

OPERATION PLAN AND BUDGET FOR 2016

Economic environment

Global trends

The average of estimates compiled by Bloomberg provide a growth of 3.0% for global GDP in 2016, the lowest annualized dynamics since 2009, in the context of an inflation index of consumer prices estimated at 3.1%.

Key macroeconomic indicators estimated present a picture of a world economy with significant differences between the developed and emerging countries:

- *Expected growth of GDP* for developed economies of 1.9% (1.5% for the Eurozone), as compared to a 4.4% surge for the emerging economies;
- *The consumer price index* estimated for the current year ranges from 1.1% for developed economies (0.4% for the Eurozone) and 5.5% for emerging economies (with a high of 20.1% for Latin America). Moreover, the estimated *interest rate of monetary policy* in developed economies in 2016 stands at 0.8%, as compared to 5.6% for the emerging economies;
- *The unemployment rate* expected for the developed economies of 6.2% (9.2% in the EU), as compared to 5.4% in emerging economies;
- *Current account weight in GDP* stands for 0.1% for the developed countries (2.9% for the Eurozone). The estimated level for 2016 in the emerging economies is of 0.9%, steadily declining over the past five years, following the shift of the growth model of these countries towards the encouragement of domestic consumption;
- *The weight of budget deficit in GDP* estimated at 2.6% for the advanced economies (1.9% for the Eurozone), a decline as compared to 2015. For the emerging economies, the estimates are up from the previous year, to a level of 3.9%.

Main macroeconomic trends in the Eurozone

Macroeconomic trends in the Eurozone economies are shaped by European Central Bank (ECB) maintaining a climate of unconventional monetary policy, starting 2011, and augmented during the last 12 months, with the following characteristics:

- *Reference rate* of 0% and respectively a penalty on the deposit facility rate of -0.4%;
- *Implementation of a program of purchases of financial assets* (QE) by the Central Bank, whose duration and magnitude have recently been extended and will continue until at least March 2017, with a monthly level of purchases of bonds worth of 80 billion euros.

Factors that may **favourably** impact the economic growth estimates for 2016:

- Acceleration of annual growth rate of private consumption ("Household consumption") to 2.4% at 2015-year end, the highest level in the last 5 years, reinforcing the growth trend started in the 3rd quarter of 2013. The annualized dynamics in retail sales hovered around 2% in 2015, keeping the positive trend started in 2014, supported by the advance of consumer confidence index close to the levels recorded before the financial crisis. This trend has boosted the return to positive territory of the confidence in the retail sector during the second half of 2015;

- Strengthening of productive investment, with an increase in gross fixed capital formation of 3.4% at the end of Q4 2015. Historically, the annualized growth of 2-3% for this indicator sets a positive dynamic for the future developments of GDP;
- Increasing budget expenditures (investments in infrastructure, financing schemes and support for industry and agriculture), with a dynamic of 1.6% at 2015-year end (the *"Government spending"*), creates the potential of multiplier effects in the real economy. The growth of budgetary allocations is also supported by an estimate of the budget deficit for countries in the Eurozone (1.9%) below the estimated average for developed economies (2.6%);
- Preserving of confidence indicators in services, the general economic environment and business to a positive side, sets the favourable environment for the expansion of GDP;
- Prolongation of easing the access to bank financing for companies and consumers, as reflected in the ECB's quarterly reports on lending conditions in the EU. The percentage of banks reporting increases in applications for funding for companies, consumer finance, real estate and also the easing access to finance remains at a comfortable level, consolidating the trend started in 2012;

Factors which may **adversely** affect the economic growth estimates for 2016:

- Deflationary trend of consumer price index, despite the exceptional measures taken by the ECB. Annualized dynamics of CPI returned to a negative territory in February 2016, following a slight improvement at 2015-year end;
- Annualized evolution of producer price indices does not provide enough reasons for optimism concerning the reverse of deflationary trend started in 2013, mainly driven by a significant decrease in the prices of raw materials (industrial metals, energy, agricultural commodities);
- The inflexibility of unemployment, with a rate still over 10%. Unconventional monetary policies have contributed in part to lowering unemployment from a peak of 12% in 2013, by only 1.8 percentage points during span of 2 years;

Main **uncertainties** for the future of the Eurozone economies are related to:

- the absence of inflation, the threat of deflation and a double-digit unemployment, as main issues that question the effectiveness and efficiency of the policy of economic stimulus by almost exclusively monetary measures;
- Existence of time resources required to be obtained effects of monetary and fiscal policy convergence with the necessary reforms in the European economies in order to avoid the fall into a new recession;
- The impact of developments in China's economy: slowing progress of exports, significant declines in stock prices and massive capital outflows, rising costs of labour;
- The effects on inflation and therefore on the monetary policy, of a potential increase in the prices of raw materials, mostly currently at lowest quotes for the last decades (base effect), while the competition for high returns remains intense and the liquidity in financial markets rests at unprecedented levels;
- Solving structural problems concerning the organization and functioning of the Eurozone: the possibility of Greece exiting the Eurozone or United Kingdom leaving the European Union, the suspension / dissolution of the Schengen area, migrants crisis.

Main trends for Romania

For Romania, the average GDP growth estimates compiled by Bloomberg indicates an annualized dynamic of 3.9% for 2016, as a result of tax cuts and measures to increase domestic consumption.

BNR reported for 2015 an inflation rate of -0.9% as compared to the target of 2.5%, while the price development was significantly influenced by the VAT reduction. For 2016, the National Bank has set a target of 2.5%, but the average estimates of consumer price index remain in the negative territory, of -0.2%.

The unemployment rate in 2015 was of 6.8%, as compared to an average of 9.2% for the EU, and 7.4% for the Central and Eastern European countries. The trend is for improving in 2016 amid the advance of GDP, estimating the unemployment rate of 6.6%.

Domestic capital market was rather volatile in 2015, mainly due to external influences (Federal Reserve monetary policy normalization in the US, news related to the downturn in the Chinese economy). The volatility has been decreasing during 2015 (2.76% - measured as ratio between the standard deviation of closing quotations of BET-XT index and its average quotation) as compared to 2014 (3.75%), while the annual return was of 1.6% (2014: 6.4%). Valuation multiples of the local market indicate a valuation slightly above the average for Central and Eastern Europe. Price / Earnings ratio (PER) for BET-XT index was 14.5 at the end of the previous year (compared to a value of 9.5 for the MSCI Eastern Europe) and dividend yield of over 5% (4.3% for MSCI Eastern Europe).

The negative performance of issuers in the energy and utilities sector, mainly affected by the sharp decline in the prices of petroleum products globally, was balanced by the positive developments of issuers in the banking sector, amidst the completion loan portfolios restructuring of and their return to recording profit.

The average daily value traded in December on the Bucharest Stock Exchange (BVB) was of RON 7.11 million, slightly lower as compared to the previous year. Listings from the private sector were not conducted during 2015, with future prospects for the listing of state companies such as Hidroelectrica, Salrom or Bucharest Airports. Although AeRo market has attracted a number of companies from the private sector, especially from the IT segment, BVB is not yet a viable alternative for financing or raising capital for Romanian companies.

SIF Banat-Crişana - courses of action in 2016

Grounded on a strategy to increase the value of assets and keeping a strong financial position apt to provide a sustainable growth for the Company and its shareholders on the medium and long term work, the activity program for 2016 focuses on the following major traits:

1. Consolidating and increasing the value of assets under management

SIF Banat-Crişana will continue in 2016 the process of optimizing the resource allocation and their management at higher efficiency parameters, focusing on developing the investment segments generating healthy revenues, and hence profit.

Our efforts will be focused towards an investment process apt to provide the increase in the value of assets under management, generating strong future revenues without disinvestment from key positions in the portfolio.

In this context, the 2016 budget proposed for the approval by shareholders is focused on the performance of the assets held and their potential of generating revenues translating into real profit. SIF Banat-Crişana's leadership is of the opinion that results are to be achieved in a sustainable manner, given the assets we hold, and to focus on the improvement our portfolio with quality assets to produce results in the future without massive disinvestments from valuable assets. However, given that we have an active management strategy, during the year might arise opportunities to sell certain stakes, situations that will be exploited after rigorous analyses.

In 2016, the investment policy will be directed towards the creation of a core portfolio designed to provide solid, stable and predictable returns for the shareholders.

Stocks remain the preferred investment option, as we forecast the possibility of achieving higher returns in 2016 for the stock portfolio, given acceptable risk factors, while having a cautious investment behaviour. Dividend yields for some companies listed on BVB exceed 6%, offering attractive alternatives to fixed income instruments whose annual returns are close to 1%.

The strengthening of stock portfolio will be aimed, carefully analysing investment opportunities able to provide an increase of the portfolio quality based on prudent sectoral diversification, increased liquidity and potential for constant future revenues.

We have in view the development of a stock portfolio with a high dividend yield (above 5%), to provide a significant and steady cash flow for the Company. Even in conditions of a high volatility, the income from dividends should remain at a constant level in cases of sound fundamentals of the companies, constituting a predictable source to remunerate SIF Banat-Crişana shareholders through dividends. The most favourable sector in this regard is the energy and utilities. Companies in this sector, except those operating in the oil industry, continued to report consistent profits in 2015. Most of them have a high capacity to generate financial flows were robust, have robust patrimonial structures and are among the most liquid stocks on the BVB.

Remain in our attention the identification, selection and increasing the exposure on companies listed on the regulated market of BVB, with significant exports to the EU market (e.g. automotive, energy equipment suppliers, utilities, etc.) and pharmaceutical sector, a field with a continuous and growing demand of medical products and services, both domestically and Europe-wide.

At the same time, we manifest an active involvement in attracting new IPOs of private companies, aiming to develop the local capital market.

It will also be kept under observation the prospect of increasing the shareholding in listed companies undervalued as compared to intrinsic value (trading price discount of over 30% compared to the "target price").

Particular attention will be given to investment opportunities in the private sector or those that may arise from the reorganization of companies, which could be made viable again through a careful and rigorous management.

Given the macroeconomic and geopolitical factors and the developments of foreign capital markets, generating significant influence on the development of the Romanian capital market, the analysis of international economic climate remains an important component of the investment process conducted, in order to determine the opportunities that may help improving the yields, as well as anticipating and reducing the possible adverse effects of risk factors over the portfolio.

2. Performant management of the shareholdings

SIF Banat-Crişana is committed to provide a high level of performance in portfolio management, both by higher activism as a shareholder, and by developing internal processes and tools for analysis and evaluation of the portfolio performance.

We will have an active involvement in the portfolio companies with majority holdings, in order to increase their performance, by providing support and assistance:

- supporting the management in implementing measures to rationalize the use of resources, optimization of costs;
- proposals and initiatives to improve the financial results of companies;

- support for projects of development;
- evaluation and continuous analysis of the performance;
- selection of performing managers;
- improving corporate governance standards.

The desire to increase the value of portfolio companies will be reflected through a pro-active involvement in the protection of all investments by intensifying the legal and corporate actions for the benefit of SIF Banat-Crişana.

To provide an efficient portfolio management process, attention is given to the improvement of professionalism and expertise of the analysts, and adapting internal organizational architecture for the efficient and rapid response to changes in the dynamic and competitive environment in which we operate.

3. Transparency in communication

An important goal for this year and also for the future is the intensification of promoting SIF Banat-Crişana in the events held in Romania or abroad - either individually or together with BVB or intermediaries, in order to increase the transparency and the visibility for SIF1 shares to a wider class of investors.

We believe that improving the presentation of relevant information about SIF Banat-Crişana and increasing communication with investors can generate a higher confidence of investors in the activities of Company's management and the rise in the interest for SIF Banat-Crişana, with effect on reducing the discount to NAV the SIF1 shares are traded.

4. Repurchase Program

Striving to increase value for the shareholders, the Board of Directors submits for the approval of the general shareholders meeting a program to repurchase company's own shares, which we appreciate as beneficial for the shareholders. The details of the repurchase program are presented in the information material for the items on the agenda for the extraordinary general meeting of shareholders convened for April 25 (26) 2016.

By this program the company can buy back a limited number of shares available on the market and that the program is expected to contribute to an increased demand for SIF1 shares, with a positive effect on the liquidity, and reducing the discount at which the shares are traded.

Also, the component of repurchase program to reward the loyalty of the Company's employees and leadership has in view the development of the remuneration policy by introducing the remuneration instruments in equity, aiming the inducement of employees and leadership increase the efficiency of the administration.

Budget of revenues and expenses for 2016

In preparing the budget proposal for 2016, the following were considered:

- *achieving the revenues, expenses and net result as at December 31, 2015;*
- inflation rate for 2016 of 2.5%, forecast by Romanian National Bank, with uncertainty range of $\pm 1\%$;
- the average interest rate of 1.5% for bank deposits in RON, 2.5% for govt. bonds, 8% for corporate bonds RON denominated and 6.3% for corporate bonds EUR denominated;
- *estimated dividend income* amounting to RON 93.8 mn, representing gross dividend income from the companies in the portfolio for 2015;

- *estimated interest income* totalling RON 2.8 mn, set on the current level of monetary investments, influenced by the proposals of inputs / outputs of cash for 2016 and the interest rate estimated for 2016;
- *expenses on salaries, remunerations, related contributions and similar charges proposed*, - estimated based on the wage bill for December 2015, a prize fund of 10% of payroll, annual indexation according to Collective Labour Contract, and a prize fund for achieving the objectives / profit;
- *performing financial investments* and other acquisitions depending on the opportunities and the market developments;
- *endowment* - mainly representing computers, office equipment and software licenses.

PROPOSAL OF BUDGET FOR INCOME AND EXPENSES FOR THE YEAR 2016

| No. | Specifications | RON | |
|------|---|--------------------------|-------------------|
| | | ACHIEVEMENT IFRS 2015 | PROPOSAL 2016 |
| I | Income | | |
| | Dividend income | 34,072,103 | 93,866,000 |
| | Interest income | 6,461,141 | 2,850,000 |
| | Other operational income | 10,743,150 | 172,200 |
| II | Gains on investments | | |
| | Net gain from exchange rate differences | 73,886 | - |
| | Net profit from sale of shares | 54,630,241 | - |
| III | Expenditure adjustments for depreciation | 1,851,313 | - |
| IV | Expenses | | |
| | Commissions expenses | 2,443,923 | 2,324,840 |
| | Other operating expenses | 13,340,795 | 19,154,460 |
| V | Profit before tax | 88,344,490 | 75,408,900 |
| VI | Income tax | 11,021,809 | - |
| VII | Tax on due gross dividend | 1,998,113 | 3,536,450 |
| VIII | Net profit for the year | 75,324,568 | 71,872,450 |

Income estimated to be achieved in 2016 include:

- **Dividend income** that represents the gross sum estimated to be collected in 2016 from portfolio companies for the financial year 2015. Dividend Income estimation was based on the information published by some companies regarding the profit appropriation (listed companies) and the estimates based on the preliminary results and the dividend policy of unlisted companies. The higher volume of such revenue is due to obtaining higher revenues from companies in the banking-financial sector, and the portfolio companies in which we hold majority stake;

- **Interest income** from the monetary investments, respectively bank deposits, government bonds, corporate bonds denominated in RON and EUR. The amount of these revenues represent 56.5% of the achievements of 2015, due to estimating a decline of the average interest rate on monetary investments;

- **Other income** includes income from rents and utilities, lower as compared to 2015 because for 2015 the evaluation of real estate investments was included, revenues that for 2016 are estimated not to reach the same level.

Gains from investments were not estimated for 2016, given the assumptions that were the basis of substantiating. However, during the year 2016 may arise opportunities for the sale or purchase of stocks to generate some costs on gains or losses (in case of sales).

- **Gain / loss on foreign exchange differences** related to monetary investments in foreign currency has not been estimated because the exchange rate movements cannot be reasonably estimated;
- **Net profit from sale of shares** - was not estimated. Given that at present it is not expected exits from portfolio companies (as seen from the activity plan and the holdings as assets available for sale and not for trading) there was not estimated a profit from the sale of shares. If transaction opportunities will arise for the sale of these shares, these will generate expenses on disposed assets and income from transactions, amounts which are not budgeted, but for which we require shareholders empowering the Board of Directors for their achievement.
- **Expenses with adjustments for impairment** - include impairment expenses related to the shares due to their valuation at fair value. These costs have not been estimated because market prices cannot be reasonably estimated at this time.

Total expenses estimated to be realized in 2016 amounting to RON 21.7 mn, include:

- **Commission expenses**, including fees payable to ASF calculated off the net asset (a percentage of 0.0078% of the monthly net asset value), to Depozitarul Central for the record of shareholders, to BRD the depository bank, to BVB for maintaining to trading on the stock exchange. No commissions due to financial investment services company related to sale or purchase transactions of shares were included.
- **Other operating expenses** include:
 - **Expenses related to employees, administrators and executive directors** representing salaries, remunerations, prizes, social contributions, etc. Costs that will result if GMS approves the repurchase of shares and of distribution of shares to employees and leadership were not included. At the moment costs with trading fees and expenses due to provisions arising from this program cannot be estimated;
 - **Additional expenses** related to services, travel, maintenance, utilities, supplies, depreciation, etc. As compared to the previous year, expenses with the external evaluation of the portfolio companies and additional audit services expenses (audit of consolidated financial statements, IT audit) etc. were included;
 - **Other expenses** mainly include expenses related to organizing the GMS, investor relations activities, promotional activities and publishing of materials, expenses of protocol.

Gross profit estimated for 2016 is in the amount of RON 75,408,900.

Income taxes – for projected budget the estimation was that there will be no income tax expense due to the large volume of non-taxable income (dividend income).

Tax on due gross dividend - is estimated for the amount of RON 3,536,450 and include income tax on the gross dividend estimated to be achieved in 2016, budgeted, noting that this tax is not a due tax (payment) by the company.

The net result for the year proposed to be achieved in 2016 amounts to RON 71,872,450, slightly below the previous year's.

Given the above and mainly that the proposed budget for 2016 has been prepared without taking into account items that cannot be estimated at this time, but whose occurring probability exists, mainly:

- potential purchases or sales of shares that might take place during 2016 and
- the progress of repurchase of company's own shares program, following the approval by the extraordinary general meeting of shareholders, for the purpose of capital reduction and loyalty rewards program for employees and leadership,

The Budget was prepared based on the management's best estimates at the date of drawing. Developments during 2016 may induce certain variations.