



**ANNUAL REPORT
of the Board of Directors
of S.I.F. Oltenia S.A.
on Consolidated Financial Statements
concluded on 31.12.2017**

Societatea de Investiții Financiare OLTENIA S.A. (the „Company”) - Romanian legal person – incorporated as a commercial company on shares on 01.11.1996 according to Law no. 133/1996, is a collective investment institution operating under Law no. 31/1990 on commercial companies and Law no. 297/2004 regarding the capital market, with subsequent amendments and completions and under the Law no. 24/2017 on issuers of financial instruments and market operations.

According to the articles of incorporation, the company has the following object of activity:

- administration and management of shares in commercial companies for which own shares were issued, according to Property Certificates and Privatization Nominative Coupons subscribed by citizens, according to the provisions of art. 4 paragraph 6 of the Law no. 55/1995;
- management of own securities portfolio and making investments in securities in accordance with the regulations in force;
- other similar and adjacent activities, according to the regulations in force, as well as of administration of own assets.

At the Extraordinary General Meeting of Shareholders dated 05.09.2017 the Constitutive Act was approved in a unique format, the object of activity of the company was modified and completed as follows:

- administration and management of shares in commercial companies for which own shares have been issued, corresponding to the Ownership Certificates and Nominal Privatization Coupons subscribed by citizens according to the provisions of art. 4 paragraph 6 of the Law no. 55/1995;

- **administration** and management of its own securities portfolio and investing in securities in accordance with the regulations in force;
- **risk administration**;
- other auxiliary activities and adjacent to the collective management activity.

The constituent act thus amended was endorsed by the Financial Supervisory Authority in February 2018 by Permit no. 48/15.2.2018.

Subscribed and paid in share capital of the Company is 58,016,571 lei, divided into 580,165,714 shares with a nominal value of 0.1 lei / share. The shares are: ordinary, indivisible, nominative, of equal value, issued in dematerialized form and grant equal rights to their holders.

On 31.12.2017 the number of Company's shareholders was 5.748.221 (2016: 5.754.739).

The shares of the Company are listed on Bucharest Stock Exchange, the Premium category, with indicative SIF 5, starting with 01.11.1999.

During the reporting period, the Company developed its activity in compliance with the legal provisions contained in:

- Law no. 31/1990 R, as subsequently amended and supplemented;
- Law no. 297/2004, as subsequently amended and supplemented;
- Law no. 24/2017 on issuers of financial instruments and market operations;
- Regulation C.N.V.M. (A.S.F.) no. 15/2004 on the authorization and functioning of investment management companies, collective investment undertakings and depositaries;
- Regulation C.N.V.M. (A.S.F.) no. 1/2006 on issuers and transactions with securities;
- The A.S.F. Regulation no. 9/2014 on the authorization and operation of investment management companies, undertakings for collective investment in transferable securities and depositaries of undertakings for collective investment in transferable securities;

- Regulation no. 14/2015 regarding the evaluation and approval of the members of the management structure and of the persons holding key positions within the entities regulated by the Financial Supervisory Authority;
 - Regulation no. 2/2016 on the application of the principles of corporate governance by entities authorized, regulated and supervised by the Financial Supervisory Authority;
 - Code of Bucharest Stock Exchange;
 - Code of Corporate Governance of Bucharest Stock Exchange;
 - the other normative acts concerning the matter;
- and
- Articles of Incorporation (Statute and Company Contract).

The accomplishment of the storage activities provided by the legislation and regulations of F.S.A. was provided, for analyzed period, by RAIFFEISEN BANK S.A. – Bucharest Branch.

The evidence of S.I.F. OLTENIA S.A. shareholders is kept by S.C. DEPOZITARUL CENTRAL S.A. Bucharest.

I. GENERAL INFORMATION

The consolidated financial statements as at 31.12.2017 were prepared in accordance with the Norms no. 39/2015 for the approval of accounting regulations in line with international financial reporting standards applicable to entities authorized, regulated and supervised by the Financial Supervisory Authority of the Financial Instruments and Investments Sector.

In accordance with the provisions of Regulation no. No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 and in accordance with the provisions of the Law no. 24/2017 on issuers of financial instruments and market operations, the company has the obligation to prepare and submit to R.N.S.C. (ASF) consolidated annual financial statements in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS") within 4 months of the close of the financial year.

The Company's consolidated financial statements comprise the Company and its subsidiaries (hereafter referred to as the Group). The core activities of the Group are represented by S.I.F. Oltenia S.A., as well as by the activities of its subsidiaries, which belong to different sectors of activity such as food, tourism, space renting, etc.

The subsidiaries' financial statements are included in the consolidated financial statements from the moment when the control begins and until it ceases. The accounting policies of the Group's subsidiaries have been amended to align them with those of the Group.

The date of December 31st, 2015 este data tranziției la IFRS is the date of transition to IFRS as an accounting basis by the Company, date when, through restatement, were performed and registered in the accountancy the operations determined by the changeover from the R.N.S.C. Regulation no. 4/2011 to the IFRS-compliant Accounting Regulations.

In addition to consolidation-specific adjustments, the main restatements of financial information contained in the financial statements prepared in accordance with the RAS (Romanian Accounting Regulations), in order to align them with the requirements of IFRS adopted by the European Union, consist of:

- grouping more elements into more comprehensive categories;
- fair value adjustments and impairment of financial stocks in accordance with IAS 39 *"Recognition and Measurement Financial Instruments"*;
- asset and equity adjustments in accordance with IAS 29 *"Financial reporting in hyperinflationary economies"* as the Romanian economy was a hyperinflationary economy by 31 December 2003;

- adjustments to the income statement to record dividend income at the time of the statement and gross amount;
- real estate investment adjustments for valuation at fair value in accordance with IAS 40 *"Investment Property"*;
- adjustments of tangible assets for their evaluation according to the accounting policies of the Group and according to IAS 16 „Tangible assets”;
- adjustments for the recognition of deferred tax assets and liabilities in accordance with IAS 12 *"Income Tax"*;
- presentation requirements in accordance with IFSR.

The Group adopted a presentation on a liquidity basis in the consolidated statement of financial position and the disclosure of income and expense was made by reference to its nature in the consolidated statement of profit or loss and other items of the global result, considering that these presentation methods provide information which is more credible and relevant than other methods permitted by IAS 1 *"Presentation of Financial Statements"*.

The Group has a policy of keeping the own capitals in order to develop and to meet the objectives aimed. The main objective is the continuation of the activity in order to provide profitability for its shareholders.

Consolidated financial statements are prepared on a fair value convention for: derivative financial instruments, financial stocks and financial liabilities at fair value through profit or loss and available-for-sale financial stocks, except for those for which fair value can not be determined in a credible way.

Other financial stocks and liabilities, as well as non-financial stocks and liabilities are presented at amortized cost, revalued or historical cost.

The group uses for the calculation of the fair value the following hierarchy of methods:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly (eg, prices) or indirect (eg derived from prices) ;

- Level 3: Evaluation techniques based largely on unobservable elements. This category includes all instruments for which the rating technique includes elements that are not based on observable data and for which unobservable input parameters can have a significant effect on instrument evaluation. This category includes instruments that are rated based on quoted prices for similar instruments but for which adjustments are largely based on unobservable data or estimates to reflect the difference between the two instruments.

The fair value measurement of the holdings held on 31.12.2017 was as follows:

- for securities quoted and traded in 2017, the market value was determined by taking into account the quotation from the last trading day (the closing price quote on the primary capital market for level 1 and for level 2 were taken into account quotations for the shares traded during the last 30 trading days);
- for quoted securities that did not have transactions during the last 30 trading days of 2017, as well as for unlisted securities, the market value was determined according to the issuers' own capital on 31.12.2016;
- for securities related to companies under insolvency or reorganization, the valuation is made at zero;
- for titles of participations at OPCVM, the value taken into account was the last unit value of the net asset, calculated and published.

The total market value of the participants portfolio administrated by the Group is **1,508,862,770 lei**, here being also found titles to 4 investment funds in the amount of **2,789,494 lei (0.18%** of the market value of the portfolio administrated).

On 31.12.2017 the Group held mainly shares in companies which activate in finance, banks, insurances field, with a weight of **53.35%** of the total market value of the portfolio, with a slight decrease compared to 31.12.2016, when the same activity sector registered a weight of **53.37%**.

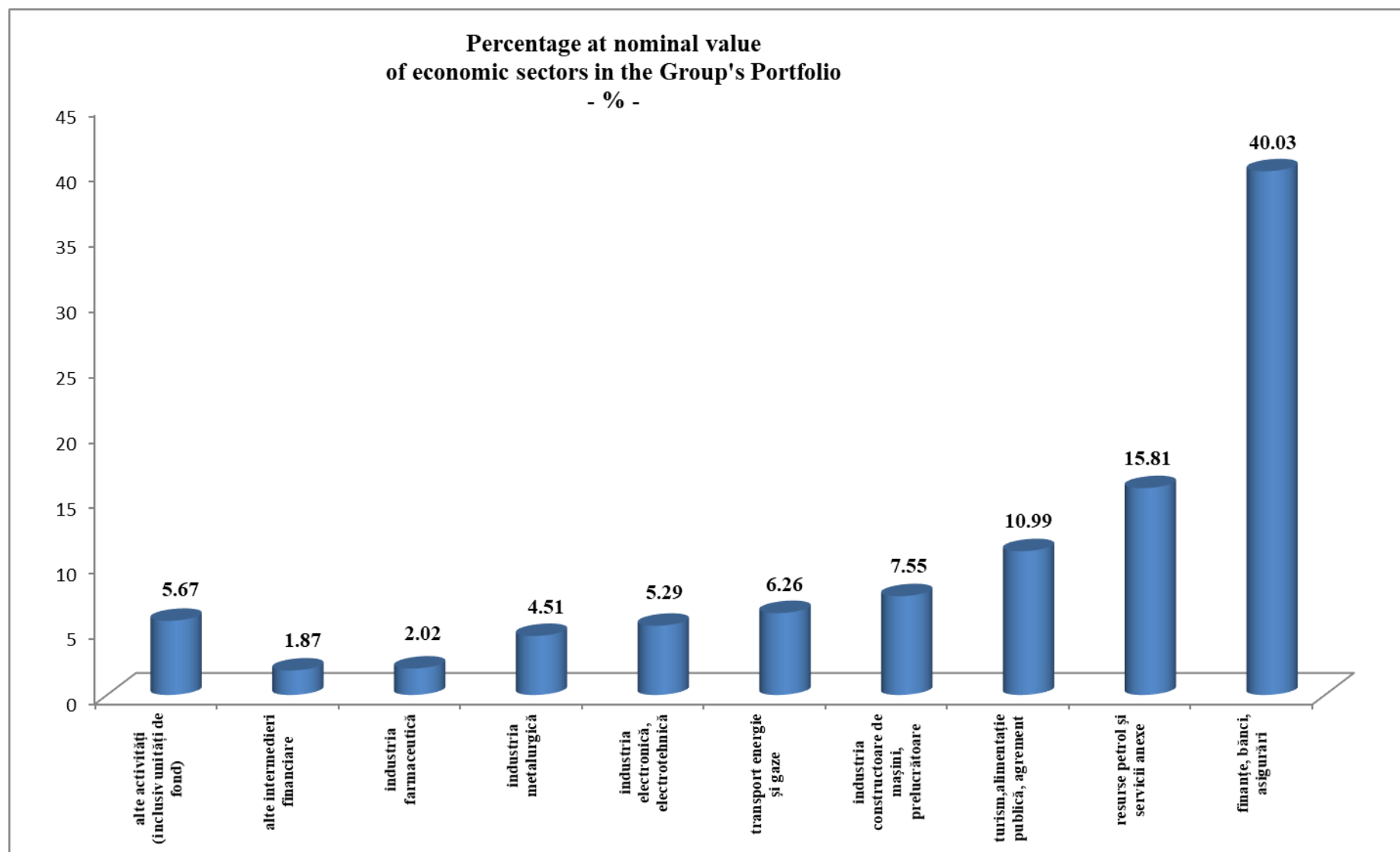
On 31st of December 2017 the Group has the following structure of financial assets:

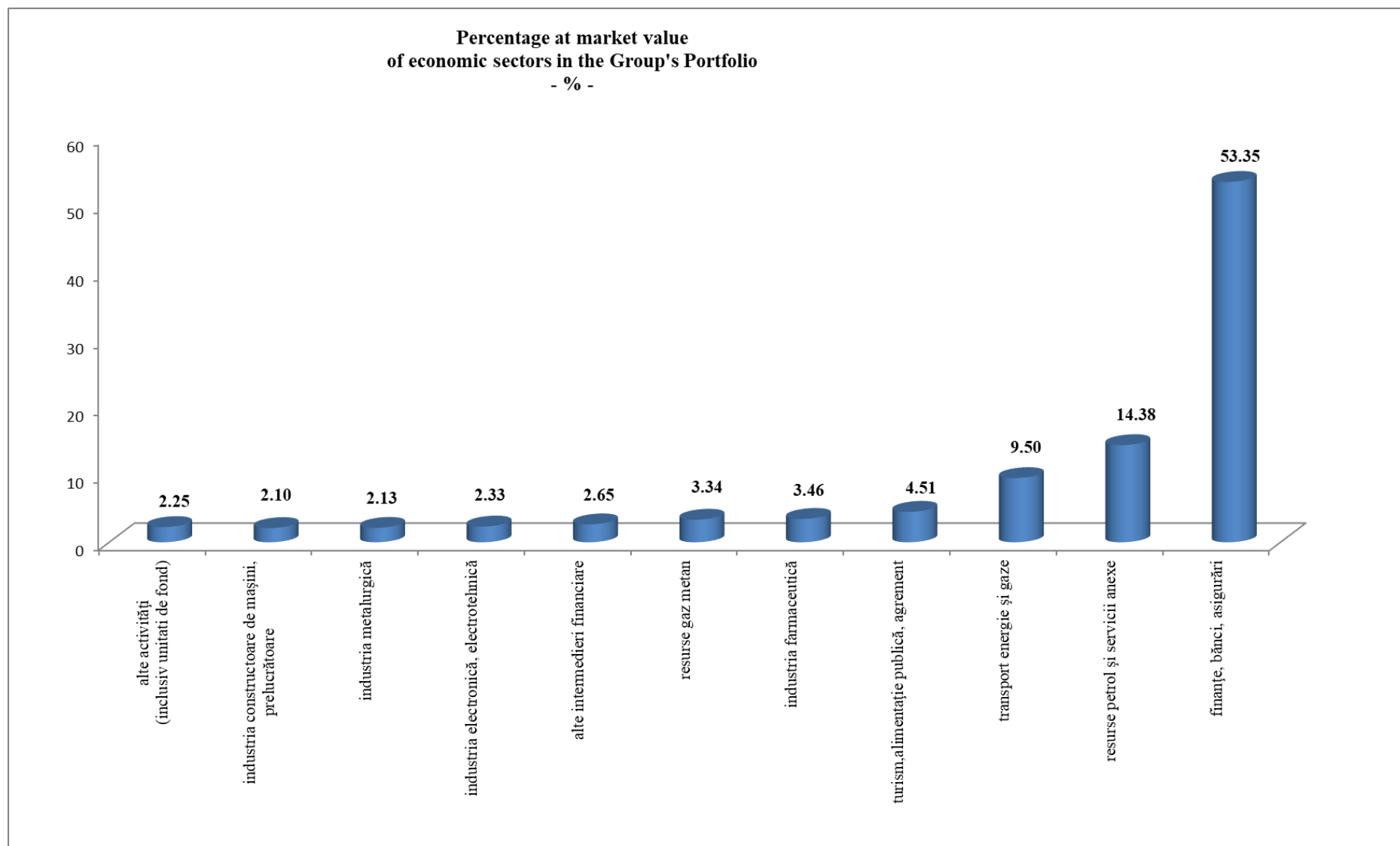
<i>In RON</i>	No. com pani es	Market value 31.12.2017		No. compani es	Market value 31.12.2016
Capital investments					
Listed companies	31	940,376,548		31	824,634,684
Unlisted companies	33	565,696,728		35	494,900,179
Fund units	4	2,789,494		4	2,386,705
Total financial assets	68	1,508,862,770		70	1,321,921,568

The investments held in companies whose titles are rated and traded on the capital market from Romania, plus the investments held at Romanian Commercial Bank, on 31.12.2017, represent **93.86%** of the fair value of the investments.

Consolidated portfolio structure held by the Group on 31.12.2017

Portofolio structure		Issuers		Total package nominal value		Total market value of the package	
	Economic sectors weighting in SIF portfolio value:	Nr. SC	%	(lei)	%	(lei)	%
	Finance, banking, insurance	5	7.35	192,171,549	40.03	805,042,306	53.35
	Oil resources and ancillary services	1	1.47	75,880,152	15.81	217,017,232	14.38
	Energy and gas transport	2	2.95	30,052,620	6.26	143,316,222	9.50
	Tourism, public food, entertainment	4	5.88	52,750,485	10.99	68,037,429	4.51
	Pharmaceutical industry	1	1.47	9,718,869	2.02	52,266,825	3.46
	Methane gas resources	1	1.47	1,608,414	0.34	50,343,359	3.34
	Other financial intermediation	8	11.77	8,957,980	1.87	39,931,310	2.65
	Electronic industry, electrotechnics	8	11.77	25,417,706	5.29	35,099,118	2.33
	Metallurgical industry	3	4.41	21,658,324	4.51	32,134,556	2.13
	Machines constructing and processing industry	10	14.71	36,240,663	7.55	31,750,339	2.10
	Chemical industry	1	1.47	4,702,595	0.98	12,179,721	0.81
	Financial markets management	1	1.47	3,837,090	0.80	10,590,368	0.70
	Food industry	3	4.41	2,980,168	0.62	3,421,670	0.23
	Interior trade	4	5.88	4,026,322	0.84	1,788,383	0.12
	Real estate renting and sub-letting	1	1.47	1,639,393	0.34	1,639,393	0.11
	Distribution, supply of electricity and energy services	1	1.47	947,380	0.20	1,070,539	0.07
	Other activities	7	10.29	4,109,975	0.86	444,506	0.03
	Construction	3	4.41	876,226	0.18	0	0.00
TOTAL CAPITAL SHARES		64	94.12	477,575,911	99.48	1,506,073,276	99.82
FUND UNITS		4	5.88	2,500,017	0.52	2,789,494	0.18
TOTAL		68	100.00	480,075,928	100.00	1,508,862,770	100.00





Within the consolidation perimeter, a number of **11 companies** were held, holding more than 50% of the voting rights, which were consolidated by the global integration method.

The 11 trading companies account for **18.15%** of the total assets of the Company and **18.70%** of the net assets respectively.

Inter Group settlements and transactions, as well as unrealized profits arising from transactions within the Group, are eliminated in their entirety from the consolidated financial statements.

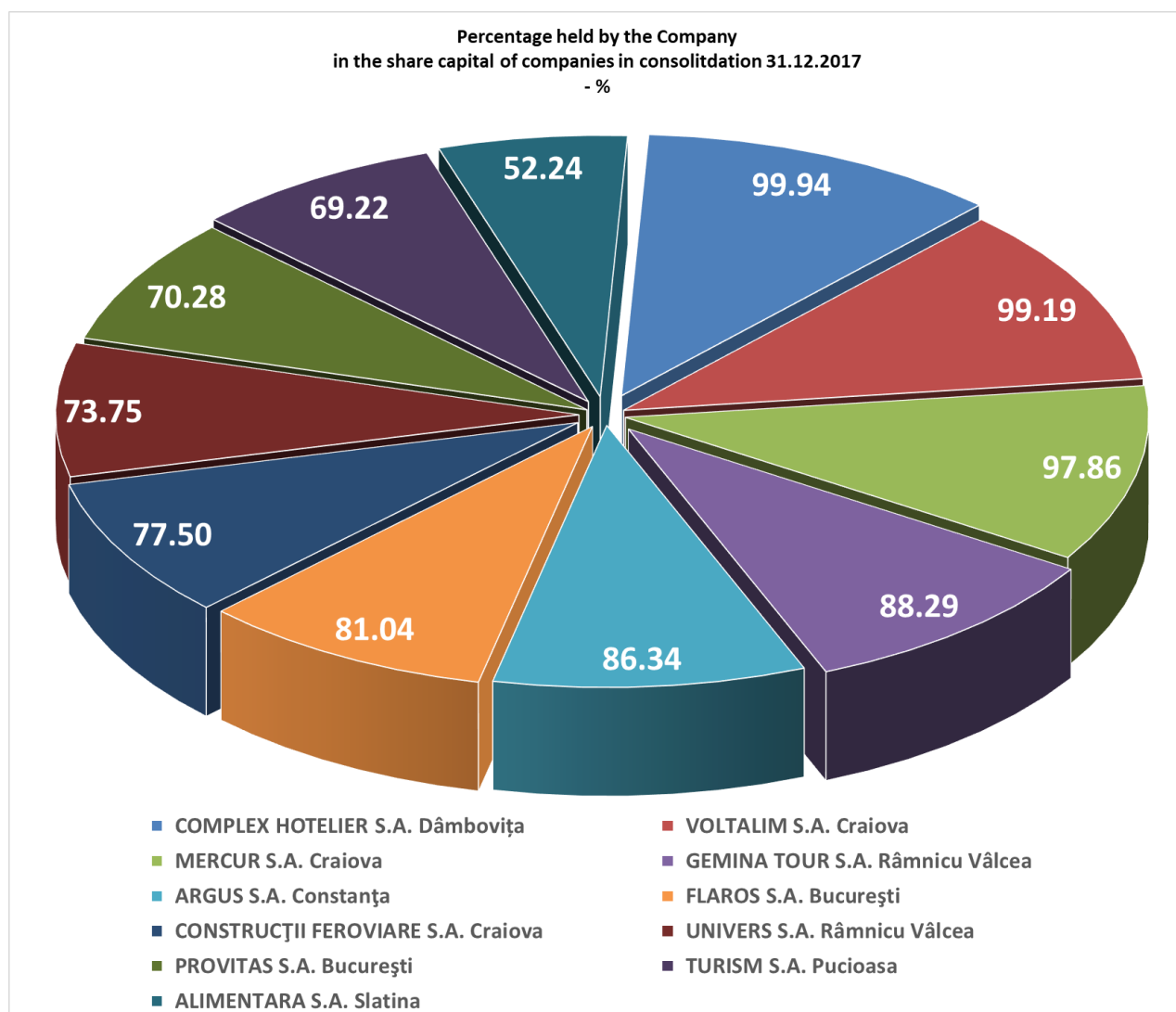
Within the consolidation area were the following 11 companies:

Net active 1.494.899.450 lei
Total active 1.570.989.901 lei

Item No.	Issuer	Symbol	Weighing in the share capital of the issuer on 31.12.2017	Weighing in the share capital of the issuer on 31.12.2016	Traded market
1	ALIMENTARA S.A. SLATINA	ALRV	52.24	52.24	BVB/ATS AeRO Standard
2	TURISM S.A. PUCIOASA		69.22	69.22	unlisted
3	PROVITAS S.A. BUCUREȘTI		70.28	70.28	unlisted
4	UNIVERS S.A. RM.VÂLCEA	UNVR	73.75	73.75	BVB/ATS AeRO Standard
5	CONSTRUCȚII FERROVIARE S.A. CRAIOVA	CFED	77.50	77.50	BVB/ATS AeRO Standard
6	FLAROS S.A. BUCUREȘTI	FLAO	81.04	81.04	BVB/ATS AeRO Standard
7	ARGUS S.A. CONSTANȚA*	UARG	86.34	86.21	BVB/ATS AeRO Premium
8	GEMINA TOUR S.A. RM.VÂLCEA		88.29	88.29	unlisted
9	MERCUR S.A. CRAIOVA	MRDO	97.86	93.37	BVB/ATS AeRO Standard
10	VOLTALIM S.A. CRAIOVA		99.19	99.19	unlisted
11	COMPLEX HOTELIER S.A. DÂMBOVITA		99.94	99.94	unlisted

* Argus S.A. Constanța holds shares in: Comcereal S.A. Tulcea, Aliment Murfatlar SRL and Argus Trans SRL that were not included in the financial statements of the company and have no significant influence on them..

Company management classified all portfolio activity titles in the available-for-sale financial stocks category.



II. ECONOMIC DATA

II. 1. CONSOLIDATED SITUATION OF THE OVERALL RESULT

<i>In RON</i>	31st of December 2017	31st of December 2016
Revenues		
Revenues from dividends	67,318,530	46,195,459
Revenues from interests	121,820	178,485
Other operating revenues	231,357,824	274,231,826
Net gain from exchange rate differences	(260,408)	(755,507)
Net gain from sale of financial stocks	12,090,806	55,499,636
Expenses		
Fees and charges for administration and supervision	(2,807,362)	(2,512,083)
Revenues from the resumption of risk and expense provisions	5,480,092	8,521,241
Other operating expenses	(232,166,317)	(257,985,849)
Profit before tax	81,134,985	123,373,208
Income tax	(9,189,114)	(18,115,789)
Net profit for the financial year	71,945,871	105,257,419
Other elements of the overall result		
Change in the revaluation reserve of property, plant and equipment, net of deferred tax	(419,343)	25,940
Net change in the fair value reserve for the available financial stocks for sale	138,398,165	(4,981,909)
Reserve related to the difference in the change in the fair value of available financial stocks for sale transferred to profit or loss, net of tax	(10,405,230)	(46,406,865)
Total overall income for the period	199,519,463	53,894,585
Net profit related		
Company Shareholders	71,690,366	103,818,103
Minority interest	255,505	1,439,316
	71,945,871	105,257,419
Overall result		
Company Shareholders	197,382,582	52,449,509
Minority interest	2,136,881	1,445,076
	199,519,463	53,894,585
Result per action		
Basic	0.1236	0.1789
Diluted	0.1236	0.1789

The net profit of the financial year **71,945,871 RON** is down with **31.65%** compared to 31.12.2016.

Reporting on segments

Indicators	Leasing		Food industry		Tourism		Financial activity		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fixed assets	143,269,078	130,707,103	60,968,399	62,272,344	14,419,241	14,075,461	1,528,072,012	1,361,199,497	1,746,728,730	1,568,254,405
Current assets	21,804,053	22,909,013	129,374,145	91,444,494	2,213,563	2,145,065	6,583,747	41,421,568	159,975,508	157,920,140
Prepayments	2,683,184	3,654,026	60,464	54,620	21,253	24,253	73,440	81,276	2,838,341	3,814,175
Liability	25,353,815	42,078,883	111,800,458	65,878,438	854,967	736,034	174,598,069	161,662,356	312,607,309	270,355,711
Revenues in advance	824,364	860,360	3,675	3,843	66,453	20,260	8,355	12,617,426	902,847	13,501,889
Provisions	579,804	489,363	675,675	682,170	87,496	85,079	5,288,900	5,048,000	6,631,875	6,304,612
Minority interests	-	-	-	-	-	-	32,419,449	32,017,726	32,419,449	32,017,726
Equity	140,998,332	113,841,536	77,923,200	87,207,007	15,645,141	15,403,406	1,322,414,426	1,191,356,833	1,556,981,099	1,407,808,782

Total income	26,357,843	33,194,066	177,856,265	196,749,944	6,351,216	5,402,909	105,525,354	149,279,728	316,090,678	384,626,647
Total expenses	15,871,366	24,907,670	186,653,396	199,189,002	5,803,261	4,989,123	26,627,670	32,167,644	234,955,693	261,253,439
Gross result	10,486,477	8,286,396	(8,797,131)	(2,439,058)	547,955	413,786	78,897,684	117,112,084	81,134,985	123,373,208
Net result	9,096,662	6,979,010	(8,864,464)	(2,439,058)	429,825	339,094	71,283,848	100,378,373	71,945,871	105,257,419

Reporting on segments

Segment reporting is represented by the segmentation on activity that takes into account the branch of activity that is the core business of the companies in the consolidation perimeter.

The company together with the companies in the portfolio holding more than 50%, included in the consolidation perimeter, performs its activity on the following main business segments:

- financial investment activity
- leasing of spaces
- food industry
- tourism

The indicators presented were based on the individual financial statements of the Company and the companies in the consolidation perimeter.

Within the Group's fixed assets held on December 31, 2017, **87.48%** of the Group's assets are held by the financial investment activity represented by the financial asset portfolio, namely **86.80%** on 31.12.2016.

The high level of liability is mainly due to to the registration of deferred profit tax related to the reserves from the evaluation of the portfolio at fair value, on 31.12.2017 with a weight of **40.48%** (31.12.2016: **38.22%**) in total liability.

Also, the net result as at 31.12.2017 realized by the financial investment activity has a share of **99.08%**, well above the result obtained by the companies included in the consolidation, respectively of **95.36%** on 31.12.2016.

II.2. CONSOLIDATED SITUATION OF THE FINANCIAL POSITION

<i>In RON</i>	31st of December 2017	31st of December 2016
Assets		
Cash and cash equivalents	9,869,368	14,097,652
Deposits placed with banks	13,030,043	55,766,431
Financial assets available for sale	1,506,578,556	1,320,042,260
Financial assets at fair value through profit or loss	2,284,214	1,879,308
Credits and receivables	29,563,961	27,956,237
Tangible assets	87,012,073	89,336,477
Real estate investments	93,360,493	92,053,162
Other assets	167,843,871	128,854,425
Total assets	1,909,542,579	1,729,985,952
Liability		
Payable Dividends	48,791,984	57,862,221
Taxation and taxes	7,071,981	7,198,620
Liability with deferred tax	126,534,254	103,341,237
Other liabilities	137,743,812	121,757,366
Total liabilities	320,142,031	290,159,444
Equity		
Social capital	58,016,571	58,016,571
Adjustments to the share capital	103,806,500	735,595,648
Other equity items	619,775,291	494,271,572
Reserves from revaluation of tangible assets	39,562,594	40,580,683
Legal and statutory reserves	27,963,377	27,767,864
Other reservations	701,904,709	2,461,325,656
The retained earnings represents the undistributed profit or the uncovered loss	(11,100,021)	(14,861,962)
Retained earnings as a result of applying IAS 29 to equity and reserves	(158,148,438)	(2,596,780,323)
Retained earnings as a result of IAS without IAS 29	103,510,150	98,074,970
Current profit	71,690,366	103,818,103
Total equity attributable to holding company	1,556,981,099	1,407,808,782
Minority interest		
of which:	32,419,449	32,017,726
Profit or loss of the financial year for non-controlling interests	255,505	1,439,316
Other equity	32,163,944	30,578,410
Total equity	1,589,400,548	1,439,826,508
Total liability and equity	1,909,542,579	1,729,985,952

As of 31.12.2017 the Group holds a portfolio of shareholdings in companies and investment funds at market value in the amount of **1,508,862,770 lei** representing **79.02%** of the total assets, registering an increase of **14.14%** compared to 31.12.2016.

Companies with a weight in the total portfolio are as follows:

Item No.	Company	Percent in total - % -	Market value on 31 December 2016 - lei -
1	BANCA COMERCIALĂ ROMÂNĂ S.A.	31.53	475,816,901
2	OMV PETROM S.A. București	14.38	217,017,232
3	B.R.D - GROUPE SOCIETE GENERALE S.A.	12.77	192,709,166
4	BANCA TRANSILVANIA S.A. Cluj	6.83	103,012,512
5	S.N.T.G.N. TRANSGAZ S.A. Mediaș	4.92	74,286,336
6	C.N.T.E.E. TRANSELECTRICA S.A. București	4.57	69,029,886
7	ANTIBIOTICE S.A. Iași	3.46	52,266,825
8	S.N.G.N. ROMGAZ S.A. Mediaș	3.34	50,343,359
9	TURISM LOTUS FELIX S.A. Băile Felix	2.26	34,139,573
10	EXIMBANK - BANCA DE EXPORT IMPORT A ROMÂNIEI S.A.	2.22	33,503,727
TOTAL		86.28	1,302,125,517

Deposits with banks amounted to **13,030,043 lei**, decreasing by **76.63%** compared to 31.12.2016.

Total liabilities amounted to **320,142,031 lei**, increasing by **10.33%** compared to 31.12.2016.

Deferred tax liabilities amounted to **126,534,254 lei** represent **39.52%** of total liabilities.

III. COMPANY ACTIVITY

RISK MANAGEMENT EVALUATION

The Group, through the complexity of its work, is subject to various risks.

The management of the Group continuously evaluates the risks that may affect the achievement of its objectives and takes the necessary measures regarding any change in the conditions in which it operates.

The risk management activity, an important component of the company's activity, covers both the general risks and the specific risks, as provided by Law no. 297/2004, as subsequently amended and supplemented, by CNVM/ASF Regulation no. 15/2004, as amended and supplemented, Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013.

The Company's approach to risk management is consistent with the overall business strategy and is planned to achieve business objectives aligned with the risk strategy objectives.

Among the main objectives of the risk strategy we highlight:

- the development and implementation of a wide transparency risk management process for risk identification and management;
- the promotion at the Company level of a risk management approach through education and awareness raising meetings;
- the identification options for permanent risk management;
- the description of the external environment expected to have an impact on the planned business and its evolution such as: market outlook, regulatory developments;
- the description of the Company's business strategy, strategy goals, core activities;
- the definition of the key elements of the risk management framework to ensure the implementation of a strategy appropriate to the overall business strategy;
- The description of the current and target risk profile for the main types of risks.

Considering the structure of the companies entering the consolidation perimeter, namely the fact that the only company listed on the Bucharest Stock Exchange in the Premium category is S.I.F. Oltenia S.A., the activity of risk administration and management is carried out in compliance with the provisions of the legal framework, especially by S.I.F. Oltenia S.A.

A special structure, the Risk Management Officer, is being organized at the Company level to supervise and coordinate this activity.

The Company attaches the utmost importance to effective risk management in order to achieve the objectives of the strategy and to provide shareholders with benefits.

Managing significant risks involves providing the framework for identifying, evaluating, monitoring, and controlling these risks in order to maintain them at an acceptable level in relation to the Company's risk appetite and its ability to mitigate or hedge these risks.

Risk monitoring is done at each hierarchical level, with procedures for supervising and approving decision and trading limits.

Internal reporting of exposure to risk is made continuously, by business lines, and management is constantly informed of the inherent risks that may arise in the course of the activity.

By the nature of the activity object, the Company is exposed to various types of risks associated to the financial instruments and to the markets on which it is exposed.

The main risk elements identified at the Group level are:

- a) Market risk (price risk, currency risk, interest rate risk)
- b) credit risk
- c) liquidity risk
- d) risk associated with taxation
- e) economic environment risk
- f) operational risk

a) Riscul de piață

Market risk represents the actual or future risk of negative affectation of profits, determined by the fluctuations on the market of prices of securities – regarding the activities belonging to the trading portfolio – of the interest rate, as well as the fluctuations of the exchange rate for the entire activity of the Group.

The efficient management of market risk is made through the use of fundamental analysis that gives an indication of the soundness of an investment as well as estimating potential of certain companies, and taking into account forecasts on the evolution of economic sectors and financial markets.

The main issues pursued in market risk analysis are: assessment of shares portfolio in terms of profitability and growth potential, strategic allocation of long term investments, identification of short-term investments in order to capitalize price fluctuations in the stock market, the establishment of asset concentration limits in a particular economic sector.

The Group is exposed to the market value of the financial instruments held fluctuating as a result of changes in the capital market conditions. Periodically, the risk management strategy requires the preparation and submission of reports to the Audit Committee and management structures that analyze how to assess, manage, monitor and report the identified risks, in compliance with established risk limits, and measures to be taken for the most efficient management.

The Group is subject to market risk, mainly due to its trading activities. Taking into account the particularities of the Company, the most relevant risks to the current activity are: share price risk, interest rate risk, foreign exchange risk.

The price risk

The Group is subject to fair value risk of financial instruments held which fluctuates as a result of changes in market prices, being either caused by factors specific to the issuer's activity or by factors affecting all instruments traded on the market.

The market value of the portfolio of listed shares (on BVB – settled market, BVB-AERO – alternative trading system), on 31st of December 2017, represents **62.44%** of the total value of shares portfolio managed.

Under these circumstances, the Group identified a average market risk - associated with the variation in the prices of financial assets on the capital market.

In the managed portfolio a number of 8 issuers can be found, of the 13 that constitute the BET index of Bucharest Stock Exchange.

Market value of the holdings in those 8 issuers, represents on December 31st 2017 – **76.36%** of the market value of shares held in listed companies.

The Management of the Group monitors market risk and grants powers regarding trading limits on the capital market to the effective management of the company.

On 31st December 2017 the Group has the following structure of assets subject to price risk:

	No. comp anies	Market value 31.12.2017 - lei -		No. companies	Market value 31.12.2016 - lei -
Capital investments					
Listed companies	31	940,376,548		31	824,634,684
Unlisted companies	33	565,696,728		35	494,900,179
Fund units	4	2,789,494		4	2,386,705
Total capital investments	68	1,508,862,770		70	1,321,921,568

Placements held in companies whose securities are listed and traded on the stock market in Romania, plus placement owned in Romanian Commercial Bank represent on 31st of December 2017 - **93.86** (2016: **91.80%**) of the fair value of investments.

On 31.12.2017 the Group mainly held shares operating in the finance, banking, insurance field accounting for **53.35%** of the total portfolio, up from 31.12.2016, when the same sector of activity recorded a weight of **53.37%**.

Currency risk

Currency risk is the risk that the value of a portfolio may be negatively affected as a result of variations in exchange rates.

Since the majority of the Group's assets are denominated in the national currency exchange rate fluctuations do not directly affect the Group's activity.

These fluctuations have influence in the case of assessing investments of the type of deposits in foreign currency.

Currency available holdings represent, on December 31st 2017, **0.20%** of total financial assets, so that the currency risk is insignificant.

Due to the low share of assets expressed in foreign currency, the Group does not have a formalized policy of covering foreign currency risk.

Investments in bank deposits in foreign currency are constantly monitored and action is taken for investment, disinvestment, depending on the forecast evolution of the exchange rate.

Focusing of assets and liabilities on the types of currency is summarized in the table below:

December 31 st , 2017	Accounting value - RON -	RON	EUR	USD
Financial assets				
Cash and cash equivalents	9,869,368	9,657,421	211,900	47
Deposits placed in banks	13,030,043	9,794,906	1,786,170	1,448,967
Financial assets available for sale	1,506,578,556	1,506,578,556	-	-
Financial assets measured at fair value through profit or loss	2,284,214	2,284,214	-	-
Credits and receivables	29,563,961	29,563,961	-	-
Other financial assets	167,843,871	167,843,871	-	-
Total financial assets	1,729,170,013	1,725,722,929	1,998,070	1,449,014
Financial debts			-	-
Payment dividends	48,791,984	48,791,984	-	-
Other financial debts	137,743,812	137,743,812	-	-
Total financial debts	186,535,796	186,535,796	-	-

Interest risk rate

Interest rate risk is that the value of a portfolio will fluctuate due to changes in market interest rates. Factors that define this type of market risk are a wide range of interest rates corresponding to a change in markets, currencies and maturities for which the Group holds positions.

The interest rate directly influences revenues and expenses attached to financial assets and liabilities bearing variable interest rates.

Most of the assets in the portfolio are not interest bearing. Consequently, the Group is not significantly affected by interest rate risk. The interest rates applied to cash and cash equivalents are short-term. At the Group level, the share of resources borrowed in the company's total funding resources is not significant, with the exception of ARGUS S.A. Constanța and MERCUR S.A. Craiova.

In order to benefit from interests' volatility, for a greater flexibility in the policy for assigning money reserves, it will be pursued that the investment of money reserves in monetary instruments be especially made on short term, of 1-3 months.

b) Credit risk

The credit risk expresses the possibility for debtors or issuers not to meet their obligations at maturity as a result of the deterioration of the borrower's financial situation or the general economic situation. The credit risk arises in relation to any type of debt.

The issuer risk is the risk of loss of the value of a portfolio title as a result of the deterioration in its economic and financial situation.

The main elements of credit risk identified, which could significantly affect the Group's activity are:

- the risk of not collecting the dividends from portfolio companies;
- the risk of not collection the value of the contract, in the case of the sale of the shares of "closed-end" companies, through a sale-purchase contract;
- the risk that in the event of liquidation of a portfolio company, the value obtained is less than the initial investment.

Credit risk evaluation is made in two stages, both before the accomplishment of investments operations and after the approval and effective accomplishment of operations, supervising the assets evolution in order to take adequate measures in case of emergence of elements that may lead to damaging the company's economic activity and, in extreme cases, to their entering in insolvency.

In the case of the Group, the credit risk is diminished as the portfolio is mostly driven by exposures by asset items of the type of "shares" representing **79.02%** of the assets managed, assessed under the legal provisions and which could generate a potential risk of non-collection of dividends approved annually by the GMS.

In accordance with legal provisions, the Group has not granted any type of loans or guarantees to third parties.

The credit risk may affect indirectly the Company activity, being the case of commercial companies of the portfolio, which face financial difficulties in paying their obligations corresponding to dividends. Given the diversity of placements and the fact that most of them are carried out in stable entities and with increased liquidity on the market, this risk is much diminished and properly managed by the Group.

The Group may be exposed to credit risk through investments realized in bonds, of current accounts, bank deposits as well as other receivables. At the Group level there are no placements in bonds, derivatives, which minimize credit risk.

On 31st December, 2017 the Group did not hold in portfolio bonds, real guarantees as insurance and did not record outstanding financial assets.

We estimate that the credit risk to which the Group is exposed is average.

The maximum exposure to credit risk at 31st December 2017 is of **50,568,638 lei**.

Exposure to credit risk:

<i>In RON</i>	31st December 2017	31st December 2016
Deposits and accounts in banks	22,679,467	69,502,053
Other assets	27,889,171	26,684,576
TOTAL	50,568,638	96,186,629

c) Liquidity risk

The Group pursues to maintain a liquidity level adequate to its support obligations, based on an assessment of relative liquidity of assets on the market, taking into account the period necessary for liquidation and the price or value at which the respective assets can be liquidated, as well as their sensitivity to market risks or other external factors.

The Group must hold liquid assets, whose added value should cover the difference between outputs of liquidities and inputs of liquidities in crisis situations, so as to be ensured the fact that the Group maintains levels of liquidity

reserves that are adequate to allow it to face possible imbalances between liquidities inputs and outputs in crisis situations.

The liquidity risk is especially linked to holdings in commercial companies of “closed” type existing in the managed portfolio. Thus, the sale of some holdings – in case of apparition of negative aspects in their economic-financial situation or in case it is pursued to obtain liquidities – is especially difficult, existing the risk of not being possible to obtain a higher or at least equal price to that of holdings evaluation in the calculation of net asset, according to F.S.A. regulations.

Within the Group, on 31 December 2017, the holdings held in unlisted companies represent **29.62%** of the total assets managed, including the share held in BCR which individually represents **84.11%** of the holdings of the unlisted companies. Considering the fact that BCR is valued at the value of own funds and that the other two BRD and TLV banks – banks with which BCR competes in the financial banking sector in Romania – are traded at prices representing a multiplicity of 1.3 - 1.4 their own funds, there is no risk that a possible fructification of the stake held at BCR cannot be achieved at the value at which it is evaluated, or at the value of its own funds.

Low liquidity of the capital market of Romania makes often difficult even trading holdings in commercial companies listed.

Looking ahead to 2018, we anticipate the maintaining of a low liquidity level for the capital market din in Romania.

This aspect is permanently in the attention of leadership, seeking solutions to increase the liquidity of managed portfolio.

We estimate that this risk is average, correlated with the liquidity of the Romanian capital market.

The structure of assets and liabilities in terms of liquidity is analysed in the following table:

<i>In RON</i>	Accounting value	Under 3 months	Between 3 and 12 months	Between 1 and 5 years	Without pre- established maturity
December 31st, 2017					
Financial assets					
Cash and cash equivalents	9,869,368	-	-	-	9,869,368
Deposits placed in banks	13,030,043	11,701,664	979,801	348,578	
Financial assets available for sale	1,506,578,556	-	-	-	1,506,578,556
Financial assets measured at fair value through profit or loss	2,284,214	-	-	-	2,284,214
Credits and receivables	29,563,961	-	-	-	29,563,961
Total financial assets	1,561,326,142	11,701,664	979,801	348,578	1,548,296,099
Financial debts					
Payment dividends	48,791,984	48,791,984	-	-	-
Other financial debts	137,743,812	65,828,168	59,169,165	12,746,479	-
Total financial debts	186,535,796	114,620,152	59,169,165	12,746,479	-

d) Taxation risk

Starting with the date of Romania's accession to the European Union, the Group had to obey EU fiscal regulations and implement the changes brought by European legislation. The way the Group implemented these changes remains open to tax audits for five years.

The Group's management believes that it correctly interpreted the legislative provisions and recorded fair values for taxes, fees and other debts to the state but in these conditions, too, there is some risk attached.

The tax system in Romania is subject to various interpretations and permanent changes. In some cases, the tax authorities may adopt different interpretations toward the group of some fiscal issues and can calculate interests and penalties.

Statements regarding taxes and duties may be subject to control and revision for a five year period, in general after their submission.

Romanian Government has a significant number of agencies authorized to audit companies operating on the territory of Romania. These controls are similar to tax audits in other countries and can cover not only fiscal issues, but also other

legal and regulatory issues of interest to these agencies. It is possible that the Group will be subject to tax audits as the issue of new fiscal regulations occur.

e) Economic environment risk

This risk is extremely important, by the direct effect on the Group's business and indirectly through companies in which the Group holds interests.

Romanian economy continues to exhibit the specific characteristics of emerging economies, and there is a significant degree of uncertainty regarding the development of the political, economic and social environment.

From the Romanian economy point of view, 2017 was a good year, the growth registered by GDP being higher to the forecast level.

Romanian economy is still fragile and dependent in particular of developments of the other economies, especially of the EU countries, which are the main business partners for our country.

The EU economy will be subjected in 2018 especially to the political risks. The politics will influence economy and will generate incertitude. The way UK will exit the EU, conditions which will be negotiated, raise new questions over the EU economy evolution in 2018.

These changes also mark the economic evolution. In Romania, there is also a high political risk. In the year 2017 many changes took place at the government level and they continued in 2018.

We estimate that the economic environment risk that the group is exposed to is moderate (medium).

f) Operational risk

Operational risk is defined as the risk of registering certain losses or of not accomplishing the estimated profits due to inappropriate use of systems, processes, human resources, due to some internal factors, like inadequate development of internal activities, the existence of inadequate personnel or systems, and because of some external factors, like the change of economic conditions, legislative changes on the capital market, social-political events.

The main responsibility of developing and implementing controls connected to operational risk accrues to the Group management. The responsibility is supported by the development of the general Group standards for managing the operational risk on the following areas:

- the proper establishment of the organizational structure and responsibilities;
- demands to separate responsibility;
- alignment to the demands of the regulation frame;
- demands to report operational losses and proposals for their remedy;
- professional development and instruction;
- establishing ethic standards for employees;
- documenting controls and procedures;
- preventing litigations risk.
- establishment and implementation of prevention and management procedures of conflicts of interests;
- establishment and implementation of risk management strategy, establishment of the risk appetite and of the risk profile.

Operational risks are inherent to the company activity.

The Group manages operational risk by the identification, estimation, monitoring and risks control, taking the necessary steps to manage them effectively.

IV. CHANGES IN COMPANY MANAGEMENT

According to the Articles of Incorporation, the Company is managed in a unitary system.

The Board of Directors of the Company consists of 7 members elected by the General Assembly for a period of 4 years, with the possibility to be re-elected.

Most members of the Board of Directors - 5 members - are non-executive.

Of these, three trustees are independent and constitute the Audit Committee.

The structure of management is as follows:

December 31st, 2017

Members of the Board of Directors: Tudor Ciurezu - President, Cristian Buşu - Vicepresident, Anina Radu, Radu Hanga, Ana-Barbara Bobircă, Nicolae Stoian, Carmen Popa.

Effective management: Tudor Ciurezu (CEO), Cristian Buşu (Deputy CEO).

The Administration Board was chosen by the General Ordinary Meeting of Shareholders from 04.04.2017 and it was advised by A.S.F. on 26.07.2017 through the Notification no. 424/26.07.2017.

Herewith, through the Notification no. 423/26.07.2017 it was advised the amendment of the structure of the management of the Company, according to the Decision of the Administration Board no. 4 from 04.04.2017.

December 31st, 2016

Members of the Board of Directors: Tudor Ciurezu - President, Anina Radu - Vicepresident, Cristian Buşu, Victor Căpitanu, Nicolae Stoian, Carmen Popa, Paul-George Prodan.

Effective management: Tudor Ciurezu (CEO), Anina Radu (Deputy CEO).

V. EVENTS AFTER THE REPORTING DATE

SOCIETATEA DE INVESTIȚII FINANCIARE OLTENIA S.A.

I. On the 15th of February 2018, the Company published the preliminary financial results for the year ended on the 31st of December 2017, prepared in accordance with IFRS, through market communication (BVB), ASF and posted on the website at www.sifolt.ro.

II. The Company's ASF authorization process as an Alternative Investment Fund Manager (AIFM) has been completed, as well as the evaluation and authorization of key personnel (management, risk management, compliance officer). At the same time, the Founding Act of the company was approved.

The company received from the ASF the following documents:

- Authorization no. 45/15.02.2018 through which the company was authorized as Alternative Investment Fund Manager (AIFM);
- Permit no. 48/15.02.2018 approving amendments to the Company's Statute and Contract as approved by the AGEA Decision no. 1/28.04.2016, by the AGEA Decision no. 3/25.08.2016 and by the Decision no. 3/05.09.2017, these being the Articles of incorporation from the receipt of this permit;
- Authorization no. 46/15.02.2018 authorizing Mrs. Budin Daniela in the key risk management function within the Company;
- Authorization no. 47/15.02.2018 approving Ms Bălan Viorica as the key position of compliance officer of the Company;
- Decision no. 237/15.02.2018 withdrawing from Mrs. Bălan Viorica the authorization of Representative of the Internal Control Compartment of the Company.

ALIMENTARA SA Slatina

I. On 17 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the profit made to remain unallocated;
- discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the level of the administrators' remuneration for 2018;

- the value of the insurance policy for the liability of the directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

ARGUS SA Constanta

I. On 26 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the carry forward the loss recorded by the company as on 31 December 2017 and its coverage of future profits;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the investment program for 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS.

II. On 23 January 2018:

- Mr. Cristian Busu is appointed Chairman of the Board of Directors;
- the work relations between Argus SA and the general manager Paul Verdes ceased following the end of his mandate on 24 January 2018.

III. On 1 February 2018 is appointed Mr. Robu Sabin Marcu as Managing Director with a mandate contract from 5 February 2018 to 30 June 2018.

IV. Starting 5 February 2018 Mr. Ștefan Culetu is appointed as commercial manager for a three-month period.

COMPLEX HOTELIER DÂMBOVIȚA SA Târgoviște

I. On 16 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the profit made on the legal reserves and the partial coverage of the losses from the previous years;
- the discharge from administration of the directors for the year 2017;

- the revenue and expenditure budget for 2018;
- the investment program for 2018;
- the election of Mr. Ioan Pauna as a member of the Board of Directors for a valid mandate with that of the other directors following the resignation of one of the administrators;
- the level of the administrators' remuneration for 2018;
- the level of professional liability insurance policy for directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

II. On 16 February 2018 Mr. Ioan Pauna was appointed Chairman of the Board of Directors.

CONSTRUCȚII FERROVIARE CRAIOVA SA

I. On 31 January 2017, the Board of Directors approves the postponement of the payment date of 16 February 2018 set for the restitution to the shareholders of a share of the contributions according to the AGEA decision of 22 September 2017, until the date of the solution in File no. 12493/63/2017, pending at the Dolj Tribunal, will be final.

II. On 19 February 2018 the Dolj Tribunal, in File no. 12493/63/2017, accepted the opposition formulated by Multifunctional Ecologic System SRL at the AGEA decision of SCCF Craiova, dated 22 September 2017, published in OJ no. 3840/11 October 2017 of the share capital decrease, by restitution to the shareholders of a share of the contributions and consequently: obliges SCCF Craiova to grant appropriate guarantees, namely the establishment of guarantees in favor of Multifunctional Ecologic System SRL, regarding the shares held by SCCF Craiova at SIF Moldova and SNG Romgaz, before proceeding to reduce the share capital and to make payments to the shareholders, by diminishing the social capital. With appeal within 30 days of communication.

III. On 20 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized profit;
- the discharge from administration of the directors for the year 2017;

- the revenue and expenditure budget for 2018;
- the level of the administrators' remuneration for 2018;
- the level of professional liability insurance policy for directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

FLAROS SA Bucuresti

I. On 19 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized profit;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the level of the administrators' remuneration for 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

GEMINA SA Rm. Valcea

I. Starting 1 January 2018, the mandate contract for the general manager was extended until 31 December 2018.

II. On 19 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- alegerea doamnei Vlăduțoiaia Valentina în funcția de administrator pentru un mandat cu durata până la data de 04 septembrie 2019.
- the financial statements from 31 December 2017;
- the distribution of the realized profit;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the investment program for 2018;
- the revocation of Mrs. Budin Daniela from the position of administrator;

- the election of Mrs. Vladutoaia Valentina as administrator for a term of office until 04 September 2019;
- the level of the administrators' remuneration for 2018;
- the level of professional liability insurance policy for directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

MERCUR SA Craiova

I. On 6 February 2018, file no. 14458/215/2014* the Craiova Court of Appeal dismissed as unfounded the appeals formulated by MERCUR SA and the County Council of Dolj. It rejects the appeal of the Ecumenical Christian Association as irrelevant. The decision is irrevocable.

In fact, the decision of the Dolj Tribunal of 25 October 2017 is maintained, which essentially states: “..... obliges Mercur SA to restitutio to the plaintiff (Consiliul Judetean Dolj) in the nature of all the goods listed in the minutes of 21 November 2005, and if the restitution is not possible, it obliges the party to pay to the plaintiff the indemnities in the amount of 113.907 lei, representing the value of the goods and the payment of the sum of 2.108,6 lei trial expenses ... Obliges MERCUR SA to pay the Christian Ecumenical Association the sum of 2.400 lei for the trial expenses...”

II. On 20 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized profit;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the activity program for 2018;
- the level of the administrators' remuneration for 2018;
- the level of professional liability insurance policy for directors in 2018;

- drawing up the annual financial statements for the year 2017, according to IFRS;
- the re-election of the 3-member Board of Directors for a 4-year term starting 1 July 2018.

PROVITAS SA București

I. On 14 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized profit in 2017;
- the discharge of the sole administrator Ms. Anina Radu for the period 01 January - 31 October 2017 and the sole administrator Ms. Nedelcu Alexandra Catalina for the period 01 November - 31 December 2017
- the revenue and expenditure budget for 2018;
- the level of sole administrator remuneration for 2018;
- naming the financial auditor;
- drawing up the annual financial statements for the year 2017, according to IFRS;

TURISM SA Pucioasa

I. On 20 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized profit;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the investment program for 2018;
- the level of the administrators' remuneration for 2018;
- the level of professional liability insurance policy for directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

UNIVERS SA Rm. Valcea

I. On 19 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the realized net profit in 2017;
- the discharge of the administrators, for the activity carried out in the financial year 2017;
- the revenue and expenditure budget for 2018;
- the level of remuneration of directors for the financial year 2018;
- the level of professional liability insurance policy for directors in 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

VOLTALIM SA Craiova

I. Starting 1 January 2018, the mandate contract for the general manager was extended until 31 March 2018.

II. On 19 February 2018, the Ordinary General Meeting of Shareholders held the statutory meeting approving the following:

- the financial statements from 31 December 2017;
- the distribution of the profit realized to cover the losses of the previous years;
- the discharge from administration of the directors for the year 2017;
- the revenue and expenditure budget for 2018;
- the investment program for 2018;
- the level of the administrators' remuneration for 2018;
- drawing up the annual financial statements for the year 2017, according to IFRS;

None of the companies included in the consolidation perimeter fall under OMFP no. 881/25.06.2012, respectively, is not obliged to prepare and report financial statements under IFRS. They keep accounting records according to OMFP 1802/2014 for the approval of accounting regulations on individual annual financial statements and consolidated annual financial statements. For consolidation, they prepare the second set of financial statements under IFRS. The financial statements prepared under IFRS result from the restatement of the financial statements prepared under the OMFP 1802/2014.

The consolidated financial statements have been prepared in accordance with Norm no. 39/2015 for the approval of accounting regulations complying with international financial reporting standards applicable to entities authorized, regulated and supervised by the Financial Supervisory Authority of the Financial Instruments and Investments Sector.

These financial statements are intended solely for use by the Group, its shareholders and the ASF and do not result in changes in dividend shareholders' rights.

Associate Prof. PhD. Ec. Tudor CIUREZU

Chairman

Associate Prof. PhD. Cristian BUȘU ec. Elena SICHIGEA

Deputy General Manager

Financial Manager