Entity: **SOCIETATEA DE INVESTITII FINANCIARE TRANSILVANIA**
Address: Brasov, 2 Nicolae Iorga Street, Brasov County
Unique Registration Code: 3047687; Trade Register Number: J08/3306/1992
Form of association: Joint-stock company
Main activity: 6499 - Other financial service activities not elsewhere classified

REPORT OF THE BOARD OF DIRECTORS
on the consolidated financial statements as at 31 December 2010
drawn up for informative purposes

A) <u>General information</u>

The National Securities Commission (NSC) issued in February 2011 the Instruction no.3 on the implementation of IFRS by the entities regulated and supervised by NSC which provides the obligation of drawing up a second set of individual financial statements, in accordance to IFRS. In order to ensure a unitary framework for the application of the Standards for years 2012-2014, the Company decided to draw up a new set of consolidated financial statements for 2010, considering the year 2010 as the first year of IFRS implementation. Thus, the Company drafted the opening balance sheet for 01.01.2009 and the consolidated financial statements for 2010, with 2009 as reference year. Considering the implementation level of the works, this decision has been maintained even after the suspension of the application of Instruction no.3/2011 through Disposal of measures no. 9/15 June 2011.

For the experimental and informative drafting of the consolidated financial statements and the report on the consolidated financial statements, the consolidation perimeter of SIF Transilvania group includes, as at 31.12.2010, the parent company (Societatea de Investitii Financiare Transilvania Brasov) and 30 portfolio companies that the parent company controls (related entities/subsidiaries). The related entities included in the consolidation perimeter are listed in Note 6 "Investments in affiliated and associated entities”.
In comparison to 2009, in 2010 “ANCA-IRINA S.A.” company was excluded from the consolidation perimeter, as it entered insolvency.

Also, in comparison to the consolidation operation carried out in 2007-2009, we would like to state that, starting with financial exercise 2010, for the participations held in associated entities (for which the accumulated experience proved that the equity method is impossible to efficiently apply under the current law), the fair value method was adopted. It was previously used only for entities in which SIF Transilvania held less than 20% of the share capital. The fair value method was carried out by the Company’s specialized evaluation department in the following conditions:

- Based on the closing price registered on the market (considered main) on the last day of trading, in the case of shares traded during the last 30 days of the year;
- Based on shareholders' equity extracted from the last annual or, as the case may be, from the last semester’s financial statement (but not older than one year), in the case of shares which are not traded on a market or which are traded generally but not during the last 30 days of the year, except for shares held in companies in which the participations have a significant weight in the total portfolio assessed according to a

- For companies excepted according to the previous entry, the fair value is determined by the Company's own evaluation department, based on diagnosis analyses of financial performances registered in 2007-2010, specific worksheets and balance sheet data afferent to financial exercises 2008, 2009, 2010;
- At "zero" value, in the case of shares held in entities that are undergoing reorganization and/or liquidation, or entities with negative shareholders' equity, or entities with financial statements older than one year.

For the consolidation carried out for 2010, in order to ensure the compliance to IFRS, the following items were derecognized:

- Reserves constituted by the company based on the differences from the revaluation of tangible assets afferent to the period spanning to 01.05.2009 (account 1067);
- Reserves constituted from favorable differences resulted from the evaluation of the Company's contributions in kind to the share capital increase of issuers (account 10684);
- Tax provisions afferent to the above-mentioned sums.

The reported result was affected with those sums.

At the group level, provisions summing up to RON 251,330,084, in balance as at 31.12.2010, are comprised of:

- RON 220,425,461, provisions constituted by SIF Transilvania, resulted from the application of the profit tax rate of 16% on the balance of the reserves constituted from the differences resulted from the fair value evaluation of participations held by SIF Transilvania in other entities (account 1066), the value of shares acquired without payment (account 1065) and the reserves afferent to the initial portfolio of the company (account 10681).
- RON 30,904,623, provisions constituted by the other entities in the group.

Considering the IFRS requirements regarding the disclosure of information resulted after the application of the Standards, the Board of Directors believes that it is necessary to expand the transition period for the drawing up of consolidated financial statements, so that the following can be completed:

- designing of the IT system for collecting and processing data from related entities;
- professional training of the personnel with responsibilities in applying the Standards, sending and processing the data needed in the consolidation process.

We estimate that the expansion of the transition period after the date when NSC Instruction 3/2001 expires (according to NSC Ruling 9/15.06.2001) would be advisable and absolutely necessary to the establishment of an appropriate framework for ensuring the audit services for the consolidated financial statements.

In relation to the facts presented above, the Board of Directors of SIF Transilvania decided the experimental account consolidation activity to be carried out by observing the same approved conditions, namely:

a) The consolidation will be carried out based on information existent in the individual financial statements published by each entity from the consolidation perimeter (which are compliant with the IVth Directive of EEC and not IFRS). Moreover, if the related

b) If the parent company does not have access to the data necessary to the consolidation, it will use public data supplied by the bodies of the state financial administration.
c) If there are related entities which, in their turn, are parent-companies for other entities, the consolidation will be carried out on levels; those related entities will send to SIF Transilvania their own consolidated financial statements and the afferent information.
d) For the evaluation of participations shown in its own individual financial statements, the parent company will use personnel from its specialized departments and will apply the most appropriate and credible methods and techniques, compliant to the available information that market players would use for the establishment of a price for that financial instrument.
e) The consolidation will be carried out based on consolidation procedures included in the Standards. Considering that the IFRS allow their anticipated implementation, they will be implemented, where possible, ensuring the necessary conditions for their implementation as the appropriate organizational framework is created.

The Board of Directors believes it is useful and necessary to continue drawing up consolidated financial statements (within the conditions above) in order to provide a minimum of information to potential users. Nevertheless, considering the insufficient professional training of the personnel within the group, the lack of an appropriate organizational and legislative framework ensuring the unitary enforcement of the IFRS, the lack of accounting principles and methods within the whole group, as well as the impossibility of obtaining an audit report on the consolidated financial statements without reserves, **the Board of Directors express their complete reserve regarding the faithfulness of the Group's image resulting from these statements and regarding the usefulness of the information presented in these statements within decision-making processes, if these data are not complemented by those provided in the statements of individual companies subject to consolidation.** Also, when investment decisions are made (considering the publication date of the consolidated statements in comparison to the data reporting term), users must take into account:

- the potential events taking place subsequent to the reporting date; and
- the market conditions at that time.

The consolidated financial statements drawn-up for 31.12.2010 include:

Opening balance at 31.12.2008
The financial position at 31.12.2009
The financial position at 31.12.2010
The overall result at 31.12.2010
The consolidated statement of changes in equity at 31.12.2010
Notes to the financial statements

The consolidated statement of cash flows could not be drawn up because the optimal solution for collecting the necessary data from related entities could not be developed until the date of drawing up the consolidated financial statements.

B) Economic and financial position

I. General information on the consolidated balance sheet

The data presented in the consolidated balance sheet are obtained after the elimination of mutual debts and receivables balances between the entities subject to consolidation at the end of 2010. Also, the restatement operations carried out by SIF Transilvania and its related entities in accordance to the provisions of the IFRS were recorded in the consolidated accounting. Nonetheless, we believe that related entities have not carried out the restatements imposed by the IFRS, and that is why we express our reserve regarding the compliance of these statements with all provisions within the Standards.

The information presented in the individual financial statements of related entities was processed through the global integration method, ensuring:

- The distribution of shareholders' equity of related entities between the parent company and minority shareholders;
- The elimination of securities held by the parent company in related entities, at historical value;
- The establishment of the (positive or negative) goodwill for the acquisitions of shares existing at 01.01.2009.
- The calculation and registration of the share of financial results pertaining to the consolidated related entities as well as from their changes in equity which have not affected the profit and loss account (e.g. revaluations).
- The calculation and registration of minority shareholders' interests;
- The line-by-line 100% accumulation of assets and debts items.

The assets are evaluated in the consolidated balance sheet as follows:
Tangible assets are recognized at revalued value, as these values are written in balance sheets drawn up by related entities in accordance to the 4th EEC Directive. In 2009, the majority of related entities carried out the revaluation of these assets based on SIF's requirement. The related entities have opted to record the revaluation values in their individual accounting or to record them for consolidation purposes only. The revaluation of tangible assets was required in order to ensure the comparability of consolidated information in the future.

Financial assets, which are mainly comprised of participations of less than 20% of the share capital of portfolio companies, are valued at fair value. The evaluation was carried out by the specialized department of the Company at fair value at the balance sheet date which is determined as follows:

- Based on the closing price registered on the market (considered main) on the last day of trading, in the case of shares traded during the last 30 days of the year;
- Based on shareholders' equity extracted from the last annual or, as the case may be, from the last semester's financial statement (but not older than one year), in the case of shares which are not traded on a market or which are traded generally but not during the last 30 days of the year, except for shares held in companies in which the participations held have a significant weight in the total portfolio assessed according to the methodology approved through NSC Regulations no. 15/2004, as further amended and supplemented by NSC through decisions and/or rulings.

- For companies excepted according to the previous paragraph, the fair value is determined by the Company's evaluation department, based on diagnosis analyses of financial performances registered in 2007-2010, specific worksheets and balance sheet data afferent to financial exercises 2008, 2009, 2010;
- At "zero" value, in the case of shares held in entities who are undergoing reorganization and/or liquidation, entities with negative shareholders' equity or entities with financial statements older than one year.

The difference between the carrying amount and the fair value, registered in reserves, reflects the evolution of the securities market. At the end of 2010, this difference is RON 958,628,577, being lower than the difference registered at 31.12.2009 (RON 1,061,533,159).

Current assets are measured at historical cost adjusted with depreciations and impairments found.

Within the balance sheet of the group, through consolidation operations, **the shareholders' equity of related entities** were eliminated according to the provisions of the IFRS. Thus, the consolidated balance sheet includes the shareholders' equity presented in the individual financial statements of the parent company, the shareholders' equity resulted upon the consolidation of changes in shareholders' equity and current financial results (namely the percentage held by SIF in these equity and those held by the minority interest), the negative goodwill and the differences between the fair values and the carrying amounts (for participations in associated entities, in entities in which SIF owns less than 20% of the share capital and for participations in companies excluded from consolidation).

NOTE:

During 2008-2009, the Company implemented software applications intended to collect data (from the analytical records of companies subject to consolidation) necessary to supply complete and real information. The experience accumulated during the data consolidation for 2009 revealed the fact that there still exist deficiencies in terms of collecting and processing information from related entities. Also, the disclosure requirements provided in the Standards refer to more analytical information; in order for this to be observed, related entities must fill in an information pack. We believe that a transition period until 2012 could be enough to complete the organization of the system of collecting and processing the information from related entities.

The group's debts were fully considered as payable in less than one year. The information packs drawn-up did not address the need of dividing these debts in debts matured in less than one year and those matured in over one year, reason why these two categories could not be divided upon consolidation.

II. Information on the economic indicators

a) Financial position

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Explanations	2009	2010	2010/2009 (%)
A. FIXED ASSETS	**2,967,071,628**	**2,972,154,840**	**100.17**
I. Intangible assets	53,856,559	53,639,828	99.60
Out of which, positive goodwill	52,063,598	52,011,917	99.90
II. Tangible assets	1,403,793,671	1,437,919,605	102.43
III. Financial assets	1,509,421,398	1,480,595,407	98.09
B. CURRENT ASSETS	**338,679,640**	**305,300,276**	**90.14**
I. Inventories	80,217,846	76,934,852	95.91
II. Receivables	79,266,826	58,885,221	74.29
III. Short-term investments	4,812,009	20,193,565	419.65
IV. Petty cash and bank accounts	174,382,959	149,286,638	85.61
C. PREPAID EXPENSES	**3,399,731**	**2,975,993**	**87.54**
D. DEBTS: AMOUNTS WHICH MUST BE PAID WITHIN ONE YEAR	**207,977,852**	**224,915,735**	**108.14**
E. NET CURRENT ASSETS/ NET CURRENT DEBTS	**132,234,684**	**79,672,475**	**60.25**
F. TOTAL ASSETS LESS CURRENT DEBTS	**3,099,306,312**	**3,051,827,315**	**98.47**
H. PROVISIONS	**240,905,588**	**251,330,084**	**104.33**
I. DEFERRED INCOME	**2,622,730**	**3,723,704**	**14.98**
J. CAPITAL AND RESERVES (I+II+III+IV+V+VI+VII+VIII+IX)	**2,857,644,829**	**2,800,461,586**	**98.00**
I. Subscribed and paid-in share capital	109,214,333	109,214,333	100.00
II. Capital premiums	-	-	-
III. Revaluation reserves	-24,856,269	-34,211,359	137.64
IV. Reserves, out of which:	1,419,510,862	1,435,583,351	101.13
Reserves from revaluation at fair value	890,683,184	804,243,334	90.30
VI. Profit carried forward	717,633,954	688,498,720	95.94
VII. Profit of the financial exercise	190,031,915	146,846,549	77.27
VIII. Profit distribution	-	-	-
IX. Minority interests , out of which:	445,810,034	454,529,992	101.96
1. Profit of the financial exercise afferent to the minority interest	8,899,368	5,005,399	56.24
2. Other shareholders' equity	436,910,666	449,524,593	102.89

In comparison to 2009, **the total assets** of the group decreased in 2010 by approximately 1.57%. Considering the value of fixed assets, the decrease seems low. Nonetheless, attention must be paid to the substantial reduction of net current assets (39.75%), resulting especially in the reduction of receivables (25.71%) and the cash (14.39%), while the volume of debts increases (8.14%). Also, attention must be paid to the fact that as recevables decrease, the

value of doubtful customers or customers involved in litigation increases (from RON 8,616,383 to RON 14,004,757).
Due to the economic crisis which has affected the whole economy, the fair value of participations in other entities where the company holds shares continued to decrease in 2010, but in a much lesser extent than in 2009.

The share capital presented in the “financial position” represents only the share capital of the parent company, which did not register changes in 2010.
Minority interests increased in 2010 by 1.96%.

b) <u>Statement of global result</u>

The information in the "Consolidated Statement of Global Result” resulted from the following operations:

- The elimination of revenues and expenses resulted from transactions carried out between group members;
- The elimination of debts and receivables between the group entities;
- The elimination of revenues from dividends received from related entities subject to consolidation;
- After the registration of restatement accounting operations in accordance to IFRS, sent by some related entities.

The consolidated global result of the group as at 31.12.2010 is presented below:

Explanations	**Previous year**	**Current year**	**%**
Net turnover	379,837,617	329,215,110	86.67
Total operating revenues	400,138,501	348,891,199	87.19
Total operating expenses, out of which:	404,537,253	362,007,515	89.49
Personnel expenses	123,090,167	108,671,298	88.29
Operational loss	4,398,752	13,116,316	298.19
Total financial revenues	190,176,967	130,120,735	68.42
Total financial expenses	40,587,768	29,473,839	72.62
Financial profit	149,589,199	100,646,896	67.28
Total revenues (A+D+18)	590,315,468	479,011,934	81.15
Total expenses (B+E+19)	445,125,021	391,481,354	87.95
GROSS PROFIT	145,190,447	87,530,580	60.29
PROFIT TAX	12,052,010	12,054,288	100.02
NET PROFIT OF FINANCIAL EXERCISE	**133,138,437**	**75,476,292**	**56.69**
Profit from the consolidated balance sheet, out of which:	190,031,914	146,846,549	77.27
- Share of related entities' current profit (acc. 1219)	10,787,818	3,245,142	
- Profit afferent to the parent company (acc. 121 /3047687)	116,663,029	66,919,410	
- Profit(loss) due to IFRS restatements (account 121A)	-7,281,380	5,718	
- Profit (loss) from elimination of dividend			

income (account 121D)	-10,797,818	-3,972,550	
- Negative goodwill (account 121C)	80,660,265	80,660,265	

The current activity revenues of the parent company are fully reflected in the consolidated profit and loss account, as financial revenues. They represent in 2010 over 93% of the financial revenues. The expenses from the current activity of the parent company are reflected in all expense categories described in the consolidated financial statements; their weight is reflected also in the group‘s financial expenses, not at the level of revenues weight. For potential users to form a correct opinion on the information presented above, we would like to disclose the situation of the two indicators of SIF Transilvania, as they are reported through annual individual financial statements:

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INDICATOR	**2009**	**2010**	**%**
Revenues from current activity	170,371,311	121,534,602	71.34
Expenses from current activity	48,627,909	46,716,476	96.07

The group's turnover (which does not include the current revenues of SIF due to the above-mentioned reason) decreases in 2010 by 13.33%. The turnover decrease is caused by the reduction of “sold production” of the group’s companies (by over RON 30 million) and by the reduction of revenues resulted from sales of goods (by over RON 17 million).

Financial revenues have also registered substantial decreases, the main reason being the reduction of SIF’s current revenues (by over RON 48 million, representing 28.66%).

The operating expenses kept decreasing in 2010**,** but the pace is slower than the decrease of operating revenues, resulting in an increase of operating loss for the group. Within the operating revenues and expenses there are decreases in the absolute values of most constituents described in the statement of global result.

Within the analysis of the group’s total financial results it must be paid attention to the fact that, in 2010, the group’s net profit decreased to 56% in comparison to 2009. In the consolidated balance sheet, from the net profit of RON 75,476,292, the main weight is held by SIF’s net profit of RON 66,919,410, namely 88.66%.

Mihai Fercala
President / General Manager

Drafted by,
Ionel Radu
Head of Consolidation Department