

STRATEGY 2019

The great economies started 2018 with strong and synchronized growth, but the advance slowed down later, especially in Great Britain, Japan and China.

The economies entered divergent trajectories. Due to fiscal stimuli, the US economy continued to grow.

Although F.M.I. estimates an increase in the global economy of 3,7% in 2019, some market research companies anticipate a slowdown in the economic growth to 3% and the trend will continue in the years to come.

The main risk factor for the global economy in 2019- according to some analysts` forecasts is the escalation of commercial tensions.

The restraint of stimuli by central banks, the drop in oil quotations, the pressure on sales on capital markets signal a tightening of financial conditions.

The probability to enter in a new recession period in the coming years is getting closer and closer, taking into account the geopolitical uncertainties as well.

The prospects of Europe where our country`s main business partners are found, are worrying. The tightening of lending conditions, commercial tensions, appreciation of the Euro and Brexit will have a negative impact on the economic growth in the Euro area, which will decrease to 1.5% (from 1.9% in 2018).

The main European economies Germany, France, Italy face political and social tensions, their evolution having a strong effect on the growth of the European economy.

The US economy will maintain a growth above the trend of 2.6% (down from 2.9% in 2018). This growth is due to fiscal stimuli, tax cuts and increase in public expense.

For emerging countries a slowdown in economic growth is anticipated at the level of 4.6% compared with 4.8% in 2018.

The most important factors leading to this slowdown are: the tightening of financial conditions, the slowdown in global economy and commercial activity, volatility of prices in raw materials and political uncertainties that can limit capital inflows.

The growth of Chinese economy will slow down to 6.3% in 2019 from 6.5% in 2018.

It is anticipated that the Chinese government will introduce monetary and fiscal measures to counteract a possible too fast decline in economic activity over commercial disputes with the US.

The main threats for 2019 are the monetary and fiscal policy flaws and commercial tensions.

Taking into account the macroeconomic, geopolitical factors, as well as the expected evolution of the international markets that can induce volatility to the Romanian capital market, the strategy of S.I.F. Oltenia S.A. for 2019 must be realistic, prudent and conservative, so that, through the adopted program, we are proposing the continuation of the strategic lines of previous years.

The main directions of action of the strategy for 2019 aim at:

- 1) continuing the restructuring of the shares portfolio;
- 2) investment policy;
- 3) organizational development;
- 4) continuing the implementation of corporate governance principles;
- 5) dividend policy;

1) Restructuring of the shares portfolio

As a result of the restructuring policy carried out in previous years the shares portfolio administered on 31.12.2018 is made up of shares in a number of 49 issuers, a small number that allows an efficient monitoring and involves low costs.

The restructuring process will also continue in 2019 and aims mainly at the qualitative restructuring aiming mainly at investments in profitable companies with a high degree of profit distribution for dividend, thus ensuring consistent incomes for SIF.

It will be waived, to the extent that it is possible to obtain prices above the registration value in accountancy, to ensure profitability, to those shares that have not brought incomes from dividends and which have no prospects for doing so and will pursue the acquisition of liquid shares, underevaluated by the market and which have a potential to increase quotations.

The weight of unlisted shares in the assets, as a result of the sale of the stake held at BCR, dropped significantly from 34.10% to 10.76%.

Further action will be taken to capitalize on holdings in unlisted companies in order to increase the liquidity of the portfolio.

The assets optimization process will continue by allocating resources to investments in new fields of activity in line with legal provisions regarding the exposure level and macroeconomic development tendencies.

S.I.F. Oltenia S.A. has concentrated over 56.51% of the value of assets under management, in shares in the social capital of a number of 10 issuers from various fields of activity (banking, oil resources and auxiliary services, pharmaceutical industry, food industry, energy and gas transport, interior trade).

The 10 companies, most of them leaders in their fields, form the defining “investment core” of S.I.F. Oltenia S.A. portfolio and ensures the flows of established dividends as well as the required liquidity to provide financial resources

for the realization of the investment activity and capitalization of certain market opportunities.

The management of the company implies as strategic vision the maintaining and developing of this core that ensures the stability of the portfolio and the safety of the existence of financial resources for the realization of the dividend and investment policy.

This core, depending on the interests of the company at a certain time, can undergo changes following the investment - disinvestment activity, keeping of course, the main goal of achieving the profitability indicator, equally aiming its ability to generate long term added value to the portfolio managed.

At the end of 2018, a great deal of the amounts obtained from the sale of shares capital to B.C.R. were allocated to the acquisitions of shares issued by banks or shares of the companies in the energetic field.

This investment strategy pursued the maintenance of the structure on activity fields of the “investment core”, a policy which we propose to continue in 2019 as well.

The portfolio restructuring can only work efficiently based in an active asset management policy.

On 31.12.2018 in the shares portfolio majority shareholding are found in 11 commercial companies.

A priority for the portfolio management activity is to increase the market value of holdings held.

To this end, a particular emphasis will be placed on the implementation of the corporate governance principles at the level of the companies in which SIF holds majority holdings which will lead to added value in their activity.

In order to render efficient the activity of the portfolio companies we will pursue :

- the financing of companies by participating to the increase of the share capital.

Direct investments will be made in case companies present viable development programs and realistic and grounded business plans.

- giving consultancy to the management of the portfolio companies in order to find the best solutions for increasing the efficiency and profitability of the business.

- ensuring the compliance by companies of the corporate governance principles, where SIF has representatives in the administration boards.

2) Investment policy

In accordance with the legal provisions in force, namely R.N.S.C./F.S.A. Regulations no.15/2004, S.I.F. OLTENIA S.A. was classified on 31.12.2018 in the category „Other Collective Investment Organizations (AOPC)”, with a diversified investment policy.

Article 187 of R.N.S.C./F.S.A. Regulations no.15/2004 specifies the investments that an AOPC can make.

These investments are:

- securities and instruments of the monetary market enrolled or traded on a regulated market;

- securities and instruments of the monetary market admitted to official listing of a stock exchange in a non-member state or negotiated on another regulated market of a non-member state;

- newly issued securities;

- titles of O.P.C.V.M. and/or A.O.P.C;

- deposits placed in credit institutions;

-derivative financial instruments, including those that involve the final settlement of money traded on a regulated market and/or derivative financial instruments negotiated outside the regulated market;

-instruments of the monetary market, other than those traded on a regulated market, which are liquid and have a value that can be precisely determined at any time;

- other securities and instruments of the monetary market: securities not admitted to trading on a regulated market, trade effects (promissory notes, bills of exchange);

- currency, acquired on the domestic market, freely convertible, according to B.N.R. criteria

The investment limits for an AOPC are provided in Art. 188 of R.N.S.C./F.S.A. Regulations no.15/2004.

During May 2016, in accordance with the F.S.A. Regulations no. 10/2015, regarding the management of alternative investment funds, S.I.F. OLTENIA S.A. filed at F.S.A. the authorization documentation as an A.I.F.A. (Alternative Investments Funds Administrator).

On 15.02.2018 the company received from F.S.A. the Authorization no. 45/15.02.2018 through which it was authorized as Alternative Investments Funds Administrator (A.I.F.A) .

F.S.A. is working at the Project of Alternative Investments Fund Law.

Should this law be issued in the course of 2019, S.I.F. OLTENIA S.A. will have to adapt its investment strategy according to the provisions of the new law.

S.I.F. OLTENIA S.A. will continue to lead, also in the year 2019 an active investment policy, the investments being made in financial instruments allowed by the legislation and respecting the investment limits.

The investment objective of S.IF. OLTENIA S.A. is to increase the value of assets by investments made especially in shares listed on the Romanian capital market, where we have a high level of expertise.

At the same time we hope that the Romanian capital market will promote from the category of border market to the emerging market.

During 2018 significant steps were taken in this direction, thus at the evaluation from September 2018, according to FTSE Russel rating agency, our capital market had to fulfil two more conditions to qualify for secondary emerging (at the evaluation from September 2017 did not meet four criteria).

The inclusion of the capital market in the emerging market category would lead to greater visibility and to the increase of the interest of investors with effects on the increase of quotations of shares listed on BVB.

It will be also analyzed the possibility of investing in solid regional companies with growth perspectives.

The main investments fields targeted :

- the energetic and utilities area;
- pharmaceutical industry;
- financial-banking field;
- infrastructure;
- food industry;

The energetic and utilities sector remains in the investment focus of S.I.F. OLTENIA S.A. in the context of Romania`s macrostability. This is a low risk degree field, that gives stability to the portfolio managed, and at the same time issuers have a consistent dividend policy, that provides a large part of the incomes from financial assets of SIF OLTENIA S.A.

The price of oil gained an important appreciation in 2018, continuing the trend started in 2016, the price of the BRENT barrel exceeding 80\$ during the year.

We believe this trend will maintain, with some fluctuations, so that the profitability of the companies in the field will be high. S.I.F. Oltenia S.A. will continue to invest in activities in the oil field and we appreciate that in the medium term they have a high potential for growth.

During December 2018 the Government adopted the Emergency Ordinance n. 114 regarding the establishment of measures in the field of public investments and some fiscal-budgetary measures, an ordinance that introduced certain taxes on the turnover of energy companies.

These taxes will lead to the decrease of the profitability of companies in the field, to the decrease of their investment budget.

There will be major changes for energy companies, but taking into account their position on the market, the expertise of companies listed on the BVB in this field, we believe they will remain profitable and will continue to have development prospects.

As far as the **pharmaceutical industry** is concerned, this is an extremely dynamic and growing field, the Romanian market still having prerequisites for high growth.

After the stabilization from 2016, 2017, the **financial-banking sector** experienced in 2018 a very good year, the main financial indicators being appreciated.

As a result of bank restructuring, the clearing of non performing credit balances, the banking system ended the year under high profitability conditions.

Thus, the main banks in the system listed TLV, BRD had very good results.

Transilvania Bank which advanced the Romanian Commercial Bank is ranked first in its assets in the banking system, registered in 2018 a net profit of 1.26 billion lei, increasing by 1,18%.

During 2018 the Bank completed the merger with Bancpost which generated high integration costs.

The Romanian Bank for Development, the third bank on the local market according to assets, reported a record profit for 2018 of 1.57 billion lei, increasing with 10,6%.

S.I.F. OLTENIA S.A. has invested heavily in this sector and, although there have been periods in which it has de-invested – in order to secure the liquidity necessary to achieve the dividend policy – it remains interested in investing in banks, as well as in other financial institutions (SIFs).

Investments in SIF-s will be made in the short to medium term, as potential legislative changes will generate opportunities to capitalize these investments.

Investments will be made by optimizing and continuously restructuring the assets structure so that the proportions of sectoral exposures take into account the evolution of the macroeconomic framework.

We will continue to increase holdings in commercial companies in the portfolio that have growth prospects, either through the acquisition of shares on the secondary market, or through direct placements, so we capitalize them, thus providing them with cheap development resources.

Liquidity management will always be in our attention so that we can obtain high returns from money placements and at the same time to have the necessary amounts for investments, in case of market opportunities.

According to AGOA Decisions of 04.04.2017 and AGEA of 25.04.2018 during February 2019 a public offer was made for the purchase of 19,622,585 shares of S.I.F. Oltenia S.A.

The offer was successfully completed, being oversubscribed, the allocation index being only 0,0756237976.

Taking into account the high interest of investors for such operations, we propose that in 2019 to continue this policy of carrying out stock buy-back programs in order to diminish the share capital.

3) Organizational development

Organizational development represents a state of transition between the current state and a future state towards which the organization tends, the ultimate goal of organizational change being success, respectively both a better match between the organization and the environment in which it evolves, as well as a more efficient working modality.

Organizational change/development must therefore promote a dynamic evolution strategy of the organization, through the implementation and development of which improves the abilities of the organization to effectively respond to changes in the external environment. To do this, the organization needs to increase its internal capabilities, by ensuring that the organization structures, the human resources systems, posts, communication systems and management processes fully capitalize people`s motivation and help them function to their full potential.

Following the dynamics of specific legislation, with focus on the capital market legislation, S.I.F. OLTENIA S.A. permanently developed and perfected both

the Company`s Internal Regulations and the procedures for each individual activity, a process that will also continue throughout the year 2019.

S.I.F. OLTENIA S.A. will seek to optimize the adaptation of the regulations and procedures for carrying out the activity in the capacity of A.F.I.A.

It will continue to seek to adapt the organizational structure to new legislative requirements, to improve the professional skills of persons holding key positions, ensuring the efficient functioning and in compliance with the legislation of the institution.

A major indicator of S.I.F. OLTENIA S.A. performance will continue to be in 2019 as well, the level and speed of adaptation and reaction to the extremely accelerated dynamics of changes in the legislative field, on capital markets and the financial field, so that the employees improvement policy will be continued and even accentuated, by their participation in training programs in the areas concerned.

4) Implementing the principles of corporate governance

The history of the field confirms that the consistent application of the principles of corporate governance, responsibility and transparency are key factors for absolutely all parties concerned – shareholders – investors and represent one of the determining factors regarding the attractiveness of a company for investors.

This is because the health and viability of an organization that applies the principles of corporate governance are ensured through the structures of regulating the force reports between management and shareholders, between majority and minority shareholders, between management, employees, investors.

Adhering to corporate governance principles helps prevent risks, to protect shareholders` rights, improving the performance of the company.

In the investments funds industry, on adopting and developing corporate governance principles depends the maintaining of competitiveness between factors involved.

Only the guarantee of a transparent decision-making process, based on clear rules and finely defined objective, may lead to the increase of investors confidence in the company.

On 01.01.2016 the New Corporate Governance Code of the Bucharest Stock Exchange entered into force.

On 04.01.2016, in accordance with the provisions in force, S.I.F. Oltenia S.A. submitted the Declaration of Compliance with the Corporate Governance Code during the transition period, listing the provisions of the Code that are not met on December 31st, 2015 and explaining, briefly, the reason for the respective deviation. The Declaration of Compliance was the subject of the Current Report no. 29/04.01.2016.

Following the finalization of corporate governance implementation at the level of S.I.F. OLTENIA S.A., by the deadline set by the applicable code – April 2017 – the company has always acted for the purpose of perfecting the Internal Regulations and procedures regarding the information circuit. This is especially because, in order to protect the interests of shareholders and investors, a strong balance must be maintained with high responsibility between the need to keep confidential information and the need to disclose relevant corporate information.

On 22.09.2017, by the decision of the Administration Board, the Audit Committee and the Nomination Committee were elected. They have an important role in applying the best practices of corporate governance.

Subsequently, on 18.07.2018, the Administration Board approved some changes in the Company`s internal Regulations so the Nomination Committee became the Nomination and Remuneration Committee.

The corporate governance structures were respected during the year 2018, the Administration Board, elected by the AGOA Decision no. 7/04.04.2017, approved by F.S.A. with approval no. 424/26.07.2017 and registered at ORC Dolj on 31.07.2017 has a 4 year mandate.

During March 2019, at the level of the Administration Board the Committee of Investment-strategies Policies, a permanent advisory committee, independent of the executive management was set up. It has as main role the analysis of the investment strategy and the elaboration of recommendations to the Administration Board.

Under these conditions, S.I.F. Oltenia S.A. will also act during the year 2019 with a leadership that fully respects the structures of corporate governance.

In order to ensure transparency and access to information for all parties concerned, the dissemination of relevant information about the company will be further ensured, including the main issues of the corporate governance policy, financial statements and company performance as well as any important event regarding the company.

Complying first of all with the reporting requirements to capital market institutions, S.I.F. OLTENIA S.A will continue to make the information public so that the general public to have equal and complete access, the information being properly evaluated in real time. At the same time, in order to improve the policy of organizational communication, S.I.F. OLTENIA S.A. will expand and develop new forms of communication on new levels.

5) Dividend policy

In the context of the volatility of capital markets, S.I.F OLTENIA S.A. will pursue the finding of an optimal balance between the need to provide resources to support investment programs in order to increase the net unitary asset, market price

per share and the fulfilment of investors expectations regarding the dividends distribution.

At the same time, the buy-back programs that are intended to be carried out – with the approval of AGEA – will contribute to rewarding the shareholders of the company.

The Administration Board

Associate Prof. PhD Ec. Tudor CIUREZU Associate Prof. PhD Ec. Cristian BUŞU

Chairman

Deputy Chairman