



OPERATION PLAN AND BUDGET FOR 2015

Economic environment

Global trends

- A GDP growth of approx. 3.2% worldwide is estimated, while the inflation is expected to adjust downwards, interest rates tend to stabilize and oil price hovers lower compared to previous years.
- For the Eurozone, the European Central Bank improved its forecast for a GDP growth of 1.5% in 2015 and 1.9% in 2016, as compared to the previous estimates of 1%, and 1.5% respectively, for 2017 ECB expects a growth of 2.1%.
- European securities market in 2014 was fuelled by ECB's decision to cut the interest rates. The difficulties of the restructuring and re-launching the economies of countries in the Eurozone and the European Union and the regional conjunctural risks determined the European Commission and the European Central Bank to take measures to stimulate the EU economy to avoid the falling into a new recession.
- Implementation of quantitative easing program (QE) in Europe starting 2015, to the extent that this monetary measure will achieve its purpose, is prerequisite for the members of the EU to conclude the year having much stronger economies, less vulnerable, with a more stimulating credit system, a rebound in domestic consumption being expected on medium and long term. Prospects will recover, thanks to the support for economic activities that will improve investment sentiment. Capital markets in early 2015 reacted extremely intense to the injection in economy of the first tranche of 60 billion euro by the QE program.
- European Investment Sentiment - represented by ZEW Economic Sentiment indicator - that in Q3 2014 almost touched zero value - revived, going over 60 points, indicating the regain of trust investment environment, estimating the economic outlook for the next 6 months. The optimistic sentiment is confirmed and supported by indicators such as PMI, CPI, etc., that have improved since the beginning of 2015.

Romania

- National Commission for Statistics estimates that in 2014 GDP grew in real terms by 2.9% compared to 2013, with a tendency to maintain a growth rate of over 2% in the coming years.
- The European Commission forecasts for Romania a GDP growth of 2.4% in 2015 and 2.8% in 2016. For the period 2015-2017 the rating agencies Standard&Poor's and Fitch, estimated GDP growth rates of 2.7% and respectively 3%, as a result of continuing a similar volume of foreign direct investment in Romania. However, the extremely low values of GDP per capita in Romania compared to other EU countries emphasize the influence the weak purchasing power has on consumption, the growth engine of any healthy and sustainable economy.

- The inflation rate forecast by BNR for 2015 is 2.5% ± 1%. Inflation forecast by the European Commission for the period 2015 - 2016 is 2.1% and respectively 2.7%, as a result of recovery in private consumption.
- The registered unemployment rate in late January 2015 nationally in Romania was 5.46%, up 0.17 percentage points compared to December 2014 and 0.39 percentage points lower than in January 2014. For 2015, the European Commission estimated an unemployment rate of 6.9% for Romania, below the European average of 11.3%.
- The European Commission expects an upsurge of investments in Romania due to an improved absorption of European funds, available for Romania (approx. 40 billion euro for the period 2015-2020), and an advance in consumption following the changes in tax legislation and the rise of wages.
- Romanian capital market is an underdeveloped one as compared to the major European markets (considering both the number of trading accounts and the average daily trading value), but one trend is upward. The liquidity of BSE regulated market has increased substantially in the past 3 years, although the most important listings came from the state, as the recent private companies attempts (e.g. Adeplast) on listing on the stock exchange failed.
- Significant capital injections made by foreign investment funds in Romania (ex. in the listings of Romgaz and Electrica) convey an improvement of confidence from the international investment environment towards the domestic capital market. Rating agencies S&P and Fitch reclassified Romania's country rating from stable to positive, confirming the "investment grade" category.
- The growth potential of the domestic capital market is visible in lower valuation ratios (PER, P/BV) as compared to American and European market, making it possible that, along with the excessive growth of quotations in the US and falling yields, to lead to an increased demand and liquidity of European securities, and respectively those listed on the BSE.
- The start of AeRO – BSE's ATS market –lays the groundwork for an easy financing framework for start-ups, and may provide a feasible alternative for project funding by distributing risk, and respectively the existence of an alternative for diversifying the portfolios with companies having extraordinary growth potential.
- The outlook for Romania's capital market is promising once are attained the specific objectives of the projects to improve primary and secondary legislation of the capital market in FSA's STEAM program and the program for elimination of those eight barriers identified by the investors on the regulated market of BSE, programs with the final target of reaching by the Romanian capital market the status of emerging market. Another contribution is expected from the changes in the tax code and the program of listing of several state owned companies, attractive to investors.

SIF Banat-Crişana – strategic objectives

- growth of value for the assets under management by improving resource allocation, to achieve high returns for the invested capital;
- keeping a disciplined investment process by a prudent diversification of assets and an efficient management;
- maintaining a strong financial position apt ensure sustainable growth for the company and its shareholders on the medium and long term.

Lines of action for 2015

Investment strategy

- SIF Banat-Crişana will continue to optimize the structure of assets while developing new investment objectives, within the legal and prudential exposure limits, in line with the macro-economic trends in Romania and the region. Given the macroeconomic and geopolitical factors, and the capital market developments that generate significant influence on the development of the capital market in Romania, analysing the international economic environment remains an important constituent of the investment process conducted by the company to determine opportunities that can improve yields obtained by SIF Banat-Crişana and to anticipate and mitigate possible adverse effects of risk factors on the portfolio.
- Stocks remain a preferred investment option vs. the fixed income instruments, as we estimate higher returns in 2015 for stocks, with acceptable risk factors, while conducting a cautious investment behaviour. Dividend yields in some companies listed on BSE exceed 6%, offering attractive alternatives to fixed income instruments.
- Strengthening the stake portfolio (by selecting a mix of shares of income and growth) will pursue the investment opportunities apt to improve portfolio's quality on prudential sectoral diversification criteria, increasing liquidity and growth potential to generate constant future income. We consider:
 - ✓ Developing a portfolio of stocks with high dividend yields (above 5%), to provide a significant and steady flow of cash for the company. Even in conditions of high volatility, the income from dividends should remain at a constant level in case of sound fundamentals of companies, constituting as predictable source for remunerating by dividends SIF Banat-Crişana shareholders.

The most favourable sector in this regard is the energy and utilities. Dividends remain an anchor of stability, an essence of stable financial situation and positive prospects of portfolio companies.
 - ✓ Identifying, selecting and increasing exposure on companies listed on the BSE regulated market, having significant exports to the EU market (e.g. automotive, energy equipment suppliers, utilities, etc.). Following the devaluation of the euro and the QE program will increase consumption and exports in dollar-dominated areas will substantially improve performance of European companies.
 - ✓ Increasing exposure on pharmaceutical sector. In this area there is a continuing and growing demand for medical products and services both on the local and European market.

- ✓ Keeping a close watch on the possible increase of shareholdings in companies traded at undervalued prices vs. their intrinsic value (trading price discount of over 30% vs. "target price").
 - ✓ Exit, as the conditions permit, from holdings that have exhausted their growth potential or not reaching the expected yields, as well as the reduction of unlisted holdings.
 - ✓ Analysis of opportunity and support for the unlisted companies for listing on AeRO alternative trading system of BSE. This will ensure both greater transparency and rigor in managing these companies, with positive effects on business development and ensuring liquidity of the shares, being publicly traded.
- Special attention will be given to investment opportunities in the private sector or those that may occur in the process of reorganization of companies, which could be made viable through a careful and rigorous management. These could be either directly took over or as a "distressed assets" (in liquidation proceedings) - through specialized vehicles that are majority-owned by SIF Banat-Crişana or in partnership.

Improved administration of holdings

- A priority remains for 2015 increasing the value of portfolio managed, by cost optimization measures and the use of resources in order to increase profitability and return on invested capital, finding solutions to ensure a steady flow of cash, improvement of trading methods and fiscal optimization of the operations.
- Management of the majority holdings will focus on supporting the growth of financial return, increase the attractiveness and value of these companies, managerial involvement from SIF Banat-Crişana addressing: (i) advising on the preparation and optimizing budgets, measures to rationalize the use of resources , cost optimization and coordination of major investment processes; (ii) negotiation competitive performance criteria with the management teams of the respective companies; (iii) evaluation and monthly analysis of the performance and measures for improving and developing the activities; (iv) institution of best practices of corporate governance, modern management techniques and promoting efficient management teams.
- The objective of forming an optimal structure for centralized management of companies in the hospitality industry where SIF Banat-Crisana is majority shareholder will be carried on in 2015:
 - ✓ In H1 2015 the merger of the six companies operating in the hospitality industry where SIF Banat-Crişana holds majority stakes will be completed. SIF Hoteluri Oradea SA, a company listed on the BSE regulated market, will merge by absorption with Rusca SA Hunedoara, Hotel Meseşul SA Zalău, Beta Transport SA Cluj-Napoca, Trans Euro Hotel Baia Mare and Valy-Tim SA Timişoara.
 - ✓ The anticipated benefits of this new structure: building a stronger and more efficient economically and financially company by providing an integrated system for management and activity coordination, leading to an improved financial performance, creating competitive advantages and increase value for shareholders.

Transparency in communication and consolidation of the brand

- The communication with shareholders, investors, analysts will be enhanced, diversifying the channels for communication in order to increase the visibility of the company, the level of interest on investment opportunities in SIF1 and to reveal tangible and intangible parameters considered in evaluating SIF Banat-Crişana.
- The increase in transparency and refining the presentation of relevant information on SIF Banat-Crişana can contribute to the improvement of investor confidence in the activities carried out by the management and the rise of the attractiveness for SIF Banat-Crişana, resulting in the decreasing of the discount to NAV the SIF1 shares are traded.
- A more active promotion for SIF Banat-Crişana brand is considered, both in local and CSR activities, as we believe that economic performance is not the only criterion in evaluation and judging the companies. SIF Banat-Crişana aims to behave as a socially responsible company that promotes professionalism, excellence, innovation, responsibility, teamwork, diversity.

Budget proposal for 2015

In preparing the budget proposal for 2015, the following were considered:

- inflation rate forecast by Romanian National Bank for 2015 of 2.5%, with uncertainty range of $\pm 1\%$
- average interest rate of: 2.8% for RON denominated bank deposits; 8% for RON denominated corporate bonds, 1.6% for EUR denominated bank deposits; 4.7% for EUR denominated government bonds; 6.4% for EUR denominated corporate bonds;
- achievements in income, expenses and net income as of December 31, 2014;
- income from financial assets projected, representing dividend income collected from portfolio companies;
- interest income volume - amount established based on the existing monetary investments at the end of 2014 and influenced by the transactions on the capital market and the monetary investments projected for 2015;
- profits from transactions - including estimating earnings / profit from sales of securities held for short term or, respectively, on long term;
- the proposed payroll expenses, company contributions and other assimilated expenses - determined based on the payroll as of December 2014, a prize pool of 10% of payroll, annual indexation according to Collective Labour Contract, and a bonuses' fund for target achievements (calculated to 2.5% of achieved net profit);
- performing investments in financial assets and other acquisition based on opportunities and market developments;
- distribution of a gross dividend per share of RON 0.10, with a quota of actual distribution of dividends estimated at 75%, taking into account the statistics from previous years;
- endowment with equipment, mainly representing computers, office supplies, software and licenses.

No.	INDICATORS	Proposal 2014 [RON]	Achievement 2014 [RON]	Proposal 2015 [RON]	Evolution P2015/A2014 [%]
I	Income from the capital market	129,600,000	255,357,317	143,025,000	56
	- income/gains from transactions	113,000,000	230,777,706	110,000,000	48
	- dividend income	10,700,000	14,189,081	28,675,000	202
	- interest income	5,900,000	6,506,501	4,350,000	67
	- foreign exchange gains	0	1,285,516	0	
	- income from reversal of impairment allowances	0	2,598,513	0	
II	Expenses on the capital market, out of which:	21,060,000	81,530,253	30,516,200	37
	- expenses/losses from transactions	20,000,000	61,833,926	29,500,000	48
	- expenses with adjustments for losses	0	16,560,311	0	
	- foreign exchange losses	0	1,201,974	0	
	- other expenses (transaction and banking fees, dividends accounted as expenses, etc.)	1,060,000	1,934,042	1,016,200	53
III	Other income (reversals of provisions, rentals etc.)	120,000	142,838	120,000	84
IV	Operating and auxiliary expenses, out of which:	15,581,200	13,155,675	16,356,600	124
IV.1	Business related expenses	7,059,700	6,178,945	7,793,105	126
	- Personnel and related expenses, out of which:	6,025,000	5,411,710	6,280,735	116
	- expenses with target achievement bonuses	1,276,000	1,236,520	1,276,000	103
	- Expenses with services rendered	379,200	226,069	645,200	285
	- Indirect expenses (seminars, business travels, subscriptions etc.)	655,500	541,166	867,170	160
IV.2	General expenses	8,521,500	6,976,730	8,563,495	123
	- Auxiliary operating expenses (mandatory fees, financial statements audit, mandatory reporting etc.)	2,441,130	2,197,767	2,758,040	125
	- Expenses with Board members and senior executive, out of which:	4,049,670	3,410,027	3,504,145	103
	- target achievement bonuses	990,000	921,355	990,000	107
	- Expenses with shareholders	37,000	10,099	128,000	1,267
	- Other expenses, out of which:	1,993,700	1,358,837	2,173,310	160
	- computer maintenance, software, and licences	112,700	100,252	102,000	102
	- consultancy and obtaining financial and legal information	150,000	63,101	120,600	191
	- expenses with the image (advertising, sponsorship, protocol)	550,000	311,642	824,500	265
	- telephone, Internet and postal expenses	122,400	128,148	150,000	117
	- other incidental expenses related to personnel	63,000	40,388	78,210	194
	- expenses generated by the maintenance of the headquarters' building and non-current assets	995,600	715,306	898,000	126
A	Total income	129,720,000	255,500,155	143,145,000	56
B	Total expenses	36,641,200	94,685,928	46,872,800	50
C	Gross result	93,078,800	160,814,227	96,272,200	60
D	Income tax	12,861,000	26,641,363	12,483,000	47
E	Net profit	80,217,800	134,172,864	83,789,200	62

Total income projected to be realized in 2015 include:

- **Income from the capital market**, representing 99.9% out of total income comprising mainly:
 - **Income/gains from transactions** have the largest weight in the total income from the capital market, namely 76.9%, including income and gains from the sale of stocks and earnings expected to be realized from the sale of stocks held for short-term.
 - **Dividend income** represents 20% of total revenues from the capital market, up 102% vs. the achievements for 2014, due to estimating a higher volume of dividend income from financial companies and other companies in the portfolio.
 - **Interest income**, weighting 3.1% of total income, is calculated based on the expected volume of monetary investments and the forecast interest.
 - Other income weighting 0.1% of total income, include income from rentals and utilities, etc.

Total expenses projected for 2015 include:

- **Expenses on the capital market**, weighting 65.1% of total expenses, mainly comprising expenses with the disposal of financial assets, losses on transactions with securities held on short term, transaction fees.
- **Operating and auxiliary expenses**, weighting 34.9% of total projected expenses, show an increase by 24% as compared to the achievements of 2014.

These expenses comprise:

- compulsory expenses (commissions and fees from FSA, BSE, depositary, registrar, audit, etc.), representing 5.9% of total expenses, 25% above the achievements of 2014 as a result of estimating additional expenses with the audit of consolidated financial statements for financial year 2014.
- the cost of provided services, which mainly include expenses with independent evaluations of portfolio companies with no active market, as required by IFRS (additional element of expense as compared to 2014).
- operating costs (personnel and related expenses, administrators and senior executives expenses and other expenses: maintenance, image, etc.) representing 27.6% of total proposed expenses.

The net result was estimated based on taxable income and applying a tax rate on profit of 16%. The effective tax rate taxable profit is 13%, influenced by the weight of tax-free income in total income.

Ştefan Dumitru

Vice-Chairman of the Board of Directors
of SIF Banat-Crişana