

# ACTIVITY PLAN AND BUDGET FOR 2020

## Economic environment

Because of the COVID-19 epidemic, all economic forecasts from the beginning of the year are under review and need to be adjusted to the current realities.

Actions taken by China to curb the spread of the epidemic have shown that through extreme measures (total quarantine) the spread of virosis can be stopped. The number of new cases confirmed per day is drastically slowing in China. From an average of 2,000-3,000 new cases confirmed daily in February, the spread decreases to approx. 30 new cases at present but with a slight growth tendency. This encourages newly infected countries to take similar measures that have already proven their effectiveness. China's action plan, however, involves a huge financial effort.

The economic impact generated by COVID-19 was best felt through the stock market volatility of the last period. The financial markets of the affected countries have been characterized by violent corrections (abrupt falls in a short period of time).

The main stock indexes have suffered massive decreases since the beginning of 2020 (YtD),

DJIA	-25%	DAX	-35%
S&P	-22%	FTSE	-32%
Nasdaq	-18%	Euro Stoxx	-35%

BET (Bucharest Exchange Trading) index has lost 37% since the beginning of the year (YtD).

Consumption, the main driver of economic growth in the current business cycle, undertakes a slump of unprecedented aggression as a result of the restrictions imposed by the Military Ordinance no. 2 of 21.03.2020, issued to limit the expansion of the virosis.

Moreover, all cultural, sporting or other events involving a greater number of participants have been or are postponed or cancelled. The population is compelled to avoid traveling and go to crowded spaces. Education is suspended, the entire supply chain has begun to experience the negative effects of restrictions imposed by the authorities, and tourism, trade (except food and basic necessities) and civil aviation companies respectively are in semi-paralysis in severely affected countries. The banking system is also severely distressed, most banks announcing measures to support the customers (both individuals and companies) directly affected, by delaying the payment of immediately due rates, renegotiating the contractual conditions, short-term credit facilities etc.

The decrease in transport has diminished the demand for oil. OPEC, in order to counter the drop in international crude oil prices, has reduced production quotas and Saudi Arabia and Russia have announced that they will not comply with the new diminished production capacities, which has led to a fall in international crude oil prices.

Brent Oil, from a quotation of \$66/bbl at the beginning of the year (YtD), reached \$25/bbl, and Crude WTI from \$61/bbl to \$22/bbl.

There are currently two possible economic scenarios:

1. The optimistic scenario: An epidemic with a moderate global spread during which there will be interventions by central banks, fiscal stimuli and government support followed by an economic rebound towards the end of the year (the scenario most likely considering the rapid response from countries EU and US members);

2. Pandemic scenario: uncontrollable epidemic in emerging countries that is causing global recession and financial crisis.

The governments and central banks of the developed states have taken actions through economic-financial levers (extraordinary monetary and fiscal methods), to support the economies strongly impacted by the pandemic and to counterbalance the effects of quarantine.

Since the spread of the coronavirus outbreak, liquidity has been a major concern for central banks and governments. If corporate spreads increased sharply, the Fed's strong measures on the evening of March 15 and supplemented on March 16 by the announcement of the purchase of corporate debt in the short term show the Federal Reserve's determination to reduce any onset of a crisis liquidity.

The other central banks, except for ECB, not only lowered key rates to reduce financing costs, but also established measures to reduce bank constraints, providing them with liquidity and stimulating them to give more loans to companies and households.

Governments have been particularly concerned to reduce constraints on companies (especially SMEs) and households and to provide them with temporary financial support, mainly aiming to limit cash flow issues and reduce the number of insolvencies/bankruptcies.

*The main government and monetary policy measures announced to limit the recessionary impact of quarantine outside China*

### **United States of America**

- A bill was initiated to provide a \$8.3bn package for emergency expenses.
- The US Treasury Department deferred taxes and fees for certain categories of individuals and companies.
- Small Business Administration will provide the necessary liquidity for small companies.
- The Federal Emergency Management Agency has a budget of \$42bn that can be increased by an additional \$50bn, based on President Donald Trump's statements, to serve local and state governments.
- A buffer provision has been set up to finance costs with employees and companies, purchase treasury securities, mortgage-backed securities, set up two facilities to support the credit of large employers; the creation of a third facility to support the flow of credit to consumers and businesses; and facilitating the flow of credit to municipalities.
- Fed reduced target range for federal funds rates by 100 bp to 0-0.25%
- Launched a massive \$700bn quantitative easing program during an emergency movement.

### **The European Union**

- ECB announces a €750bn Pandemic Emergency Procurement Programme (PEPP). The acquisitions will be made by the end of 2020 and will include all categories of eligible assets under the asset purchase programme (APP) such as government debt and private securities, to ensure that all sectors of the economy, including families, firms, banks and governments, can benefit from financing conditions allowing them to absorb the financial shock generated by the partial blocking of consumption.

The ECB is also committed to increasing the size of its asset purchase programs and adjusting its composition as and when required.

- ECB surprised the markets by keeping the interest rates at current levels of 0%, despite concerns about the rapid spread of the pandemic in Europe.

- Institutions authorized at European level, however, announced a package to support bank loans for small and medium-sized enterprises as follows: (i) it provides €8bn to guarantee loans for 100,000 companies; (ii) public / private support for COVID-19 vaccine research, diagnosis and treatment; (iii) support for the health system and activities with high vulnerability to COVID-19; (iv) suspend the rules on state aid in order to ensure the liquidity necessary to avoid collective sectoral defaults; (v) Member States will be authorized to overcome the usual budgetary constraints, in particular the deficit limit of 3% of the European treaties in order to manage the situation caused by COVID-19.

Broadcasting the effects of the virus generated a state of anxiety / concern at the population level and began to generate significant economic damages. The governments of the affected countries have started action plans to counter the expansion of COVID-19 and have adopted economic stimulus measures, respectively providing financial support packages for the severely affected sectors, but the risk of re-infection is quite high in such a globalized economy.

Fighting efforts will locally stop the epidemic, but the risk of recurrence will remain high as long as there is no COVID-19 vaccine or effective treatment.

## SIF Banat-Crișana's objectives for 2020

SIF Banat-Crișana'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.

SIF Banat-Crișana 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.

As a result of the critical economic situation generated by the epidemic, which has made its mark on economies and stock exchanges around the world, the following will be monitored:

- the degree of virus expansion and the effectiveness of measures to combat the epidemic,
- economic measures adopted by governments to support the economy,
- the level of correlation between COVID-19 evolution and economic evolution,
- coronavirus effects on financial markets.

The investment decision-making process is formalized through internal procedures and competence levels approved by the Board of Directors of the company.

SIF Banat-Crișana 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.

Analysing the factors and elements that influence the investment activity and on the areas that SIF Banat-Crişana has exposures, the main objectives in 2020 address:

- improving portfolio quality through investment projects in dynamic areas of the economy, while optimizing the risk – profitability balance;
- continuing the portfolio streamlining 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;
- monitoring the liquidity indicators especially in the portfolio companies, there being the risk of their deterioration in the context of COVID-19;
- efficient portfolio management and maximization of its performance, meeting all regulatory requirements;
- adapting to the major social and economic challenges generated by the COVID-19 outbreak;
- maintaining transparency and good corporate governance.

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

Lines of action in 2019

- *Optimizing portfolio quality*

Further in 2020, the allocation of resources to investment projects will be addressed in areas of the economy, in performing companies and having high quality management.

The potential and financial performance of the targeted 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.

Given the economic difficulties created by the coronavirus crisis, the allocation of resources to opportunities in areas with potential for business adaptation and development in the economic environment of the likely post-crisis recession will be pursued.

For each company, it is necessary to analyse the impact that the current crisis has and will have in the short and medium term, the ability to adapt to the new market conditions.

It is likely that new business models and new companies will emerge to promote them, surely there will be important changes in the production structure of the big international companies, which will bring risks but also opportunities for the Romanian companies.

- *Firming up 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 2020 the energy and utilities and the banking sectors will be affected by a probable economic crisis, but these sectors remain with the highest potential for dividends on the medium to long-term.

- *Efficient management of shareholdings*

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

These shareholdings 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 also being constantly observed, monitoring their activity, 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.

We expect that the economic effects caused by the current pandemic crisis will be felt in the first 3 quarters of 2020 but, starting with the fourth quarter of this year, we expect a moderate recovery of the affected economies amidst the resumption of consumption.

- *Continuing portfolio restructuring*

In order to increase the quality of the portfolio, in 2020 we be continued the endeavours 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.

The year 2020 brings the need to continue the portfolio restructuring even more in line with the new market trends, to ensure a sustainable long-term profitability of SIF Banat-Crişana activity.

- *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 2020, 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 2020, 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*

Rewarding shareholders by distributing dividends or by reinvesting them, or by repurchasing own shares in the buyback programs carried out by the company may bring additional benefits to shareholders in the medium and long term.

The buyback programs carried out in previous years have proved positive for both the company and the shareholders, with an effect on rising the price of SIF1 shares and implicitly on the market capitalization of the company.

The Board of Directors submitted for the approval of the EGM convened for April 2020 a new buyback program for a number of 15,000,000 shares, in order to reduce the share capital by cancelling the repurchased shares, if the shareholders approve the allocation of the entire net profit for the financial year 2019 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 constant actions of Company's management. We are certain that through improved activity and sustainable financial performance in the medium and long term, both the shareholders' and investors' confidence in the actions of the Company's management and the attractiveness of the capital market are gained.

Given the progress of the COVID-19 (Coronavirus) pandemic, which, since the end of 2019 and increasingly intense in the spring of 2020, affects people and companies in Romania and around the world, SIF Banat-Crișana has implemented a series of measures to continue the activity and will further take the necessary measures, so that the activity is not affected is continued in normal traits on all Company's levels.

The ability to remotely access all the operating systems allows us to continue our activity functionally, the operations and the communication of the Company being carried out in functional conditions, in compliance with the policies and procedures in force regarding cyber security, as most of the staff the company are working remotely (work from home).

In the exceptional circumstances created by the COVID-19 pandemic, the Company attaches importance and makes the necessary efforts to maintain without disturbance with investors, partners, collaborators, authorities, market organizations, etc., ensuring the continuous information and reporting, mainly by means of remote communication. The Company's website ([www.sif1.ro](http://www.sif1.ro)) will further to be a useful communication platform hosting current, relevant and interesting information for investors.

Also, to provide measures for the protection and prevention of the shareholders of the company during the general meetings of the shareholders, SIF Banat-Crișana will ensure the

proper information of the shareholders, will ensure the possibility of using mainly the electronic means of communication and will facilitate the possibility of expressing the right to vote within the GMS by alternate means to participate directly or through a representative, as provided by law (vote by correspondence).

• *Legislative changes with impact on the activity*

An important factor for the activity in 2020 is the entry into force of Law no. 243/2019 on alternative investment funds, amending and supplementing certain normative acts (AIF Law).

According to the provisions of this law, SIF Banat-Crişana will be classified in the category of Alternative Investment Funds (AIF) authorized as investment companies (with a diversified investment policy) for retail investors (AIFRI). The company will take the necessary steps to adapt its operating documents and the activity to the provisions of the law and get the authorizations from the Financial Supervisory Authority.

One of the provisions of Law no. 243/2019 with impact on the activity of Financial Investment Companies (SIF) concerns the repeal of art. 286<sup>1</sup> of Law no. 297/2004, the old law of the capital market, article that provided for a maximum limit of 5% holdings of the share capital of a SIF.

Considering the express provisions of art. 79 paragraph (2) of Law no. 243/2019 and the legal consequences regulated by this article, SIF Banat-Crişana proceeded to adapt its articles of association to the provisions of the law and submitted to the approval of the general meeting of shareholders the elimination from the Articles of Association of the provisions regarding the interdiction of holding more than 5% of the share capital of the Company.

The extraordinary general meeting of SIF Banat-Crişana shareholders of March 2020 approved the change of Company's Articles of Association, in order to correlate with the provisions of Law no. 243/2019, the holding limit of 5% of the share capital of the company being eliminated as of July 24, 2020.

## Budget of revenues and expenses for the year 2020

To substantiate the Budget of revenue and expenditure for the year 2020, the following hypotheses were considered:

- *realizing the revenues, expenses and net result as at December 31, 2019;*
- *inflation rate BNR forecasted for 2020 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 2019;*
- *volume of interest income, determined on the basis of the current level of monetary investments influenced by the cash entry / exit proposals for 2020 and the level of interest rate projected for 2020 for each category of monetary investments (bank deposits, corporate bonds);*
- *a net loss from MTM of assets at fair value through profit or loss of RON 29 million (shares, fund units);*
- *expenses on salaries, allowances, contributions related, and similar charges proposed, estimated based on the wage bill for January 2020, possible indexation during the year, a reward / promotion fund for employees, a reward fund for achieving the objectives as part of the variable component of remuneration;*
- *financial investments depending on opportunities and market developments;*
- *repurchase of shares or distribution of dividends, which will generate cash outflow;*
- *endowments - mainly representing computers, office equipment and software licenses etc.*

### BUDGET PROPOSAL FOR THE YEAR 2020

No.	Specifications	Proposals 2020 (RON)
I	<b>Income</b>	
	Dividend income	101,000,000
	Interest income	4,500,000
	Other operating income	130,200
II	<b>Gain/(Loss) on investments</b>	
	Gain on investment property	2,466,000
	Gains/(Losses) from valuation of financial instruments	(29,000,000)
III	<b>Expenses</b>	
	Commissions expenses	3,396,500
	Other operating expenses	22,588,800
IV	<b>Profit before tax</b>	<b>53,110,900</b>
V	Tax on gross due dividend	2,915,900
VI	<b>Net profit for the year</b>	<b>50,195,000</b>

**Income estimated to be achieved** in 2020 mainly include:

- **Dividend income** that represent the gross amount estimated to be collected in 2020, from portfolio companies, for the financial year 2019. 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 this income is expected as compared to the previous year, given the difficult economic environment expected for 2020.



- **Interest income** is related to monetary investments such as bank deposits, and corporate bonds denominated in RON and euro, estimated on the average volume of placements estimated to be invested in 2020 in this type of assets.
- **Other income** include income from rents and utilities for assets classified as investment property.

**Estimated gains / (losses) from** investments includes a gain realized from the transfer of investment property (RON 2.5 million) respectively a net loss (RON 29 million), estimated from marking to market of financial assets through profit or loss, in the context of maintaining a difficult and volatile investment climate, due to the turbulence caused by the Covid-19 epidemic.

**Total expenses estimated for 2020** amount include:

- **Commission expenses** include commissions (fees) 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. Were also included expenses that would result from the distribution of repurchased shares under stock option plans approved by the general meeting of shareholders.
  - **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 2020 is in the amount of RON 53.1 million.

**Tax on due gross dividend** - is estimated in the amount of RON 2.9 million and include tax on income form gross dividends estimated to be achieved in 2020, budgeted.

**The net result** proposed to be achieved in 2020 is in the amount of RON 50.2 million.

**NOTE: The Budget of revenue and expenses 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 prospects for 2020.**

**Recent and accelerated developments of the global situation regarding Covid-19, together with the impact on social and economic level and their implications on Romania cannot be anticipated with sufficient reliability at this time, thus leading to the impossibility of forecasting, in a reasonable manner, the possible variations on the financial performance of the company during the financial year 2020.**

**The assumptions and estimates used in the construction of the budget in the form submitted for the approval of the GMS will be continuously reviewed and we are considering the possibility of returning to the shareholders during this year with a revised budget proposal, once the socio-economic developments are stabilized and the investment prospects are clarified.**