

**TURISM, HOTELURI, RESTAURANTE  
MAREA NEAGRA S.A.**

Head office: Romania, Mangalia, 29 Lavrion Street, Constanta County, tel.: +40-241-752-452; fax:+40-241-755-559

No. registration at Trade Register Constanta: J13/696/1991, CIF: RO2980547,

IBAN account: RO71 RNCB 0117 0151 6314 0001, Romanian Trade Bank- Mangalia subsidiary

Social subscribed and paid up capital: 57.894.993,9 lei

Two tier corporate model

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**TO,**

**THE GENERAL MEETING OF SHAREHOLDERS**

**The presentation of the Budget of Incomes and Expenses**

**for the year 2019**

We present you above **the synthetic situation of the indicators forecast for the year 2019**, compared to the accrued at 31.12.2018

Indicators	BVC 2018	Accrued at 31.12.2018*	BVC 2019, of which:	Trim I	Trim II	Trim III	Trim IV	BVC 2019 index/accrued 2018 (%)
<b>A.1.Incomes from exploitation</b>	<b>44,664,470</b>	<b>60,254,615</b>	<b>57,214,500</b>	<b>80,000</b>	<b>4,012,760</b>	<b>47,277,740</b>	<b>5,844,000</b>	<b>94.95</b>
-incomes from public food service	10,250,000	13,838,560	14,210,000	0	1,242,000	12,768,000	200,000	102.68
-incomes from accomod.	24,276,000	29,459,848	33,440,000	0	1,934,260	31,205,740	300,000	113.51
-incomes from locations and rents	1,357,370	1,389,539	1,183,600	80,000	253,000	460,600	390,000	85.18
-other incomes of exploitation	4,081,100	3,477,774	3,680,900	0	583,500	2,843,400	254,000	105.84
-incomes from selling assets	4,700,000	12,088,895	4,700,000	0	0	0	4,700,000	38.88
<b>A.2.Expenses from exploitation</b>	<b>39,661,510</b>	<b>51,484,607</b>	<b>51,652,750</b>	<b>4,981,913</b>	<b>11,910,467</b>	<b>28,071,337</b>	<b>6,689,033</b>	<b>100.33</b>
-expenses with goods	3,177,500	4,429,766	4,547,200	0	397,440	4,085,760	64,000	102.65
-expenses materials	2,538,300	2,546,989	2,731,000	109,300	891,914	1,563,465	166,321	107.22
-expenses with inventory	554,200	560,431	705,000	138,000	138,000	214,500	214,500	125.80

objects								
-expenses with utilities	2,615,000	2,800,810	3,400,000	80,000	580,000	2,610,000	130,000	121.39
-expenses concerning external services	6,768,100	7,594,497	4,976,200	478,000	1,065,000	2,762,600	670,600	65.52
-expenses with publicity and protocol	45,000	85,800	95,000	8,000	8,000	65,000	14,000	110.72
-expenses tax on income and other taxes	3,638,500	3,557,285	3,889,450	972,363	972,363	972,362	972,362	109.34
-expenses with personnel	12,040,200	12,083,882	22,634,900	1,380,500	5,803,500	13,638,900	1,812,000	187.31
-expenses amortization and adjustment of impairment	6,940,000	6,785,935	7,131,000	1,732,750	1,782,750	1,807,750	1,807,750	105.09
-other exploitation expenses	276,200	3,462,284	261,000	58,000	81,500	76,000	45,500	7.54
-exp. with pro rata	400,000	440,239	450,000	25,000	190,000	275,000	-40,000	102.22
-expenses with selling assets	677,510	7,136,689	832,000	0	0	0	832,000	11.66
<b>Profit from exploitation</b>	<b>5,002,960</b>	<b>8,770,008</b>	<b>5,561,750</b>	<b>-4,901,913</b>	<b>-7,897,707</b>	<b>19,206,403</b>	<b>-845,033</b>	<b>63.42</b>
<b>B.1.Financial incomes</b>	<b>396,000</b>	<b>438,765</b>	<b>220,000</b>	<b>170,000</b>	<b>1,000</b>	<b>10,000</b>	<b>39,000</b>	<b>50.14</b>
<b>B.2.Financial expenses</b>	<b>180,00</b>	<b>88,602</b>	<b>100,000</b>	<b>5,000</b>	<b>35,000</b>	<b>45,000</b>	<b>15,000</b>	<b>112.86</b>
<b>Financial profit</b>	<b>216,000</b>	<b>350,163</b>	<b>120,000</b>	<b>165,000</b>	<b>-34,000</b>	<b>-35,000</b>	<b>24,000</b>	<b>34.27</b>
<b>Total incomes, of which</b>	<b>45,060,470</b>	<b>60,693,380</b>	<b>57,434,500</b>	<b>250,000</b>	<b>4,013,760</b>	<b>47,287,740</b>	<b>5,883,000</b>	<b>94.63</b>
<b>Turnover</b>	<b>38,145,970</b>	<b>46,281,257</b>	<b>51,066,500</b>	<b>80,000</b>	<b>3,912,760</b>	<b>47,153,740</b>	<b>-80,000</b>	<b>110.34</b>
<b>Total expenses</b>	<b>39,841,510</b>	<b>51,573,209</b>	<b>51,752,750</b>	<b>4,986,913</b>	<b>11,945,467</b>	<b>28,116,337</b>	<b>6,704,033</b>	<b>100.35</b>
<b>Total gross profit</b>	<b>5,218,960</b>	<b>9,120,171</b>	<b>5,681,750</b>	<b>-4,736,913</b>	<b>-7,931,707</b>	<b>19,171,403</b>	<b>-821,033</b>	<b>62.30</b>

**\*Note:** we mention that the economic-financial indicator presented in *Accrued at 31 December 2018* can suffer modifications until the end of the year 2018

Starting with the year 2019, the activity SC Balneoterapia Saturn SRL will be carried over by the sole associate, THR Marea Neagra SA. In consequence, a part of the incomes and expenses of the Budget Incomes and Expenses for 2019 will be adjusted with the influences generated by this carryover.

For the year 2019 we want to increase the incomes from the operational activity by 9,03% compared to the accrued of the year 2018. In what concerns selling the assets, the previsions for the year 2018 have been quantified on prudential principles, taking into account the value of assets in the strategy of patrimony restructuration.

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Concerning the quantification of the expenses level and the identification of their decrease possibilities, the intervention margin is limited thanks to the exogenous factors, such as: elements of taxation, the changes brought to the Labor Code, complying with all criteria and rigors imposed by the specific laws, for which exist numerous institutions with roles of control and verification. It was taken into account:

- a level of total incomes of **57.434.500 lei**, which represents 94,63% of the level accrued at 31 Dec. 2018, of which:
  - Incomes from the operational activity- 52.514.500 lei
  - Incomes from selling assets- 4.700.000 lei
  - Financial incomes- 220.000 lei
  
- A volume of **total expenses of 51.752.750 lei**, which are with 0,35% higher than the total expenses accrued at 31 Dec. 2018, of which:
  - Expenses from the operational activity- 50.820.750 lei
  - Expenses from the activity of selling assets- 832.000 lei
  - Financial expenses – 100.000 lei

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- **a gross profit in sum of 5.681.750 lei**, with 37,70% smaller than the level accrued at 31 Dec. 2018, of which:
  - o gross profit from the operational activity- 1.693.750 lei
  - o gross profit from the activity of selling assets- 3.868.000 lei
  - o gross profit from the financial activity- 120.000 lei

The budget of incomes and expenses is structured on the three main categories of activities, which are:

- **The operational activity;**
- **Selling assets;**
- **Financial activity**

### *1.The operational activity*

#### **1.1 Incomes from the operational activity (accommodation, public food service and other incomes)**

At the establishment of the incomes of operational activity it was taken into account the estimated tourist circulation, together with the afferent tariff policy, being forecast a total volume of 52.514.500 lei from the operational activity, of which: 14.210.000 lei for public food service, 33.440.000 lei for accommodation and 4.864.500 lei for other incomes.

- *Incomes accommodation forecast for the year 2019*

Total incomes from accommodation forecast for the year 2019: **33.440.000 lei**, representing 113,51% compared to the accrued of the year 2018. Taking into consideration that in the year 2019 three units will not be exploited: Lidia Complex (sold in 2018), Hotel Atena and Hotel Gloria (being in the strategy for sale for 2019), the real increase of the incomes from accommodation is with 22,53%.

The basic element in forecasting an increase of incomes in the year 2019 on this segment was constituted by the tariff policy, made for increasing the hotels capitalization, on one side and the decrease of VAT percentage from 9% to 5% according to O.U.G. 89/2018 on the other side. Although, we estimate that the effect of the present tariff policy will lead to a slight decrease of the tourist circulation, taking into account that the target-segment for the tourism in the south part of the seaside are the tourists with medium and small incomes.

- ***Incomes from public food service for the year 2019***

The total incomes from the public food service forecast for the year 2019 is of 14.210.000 lei, representing an increase compared to year 2018 with 7,87%, if we compare the diminished incomes with the ones realized in 2018 by Lidia Restaurant.

Estimating these evolutions of incomes is fundamental mainly because of the increase of receiving money in cash.

- At the chapter ***Incomes from tenements*** it was forecast a value of 1.183.600 lei compared to 1.389.539 lei accrued for the year 2018. The decrease of these incomes is determined by the carryover of SC Balneoterapia Saturn SRL and by the cancelation of the rental contract for Claudia Complex in Venus.
- **Other incomes from exploitation** have been forecast according to the following structure:

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**-Incomes which are component part of the turnover**, and which are generated by activities of: medical service- treatment, parking lot service (taxes reservations), services amusement pool (access taxes), rentals for beach chairs and umbrellas (Saturn beach), granting over commission tour to the operators for the volume of sales.

**-Incomes from exploitation, which exceed the Turnover**, constituted of: incomes from the production of tangible assets (investments realized internally), incomes from rebilling the utilities to third parties.

The forecast quantum of these incomes for the year 2019 represents 3.680.900 lei, with an increase of 5,84% compared to the year 2018. This increase of incomes comes from providing treatment services, as consequence of carrying over the activity referring to the human health, after the dissolution of SC Balneoterapia Saturn.

### **1.2 Expenses from the operational activity**

The expenses mainly have an evolution in the sense of incomes evolution, being followed the registration of increasing rates inferior to these, in order to ensure the realization of an optimum level of capitalization.

For the expenses from exploitation from the operational activity it was estimated a level of 50.820.750 lei compared to the subsequent year, when they registered 44.247.125 lei.

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At the chapter Expenses of exploitation from operational activity it was taken into account the registered consume in 2018 and the increasing of prices and tariffs communicated on the market by the service providers, such as: electric power, water-sewage, thermal power, taking the garbage services etc.

In this sense, for the year 2019, **the expenses with utilities** have been forecast with an increase of approximately 21,39% compared to the year 2018 (3.400.000 lei/2.800.810 lei). This increase is due to the higher tariffs at utilities.

**Prices of goods (Goods costs)** in value of 4.547.200 lei, in value of 4.547.200 lei, provided in the Budget for the year 2019 is increasing with 2,65% compared to the accrued of the year 2018. In this establishment it was considered for the year 2019, a more rigorous selection of goods providers, so the company to benefit from some trade promos (at price) and from superior quality products.

**The expenses with external providers** (laundry, desinsection, maintenance/service/repairs, cable-TV subscription, IT assistance etc.) were mainly founded on the basis of the existent elements in the concluded contracts, in development, following that the costs to be comparable to the ones in the year 2018

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**The expenses with personnel** (expenses with the personnel's salaries, the expenses of the company with salaries, social expenses acc. to art. 25 Fiscal Code, expenses with meal tickets given to employees) in value of 22.634.900 lei register an increase compared to the expenses of year 2018 with 87,31%, respectively with 10.551.018 lei. Therefore, the sum of 22.634.900 lei has as fundament elements two components: 21.311.750 lei representing expenses with the personnel of THR Marea Neagra, less the salaries of the personnel in the treatment building and 1.323.159 lei which represent the expenses with the personnel in the treatment area.

The increase of the expenses article representing salaries is justified by:

- the increase of the national minimum wage from 1.900 lei at 2.080 lei;
- the necessity of adopting a motivating salaries policy for the seasonal personnel, considering the difficulties on the labor market;
- the carryover of the activity of SC Balneoterapia Saturn SRL.

**The expenses with local taxes** register an increase with 9,34% as consequence of increasing the flat income tax for the layland tax, for all units considered by Mangalia Local Council and Eforie Local Council to frame in the criteria of applying the tax.



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**1.3 The gross income from operational activity** forecast for the year 2019 is of 1.693.750 lei and represents 43,22% compared to the one realized at 31.12.2018. It is strongly affected by the increase of some fix or variable expenses for which we do not have control levers, being generated by normative documents, decisions of local councils or the price evolution on specific markets. Here we refer to:

- the increase of the national minimum wage from 1.900 lei at 2.080 lei;
- the necessity of adopting a motivating salaries policy for the seasonal personnel, considering the difficulties on the labor market;
- the significant increase of the layland tax;
- the evolution of the electric power market.

We estimate that, without these factors, the profit from exploitation foreseen for the year 2019 could have been double.

### ***2.Assets sale***

**2.1 At the chapter Incomes from the assets sale** it was forecast the sum of 4.700.000 lei, based on the management strategy for the year 2019, according to which it was proposed the sale of the assets: Hotel Atena in Saturn and Hotel Gloria in Eforie Sud.

**2.2 The expenses with the assets sale** –was estimated the sum of 832.000 lei and represents the value of the land and the non-depreciated value of the buildings proposed for sale in the year 2019 (Hotel Atena in Saturn and Hotel Gloria in Eforie Sud).

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**2.3 The gross profit from assets sale** forecast for the year 2019 is of 3.868.000 lei, and represents 79,73% from the one realized at 31.12.2018

### ***3.Financial activity***

**3.1 At the chapter Financial incomes**, it was forecast the total sum of 220.000 lei which mainly derives from the bonus obtained from Mangalia City Hall and Eforie City hall, as consequence of the integral payment of the tax on buildings and land at the date of 31.03.2019

**3.2 The financial expenses** were foreseen at the level of the sum of 100.000 lei. The financial expenses mainly comprise the bank interests afferent to the bank credits contracted by the company for the temporary financing of the exploitation activity and the program of investments, the program being carried in the extra-season period, the internal sources being made mostly in the 3<sup>rd</sup> trimester.

**3.3 The gross income from the financial activity** forecast for the year 2019 is of 120.000 lei and represents 34,27% of the one realized at 31.12.2018, being generated by the significant decrease of financial incomes.

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**In conclusion, The gross profit estimated for the year 2019, determined based on the above mentioned elements, is of **5.681.750 lei**, in the structure on activities being presented thereby:**

-Profit from the operational activity	1.693.750 lei
-Profit from assets sale	3.868.000 lei
-Profit from the financial activity	120.000 lei

**GENERAL DIRECTOR/EXECUTIVE PRESIDENT**

**Narcisa Mosoiu**

**HUMAN RESOURCE DIRECTOR/VICE-PRESIDENT DIRECTOR**

**Doina Parcalabu**

**TECHNICAL DIRECTOR/MEMBER DIRECTORATE**

**Constantin Stanescu**

Subsemnatul, Cîrlan Georgiana Andreea, interpret si traducător autorizat pentru limbile engleză și spaniolă, în temeiul autorizației numărul 30019/27.09.2010, eliberată de Ministerul Justiției din România, certific exactitatea traducerii din limba română în limba engleză.