVITY PLAN AND BUDGET FOR 2018

Economic environment

Romania's steep economic growth during the recent years is a favorable factor for SIF Banat-Crișana. Stock quotes have been pushed to multi-yearly highs due to an easy investment climate where interest rates have been low and European economies have gone through a stabilization period following fiscal relaxation measures.

Nevertheless, Romania's economy is yet in transition to a market economy and the macroeconomic environment is still unstable. Therefore, the domestic capital market comprises higher risks than the developed markets, including predominantly political and legislative risks. Political, economic, social, or other events in Romania or other markets can significantly impact the market value and liquidity of financial instruments. Considering that the Company's activities depend to a large extent on the development of the Romanian economy, such transformations may have a major negative impact on the financial conditions or the results obtained.

Domestic economic growth prospects are correlated with those of the EU, as there are both common outlets and a free labor market among EU countries. The latest forecasts of the European Commission indicate a slowdown in GDP growth for Romania of 4.5% for 2018 and respectively 4% for 2019. In the EU, economic expansion has yet a similar trend, starting from 2.3% in 2017, 2.3% - 2018 and respectively 2% in 2019, based on the EC forecasts.

We appreciate that the main risks that could imperil the economic activity in Romania are related to persistent uncertainties on the local political scene. The frequent changes of high public officials are detrimental to the regulatory framework and the implementation of the governance program. The government uncertainties and measures have evidently materialized the rise of financing costs, steep inflation as a result of wage increases and the ceasing of public sector investment, to fall within budget deficits.

In February 2018, INS reported an inflation rate of 4.7%. The National Bank of Romania (NBR) prepared inflation scenarios for the end of 2018, of 3.5%, and 2.8% for 2019.

The sharp upsurge comes at the back of the rapid succession of shocks in the price of electricity on the competitive market, fuel prices and agri-food prices. At the same time, the rapid widening of aggregate demand surplus in the economy has created an environment favourable to the transmission of these pressures in consumer prices.

Developing countries, such as Romania, need to adjust their legislative process, so as to ensure a stable regulatory framework. However, we are still witnessing the rapid implementation of the new legislation, sometimes before adopting implementing regulations.

Possible future changes of legislation specific to the Company's scope of business may have a consistent impact, both positive and negative, requiring a prudent approach. For financial investment companies (SIFs), new legislative changes are being prepared, the Financial Supervisory Authority preparing the draft law on Alternative Investment Funds (FIA).

Moody's downgraded in April 2017 the outlook for Romanian government bonds from positive to stable, "BBB minus" rating, due to budget and public debt deterioration.

During the year 2017 all three rating agencies, S&P, Fitch and Moody's, warned about the increase in vulnerability and economic imbalances, and last but not least the difficulty of meeting the budget deficit limits.

The stable outlook reflects the rating agencies' estimate that the risks to Romania's rating are currently balanced. The main risk factors that could lead to negative rating actions are: significantly higher fiscal deficits and worsening government debt dynamics, as well as a deterioration in external debt dynamics.

SIF Banat-Crişana's objectives for the year 2018

- Improving portfolio quality as basis for increasing its value and revenue generating capacity;
- Active involvement in majority-owned companies to improve their performance;
- Streamline of the existing portfolio with an aim to reduce exposure in companies where SIF Banat-Crişana holds minority-stakes;
- Diversifying the portfolio of financial instruments;
- Promote transparency and improve corporate governance;

Lines of action in 2018

Company's objective is to efficiently manage a diversified portfolio of high-quality assets, apt of providing a steady revenue flow, preservation and medium to long-term capital growth, in order to increase the value for shareholders and attain higher returns on the capital invested.

Strategic allocations by asset classes and within each class are based on assessments of the attractiveness of individual investment opportunities under the macroeconomic and market environment existing at the time.

The investments aim at maximizing the performance of the company portfolio, under the regulated prudence conditions, under adequate risk monitoring and control, in order to ensure a constant balance between the risk and the expected profit.

Analyzing the factors and elements that impact the investment activity and on the areas that SIF Banat-Crişana is exposed to, we have defined the following main lines of action for 2018:

- *Improve portfolio quality as a basis for increasing its value and revenue generating capacity*

To identify the best investment opportunities, fundamental analysis remains the basis for developing a true and fair view of the long-term potential and financial performance of companies on the long run.

In 2018, financial resources will be directed to domains where there is growth potential, towards companies performing in these areas and have a high quality management.

Supporting companies in which we hold majority stakes in order to increase their performance is a priority.

The new listings on the Bucharest Stock Exchange, the participation in the public offers for sale or purchase conducted on BVB, after the fundamental analysis and the prospects of the companies, will be in our attention for the continuous improvement of portfolio quality.

- *Optimizing portfolio structure, by continuing its relocation while lowering the risk and improving liquidity*

The repositioning of the portfolio is intended, based on profitability growth and optimization of its structure, so that a number of divestment opportunities to be seized during the year.

In this respect, priority will be given to the reduction of minority holdings in financial non-performing companies or those that do not distribute value to shareholders through dividends.

We also project sales of stakeholdings whose growth potential we estimate to be exhausted.

Considering the significant weight of the banking sector in the stock portfolio structure, we take into account lowering this exposure, aiming at balancing the structure of the industries represented in the portfolio and at the same time reducing the associated risks.

Divestment from several companies creates opportunities for reinvestment in shares with higher yields and growth potential.

Redirecting resources from sales transactions will also lead to a lower risk profile of the stock portfolio.

Investment efforts will be focused on providing increase in the value of assets managed and the future income they generate. The commitment of SIF Banat-Crișana management remains to achieve results sustainable on the medium-long term and avoid de-capitalization of company by selling assets as primary means of making a profit.

As for the previous year, the budget for 2018 focuses on the performance of assets held and on their revenue generation potential translating into real profit.

- *Consolidating the core of stakes with high yield dividend, providing the company a constant cash flow*

We project to increase the dividend income from companies that generate and distribute cash, in the structure of revenues, and to provide a predictable source for SIF Banat-Crișana's profit.

From this perspective, the most favourable sectors identified are remain those in the energy, utilities and agro area. Dividends remain an anchor of stability, along with the positive prospects of companies.

The big companies from utilities and energy listed on BVB provide a defensive alternative, safer in difficult economic cycles, as they are part of the non-cyclical consumer goods sector. Constant activity, financial performance and consistent dividends ensure lower volatility in potentially more difficult times, providing an optimal, balanced risk-return ratio.

- *Diversification of the portfolio with financial instruments that currently have a lower weight in the current structure*

Purposefully aiming the portfolio diversification, balanced alternatives investments for the institutional investment environment, whereby exposure to uncovered industries can be achieved, a good risk-return ratio is represented by investment in fund units.

Fixed income instruments, amidst the expected worldwide growth of interests, may constitute investment opportunities and will be analyzed at the time of their emergence.

- *Efficient administration of shareholdings*

The active management of companies where SIF Banat-Crișana holds majority or control positions, through members of the Board, aims to increase the performance of the companies and develop their business in the markets on which they operate. BoD members (administrators) must support and promote professional management teams, negotiating their annual performance criteria and regularly evaluating results.

In the case of minority interests, Company's portfolio managers and analysts will constantly monitor companies activity, their results, and the market they operate on, in order to acquire and know both the quantifiable and non-quantifiable aspects that define a complete picture of the managed companies. The rights and interests of minority shareholder will be protected where they are threatened or injured by the majority shareholder or management, according to the law and the constitutive acts.

- *The buyback program*

The buyback programs carried out in previous years proved to be positive for both the company and the shareholders. On the one hand, the capitalization of the company has significantly increased, on the other hand company's shareholders could have taken advantage of substantial profits by selling the shares at higher prices. Even if the company did not distribute cash dividends from the 2016 profit, the buyback program led to an increase in total return for shareholders.

- *Increasing the visibility, transparency and improving corporate governance*

Strengthening SIF Banat-Crișana's good reputation and a good corporate governance continue to be important vectors of company's strategy, convinced that embracing best governance practices in relation to investors safeguards public trust that is essential to the proper running of the company.

Increasing SIF Banat-Crișana's visibility, to rise the interest for SIF1 shares and to attract new investors / shareholders, we see possible by intensifying the promotion in events on the capital market organized both in Romania and internationally - either individually, either together with the Bucharest Stock Exchange or intermediaries activating on the local, regional or international market.

We believe that improving our activity, results and the presentation of relevant information about SIF Banat-Crișana could rise the investors' confidence in the activities of company's management, increasing SIF Banat-Crișana's attractiveness.

Budget of revenues and expenses for the year 2018

To substantiate the Budget of revenue and expenditure for the year 2018, the following hypotheses were considered:

- *realization of revenues, expenses and net result as at December 31, 2017;*
- *inflation rate BNR forecasted for 2018 of 2.5%, with an uncertainty range of ±1%;*
- *the average interest rate forecasted for bank deposits, government securities and corporate bonds denominated in RON and EURO;*
- *estimated gross income from dividends to be collected from portfolio companies for the year 2017;*
- *volume of interest income, determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2018 and the level of interest rate projected for 2018;*
- *expenses on salaries, allowances, contributions related and similar charges proposed, estimated based on the wage bill for January 2018, a prize/ promotion fund for employees, a prize fund for achieving objectives / profit;*
- *financial investments depending on opportunities and market developments;*
- *repurchase of shares, which will generate cash outflow;*
- *endowments - mainly representing computers, office equipment and software licenses.*

Changes in the fair value of financial instruments through profit and loss account were not forecasted because future market prices cannot reasonably be estimated.

BUDGET PROPOSAL FOR THE YEAR 2018

No.	Specifications	Proposals 2018 (RON)
I	Income	
	Dividend income	93,300,000
	Interest income	2,000,000
	Other operating income	130,200
II	Expenses	
	Commissions expenses	3,326,000
	Other operating expenses	18,514,600
III	Profit before tax	73,589,600
IV	Current and deferred tax profit / (tax reversal)	
V	Tax on gross due dividend	3,358,000
VI	Net profit for the year	70,231,600

Income estimated to be achieved in 2018 mainly include:

- **Dividend income** that represent the gross amount estimated to be collected in 2018, from portfolio companies, for the financial year 2017. Dividend income estimation was based on the information released by listed companies in the portfolio on the profit allocation and estimations based on the preliminary results and the dividend policy of non-listed companies. An increase in the volume of these revenues is expected due to a higher dividend volume from financial-banking companies
- **Interest income** is related to monetary investments such as bank deposits, government bonds, corporate bonds denominated in RON and euro.
- **Other income** include income from rents and utilities for assets classified as financial investments.

Total expenses estimated for 2018 amount to RON 21.8 million and include:

- **Commission expenses** include commissions (fees) payable to ASF on market net asset (a percentage of 0.0078% of the monthly net asset value), Depozitarul Central for keeping the records of shareholders, depository bank - BRD, to Bucharest Stock Exchange for maintaining on stock exchange, and financial investment services companies, for transactions.
- **Other operating expenses** include:
 - **Expenses with personnel, administrators and executives**, representing salaries, allowances, awards, social contributions, etc. Were also included expenses that would result from the distribution of repurchased shares to administrators and directors (under a stock option plan), in case the EGM approves buyback program II.
 - **Additional expenses** comprising costs of services, travel, maintenance costs, utilities, supplies, depreciation, etc.
 - **Other expenses** mainly include expenses for organizing the general meeting of shareholders, investor relations activities, promotional activities and publication of materials, expenses of protocol.

Gross profit estimated for the year 2018 is in the amount of RON 73.6 million.

Tax on profit - amounting to RON 0.5 million, considering the non-taxable income (dividend income) and estimated non-deductible expenses.

Tax on due gross dividend - is estimated in the amount of RON 3.4 million and include tax on income form gross dividends estimated to be achieved in 2018, budgeted, noting that this tax is not a tax due (payment) by the company.

The net result proposed to be achieved in 2018 is in the amount of RON 70.2 million.

The Budget of revenue and expenditure was prepared based on the management's best estimates at the date of drawing. Developments during the year 2018 may induce certain variations.