



**THE REPORT**  
**of the Board of Administration**  
**of S.I.F. Oltenia S.A.**  
**on the Consolidated Financial Statements**  
**concluded as of 30.06.2018**

The Financial Investment Company OLTENIA S.A. („the company”) – a Romanian legal entity – established as a joint-stock company on 01.11.1996 based upon the Law no. 133/1996 (the law for transforming Private Property Funds into financial investment companies), is classified in the category of Alternative Investment Funds Administrator (AFIA) and it has been authorized by The Financial Supervisory Authority (“ASF”) on 15.02.2018 receiving the Authorization with no. 45/15.02.2018.

In accordance with the articles and memorandum of association of the company approved by the Financial Supervisory Authority in February 2017, by the approval no. 48/15.02.2018, the company has the following activity objective:

- a) the administration and management of the shares in the commercial companies for which own shares were issued, corresponding to the Certificates of Ownership and Nominal Privatization Coupons subscribed by the citizens according to the provisions of art. 4 par. 6 of the Law no. 55/1995;
- b) the administration and management of own securities portfolio and investing in securities in accordance with the regulations in force;
- c) risk management;
- d) other ancillary activities and adjacent to the collective management activity.

The subscribed and paid-up 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 30.06.2018 the number of company shareholders was of 5,744,796 (31.12.2017: 5,748,221).

	Number of shareholders	Number of shares	(%)	Number of shareholders	Number of shares	(%)
	30 June 2018			31 December 2017		
<b>Resident natural persons</b>	5,742,713	227,614,838	39.23	5,746,147	231,390,642	39.88
<b>Non-resident natural persons</b>	1,824	1,847,324	0.32	1,812	2,221,396	0.38
<b>Total natural persons</b>	<b>5,744,537</b>	<b>229,462,162</b>	<b>39.55</b>	<b>5,747,959</b>	<b>233,612,038</b>	<b>40.26</b>
<b>Resident legal persons</b>	216	250,168,321	43.12	216	240,120,238	41.39
<b>Non-resident legal persons</b>	43	100,535,231	17.33	46	106,433,438	18.35
<b>Total legal persons</b>	<b>259</b>	<b>350,703,552</b>	<b>60.45</b>	<b>262</b>	<b>346,553,676</b>	<b>59.74</b>
<b>Total</b>	<b>5,744,796</b>	<b>580,165,714</b>	<b>100.00</b>	<b>5,748,221</b>	<b>580,165,714</b>	<b>100.00</b>

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

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

- Law no. 31/1990 R on companies, with further completions and amendments;
- Law no. 297/2004 regarding the capital market, with further completions and amendments;
- Law no. 74/2015 on Alternative Investment Fund Managers;
- 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. 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 assessment 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;
  - Regulation no. 5/2018 on Issuers of Financial Instruments and Market Operations
  - The Bucharest Stock Exchange Code;
  - Corporate Governance Code of the Bucharest Stock Exchange;
  - The other normative documents on the subject matter;
- and
- The articles and memorandum of association (Articles of association and the company agreement).

The performance of the depositary activities is provided by the legislation and the A.S.F. during the analyzed period it was provided by RAIFFEISEN BANK S.A. - Bucharest branch.

The evidence of company shareholders is held by the DEPOZITARUL CENTRAL S.A. Bucharest.



# **I. GENERAL INFORMATION**

The consolidated financial situations as of 30.06.2018 have been established in accordance with the regulation no. 39/2015 for the approval of the accounting regulations in line with the international financial reporting standards, applicable to authorized entities, regulated and supervised by the Financial Supervisory Authority from the Sector of Financial Instruments and Investments.

According to the provisions of the Law no.24/2017 regarding the financial instruments issuers and market operations and Regulation no. 1606/2002 of the European Parliament and European Union Council on 19.07.2002, the Company is required to prepare and submit the half-quarterly consolidated financial statements to the ASF, in compliance with the International Financial Reporting Standards adopted by the European Union (“IFRS”) as soon as possible after the end of the relevant reporting period, but no later than 3 months after this end.

The half-year consolidated financial statements of the Company include the Company and its subsidiaries (hereafter called the Group) and they are not audited. The core activities of the Group are represented by the financial investment activity carried out by S.I.F. Oltenia S.A., as well as the activities of subsidiaries belonging to different sectors of activity such as: food, tourism, lease etc.

The half-year financial statements of subsidiaries are included in the six-month consolidated financial statements of the Company from the moment the control commences till the moment of its termination. The accounting policies of the Group's subsidiaries have been amended to align them with those of the Group.

The date of December 31<sup>st</sup>, 2015 is the date of transition to IFRS as a basis for accounting by the Company, when the operations determined by the changeover from the CNVM Regulation no. 4/2011 to the IFRS-compliant Accounting Regulations.

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

- Grouping more elements into more comprising categories;
- Adjustment of asset elements and equities in accordance with IAS 29 „*Financial reporting in hyperinflationist economies*”, because the Romanian economy was a hyperinflationist economy till December 31<sup>st</sup>, 2003;
- Adjustment in the profit or loss account to record incomes from dividends upon stating and at gross value;
- Adjustments of the realstate investments for their assessment to the fair value according to IAS 40 „*Realestate investments*”;
- Adjustments of the tangible assets for their assessment in accordance with the accounting policies of the group and in line with IAS 16 ”Tangible assets”;
- Adjustments for recognition of claims and liabilities regarding the deferred tax according to IAS 12 „*income tax*”;
- Presentation requirements in accordance with IFRS.

The Group adopted a presentation on the basis of liquidity in the consolidated statement of financial position and disclosure of income and expenses was made by reference to their nature in the consolidated statement of profit or loss and other items of comprehensive income, presentation provides information which is credible and relevant than other methods allowed by IAS 1 „*Financial statements presentation*”.

The Group has a policy of maintaining equity for the purpose of developing and achieving the objectives. The main objective is the activity continuity in order to provide profitability to its shareholders. The equity consists of the share capital, the reserves created, the current result and the retained earnings.

Consolidated financial statements are prepared using the fair value convention for financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other elements of the global result, except for those for which fair value cannot be credibly determined.

Other assets and financial liabilities, as well as the assets and non-financial liabilities are presented at the depreciated cost, reassessed value or historical cost.

The group uses in 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: other than quoted prices included in Tier 1 that are observable for assets or liabilities, either directly (eg, prices) or indirect (eg derived from prices);

- Level 3: Assessment 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 assessment. This category includes instruments which are assessed on the basis of quoted prices for similar instruments but for which adjustments are largely based on unobservable data or on estimates to reflect the difference between the two instruments.

The assessment at the fair value of securities held on 30.06.2018 has been achieved as follows:

- For securities quoted and traded on a regulated market, the market value was determined by considering the closing price of the market section considered the main market for the day for which the calculation is made, i.e. the reference price for the day for which the calculation is made, provided by the operator of that trading system for each of the segments of that system;
- For quoted securities that did not have transactions in the last 30 trading days of the reporting period ended 30 June 2018 and for unlisted securities, the market value was determined by the issuer's own capital as at 31.12.2017;
- For securities related to insolvency or reorganization companies, the assessment is zero;
- For securities of UCITS, the value considered was the last unit value of the net asset, calculated and published.



The total market value of the Group's equity portfolio is **1,560,604,889 lei**, including 4 investment funds in the amount of **2,908,430 lei** (0.19% of the market value of the portfolio managed)

As of June 30, 2018, the Group held shares in financial, banking and insurance companies with a **54.56%** share of the total market value of the portfolio, slightly increasing as compared to 31.12.2017 when the same sector registered a weight of **53.35%**.

As of June 30<sup>th</sup>, 2018 the group has the following structure of financial assets:

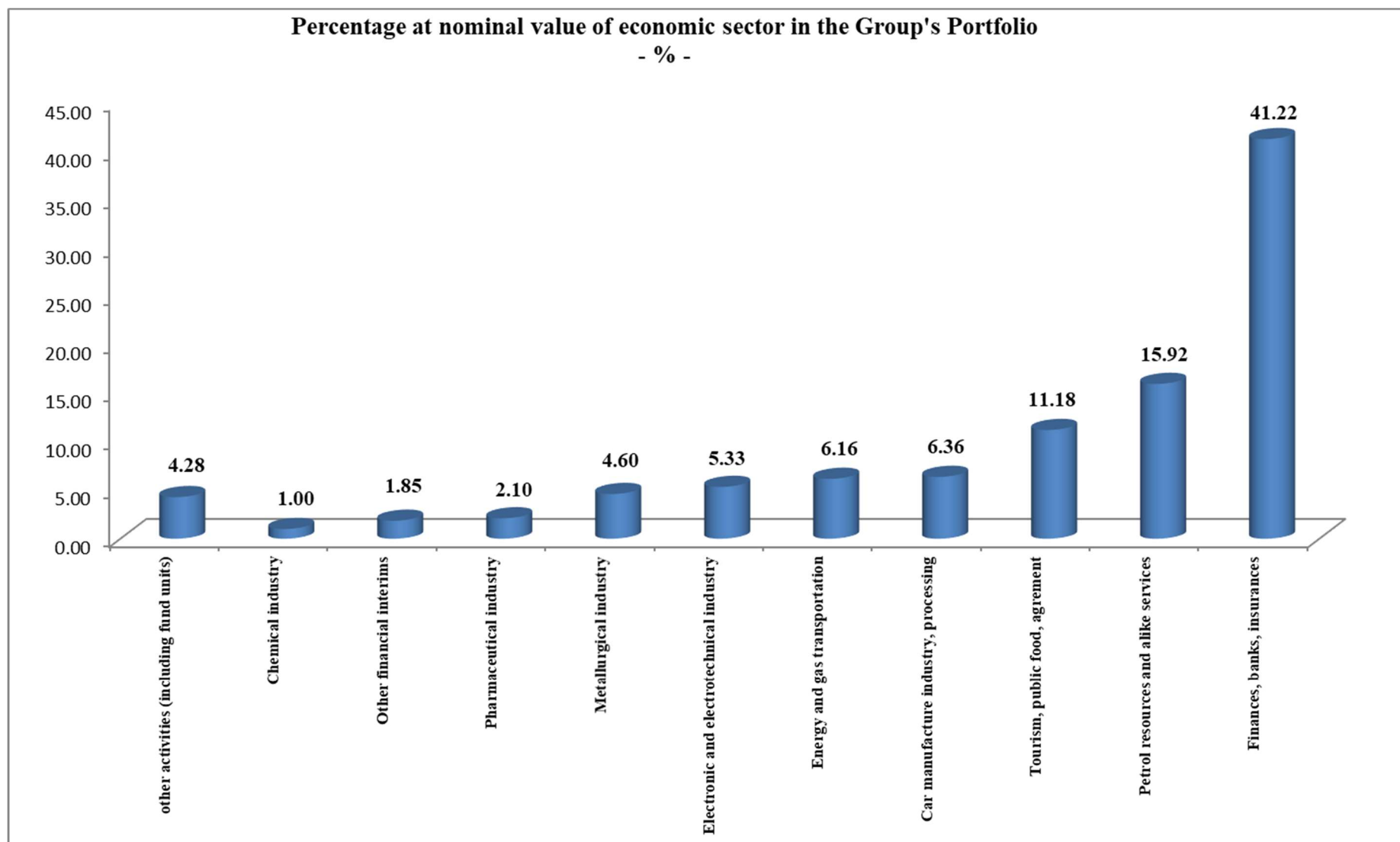
<i>In lei</i>	<b>No. com.</b>	<b>Market value 30.06.2018</b>	<b>No. com.</b>	<b>Market value 31.12.2017</b>
<b>Capital investments</b>				
Listed companies	31	961,305,764	31	940,376,548
Unlisted companies	30	596,390,695	33	565,696,728
Fund units	4	2,908,430	4	2,789,494
<b>Total financial assets</b>	<b>65</b>	<b>1,560,604,889</b>	<b>68</b>	<b>1,508,862,770</b>

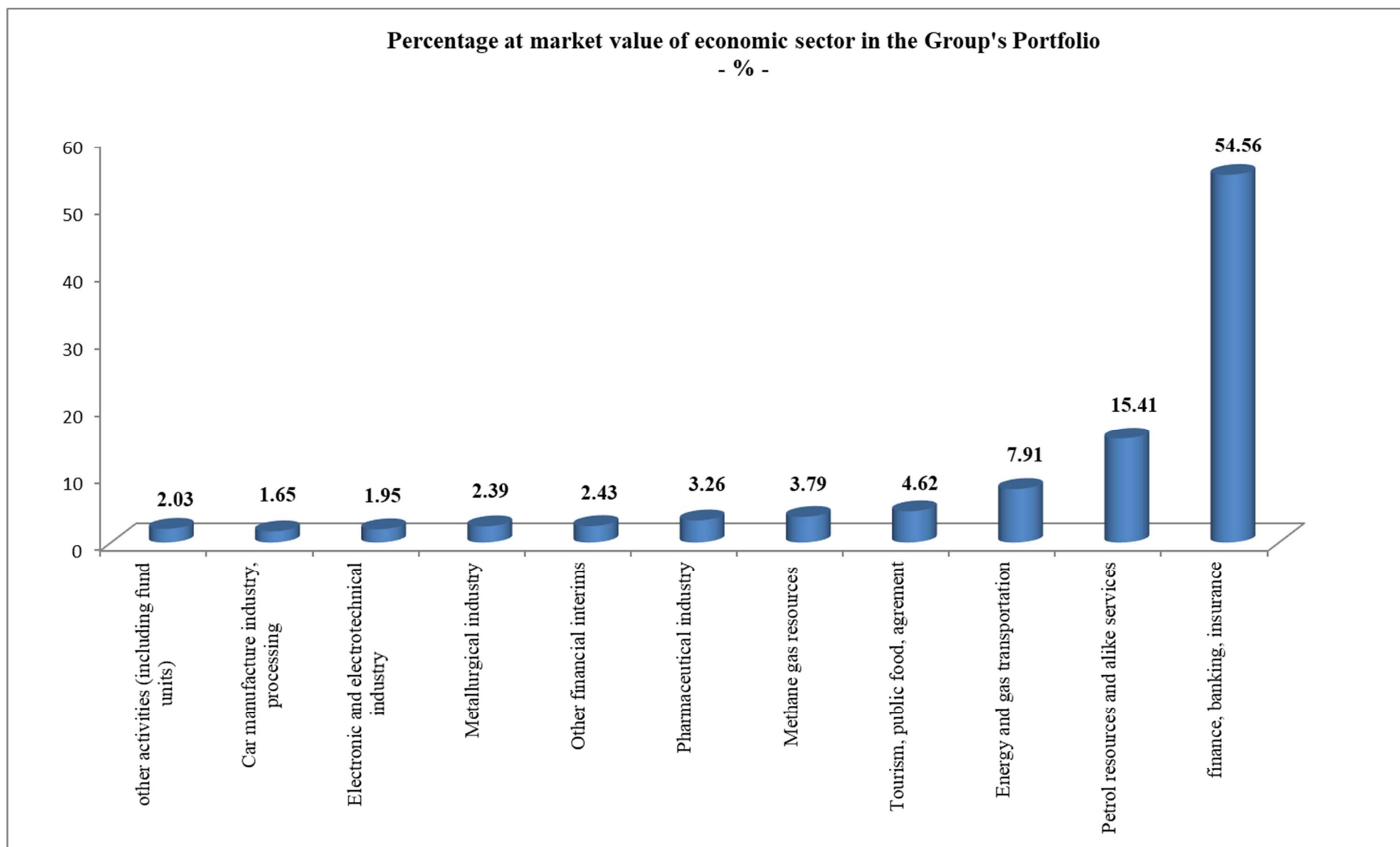
The placements held in companies whose securities are listed and traded on the Romanian capital market plus the placement held with the Banca Comercială Română on 30 June 2018 represent **93.66%** of the fair value of the investments.



## The consolidated structure of the portfolio held by the Group as of 30.06.2018

Portfolio structure	Issuers		Total nominal value of securities		Total market value of securities	
	N. SC	%	(lei)	%	(lei)	%
<b>Economic sectors with percentage in value portfolio of SIF:</b>						
Finances, banks, insurances	5	7.69	194,390,746	41.22	851,532,460	54.56
Petrol resources and alike services	1	1.53	75,063,692	15.92	240,532,741	15.41
Energy and gas transportation	2	3.08	29,052,620	6.16	123,519,459	7.91
Tourism, public food, agreement	4	6.15	52,750,485	11.18	72,149,203	4.62
Methane gas resources	1	1.53	1,583,829	0.34	59,156,013	3.79
Pharmaceutical industry	1	1.53	9,897,009	2.10	50,870,625	3.26
Other financial interims	7	10.77	8,726,945	1.85	37,736,930	2.43
Metal industry	3	4.61	21,675,862	4.60	37,227,114	2.39
Electronic, electrotechnical ind.	8	12.31	25,131,264	5.33	30,410,333	1.95
Car manufacture industry, processing	9	13.85	29,991,978	6.36	25,722,492	1.65
Chemical industry	1	1.53	4,702,595	1.00	11,756,488	0.75
Financial market management	1	1.53	3,837,090	0.81	9,554,354	0.61
Food industry	3	4.61	2,980,168	0.63	2,451,133	0.16
Lease and sublease of realestate goods	1	1.53	1,639,393	0.35	1,932,607	0.12
Interior trade	4	6.15	4,020,274	0.85	1,780,035	0.11
Distribution, electrical energy provision and energetic services	1	1.53	1,237,180	0.26	1,217,385	0.08
Other activities	6	9.31	1,586,795	0.32	147,087	0.01
Constructions	3	4.61	876,226	0.19	0	0.00
<b>TOTAL EQUITY SECURITIES</b>	<b>61</b>	<b>93,85</b>	<b>469.144.151</b>	<b>99,47</b>	<b>1.557.696.459</b>	<b>99,81</b>
<b>FUND UNITS</b>	<b>4</b>	<b>6,15</b>	<b>2.500.017</b>	<b>0,53</b>	<b>2.908.430</b>	<b>0,19</b>
<b>TOTAL</b>	<b>65</b>	<b>100,00</b>	<b>471.644.168</b>	<b>100,00</b>	<b>1.560.604.889</b>	<b>100,00</b>





**Within the consolidation perimeter** there were a number of **11 companies** comprised to which the holding was over 50% from the voting rights, which were consolidated by the global integration method.

Ther 11 companies represent a percentage of **15.24%** in the total asset of the company and respectively **15.99%** in the net asset.

The settlements and transaction within the group, as the unperformed profits resulted from transactions within the group, are removed entirely from the half-year consolidated financial statements.

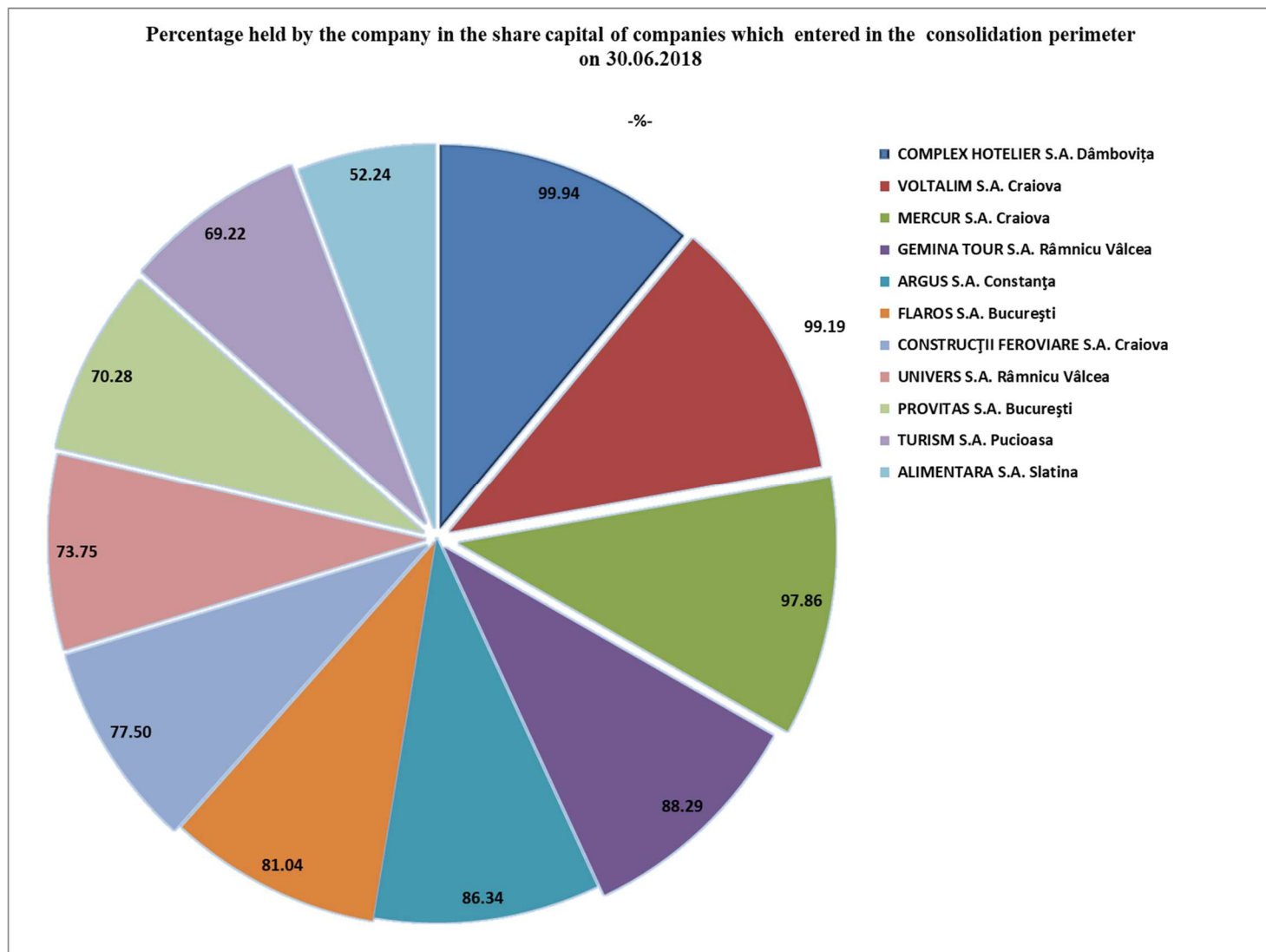
In the perimeter of the consolidation, the following 11 companies have been comprised:

Net Asset	1,799,763,828 lei	1,770,430,599 lei
Total Asset	1,888,780,571 lei	1,824,576,020 lei

No.	Issuer	Symbol	Percentage in the share capital of the issuer on 30.06.2018	Percentage in the share capital of the issuer on 31.12.2017	Market on which is traded
1	ALIMENTARA S.A. SLATINA	ALRV	52.24	52.24	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	AeRO Standard
5	CONSTRUCȚII FERROVIARE S.A. CRAIOVA	CFED	77.50	77.50	AeRO Standard
6	FLAROS S.A. BUCUREȘTI	FLAO	81.04	81.04	AeRO Standard
7	ARGUS S.A. CONSTANȚA*	UARG	86.34	86.34	AeRO Premium
8	GEMINA TOUR S.A. RM.VÂLCEA		88.29	88.29	unlisted
9	MERCUR S.A. CRAIOVA	MRDO	97.86	97.86	AeRO Standard
10	VOLTALIM S.A. CRAIOVA		99.19	99.19	unlisted
11	COMPLEX HOTELIER DÂMBOVITA S.A.		99.94	99.94	unlisted

\* Argus SA Constanța holds securities at: Comcereal S.A. Tulcea, Aliment Murfatlar SRL and Argus Trans SRL which were not included in the financial statements of the company and which does not represent significant influence over it.

The company management has classified as of January 1<sup>st</sup>, 2018, all securities of the portfolio activities in the category of assessed financial assets to the fair value by other elements of the global result, except the fund units which are assessed by profit or loss account.





## **II. ECONOMIC DATA**

### **II. 1. THE CONSOLIDATED SITUATION OF THE GLOBAL RESULT**

<i>In lei</i>	<b>30 June 2018</b>	<b>30 June 2017</b>
<b>Incomes</b>		
Incomes from dividends	74,749,296	40,797,889
Incomes from interests	43,715	49,616
Other operational incomes	99,119,396	96,613,217
Net earning from exchange rate differences	(96,380)	(138,747)
Net earning from selling of financial assets	3,494,832	3,416,196
<b>Expenses</b>		
Commissions and administration and supervision fees	(1,183,751)	(1,249,034)
Incomes from resuming provisions for risks and expenses	480,550	324,094
Other operational expenses	(105,918,881)	(99,822,410)
<b>Profit before tax</b>	<b>70,688,777</b>	<b>39,990,821</b>
Income tax	(4,842,779)	(2,925,386)
<b>Net profit of the financial exercise</b>	<b>65,845,998</b>	<b>37,065,435</b>
<b>Other elements of the global result</b>		
Variation of the reserve from the tangible asset reassessment, net to the deferred tax		
Net variation of the reserve from the modification of the fair value of financial assets assessed at the fair value by other elements of the global result	43,793,662	135,516,740
Reserve related to the difference by modifying the fair value of assessed financial assets by other elements of the global result transferred into profit or loss, net of tax	(4,534,200)	(2,989,863)
<b>Total global result afferent to the period</b>	<b>105,105,460</b>	<b>169,592,312</b>
<b>Related net profit</b>	<b>65,845,998</b>	<b>37,065,435</b>
Company shareholders	65,784,506	36,935,958
Minority interest	61,492	129,477
<b>Related global result</b>	<b>105,105,460</b>	<b>169,592,312</b>
Company shareholders	105,490,358	169,257,775
Minority interest	(384,898)	334,537
<b>Result per share</b>		
Basic	0.1134	0.0637

The net profit of the financial exercise of **65,845,998 lei** is in increase with **77.55%** towards 30.06.2017.



## Segment reporting

Indicators	Lease		Food industry		Tourism		Financial activity		TOTAL	
	30.06.2018	2017	30.06.2018	2017	30.06.2018	2017	30.06.2018	2017	30.06.2018	2017
Fixed assets	144,645,731	143,269,078	60,831,902	60,968,399	14,447,284	14,419,241	1,577,056,221	1,528,072,012	1,796,981,138	1,746,728,730
Current assets	20,842,565	21,804,053	52,405,919	129,374,145	1,653,384	2,213,563	70,991,863	6,583,747	145,893,731	159,975,508
Advance expenses	2,918,567	2,683,184	327,559	60,464	101,802	21,253	145,337	73,440	3,493,265	2,838,341
Liabilities	26,626,324	25,353,815	42,326,477	111,800,458	878,414	854,967	217,113,319	174,598,069	286,944,534	312,607,309
Advance incomes	836,165	824,364	3,591	3,675	91,803	66,453	7,505	8,355	939,064	902,847
Provisions	165,368	579,804	971,973	675,675	50,843	87,496	5,288,900	5,288,900	6,477,084	6,631,875
Minority interests	-						30,855,918	32,419,449	30,855,918	32,419,449
Equities	140,779,006	140,998,332	70,263,339	77,923,200	15,181,410	15,645,141	1,394,927,779	1,322,414,426	1,621,151,534	1,556,981,099

Total incomes	14,600,219	26,357,843	83,811,463	177,856,265	2,743,658	6,351,216	76,732,449	105,525,354	177,887,789	316,090,678
Total expenses	7,609,181	15,871,366	91,471,205	186,653,396	3,010,924	5,803,261	5,107,702	26,627,670	107,199,012	234,955,693
Gross result	6,991,038	10,486,477	(7,659,742)	(8,797,131)	(267,266)	547,955	71,624,747	78,897,684	70,688,777	81,134,985
Net result	6,437,904	9,096,662	(7,659,861)	(8,864,464)	(317,730)	429,825	67,385,685	71,283,848	65,845,998	71,945,871

## Segment reporting

Segment reporting is segmentation by activity that considers the line of business of which the core business of the companies in the consolidation perimeter is.

The company together with the companies in the portfolio holding more than 50%, included in the consolidation perimeter, is active in the following main business segments:

- financial investment activity
- rental of premises
- 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 30 June 2018 by the Group, **87.76%** of the assets are held by the financial investment activity represented by the financial asset portfolio, namely **87.48%** at 31 December 2017.

The high level of debts is mainly due to the deferred tax liability for the fair value reserve at 30 June 2018, with a weight of **46.81%** (31 December 2017: **40.48%**) in total debt.

The net result at 30 June 2018 is realized from the financial investment activity, the companies included in the consolidation made a loss of 1,539,687 lei.



**II.2. THE CONSOLIDATED  
STATEMENT OF THE  
FINANCIAL POSITION**

<i>In lei</i>	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Assets</b>		
Cash and cash equivalence	18,370,337	9,869,368
Deposits placed in banks	53,429,343	13,030,043
Assessed financial assets to the fair value by other elements of the global result	1,556,770,379	1,506,578,556
Financial assets at the fair value by profit or loss account	3,834,510	2,284,214
Credits and claims	38,127,037	29,563,961
Tangible assets	86,609,591	87,012,073
Realestate investments	93,203,002	93,360,493
Other assets	96,023,935	167,843,871
<b>Total assets</b>	<b>1,946,368,134</b>	<b>1,909,542,579</b>
<b>Liabilities</b>		
Payment dividends	88,970,251	48,791,984
Taxes and charges	3,322,610	7,071,981
Liabilities with the deferral tax	134,321,030	126,534,254
Other liabilities	67,746,791	137,743,812
<b>Total liabilities</b>	<b>294,360,682</b>	<b>320,142,031</b>
<b>Equities</b>		
Share capital	58,016,571	58,016,571
Adjustment of the share capital	103,806,500	103,806,500
Other elements of equities	640,808,133	619,775,291
Reserves from tangible assets reassessment	38,901,297	39,562,594
Legal and statutory reserves	28,144,283	27,963,377
Other reserves	735,511,972	701,904,709
Result reported representing the undistributed profit or uncovered loss	(18,755,201)	(11,100,021)
Result reported due to IAS 29 over the share capital and reserves	(158,148,438)	(158,148,438)
Result reported due to IAS without IAS 29	127,081,911	103,510,150
Current profit	65,784,506	71,690,366
<b>Total equities attributable to the mother company</b>	<b>1,621,151,534</b>	<b>1,556,981,099</b>
<b>Minority interest</b>		
From which:	<b>30,855,918</b>	<b>32,419,449</b>
Profit or loss of the financial exercise afferent to the interests not controlled	61,492	255,505
Other equities	30,794,426	32,163,944
<b>Total equities</b>	<b>1,652,007,452</b>	<b>1,589,400,548</b>
<b>Total liabilities and equities</b>	<b>1,946,368,134</b>	<b>1,909,542,579</b>

A of 30.06.2018 the group holds a securities portfolio in companies and investment funds at the market value pf **1,560,604,889 lei** which represents **80.18%** from the total assets, recording an increase with **3.43%** towards 31.12.2017.

The companies with percentage in the total of the portfolio are the following:

<b>Nr.</b>	<b>Company</b>	<b>Percentage from total - % -</b>	<b>Market value at 30 June 2018 - lei -</b>
<b>1</b>	BANCA COMERCIALA ROMANA BUCURESTI	32.07	500,428,304
<b>2</b>	OMV PETROM BUCURESTI	15.41	240,532,741
<b>3</b>	B.R.D.-GROUPE SOCIETE GENERALE BUCURESTI	12.56	196,071,827
<b>4</b>	BANCA TRANSILVANIA CLUJ	7.80	121,694,968
<b>5</b>	SNTGN TRANSGAZ MEDIAS	4.07	63,452,912
<b>6</b>	C.N.T.E.E. TRANSELECTRICA BUCURESTI	3.85	60,066,547
<b>7</b>	S.N.G.N. ROMGAZ S.A.	3.79	59,156,013
<b>8</b>	ANTIBIOTICE IASI	3.26	50,870,625
<b>9</b>	TURISM FELIX BAILE FELIX	2.28	35,650,602
<b>10</b>	TURISM LOTUS FELIX	2.19	34,239,739
<b>TOTAL</b>		<b>87.28</b>	<b>1,362,164,278</b>

Deposits placed in banks have a value of **53,429,343 lei**, with an increase of **4.10** times towards 31.12.2017 (13,030,043 lei).

The total liabilities are in amount of **294,360,682 lei**, decreasing with **8.05%** towards 31.12.2017 (320,142,031 lei).

The liabilities with the deferred tax in amount of **134,321,030 lei** represent **45.63%** from the total liabilities and the payment dividends in amount of **88,970,251 lei - 30.22%**.





**III. ASSESSMENT OF THE  
COMPANY ACTIVITY  
REGARDING RISK  
MANAGEMENT**

The group, through the complexity of its activity, is subject to various risks.

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 management continuously evaluates the risks that may affect the achievement of the objectives of the company and takes the necessary measures in case of changing the conditions in which it operates.

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:

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

Considering that the structure of the companies that enter the consolidation perimeter, ie the only company listed on the Bucharest Stock Exchange in the Premium category, is SIF Oltenia SA, the activity of risk management is carried out in compliance with the provisions of the legal framework with the to SIF Oltenia SA.



A special structure, the Risk Manager, which supervises and coordinates this activity, is organized at the Company level. The Company has also implemented risk management policies and procedures to which it is exposed. Risk monitoring is done at each hierarchical level, with procedures for supervising and approving decision boundaries.

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.

Internal reporting of risk exposure is made on a continuous basis, on each line of business, the management of the company being permanently informed of the risks that may arise in the course of the business.

By nature of the object of activity, the Company is exposed to various types of risks associated with the financial instruments held and the markets it has exposure to.

The main risks identified in the Group's activity are:

- a) market risk (price risk, currency risk, interest rate risk)
- b) credit risk
- c) liquidity risk
- d) tax afferent risk
- e) economic environment afferent risk
- f) operational risk

**a) Market risk**

Market risk represents the current or future risk of adverse profits, driven by market fluctuations in equity prices - in terms of trading portfolio activities - of the interest rate as well as fluctuations in the exchange rate for the Group's entire business.

Efficient market risk management is done through the use of fundamental analysis that gives indications of the soundness of an investment, as well as the estimation of the potential of some companies, and taking into account forecasts of the evolution of the economic branches and financial markets.

The main issues to be addressed in the market risk analysis are: assessment of the portfolio of shares in terms of profitability and growth potential, strategic allocation of long-term investments, identification of short-term investments to capitalize on price fluctuations on the capital market, setting limits on the concentration of assets 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, compliance with established risk limits, and measures to be taken for the most efficient management.

The Group is subject to market risk, particularly because of its trading activity. Considering the specificity of the activity, the most relevant risks for the current activity are: share price risk, interest rate risk, currency risk.

### ***Price risk***

The Group is exposed to the fair value risk of financial instruments held fluctuating as a result of changes in market prices, whether due to factors specific to the issuer's activity or factors affecting all instruments traded on the market.

The market value of the listed stock portfolio (on BVB - the regulated market, BVB-AERO - alternative trading system) on 30 June 2018 represents **61.71%** of the total value of the managed stock portfolio.

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

Within the managed portfolio there are 8 issuers, out of the 13 that are the BET index of the Bucharest Stock Exchange.

The market value of the share packages held by the 8 issuers represents - on 30 June 2018 - **78.20%** of the market value of the shares held in the listed companies.

Group management monitors market risk and confers competence on trading limits on the capital market of the company.

A of 30 June 2018, the Group has the following asset pricing structure:

	<b>No. com.</b>	<b>Market value 30.06.2018 - lei -</b>	<b>No. com.</b>	<b>Market value 31.12.2017 - lei -</b>
Listed companies	31	961,305,764	31	940,376,548
Unlisted companies	30	596,390,695	33	565,696,728
Fund units	4	2,908,430	4	2,789,494
<b>Total financial assets</b>	<b>65</b>	<b>1.560.604.889</b>	<b>68</b>	<b>1.508.862.770</b>

As observed, the Company held on 30.06.2018 preponderant shares in companies whose securities are quoted and traded on the Romanian stock market, so that the investments held in the listed companies, plus the placement held with the Romanian Commercial Bank, represent 30.06. 2018 - **93.66** (31.12.2017: **93.86%**) of the fair value of the investments.

The Group holds on 30.06.2018 mainly shares operating in the field of finance, banks, insurance with a weight of **54.56%** of the total portfolio, slightly increasing compared to 31.12.2017, when in the same sector of activity there was a weight of **53 35%**.

### ***Currency risk***

Currency risk is the risk that the value of a portfolio is negatively affected by the currency fluctuation.

Given that most Group assets are denominated in national currency, exchange rate fluctuations do not directly affect the Group's operations.

These fluctuations have an influence on the assessment of investments such as foreign currency deposits.

Foreign currency denominations represent, on 30 June 2018, **0.05%** of total financial assets, so that currency risk is insignificant.

Due to the low weight of foreign currency assets, the Group does not have a formalized foreign exchange hedging policy.

Investments in foreign currency deposits are continuously monitored and investment, disinvestment, considering the forecasted evolution of the foreign exchange rate.

The concentration of assets and liabilities by types of currencies is summarized in the following table:

30 June 2018	Accounting value - lei -	Lei	EUR	USD
<b>Financial assets</b>				
Cash and cash equivalence	18,370,337	18,153,542	215,718	1,077
Deposits placed in banks	53,429,343	52,810,613	195,479	423,251
Assessed financial assets to the fair value by other elements of the global result	1,556,770,379	1,556,770,379	-	-
Assessed financial assets to the fair value by profit or loss account	3,834,510	3,834,510	-	-
Credits and claims	38,127,037	38,119,600	7,437	-
Other financial assets	96,023,935	96,023,935	-	-
<b>Total financial assets</b>	<b>1,766,555,541</b>	<b>1,765,712,579</b>	<b>418,634</b>	<b>424,328</b>

<b>Financial liabilities</b>				
Payment dividends	88,970,251	88,970,251	-	-
Other financial liabilities	67,746,791	67,555,445	191,346	-
<b>Total financial liabilities</b>	<b>156,717,042</b>	<b>156,525,696</b>	<b>191,346</b>	<b>0</b>

### ***Interest rate risk***

The interest rate risk is that the value of a portfolio will fluctuate as a result of changes in interest rates on the market. The factors that define this type of market risk are a wide range of interest rates corresponding to a variation of markets, currencies and maturities for which the Group holds positions.

The interest rate directly influences the income and expenses attached to floating-rate assets and liabilities.

Most assets in the portfolio are not interest-bearing. As a result, the Group is not significantly affected by interest rate risk. Interest rates applied to cash and cash equivalents are short-term. At 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.

To benefit from the volatility of interest rates, for greater flexibility in the cash allocation policy, it will be pursued that the placement of money resources in monetary instruments will be done especially in the short term, 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 loaner's financial situation or the general economic situation. Credit risk arises in relation to any type of debt.

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 identified credit risk elements that can significantly influence the Group's activity are:

- the risk of non-collection of dividends from the companies in the portfolio;
- the risk of non-collection of the value of the contract, in the case of the sale of the shares of the closed-end companies, through a sale-purchase contract;
- the risk that, in the event of the liquidation of a portfolio company, the value obtained will be less than the initial investment.

The credit risk assessment is done in two stages, both prior to the investment operations and after the actual approval and realization of the operations, following the evolution of the assets in order to take appropriate measures in the event of the emergence of elements that may lead to the deterioration of the economic activity of the companies and, in extreme cases, to insolvency.

In the case of the Group, credit risk is diminished, as the portfolio is mostly driven by exposures by asset items of the type of "shares" that represent **80.03%** of the assets managed, assessed according to the legal provisions and which could generate a potential risk of non-collection of dividends approved annually by the GMS.

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

Credit risk may affect the Group's indirect business, in the case of portfolio companies experiencing financial difficulties in discharging the payment obligations for 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 by investing in bonds, current accounts, bank deposits, and other receivables. At Group level there are no placements in bonds, derivatives, which minimizes credit risk.

On 30 June 2018, the Group did not hold bonds, real collateral as insurance, and did not hold outstanding financial assets.

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

The maximum exposure to credit risk on 30 June 2018 is **107,431,339 lei**.

Exposure to the credit risk:

<i>In lei</i>	<b>30 June 2018</b>	<b>31 December 2017</b>
Deposits and accounts at banks	71,143,600	22,679,467
Other assets	36,287,739	27,889,171
<b>TOTAL</b>	<b>107,431,339</b>	<b>50,568,638</b>

### **c) Liquidity risk**

The Group seeks to maintain a liquidity level appropriate to its underlying obligations based on an assessment of the relative liquidity of the market, taking into account the time required for liquidation and the price or the value at which the assets can be liquidated and their sensitivity market risks or other external factors.

The Group must have liquid assets the total value of which covers the difference between liquidity outflows and liquidity inflows in crisis situations so as to ensure that the Group maintains levels of liquidity reserves that are adequate to enable it possible imbalances between liquidity inflows and outflows in crisis situations.

Liquidity risk is mainly linked to holdings in closed-end trading companies in the managed portfolio. Thus, the sale of shares - in the event of negative aspects in their economic and financial situation or in the pursuit of obtaining liquidity - is particularly cumbersome, with the risk of not being able to obtain a higher price or at least equal to one with which these participations are valued in the calculation of the net asset, according to the ASF regulations

Within the Group, on 30 June 2018, holdings held in unlisted companies account for **30.64%** of the total assets under management, including the holding in BCR, which represents **83.91%** of the holdings held by unlisted companies. On 30.06.2018 BCR was valued at the level of RON 500 million, determined on the basis of the own capital transferred to the NBR. On 25.06.2018 the Board of Directors of the Company approved the capitalization of the entire stake held at BCR at the value of EUR 140 million. The execution of the transaction is planned in the second half of 2018, after obtaining corporate and regulatory approvals (the Extraordinary General Meeting of Shareholders in the case of the Company and the Supervisory Board and the European Central Bank in Erste Group Bank AG). The transaction assesses BCR at a multiple of its equity (price / book value) of 1.35 for the first quarter of 2018, in line with the market assessments for the listed Romanian banks. On 16.08.2018 the contract for the purchase of the stake held by the Company at BCR to Erste Groupe Bank AG was signed. The value of the sale-purchase contract is EUR 140 million. Therefore, the capitalization of BCR will be done at a higher level than the assessment of the Company's net assets.

The low liquidity of the Romanian capital market often makes it difficult even to trade shares held in listed companies.

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

We estimate that **the liquidity risk is medium, correlated with the liquidity of the Romanian capital market.**



The structure of assets and liabilities in terms of liquidity on 30.06.2018 is analyzed in the following table:

<i>In lei</i>	<b>Accounting value</b>	<b>Under 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 5 years</b>	<b>Without preestablished maturity</b>
<b>Financial assets</b>					
Cash and cash equivalence	18,370,337	-	-	-	18,370,337
Deposits placed in banks	53,429,343	52,059,759	991,006	378,578	-
Assessed financial assets to the fair value by other elements of the global result	1,556,770,379	-	-	-	1,556,770,379
Assessed financial assets to the fair value by profit or loss account	3,834,510	-	-	-	3,834,510
Credits and claims	38,127,037	-	-	-	38,127,037
<b>Total financial assets</b>	<b>1,670,531,606</b>	<b>52,059,759</b>	<b>991,006</b>	<b>378,578</b>	<b>1,617,102,263</b>
<b>Financial liabilities</b>					
Payment dividends	88,970,251	48,358,651	40,611,600	-	-
Other financial liabilities	67,746,791	22,186,374	34,023,941	11,536,476	-
<b>Total financial liabilities</b>	<b>156,717,042</b>	<b>70,545,025</b>	<b>74,635,541</b>	<b>11,536,476</b>	<b>-</b>

#### **d) Risk afferent to tax**

Together with Romania's accession to the European Union, the Group had to comply with the EU tax regulations and implement the changes brought about by European legislation. The manner in which the Group has implemented these changes remains open to the fiscal audit for five years.

The management of the Group believes that it has correctly interpreted the legal provisions and recorded fair values for taxes, duties and other debts to the state but, in these circumstances, there is some attached risk.

The Romanian tax system is subject to various interpretations and permanent changes. In some situations, tax authorities may adopt different interpretations of the tax aspects of the Group and may calculate interest and penalties.

Statements of taxes and fees may be subject to review and review for a period of five years, generally after the date of their submission.

The Government of Romania holds a large number of agencies authorized to control the companies operating on the territory of Romania. These controls are similar to tax audits in other countries and can cover not only tax issues but also other legal and regulatory issues of interest to these agencies. The Group may be subject to tax controls as new tax regulations are issued.

#### **e) Risk afferent to the economic environment**

This risk is extremely important, through the direct effect on the Group's activity and indirectly through the companies in which the Company holds participations.

The Romanian economy continues to present the characteristics of an emerging economy and there is a significant degree of uncertainty regarding the development of the political, economic and social environment.

From the point of view of the Romanian economy, the year 2017 was a very good year, the GDP growth being higher than the forecasted level. This was also reflected in dividends distributed by companies in the Company's portfolio, especially those granted by listed companies.

The Romanian economy is still a fragile economy and is affected by the evolution of other economies, especially of the EU countries, which are the main business partners for our country.

The EU economy will be subject to political risks in 2018. Policy will influence the economy and generate uncertainty. The way Britain will leave the EU, the conditions to be negotiated, raises new questions about the evolution of the EU economy 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 **Group's economic risk is moderate (average)**.

#### **f) Operational risk**

Operational risk is defined as the risk of loss or loss of earnings due to inappropriate use of systems, processes, human resources, either due to internal factors such as inadequate performance of internal activities, the existence of inadequate personnel or systems, as well as due to external factors such as changing economic conditions, legislative changes on the capital market, inappropriate provisions or insufficiently outlined in contracts, socio-political events.

The main responsibility for the development and implementation of controls related to operational risk lies with the management of the Group. Responsibility is supported by the development of the Group's operational risk management general standards in the following areas:

- adequate establishment of the organizational structure and responsibilities;
- requirements for separation of responsibility;
- alignment with the requirements of the regulatory framework;
- requirements for reporting operational losses and proposals for remediation;
- professional development and training;
- setting standards of ethics for staff;
- documentation of controls and procedures;
- preventing the risk of litigation;
- establishing and implementing procedures for the prevention and management of conflicts of interest;
- establishing and implementing the risk management strategy, establishing the risk appetite and the risk profile;

Operational risks are inherent to the business.

The Group manages operational risk by identifying, estimating, monitoring and controlling risks by taking the necessary steps to manage their risk effectively.



**IV. MODIFICATIONS IN THE  
COMPANY MANAGEMENT**

In accordance with the Articles of Incorporation, the Company is managed in a unitary system.

The Administration Council of the company consists of 7 members elected by the General Assembly for a period of four years, with the possibility of being re-elected. Most members of the Administration Council - 5 members - are non-executive.

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

The management structure is as follows:

### 30 June 2018

**Administration Council Members:** Tudor Ciurezu - Chairman, Cristian Buşu - Vicepresident, Anina Radu, Radu Hanga, Ana-Barbara Bobircă, Nicolae Stoian, Carmen Popa.

**Senior management:** Tudor Ciurezu (General Manager), Cristian Buşu (Deputy General Manager).

### 31 December 2017

**Administration Council Members:** Tudor Ciurezu - Chairman, Cristian Buşu - Vicepresident, Anina Radu, Radu Hanga, Ana-Barbara Bobircă, Nicolae Stoian, Carmen Popa.

**Senior management:** Tudor Ciurezu (General Manager), Cristian Buşu (Deputy General Manager).

The Administration Council was elected by the Ordinary General Meeting of Shareholders dated 04.04.2017 and was endorsed by A.S.F. on 26.07.2017 by Av. 424 / 07.26.2017.

At the same time, through Opinion no. 423 / 26.07.2017 was approved the modification of the composition of the Company's management, according to the A.C. decision no. 4 of 04.04.2017.

During the first half of 2018 there were no changes in the management of the company.





**V.       EVENTS AFTER  
          THE BALANCE SHEET DATE**

## **ARGUS SA Constanta**

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On August 20, 2018, the Extraordinary General Meeting of Shareholders took place, statutory meeting, which approved the following:

- extension of the credit line amounting to 7,500,000 lei, for a period of 12 months with the same guarantee structure as in the previous year

- contracting by ARGUS SA Constanta from Banca Transilvania of a bank loan in the amount of 90,000,000 lei, for working capital;

- guaranteeing bank loans with the following:

- fixed assets belonging to ARGUS SA Constanta, representing up to 100% of total tangible fixed assets;
- assignment of receivables;
- stocks;
- mortgage on current receipts and balances and sub-accounts opened by Argus -SA at the financing bank.

- empowering the Administration Council to approve the maximum amount of loans actually contracted and the related guarantees and empowering the persons signing the relevant credit and collateral security.



None of the companies included in the consolidation perimeter were included in the 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 Standard 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 and Law no. 24/2017 on issuers of financial instruments and market operations.

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.

The Consolidated Financial Statements as of 30.06.2018 are not audited by the external financial auditor.

Associate Professor PhD. Ec. Ciurezu Tudor

Chairman/General Manager

Associate Professor PhD. Buşu Cristian

Vicepresident/Deputy General Manager

Ec. Sichigea Elena

Financial Manager