

STK Emergent - 2020 preliminary results

1. The economic context

The pandemic caused by the new coronavirus is a huge shock to economies, both in the EU and globally, with very serious socio-economic consequences. Romania's economy is expected to recover from declining production in the first half of the year. Although the economic contraction in 2020 appears to be less severe than initially estimated, uncertainty remains very high, given the recent evolution of the pandemic, and real production is unlikely to return to pre-crisis levels by the end of 2022. It is estimated that the budget deficit will increase significantly, as budget expenditures will increase to support the economy.

Thus, the mature stock markets have experienced an annual average return of -3.47%, and the emerging and border stock exchanges have achieved an average return of +3.55%; the returns generated by investments in precious metals were +24.6% for gold, +47.24% for silver, +10.66% for platinum, in industrial metals they were +24.91% for copper, + 102.35% for iron ore, and for Brent oil was -23.38%.

Economic activity in Europe recovered strongly in the third quarter, with the gradual elimination of restrictive measures. The epidemiological situation means that the growth forecasts for the analyzed period are subject to an extremely high degree of uncertainty and risks. 2020 was one of great trials for oil market participants. Dramatic price declines, of over 75% for Brent (traded mainly in London) and even going up to negative prices for WTI (in the USA) occurred in the conditions of an unsustainable accumulation of stocks during the spring closing. The comeback was spectacular: from a low of \$ 16 a barrel, Brent went over \$ 46 to the end of the year (recently its level was around \$ 67) and WTI from \$ -40 to \$ 43 a barrel. Compared to the discrepancy in the first part of the year, the summer was relatively calm, with fluctuations below \$ 10 for each barrel.

The transition period for the withdrawal of the United Kingdom from the EU ended on 31 December 2020. This means that the United Kingdom is now officially a third country and that EU law no longer applies to it. For customs purposes, the United Kingdom is treated like any other non-EU country from 1 January 2021. Specifically, Trade between the United Kingdom and the EU is currently subject to customs procedures and formalities.

During 2020, the NBR Board decided to make another prudent reduction in the monetary policy interest rate by 0.25 percentage points to 1.50 per cent; at the same time, the interest rate for the deposit facility was lowered to 1.00 percent, and the interest rate for the credit facility was lowered to 2.00 percent. At the same time, the RMO rates for RON and foreign currency liabilities of credit institutions were maintained at the levels in force. The Bucharest Stock Exchange, represented by the BET index, ended the year with a decrease of 1.72%, and the BET-FI financial sector index registered a negative return of 9.4%, both indices fluctuating from a fairly high level of the last year, significantly affected by the coronavirus pandemic during 2020.

2. Financial Statements

The preliminary annual financial statements as of 31 December, 2020 have been prepared in compliance with the International Financial Reporting Standards (IFRS).

a) Statement of Financial Position

The preliminary statement of financial position at 12/31/2020 in compliance with the International Financial Reporting Standards is as follows:

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| In accordance with IFRS: | 12/31/2020 | (%) | 12/31/2019 | (%) | 2020 vs 2019 |
|---|-------------------|---------------|-------------------|---------------|--------------|
| Non current assets | | | | | |
| Other financial assets at fair value through other comprehensive income | 32,979,223 | 54.9% | 30,678,898 | 52.6% | 7.5% |
| Current assets | | | | | |
| Securities at fair value through profit or loss (held for trading) | 3,938,383 | 6.6% | 9,375,910 | 16.1% | -58.0% |
| Cash and cash equivalents | 23,150,763 | 38.5% | 18,217,289 | 31.3% | 27.1% |
| TOTAL ASSETS | 60,069,370 | 100.0% | 58,272,098 | 100.0% | 3.1% |
| Equity | 59,567,832 | 99.2% | 57,929,208 | 99.4% | 2.8% |
| Current liabilities | 500,537 | 0.8% | 342,890 | 0.6% | 46.0% |
| TOTAL EQUITY AND LIABILITIES | 60,069,370 | 100.0% | 58,272,098 | 100.0% | 3.1% |

The *Other financial assets at fair value through other comprehensive income* include mainly securities held at STK Properties SA and Emergent Real Estate SA. As unlisted companies they are valued in conformity with international valuation standards in accordance with Regulation 2/2018; thus, a fair value is used from a valuation report made by an ANEVAR certified external valuator.

Securities at fair value through profit or loss (held for trading) category, amounting to RON 3.94 million, mainly comprised shares of companies in the oil sector. As at December 31, 2020 they represented 6.6% of the total trading portfolio (cash representing 38.5%). The change of -58.0% compared to the end of 2019 is due to the reduction of the exposure in the oil sector during 2020, thus the cash increasing from RON 18.22 million to RON 23.15 million.

Equity remained at about the same level last year at RON 60.07 million compared with RON 58.27 million at the end of 2019, and current liabilities increased by 46.0% to RON 0.50 million from RON 0.34 million at the end of 2019.

b) Statement of Profit or Loss

Compared to the end of 2019, the preliminary statement of profit or loss at 31 December, 2020 in compliance with the International Financial Reporting Standards, is as follows:

| | -RON- | | |
|--|--------------------|--------------------|---------------|
| In accordance with IFRS: | 2020 | 2019 | Chg (%) |
| Net gains on financial instruments traded or held for trading at fair value through profit or loss | 334,032 | 0 | <i>n.a.</i> |
| Dividend income | 20,000 | 213,910 | -90.7% |
| Interest income | 70,760 | 13,915 | 408.5% |
| Net gain from foreign exchange differences | 54,046 | 3,782,721 | -98.6% |
| Total Net Revenue | 478,838 | 4,010,545 | -88.1% |
| Net loss on financial instruments traded or held for trading at fair value through profit or loss | 0 | 3,818,265 | <i>n.a.</i> |
| Administration fees, bank charges, fees | 1,865,669 | 1,854,131 | 0.6% |
| Total Net Expenses | 1,865,669 | 5,672,396 | -67.1% |
| Net Loss for the year | (1,386,831) | (1,661,850) | -16.5% |

During 2020, the Fund recorded net income from dividends, interest and exchange rate differences, the securities from the portfolio generating dividends amounting to RON 0.02 million decreasing from RON 0.21 million, and the interest received by the Fund was 408.5% higher in 2020 compared to the previous year. Net gains on financial instruments traded or held for trading were RON 0.33 million.

During 2020, there were no losses from traded financial instruments. The Fund's operating expenses increased by 0.6% to RON 1.87 million from RON 1.85 million at the end of 2019.

The net result of the year 2020 was a loss of RON 1.39 million; At the beginning of the year, we liquidated the predominant holdings in oil shares, thus avoiding the dramatic decreases in their price. As an investment strategy, we favored value stocks over growth stocks, which is why we kept high liquidity, and for 2021 the favorable prospects of the commodities field make it an investment target for us.