

ACTIVITY PLAN AND BUDGET FOR 2019

Economic environment

Romania's economy is still in transition to a functioning market economy and the macroeconomic environment is still unstable. Therefore, the domestic capital market encompasses higher risks than the developed markets, including predominantly political and legislative risks. Political, economic, social, or other events in Romania or other markets may have a significant impact on the market value and liquidity of financial instruments. Considering that the activities of the Company are highly dependent on the development of the Romanian economy, such transformations may have a major negative impact on the financial conditions, or the achieved results.

The projects for developing the capital market towards the emerging market status will continue in 2019, through joint efforts of the authorities and investors, to improve tax regulation on providing foreign investors with access to the mechanism of borrowing financial instruments and stimulating individual investors to invest with ease in listed instruments. The main projects of the Bucharest Stock Exchange are the evaluation of the best solutions for the Central Counterparty for the domestic market in order to launch the derivatives market, attracting private IPOs and expanding the financial education programs. These measures are intended to increase the number of trading accounts in order to improve stock market liquidity.

Domestic economic growth prospects are correlated with those of the EU, as there are both common markets and a free labour market among EU countries. Forecasts for Romania's economic growth have proposed lower figures lately.

According to macroeconomic scenarios, annual GDP growth could decelerate to 2.8% in 2019 from 4.1% in 2018 amidst the deterioration of the Eurozone macroeconomic climate and the challenges of domestic economic policies (aggressive state intervention by measures to overburden the banking, energy and telecommunications sectors) with an unfavourable impact on investment. The European Commission has recently lowered its growth forecast to 3.8%, and the World Bank down to 3.5%. Romania's state budget for 2019 was drafted, however, on an economic growth of 5.5% of GDP.

The UK leaving the European Union (Brexit) without a deal will bring radical negative changes to the European economic environment. As long as Romania depends commercially on the European economies that will be affected by Brexit, the consequences will also be endured here from the point of view of the suppliers, the manufacturers, the business partners and the clients working in Romania. At the same time, companies will have to develop their own plan for Brexit, as there are various companies or economic areas where a direct impact is expected.

As at February 2019, inflation was of 3.8% (yoy, source: INS). Calculated based the Harmonized Index of Consumer Prices (HICP), annual inflation was of 4%. The NBR's annual CPI inflation forecast predicts the downward trajectory started in the second half of the last year until Q3 2019, followed by repositioning around the central target (2.5% ± 1 pp). The projected values for the end of 2019 and the next are of 3% and 3.1% respectively.

According to the NBR, the risk factors for the short and medium-term progress of inflation consist of the fiscal-budgetary measures in force on January 1, 2019, the delay of approval of the 2019 budget draft, the decision on the fiscal-budgetary policy and the revenue policy (from the domestic perspective) and the dynamics in the Eurozone and global fluctuations in international oil quotations and monetary policy decisions in the Eurozone and the region (from an external perspective).

Standard & Poor's has recently confirmed the ratings for long-term and short-term debt in foreign currency and Romanian leu to "BBB minus/A-3".

In the current macroeconomic context, we expect to continue the upward trend in the cost of financing and the depreciation of the RON on the short and medium term.

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

SIF Banat-Crişana's objectives in 2019

SIF Banat-Crişana's investment strategy aims at maximizing the performance of the portfolio to increase the value of the managed assets and the investment income.

SIF Banat-Crişana 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 macroeconomic and market environment.

Investments are carried out over a determined timeframe of time under regulated prudential conditions under appropriate risk monitoring and control, to ensure a constant balance between risk and expected return. The investment decision-making process is formalized through internal procedures and competence levels approved by the Board of Directors of the company.

SIF Banat-Crişana manages a complex portfolio, consisting of the following main categories of financial instruments: shares, bonds and fund units. The company applies an exit strategy tailored to the specificity of each investment, defined based on the investment objectives, the exit transaction (trigger) conditions.

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

Execution of various exit strategies adapted and linked to a series of internal and external factors, such as general economic outlook, bullish or bearish developments of BVB, the liquidity of listed securities and daily trading volumes, regionality of small businesses, access barriers (interest) according to the shareholder structure, the liquidity needs of the Company.

More than ever, the ability and adaptation to rapid changes in the economic environment, as a result of international tensions and changes in legislation in Romania, will be decisive in achieving results in line with the expectations of shareholders.

Analysing the factors and elements that influence the investment activity and on the domains that SIF Banat-Crişana has exposures, the main objectives in 2019 are:

- improving portfolio quality through investment projects in dynamic areas of the economy having positive outlook, while optimizing the risk – profitability balance;
- continuing portfolio restructuring by reducing minority exposures that do not fit into the Company's investment strategy;
- active involvement in majority-owned companies to improve the business and increase their performance;

- efficient portfolio management and maximization of its performance, meeting all regulatory requirements;
- adapting to the major economic challenges generated by an unpredictable legislative climate;
- maintaining transparency and good corporate governance.

Lines of action in 2019

- *Optimizing portfolio quality*

In 2019, the allocation of resources to investment projects will be addressed in areas of the economy having positive outlook, in performing companies and with high quality management.

The potential and financial performance of the target companies will be analysed from both the outlook and the exit potential within a reasonable timeframe, considering the changes and ongoing market challenges.

Both listed companies with stable businesses and unlisted companies at an early stage of development, but with high growth potential, will be in our attention. New listings on the Bucharest Stock Exchange and public sale / purchase offers on the market will also be analysed in order to increase the quality of the portfolio.

- *Strengthening the stock portfolio having high dividend yield*

In volatile times, with significant changes in the economic environment, dividends remain an anchor of stability that expresses both financial performance and positive outlook.

For SIF Banat-Crişana, the dividends generated by the portfolio represent a predictable source of income and liquidity, contributing to the overall performance of the company.

Respecting the trend in recent years, the cash-generating sectors are energy and utilities, finance - banks, and pharmaceuticals. Except for the banking sector, these industries also provide a defensive alternative in more difficult economic times with a balanced risk-return ratio. We expect that in 2019 the energy and utilities and the banking sectors will be affected by new legislative changes, but these sectors remain with the highest potential for dividends on the medium to long-term.

- *Efficient management of shareholdings*

We will step up efforts to actively manage the portfolio of companies where majority stakes are held, in order to increase the performance of these companies and the sustainable development of business. Through SIF Banat-Crişana's representatives on their boards will be promoted and supported professional management teams and negotiated competitive performance criteria.

These participations are subject to rigorous analysis and monitoring by the company's analysts, tracking both financial outcomes, prospects, opportunities and potential risks, to support the implementation of business efficiency measures and the introduction of good corporate governance practices and modern techniques management.

Companies in which SIF Banat-Crişana's shareholding is a minority, are being constantly observed, monitoring their financial results, decisions and strategies of majority shareholders, to get the most complete picture of the outlook, benefits or potential implications with effect on minority shareholders and the defence of their rights, if necessary, in compliance with the legal and statutory provisions.

- *Continuing portfolio restructuring*

In order to increase the quality of our portfolio, in 2019 we will continue our efforts to disinvest in non-performing companies or in those that do not meet our investment strategy. 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 assumed risk profile of the portfolio and ensuring long-term sustainable profitability of SIF Banat-Crişana's activity, in order to increase the shareholders value.

- *Diversifying the portfolio of financial instruments*

Portfolio diversification, both on asset classes and within them, pursues balanced alternatives that ensure a constant steadiness between the risks and the expected profit, under the regulated conditions of prudence.

It is sought to diversify SIF Banat-Crişana's portfolio in financial instruments with a lower exposure in the current structure. Such instruments, other than shares, may be fixed income financial instruments, fund units or other instruments in accordance with the applicable diversified investment policy.

Managing and developing the portfolio will be tailored to suit the Company's overall risk profile and under rigorous risk management.

The Board of Directors proposes that in the course of managing the portfolio of financial instruments during the year 2019, the leverage effect should not be used actively, i.e. methods of increasing the exposure of the portfolio will not be used, to fit the risk profile assumed.

Also, the Board of Directors, through its investment policy for 2019, proposes that financing operations through financial instruments (SFTs) and full return swap instruments, as defined by EU Regulation 2365/2015, should not be carried out.

- *Buyback program*

The way of remunerating SIF Banat-Crişana's shareholders is carried out for their benefit both through the dividend distribution policy and by the decision to reinvest the profits or the redemption of the securities for the stated purpose of increasing the value of the shares. This increase in the shareholder's capital is manifested by at least by the implicit increase in the value of the share due to the favourable effect of profitable reinvestment of the capital.

Depending on the economic and financial developments, the risk profile and the investment expectations of the shareholders, the two ways of remuneration should offer at least the same investment attractiveness. If profit reinvestment opportunities are more attractive to shareholders or in case of repurchasing shares on the market, the return of capital for SIF Banat-Crişana's shareholder I is likely to be higher than a simple distribution of taxable dividends.

Remuneration of shareholders by dividend distribution or reinvestment, or by repurchase of shares under the company's buyback programs, may bring additional benefits to shareholders in the medium to longer term.

The buyback programs carried out in previous years proved to be positive for both the company and the shareholders, with the effect of increasing the price of the SIF1 share and implicitly of the market capitalization of the company.

In an effort to increase shareholder value, the board of directors submitted to the EGM of April

2019 a new buyback program for 15,000,000 shares, in order to reduce the share capital by cancelling the repurchased shares, in case of approval by the shareholders of the distribution of the entire net profit of the financial year 2018 to *Other Reserves*, for own funding sources, to support this buyback program.

- *Preserving transparency and good corporate governance*

Good corporate governance and transparency in the relationship with investors, the general public, the media and the economic environment are being pursued on a permanent basis, ensuring the consolidation of SIF Banat-Crișana's good reputation and increasing investors' interest in SIF1 shares.

We are confident that through an improved performance, sustainable growth in the medium and long term, both the confidence of shareholders and investors in the Company's management undertakings, as well as the attractiveness on the capital market will increase.

In 2019, the efforts to increase SIF Banat-Crișana's visibility will continue, by intensifying the promotion of the company within the capital market events organized both in Romania and internationally - either individually or together with BVB or active intermediaries on the local market, regional or international.

- *Probable legislative changes with impact on the activity*

An important factor in SIF Banat-Crișana's activity of will be brought by the adoption of the draft of *Law on the regulation of alternative investment funds and on the modification and completion of some normative acts*, published by the Ministry of Public Finance in the second half of December 2018. This draft of law aims at adapting the legislation in the non-UCITS (ro: AOPC) domain to the current European practice, by creating a national regulatory framework and classifying a new category of collective investment funds, namely alternative investment funds (AIF).

The entry into force of this law is extremely important for SIF Banat-Crișana, which, according to the AIFM legislation, is assimilable to retail FIA of closed end type.

In this context, the Company aims to continue managing the portfolio efficiently and maximizing its performance, meeting all regulatory requirements.

Budget of revenues and expenses for the year 2019

To substantiate the Budget of revenue and expenditure for the year 2019, the following hypotheses were considered:

- *realizing the revenues, expenses and net result as at December 31, 2018;*
- *inflation rate BNR forecasted for 2019 of 2.5%, with an uncertainty range of $\pm 1\%$;*
- *average interest rate estimated 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 2018;*
- *volume of interest income, determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2019 and the level of interest rate projected for 2019;*
- *expenses on salaries, allowances, contributions related, and similar charges proposed, estimated based on the wage bill for January 2019, 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.*

NOTE: 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 2019

No.	Specifications	Proposals 2019 (RON)
I	Income	
	Dividend income	99,000,000
	Interest income	6,500,000
	Other operating income	130,200
II	Expenses	
	Commissions expenses	3,226,000
	Other operating expenses	20,788,200
III	Profit before tax	81,616,000
IV	Tax on gross due dividend	3,200,000
V	Net profit for the year	78,416,000

Income estimated to be achieved in 2019 mainly include:

- **Dividend income** that represent the gross amount estimated to be collected in 2019, from portfolio companies, for the financial year 2018. 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. A reduction in the volume of these revenues is expected as compared to the previous year.

- **Interest income** is related to monetary investments such as bank deposits, and corporate bonds denominated in RON and euro. The growth in the volume of these revenues is the effect of directing cash funds to fixed income instruments (corporate bonds).
- **Other income** include income from rents and utilities for assets classified as investment property.

Total expenses estimated for 2019 amount to RON 24 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), both for the one in progress and the one submitted for the approval of the EGM of 2019.
 - **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 2019 is in the amount of RON 81.6 million.

Tax on due gross dividend - is estimated in the amount of RON 3.2 million and include tax on income form gross dividends estimated to be achieved in 2019, budgeted, noting that this tax is not a tax due (to be paid) by the company.

The net result proposed to be achieved in 2019 is in the amount of RON 78.4 million, close to that achieved in 2018.

The Budget of revenue and expenditure was prepared based on the management's best estimates at the date of drafting. Developments during the year 2019 may induce certain variations.