

TURBOMECANICA SA
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2017

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION,
IN ACCORDANCE WITH MINISTRY OF PUBLIC FINANCE ORDER NO. 2844/2016,
WITH SUBSEQUENT AMENDMENTS

(together with Independent Auditor's Report and Administrators' Report)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of,
Turbomecanica SA

Opinion

1. We have audited the financial statements of Turbomecanica SA (the "Company"), with registered office in Bucharest, identified by unique tax registration code 3156315, which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
2. The financial statements as at December 31, 2017 are identified as follows:
 - Net assets/Equity RON 124,642,427
 - Net profit for the financial year RON 13,650,921
3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named the "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Revenue recognition	
<p>We have identified two core matters regarding the revenues obtained from repairs and sales of airspace parts manufactured by the Company, presented below, which we consider important due to the complexity of the operation and the judgment applied:</p> <ul style="list-style-type: none"> • the completeness of the recording of contracts/large clients • timing of the revenue recognition <p>The accounting policies related to the revenue recognition are described in Note 3 to the financial statements and the two revenue streams mentioned above have been presented in Note 3 to the financial statements.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> • we assessed the existing internal controls related to the sales activity, specifically the invoicing process and revenue recognition; • we tested, on a sample basis, the operating efficiency of the internal controls related to revenues, by obtaining evidence of the necessary signatures and approvals; • we confirmed revenues generated by the most important clients selected; • we analyzed the commercial agreements concluded by the Company with its most important clients and compared the amounts stipulated in the agreements with the actual revenues recorded in the financial statements; • we selected a revenue sample, which we compared to the relevant supporting documents to ascertain the accuracy and completeness of the revenues recorded.

Other information – Administrators’ Report

6. The administrators’ are responsible for preparation and presentation of the other information. The other information is included in a separate report.

Our opinion on the financial statements does not cover the other information and, unless explicitly provided in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements for the year ended December 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrators’ report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

- a) the information included in the administrators’ report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;
- b) the administrators’ report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrators’ report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on 14.11.2017 to audit the financial statements of Turbomecanica SA for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 1 year, covering the financial year ended December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the **non-audit services** referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Madeline Alexander.

Madeline Alexander, Audit Partner

For signature, please refer to the original Romanian version.

Registered with the Chamber of Financial Auditors in Romania under the certificate no. 36/07.10.2000

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors in Romania under the certificate no. 25/25.06.2001

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte și Etajul 3, sector 1,
Bucharest, Romania
March 21, 2018

TURBOMECANICA SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in „RON”, unless otherwise specified)

	<u>Note</u>	<u>December 31, 2017</u> <i>RON</i>	<u>December 31, 2016</u> <i>RON</i>
Revenues	4	100,766,069	83,030,250
Other gains and losses	9	3,732,181	(1,529,345)
Income from production of goods		-	336,608
Changes in inventories		5,847,409	652,921
Raw materials and consumables	5	(38,753,621)	(31,302,180)
Employee benefits	6	(31,184,420)	(26,083,371)
Asset impairment		(6,702,423)	(5,799,848)
Financial costs, net	7	(3,413,951)	(3,076,578)
Finance income	7	1	2,945,009
Other operating expenses	8	(5,638,683)	(5,743,465)
(Loss)/Gain from sale of assets held for sale	9	20,104	(93,188)
Favorable /(unfavorable) differences from revaluation		(6,214,653)	-
Profit before taxation		18,458,013	13,336,813
Income tax	10	4,807,092	(2,463,768)
Profit for the year		13,650,921	10,873,045
Other comprehensive income, net of taxation			
Deferred income tax		-	-
Revaluation differences		-	-
Actuarial (loss) / gain on defined benefits plan	21	-	(221,439)
Other comprehensive income for the year		-	(221,439)
Comprehensive income for the year		13,650,921	10,651,606
Result per share	27		
Number of shares		369,442,475	369,442,475
(RON / share)		0,03	0,03

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2018.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

The accompanying notes form an integral part of these financial statements.
This is a free translation from the original Romanian version.

TURBOMECHANICA SA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

(all the amounts are expressed in „RON“, unless otherwise specified)

	Note	December 31, 2017 RON	December 31, 2016 RON
ASSETS			
Long-term assets			
Property, plant and equipment	11	59,961,955	58,036,177
Intangible assets	12	6,784,610	8,777,087
Other assets		1,000	604,960
Total long-term assets		66,747,565	67,418,225
Current assets			
Inventories	13	36,947,781	25,039,278
Trade receivables	14	2,632,790	2,684,621
Other receivables	15	1,711,184	3,048,543
Cash and cash equivalents	16	9,636,856	11,501,493
Assets held for sale	17	6,966,252	7,048,889
Total current assets		57,894,863	49,322,823
Total assets		124,642,427	116,741,048
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	18	1,024,571,055	1,024,571,055
Reserves	19	88,372,743	80,520,812
Retained earnings		(1,052,231,734)	(1,058,231,122)
Own shares	27	(599,408)	(562,427)
Total equity		60,112,656	46,298,318
Long-term liabilities			
Borrowings	20	5,670,250	3,186,318
Deferred tax liabilities	10	3,659,565	3,698,929
Provisions	21	1,259,764	1,382,087
Other long-term liabilities	24	-	1,022,968
Total long-term liabilities		10,589,580	9,290,302
Current liabilities			
Trade and other liabilities	22	5,817,305	7,007,591
Borrowings	20	37,168,913	41,406,464
Current income tax	10	1,517,497	1,252,348
Provisions	21	3,597,787	2,856,881
Deferred income	23	868,861	160,063
Other current liabilities	23	4,969,829	8,469,080
Total current liabilities		53,940,192	61,152,428
Total liabilities		64,529,773	70,442,730
Total equity and liabilities		124,642,427	116,741,048

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TURBOMECANICA SA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in „RON“, unless otherwise specified)

	December 31, 2017	December 31, 2016
Cash flow from operations		
Net profit / (loss) of the year	13,650,922	10,873,045
Adjustments for:		
Income tax	4,807,092	2,463,768
Impairment of assets	6,702,423	5,799,848
Constitution (Reversal) Provision for receivables	189,040	(28,173)
Provision for inventories	1,985,253	(3,658,149)
Other provisions	(2,883,012)	711,320
Net (gain)/loss on sale of fixed assets	(16,421)	116,068
Financial costs	2,670,158	2,631,203
Other financial gains	(1,721)	(2,990,620)
Net (gains)/losses from exchange rate differences	(3,023,463)	1,224,192
Changes in working capital		
(Increase) / Decrease in trade and other receivables	1,803,476	(1,662,075)
(Increase) / Decrease of inventories	(13,893,757)	2,569,925
Increase / (Decrease) in trade and other liabilities	(1,434,654)	(649,458)
Net cash generated by / (used in) operating activities	10,555,336	17,400,894
Income tax paid	(4,581,307)	(1,375,324)
Interest (paid)/received, net	(2,663,377)	359,417
Net cash generated by operating activities	3,310,652	16,384,987
Cash flows from investment activities		
Purchase of tangible assets	(2,585,398)	(3,458,819)
Purchase of intangible assets	(466,092)	(1,716,749)
Proceeds from sale of fixed assets	16,421	13,167
Net cash generated by / (used in) investment activities	(3,035,069)	(5,162,401)
Net cash from financing activities		
(Repayments) / funding of borrowings	1,269,844	(6,056,085)
Actuarial gain/(loss) on defined benefits plan	-	(221,439)
Dividends paid	(3,573,477)	-
Concessions/(Payments) on redeemed own shares	163,417	(562,427)
Net cash generated by financing activities	(2,140,216)	(6,839,951)
Net increase / (decrease) of cash and cash equivalents	(1,864,633)	4,382,635
Cash and cash equivalents at the beginning of the period	11,501,493	7,118,858
Cash and cash equivalents at the end of the period	9,636,856	11,501,493

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2018.

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RADU VIEHMANN,
Chairman - CEO

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TURBOMECANICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in „RON“, unless otherwise specified)

	<u>Share capital</u>	<u>Reserves</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at January 1, 2016	1,024,571,055	46,074,152	34,066,531	(1,068,502,598)	36,209,140
Profit / (Loss) for the year	-	-	-	10,873,045	10,873,045
Realization of revaluation reserves	-	-	(294,907)	294,907	-
Increase in legal reserves	-	675,036	-	(675,036)	-
Other net comprehensive income net of tax	-	-	-	(221,439)	(221,439)
Own shares	-	-	-	(562,427)	(562,427)
Balance as at December 31, 2016	1,024,571,055	46,749,188	33,771,624	(1,058,793,549)	46,298,318

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2018.

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TURBOMECANICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in „RON“, unless otherwise specified)

	<u>Share capital</u>	<u>Reserves</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at January 1, 2017	1,024,571,055	46,749,188	33,771,624	(1,058,793,549)	46,298,318
Profit / (Loss) for the year	-	-	-	13,650,921	13,650,921
Realization of revaluation reserves	-	-	3,885,981	(3,885,981)	-
Increase in legal reserves	-	233,042	-	(233,042)	-
Other reserves	-	3,732,908	-	(3,732,908)	-
Own shares	-	-	-	163,417	163,417
Balance as at December 31, 2017	1,024,571,055	50,715,138	37,657,605	(1,052,831,142)	60,112,656

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2018.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

The accompanying notes form an integral part of these financial statements.
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TURBOMECHANICA SA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in "RON", unless otherwise specified)

1. GENERAL INFORMATION

TURBOMECHANICA SA ("Turbomecanica" or the "Company") is a joint-stock company, incorporated in 1975, with the main activity the manufacturing of engines, mechanical assemblies and equipment for aircraft. It is a privately owned company whose shares are listed on the Bucharest Stock Exchange. The shareholder's structure is available on BSE web site.

The evolution of the Company is as follows: 1975-1977- Engine production company Bucharest; 1978-1990 - Turbomecanica Bucuresti; from 20.11.1990, through GD no. 1213, the joint stock company "Compania Comerciala Turbomecanica SA" was incorporated. After 1991, from Turbomecanica SA two companies were formed: Aeroteh SA and Micron-Turboteh SA.

The activity of the company is manufacturing of engines and mechanical assemblies for aircrafts and helicopters. The main products provided by the Company are: Turbo engines, Viper engines, modernization of Puma helicopters, spare parts for Viper, Spey and Turbo engines, spare parts and engines for Rolls-Royce. Turbomecanica is the only producer of gas turbine engines and mechanical assemblies for aircrafts on the Romanian market.

The Company's main clients on the national market are the Ministry of Defense and IAR Brasov, but the Company has also concluded transactions with clients from Europe.

The average number of employees is as follows:

	<u>2017</u>	<u>2016</u>
Average number of employees	447	439

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** - Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016)

TURBOMECANICA SA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in "RON", unless otherwise specified)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

TURBOMECANICA SA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in "RON", unless otherwise specified)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

IFRS 9 "Financial Instruments" issued on 24 July 2014 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements regarding financial instruments, as to recognition, classification and measurement, impairment, derecognition and hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

TURBOMECANICA SA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(all the amounts are expressed in "RON", unless otherwise specified)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Impairment** - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
- **Hedge accounting** - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.
- **Own credit** - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.
- **IFRS 14 "Regulatory Deferral Accounts"** issued by IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.
- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.
- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

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2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** issued by IASB on 20 June 2016. The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** issued by IASB on 12 September 2016. The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014 (on 17 December 2015 IASB deferred indefinitely effective date). The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception** issued by IASB on 18 December 2014. The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.
- **Amendments to IFRS 11 "Joint Arrangements" - Accounting for Acquisitions of Interests in Joint Operations** issued by IASB on 6 May 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- **Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative** issued by IASB on 18 December 2014. The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.
- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** issued by IASB on 29 January 2016. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses** issued by IASB on 19 January 2016. The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

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2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation** issued by IASB on 12 May 2014. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants** issued by IASB on 30 June 2014. The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.
- **Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions** issued by IASB on 21 November 2013. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- **Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements** issued by IASB on 12 August 2014. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property issued by IASB on 8 December 2016. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Amendments also state that the list of evidence in paragraph 57 was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** issued by IASB on 12 December 2013. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The most important changes include new or revised requirements regarding: (i) definition of 'vesting condition'; (ii) accounting for contingent consideration in a business combination; (iii) aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; (iv) measuring short-term receivables and payables; (v) proportionate restatement of accumulated depreciation application in revaluation method and (vi) clarification on key management personnel.
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** issued by IASB on 25 September 2014. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. Changes include new or revised requirements regarding: (i) changes in methods of disposal; (ii) servicing contracts; (iii) applicability of the amendments to IFRS 7 to condensed interim financial statements; (iv) discount rate: regional market issue; (v) disclosure of information 'elsewhere in the interim financial report'.

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2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** issued by IASB on 8 December 2016. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording. Changes include: (i) deletion of the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose, (ii) clarification of the scope of the IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", (iii) clarification of the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** issued by IASB on 8 December 2016. Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

3. SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies are presented below:

The main accounting policies applied in preparing these financial statements are presented below. These policies have been applied consistently throughout all the years disclosed, unless otherwise presented.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, according to the Ministry of Public Finance Order no. 2844/2016, as subsequently amended.

Basis of preparation

The individual financial statements of Turbomecanica SA have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations, as adopted by the European Union. The individual financial statements have been prepared on the historical cost basis, as amended further to the revaluation of tangible assets and financial assets available for sale at fair value through equity.

The preparation of the individual financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires that the management use its professional judgment when applying the Company's accounting policies.

Going concern

As at December 31, 2017 the Company registered a cumulated loss of RON 1,055,324,011 which also includes the effects of the application of inflation ratios according to IAS 29. In 2017, the Company registered a profit of RON 13,650,921 and the company's activity was improved. Such matters indicate uncertainty regarding the Company's going concern. However, the Company's ability to continue its activity depends on its capacity to generate sufficient future revenues, on the financial support of the crediting banks. The Company's management also deems that the decrease of the gearing ratio due to sale of assets and reimbursement of some loans will lead to an increased support from financing banks. These financial statements do not include adjustments arising from the outcome of such uncertainty related to the going concern.

The Company is currently dependent on the activity with two main internal customers. Turnover with these clients for 2017 represents 79% of total turnover of the Company.

This is a free translation from the original Romanian version.

TURBOMECANICA SA
NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparatives

For each item of balance sheet, profit and loss, and where applicable, changes in equity, the Company presented the value of the corresponding item for the previous financial year.

If the values related to the previous year are not comparable to the current period, then such have been amended to provide consistency with the accounting policies and disclosure requirements for the current year.

Revenue recognition

The revenue is measured at the fair value of the counter value received or receivable. Revenue from sales is reduced for returns, commercial rebates and other similar reductions.

Revenue from sales of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenues from the sale of goods are recognised when the goods are delivered and the ownership right is transferred.

Revenues from services

Revenues generated by a services supply contract are recognised according to the degree of completion of the transaction. The degree of completion of the transaction is established as follows:

- Installation fees are recognised according to the degree of completion of the installation, determined as portion of the total estimated time for installation lapsing at the end of the reporting period;
- Maintenance fees included in the prices of the products sold are recognised by reference to the portion out of the total maintenance cost for the sold product; and
- Revenues generated by time and materials contracts are recognised at contractual rates as hours worked and direct costs.

Revenues from dividends and interest

The revenue from financial investments is recognised when the shareholders' right to receive payment has been established (provided that the economic benefits are directed to the Company and the value of revenues is measured with accuracy).

The revenues from interest generated by a financial asset are recognised when it is probable that the Company obtains economic benefits and when such revenue can be reliably measured. The revenue from interest is accumulated in time, by reference to the principal and the actual interest rate applicable, meaning the rate that discounts with accuracy the estimated future cash collections throughout the estimated period of the financial asset at the net book value of the asset upon initial recognition.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenues from rentals

The Company's policy on the recognition of revenues from operating lease is described below.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessor

Amounts payable by a lessee under financing lease are recognised as receivables at the value of the net investment of the Company's in leases. The revenue from finance leases is attributed to accounting periods so as to reflect a constant periodic rate of return of the Company's net investments regarding leases.

Revenues from operating leases are recognised on a straight-line basis over the lease term. Direct initial costs involved in the negotiation and contracting of an operating lease are added to the book value of the leased asset and are recognised on a straight line basis over the lease term.

Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless directly attributable to eligible assets, in which case are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as an expense in the period in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals from operating lease are recognized as an expense in the period in which they are incurred.

If lease incentives are received to conclude operating leases, such incentives are recognised as liability. The aggregate benefit of the incentives is recognised as a straight line reduction of lease expenses, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

Foreign currency transactions

In preparing these financial statements, transactions in other currencies than the functional currency are recorded at the exchange rate valid at the date of the transaction. At the end of each reporting period, non-monetary elements expressed in foreign currency are translated at the exchange rate valid on such date. Non-monetary elements accounted at fair value, expressed in a foreign currency are translated at the current rates valid on the date when the fair value was determined. Non-monetary elements measured at historical cost in a foreign currency are not translated again. The exchange rates used are EUR 1 = RON 4.6597 (December 31, 2017) and USD 1 = RON 3.8915 (December 31, 2017), average rate 2017 EUR 1 = RON 4.5681.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

Foreign exchange differences for monetary elements are recognized in the profit and loss in the period they are incurred, except for:

- foreign exchange differences corresponding to borrowings in foreign currency for assets in progress for future production, which are included in the cost of such assets when considered an adjustment of the expense with the interest related to such borrowings in foreign currency;
- foreign exchange differences related to transactions concluded to cover certain foreign currency risks (see the hedge accounting policies below).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Revenues from investing temporarily the obtained borrowings to purchase or construct qualifying assets are deducted from the borrowing costs that may be capitalized.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Employee benefits

In the normal course of business, the Company makes payments to the Romanian State on behalf of its employees, for pensions, health and unemployment fund. The cost of these payments is charged to the income statement in the same period as the related salary cost.

All employees of the Company are members of the Romanian State pension plan.

The Company rewards its employees with retirement benefits according to the collective labour contract. For such pension plan, the cost of benefits is determined using the projected unit credit method, and actuarial assessments are performed on each balance sheet date. The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate, the expected inflation rate and the expected rate of salary increase. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions.

Benefits for termination of employment contract

Benefits for termination of the employment contract may be paid when the Company terminates the employment contract prior to the normal retirement date or any time the employee accepts voluntary redundancy in exchange for such benefits. The Company recognizes the benefits for termination of employment contract either when it clearly undertakes either to terminate the current employees' employment contracts according to an official plan without the realistic possibility to avoid it; or to offer benefits for terminating the employment contract further to an offer submitted to encourage voluntary redundancy. Benefits owed within more than 12 months from the reporting period are discounted on the reporting date.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expenses consist of all current taxes payable, and deferred income taxes.

Current tax

The tax currently payable is based on the taxable income for the year. Taxable income differs from the income reported in the statement of comprehensive income due to items of revenues or expenses that are taxable or deductible in other years, and due to items that are never taxable or deductible. The Company's current income tax liability is determined by using the taxation rates enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised based on temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding fiscal base used in calculating taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax receivables are generally recognized for all taxable temporary differences if the taxable profits against which the deferred tax receivable can be used are available. No deferred tax receivables or liabilities are recognised if the temporary difference is generated by the initial recognition of goodwill or initial recognition of an asset or liability in a transaction that does not constitute a business combination and does not affect either the accounting income or taxable income upon the conclusion of the transaction (fiscal loss).

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the level of the taxes assumed to apply during the period set for the recovery of the debt or realisation of the asset, considering the level of taxes (and tax laws) that are or will be in force until the end of the reporting period. The measurement of deferred assets and liabilities reflect the tax consequences that would arise from the manner in which the Company estimates, at the end of the reporting period, to recover or settle the carrying value of its assets and liabilities.

Current and deferred annual tax

Current and deferred tax is recognised in profit and loss unless it refers to elements recognised in other comprehensive results or directly in equity, in which case current and deferred tax is also recognised in other global income, or equity.

The income tax for the year ended December 31, 2017 was 16% (December 31, 2016: 16%).

Property, plant and equipment

Tangible assets used in production or to supply goods or services, or for administrative purposes, are presented in the statement of financial position at re-measured value less depreciation and any cumulated depreciation.

Tangible assets in progress that will be used in production or in administration are stated at cost less any impairment. Costs include professional fees and, in case of qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policies. Such assets are classified under such categories of tangible assets when completed or ready for use for the purpose they were intended. The depreciation of such assets, on the same basis as other owned assets, commences when the assets are ready for use as intended by the management.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The depreciation periods for tangible assets are:

	<u>Years</u>
Buildings	10-50
Installations and technological equipment	3-20
Furniture and other office equipment	3-15

Land is not depreciated.

Depreciation is charged so as to systematically allocate the cost of the asset less the residual value over its estimated useful life, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is no longer recognised further to its assignment or when no future economic benefits are expected from the continued use of the asset. Any gain or loss resulting from the assignment or disposal of an item of property, plant and equipment is determined as the difference between proceeds from sales and the carrying value of the asset and is recognised in the Company's profit or loss.

As at December 31, 2017 the Company's property, plant and equipment were revalued by an independent valuer member of ANEVAR, revealing a revaluation loss of RON 2,135,110, as follows:

- unfavourable differences related to land in amount of 3,488,923
- unfavourable differences related to buildings in amount of 4,704,079
- favourable differences related to technological equipment in amount of 4,731,490
- favourable differences related to measurement devices and installations in amount of 1,093,509
- favourable differences from the revaluation of vehicles in amount of 210,846
- favourable differences from the revaluation of furniture and human and material protection equipment, in amount of 22.047

The net book value of buildings and plant and machinery at cost is of approximately RON 11.2 million and the net book value of the land (including locally mandatory indexation) is approximately RON 21.3 million.

The valuation report has been drawn up for the land, buildings, plant, equipment, vehicles, furniture and human and material protection equipment located in the same place. The valuation techniques used were market approach and for specialised properties where the market information available was insufficient, the Company used the net replacement cost method. To determine the final value, the valuer also used the cost and income approach.

Intangible assets

Intangible assets acquired separately

Intangible assets with determined useful lives and which are acquired separately are reported at cost less any subsequent accumulated amortisation and any accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with undetermined useful lives and which are acquired separately, are reported at cost less accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally generated intangible assets – research and development expenses

Expenses for research and development are recognised as expense in the period in which they are incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The initially recognised value of internally generated intangible assets means the sum of all costs incurred as of the date when the intangible asset fulfils for the first time the recognition criteria above. Where no internally generated intangible asset may be recognised, development expenses are recognised in profit and loss in the period in which they are incurred.

After initial recognition, internally generated intangible assets are reported at cost less any accumulated amortisation and any impairment losses, the same as intangible assets acquired separately.

Intangible assets acquired as part of a business combination

Intangible assets acquired as part of a business combination and recognised separately from goodwill are initially recognised at fair value on the acquisition date (deemed cost thereof).

After initial recognition, intangible assets acquired as part of a business combination are reported at cost minus any accumulated amortisation and any impairment losses, the same as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gains or losses from the derecognition of an intangible asset, measured as difference between net proceeds from sale and the asset's carrying value are recognised in profit and loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that that such assets have impaired. Should such indication exist, the Company estimates the recoverable value of the asset to determine the extent of the impairment (if any). Where the recoverable value of a particular asset cannot be estimated, the Company estimates the recoverable value of the cash generating unit to which the asset belongs. Where there can be identified a reasonable and consistent basis of allocation, corporate assets will also be allocated to individual cash generating units or, if not, to the smallest group of cash generating units for which a reasonable and consistent basis of allocation can be identified.

Intangible assets with undetermined useful lives and intangible assets not yet available for use are tested at least annually for impairment or anytime there is an indication that the asset might be impaired.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

The recoverable value means the highest of fair value minus sale costs and its value in use. When measuring the value in use, estimated future cash flows are discounted at their current value by using a discount rate determined prior to taxation, which reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates related to future cash flows have not been adjusted.

If the recoverable value of an asset (or cash-generating unit) is estimated to be lower than its carrying value, then the carrying value of the asset (or the cash-generating unit) is reduced to the level of the recoverable value. Impairment is recognised immediately in profit or loss, if the relevant asset is not registered at a re-measured value, in which case the impairment is treated as reduction of re-measurement.

Were the impairment is reversed, the carrying value of the asset (or the cash-generating unit) is increased at the level of its new estimated recoverable value, only that the increased carrying value must not exceed the carrying value that would have been established should the impairment for the asset (cash-generating unit) had not been recognised in previous years. A reversal of impairment is immediately recognised in profit or loss, except where the asset is accounted at revalued amount, in which case the reversal of the impairment is treated as increase of the revaluation.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the WAC (weighted average cost) method. Net realizable value represents the estimated selling price throughout the normal business course, less estimated costs of completion and costs necessary to make the sale.

Obsolete inventories were adjusted as follows: by 100% inactive inventories in the last 5 years (or more), by 70% inactive inventories in the last 4 years and by 50% inactive inventories in the last 3 years. Inactive inventories in the last 2 years have not been adjusted since most manufactured products have long cycle of use. To adjust slow moving inventories, only those materials that registered outflows in 2017 have been taken into account, and inventories as at 31.12.2016 and 31.12.2017 were different from zero. The rate was calculated as the ratio between the average inventories (as at 31.12.2016 and 31.12.2017) and 2017 outflows. The adjustments were calculated according to the size of rate: 30% for a rate equal to 3, 70% for a rate equal to 4 and 100% for a rate equal to 5 (and higher).

Inventories of raw materials and consumables managed by DPPV – Finished parts VIPER; DPRP – Repaired parts; DPMP – hazardous materials, intended only for the manufacturing and repair or VIPER 632-41 engines, were 100% provisioned.

Provisions

Provisions are recognized when the Company has a present obligation (legal or implicit) as a result of a past event, and it is probable that an outflow of resources incorporating economic benefits will be required to settle that obligation and a reliable estimate of the value of the obligation may be made.

The value recognised as provision is the best estimate of the counter value required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties related to the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, the carrying value thereof is the present value of such cash flows (if the effect of the time value of money is material).

When expected that some of or all the economic benefits required to settle a provision be recovered from third parties, then the receivable is recognised as asset if it is almost certain that the repayment will be collected and the value of the receivable can be reliably assessed.

Onerous contracts

Present obligations generated under onerous contracts are recognised and measured as provisions. A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructurings

A provision for restructuring costs is recognised when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a provision for restructuring includes only direct expenses related to the restructuring, which mean such values that are mandatorily generated by restructuring and are not associated with the Company's ongoing activities.

Guarantees

Provisions for estimated costs of guarantee obligations according to local legislation concerning the sale of goods are recognised on the date when the relevant products are sold, at the best estimate made by the management as regards the expenses required to settle the Company's obligation.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party in the contractual provisions of the instrument.

Financial assets

Financial assets are classified in the following categories: financial assets "at fair value through profit and loss" and "loans and receivables". The classification depends on the nature and scope of the financial assets and is determined upon initial recognition. All standard purchases or sales of financial assets are recognised and derecognised on the transaction date. Standard purchases or sales are purchases or sales of financial assets that require the delivery of the assets within a short period of time through regulation or market convention.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including the taxes paid or received forming an integral part of the effective interest rate, transaction costs, and other premiums or discounts) over the estimated period of the debt instrument, or (if applicable) over a shorter period, to the net carrying amount as at the initial recognition date.

The income is recognised based on the effective interest method for debt instruments other than the assets classified as financial assets at fair value through profit and loss.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when they are either held for trading or when they are classified as financial assets at fair value through profit or loss.

A financial asset is classified as held for trading:

- if it is acquired principally for the purpose of selling or repurchasing it in the near term; or
- upon initial recognition if it is part of a portfolio of identified financial instruments that the Company manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- if it is a derivative not designated and effective as hedging instrument.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

A financial asset other than a financial asset held for trading may be designated as financial asset at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset is part of a group of financial assets, financial liabilities or both, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- the asset is part of a contract containing one or more embedded derivatives, and IAS 39 Financial instruments: recognition and measurement allows that the entire combined contract (asset or liability) be designated as financial asset at fair value through profit or loss.

Financial assets at fair value through profit or loss are declared at fair value, and any gain or loss arising from revaluation is recognised in profit or loss. Net gains or losses recognised in profit or loss comprise all the dividends or interest gained at financial assets and are included as "Net financial gains" in the statement of comprehensive income.

Loans and receivables

Borrowings and receivables are non-derivative financial instruments with fixed or determinable payments not quoted on an active market. Borrowings and receivables (including trade and other receivables, bank balances and cash, etc.) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of the interest is not material.

Impairment of financial assets

Financial assets other than at fair value through profit or loss are tested for impairment on each balance sheet date.

Financial assets are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) had an impact on the future cash flow corresponding to the investment.

Certain categories of financial assets such as clients, assets measured as not individually impairable are subsequently tested for impairment collectively. Objective evidence that a portfolio of receivables is impaired may include the Company's past experience regarding collective payments, an increase in the collection of delayed payments beyond the crediting period, and visible changes in the national and local economic conditions that correlate with payment incidents regarding receivables.

Other objective evidence of impairment include:

- significant financial difficulty of the issuer or obligor; or
- a breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter insolvency or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The carrying value of the financial asset is reduced by the impairment loss, directly for all financial assets, except for trade receivables, in which case the carrying value is reduced through an allowance account. If it is deemed that a receivable cannot be recovered, it shall be written off and deducted from the provision. Subsequent recoveries of the amounts previously written off are credited in the allowance account. Changes in the carrying value of the allowance account are recognised in profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Derecognition of financial assets

The Company derecognises financial assets if and only if the contractual rights over the cash flows expire; or it transfers the financial asset and substantially all of the risks and rewards related to the asset to another entity.

When derecognising a financial asset other than entirely (e.g., when the Company does not retain an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the entity retains control), the Company allocates the previous carrying value of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying value allocated to the part that is no longer recognised and the sum of the consideration received together with any cumulative gain or loss that had been recognised in other elements of comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other elements of comprehensive income is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.

Classification as liability or equity

Debt or equity instruments issued by the Company are classified either as financial liabilities or equity in accordance with contractual engagements and the definition of a financial liability and equity instrument.

Equity instruments

An equity instrument is any contract that proves a residual participation in the assets of an entity after deducting all liabilities.

Financial liabilities

Financial liabilities are classified either as financial liabilities "at fair value through profit or loss" or as "other financial liabilities".

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when the financial liability is either held for trading, or designated at fair value through profit or loss.

A financial liability is classified as held for trading:

- if it is acquired principally for the purpose of selling or repurchasing it in the near term; or
- if, upon initial recognition, is part of a portfolio of identified financial instruments that the Company manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- if it is an embedded derivative not designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as financial liability at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability is part of a group of financial assets, financial liabilities or both, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- the asset is part of a contract containing one or more embedded derivatives, and IAS 39 Financial instruments: recognition and measurement allows that the entire combined contract (asset or liability) be designated as financial liability at fair value through profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial liabilities at fair value through profit or loss are declared at fair value, and any gain or loss arising from re-measurement is recognised in profit or loss. Net gains or losses recognised in profit or loss comprise any interest paid in relation to the financial liability and are included as "Net financial expenses" in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expenses over the relevant period. The effective interest rate is the rate that discounts exactly estimated future cash payments (including all fees and points paid or received forming an integral part of the effective interest rate, transaction costs, and other premiums or discounts) over the estimated period of the financial liability, or (if applicable) over a shorter period, to the net carrying value as at the initial recognition date.

Derecognition of financial liabilities

The Company derecognises financial liabilities if and only if the Company's liabilities are paid, cancelled or expire. The difference between the carrying value of the derecognised financial liability and the counter value paid and payable is recognised in profit or loss.

Subsidiaries and associates

Counterparties are deemed subsidiaries or associates when another party, either through ownership, contractual rights, family relations or other means, may control directly (subsidiaries) or influence significantly (associates) the other party.

Segment reporting

A segment is a part of the Company that is involved in activity segments from which it can obtain revenues and register expenses (including revenues and expenses corresponding to transactions with other parts of the same entity), whose operating results are regularly followed by the Company's management in order to make decisions on the resources to be allocated to the segment and assess its performances and for which separate financial information is available. Segment information is disclosed regarding the company's activity segments and are established based on the Company's management and internal reporting structure.

Settlement prices among segments are set objectively.

The results, assets and liabilities related to a segment include elements that may be allocated directly to one segment, and elements that may be allocated on a reasonable basis. Elements not allocated principally consist of investments (other than property investment) and related revenues, credits and loans and related expenses, corporate assets (mainly the Company's main office) and administrative expenses related to the main office, and income tax assets and liabilities.

Capital expenses related to a segment represent the total costs registered over the period for purchasing tangible and intangible assets other than goodwill.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting judgements

The following are the critical judgements that the management has used in applying the Company's accounting policies and which have a significant impact on the carrying values recognised in the financial statements.

i) Allowances for impairment of tangible and intangible assets

At the end of each reporting period, the Company revises the carrying values of its tangible and intangible assets to determine whether there is any indication that such assets are impaired. Should such indication exist, the Company estimates the recoverable value of the asset to determine the extent of the impairment (if any). Where the recoverable value of a particular asset cannot be estimated, the Company estimates the recoverable value of the cash generating unit to which the asset belongs. The recoverable value means the highest value of fair value minus sale costs and its value in use. When assessing the value in use, the management estimates future cash flows discounted at their current value by using an un-discounting rate which reflects the current market value of the time value of money and the risks specific to the asset for which the estimated cash flows have not been adjusted. The carrying amount of tangible and intangible assets as at December 31, 2017 is of RON 64,892,653. As at December 31, 2017 the Company did not find any indication of impairment of the recoverable value of such non-current assets.

ii) Useful life of tangible and intangible assets

The Company revises the estimated useful life of tangible and intangible assets at the end of each annual reporting period. Further to the revaluation of property, plant and equipment, the useful lives were reassessed at the end of December 31, 2017 and a new useful life was assigned to revalued property, plant and equipment whose useful life had expired. The useful lives are presented in Note 3 tangible and intangible accounting policies.

iii) Pension obligations

The present value of pension obligations depends on a number of factors determined on an actuarial basis, using various hypotheses. Any change in such hypotheses will influence the carrying value of the pension obligations. The pension obligations are in amount of RON 1,259,764 as at December 31, 2017, of which RON 135,976 as expense corresponding to the period recognized in the statement of the financial year result. The value was calculated by Gelid Actuarial Company S.R.L. based on the consultancy and actuarial services provision contract concluded in 2017.

iv) Deferred tax. The carrying amount as at December 31, 2017 and December 31, 2016 is presented in Note 10.

v) Provisions and contingent liabilities. Provisions are reassessed annually – presented in Note 21 and contingent liabilities are also determined on annual basis - presented in Note 30.

vi) The fair value of financial instruments

The fair value of financial instruments that are not traded on an active market is determined by using measurement techniques. The Company uses its judgement to choose from various methods and advance hypotheses that rely mainly on the existing market conditions at the end of each reporting period. Financial instruments analysis is presented in Note 26.

The management considers that the measurement techniques and the hypotheses used are correct for setting the fair value of financial instruments.

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4. REVENUES

Below, an analysis of the Company's income for the financial year:

	December 31, 2017	December 31, 2016
	RON	RON
Revenues from the sale of finished products	99,511,084	81,936,551
Revenues from the sale of merchandise	50,630	8,507
Revenues from services provided	398,839	943,239
Revenues from other activities	48,254	59,892
Revenues from the sale of residual products	757,263	82,061
Total	100,766,069	83,030,250

5. RAW MATERIALS AND CONSUMABLES USED

	December 31, 2017	December 31, 2016
Expenses with raw materials	31,336,212	25,276,070
Expenses with utilities	1,975,808	1,938,573
Expenses with auxiliary materials	3,754,806	2,894,492
Other similar expenses	1,420,340	1,034,257
Packaging expenses	237,714	150,787
Cost of goods sold	28,741	8,001
Total	38,753,621	31,302,180

6. EMPLOYEE BENEFITS

	December 31, 2017	December 31, 2016
Salaries	23,258,489	19,667,558
Social security contributions	5,716,046	4,808,860
Other expenses with contractors	2,209,885	1,606,953
Total	31,184,420	26,083,371

7. NET FINANCIAL LOSSES

	December 31, 2017	December 31, 2016
Interest expense	2,665,756	2,631,203
Bank commissions	242,726	182,586
Other financial expenses	494,763	262,932
Other financial revenues	12,427	4
Interest income	(1,721)	(143)
Total	3,413,951	3,076,578
Other financial income	-	(2,945,004)

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8. OTHER OPERATING EXPENSES

	December 31, 2017	December 31, 2016
	RON	RON
Services provided by third parties	2,962,547	2,361,020
Other operating expenses	256,336	1,027,077
Duties and taxes	492,254	536,271
Repairs	796,993	872,105
Advertising, publicity and protocol	543,841	516,593
Insurance premiums	275,802	169,146
Secondments	150,313	167,097
Rental expenses	85,541	16,935
Employee training	74,538	76,804
Transport expenses	518	418
Total	5,638,683	5,743,465

9. GAINS AND LOSSES FROM SALE OF ASSETS AND OTHER GAINS AND LOSSES

	December 31, 2017	December 31, 2016
	RON	RON
Net (losses)/ gain on foreign exchange	3,023,463	(1,224,192)
Movement of provisions	(2,792,876)	3,196,442
Revenue/(Expenses) with the impairment of assets intended for sale	3,501,595	(3,501,595)
Total	3,732,181	(1,529,345)
(Losses)/gains from sale of assets held for sale	20,104	(93,188)

Details regarding the sale of assets held for sale in the year 2016 are presented in Note 17.

10. INCOME TAX

In 2017 and 2016, the income tax rate was 16%.

The differences between the regulations issued by the Ministry of Finance in Romania and the accounting rules used to prepare the financial statements give rise to a temporary difference between the carrying value of certain assets and liabilities and their fiscal value. The deferred income tax is computed for all temporary differences to which tax is applied using the balance sheet liability method and using the tax rate of 16%.

The income tax recognised in profit or loss:

	December 31, 2017	December 31, 2016
Current income tax	(1,517,497)	(1,252,348)
Deferred income tax	39,364	163,904
Total	(1,478,133)	(1,083,444)

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10. INCOME TAX (continued)

Reconciliation of current income tax:

	December 31, 2017	December 31, 2016
Profit before taxation	18,458,013	13,500,717
Legal reserve	(233,042)	(675,036)
Elements similar to revenues	149,226	193,645
Elements similar to expenses	-	-
Non-taxable income	(6,502,304)	(7,209,564)
Non-deductible expenses	24,873,189	17,635,870
Tax deductions	(4,004,949)	(2,950,913)
Taxable result	32,740,134	20,494,719
Fiscal losses used	-	-
Income tax expense	(4,846,456)	(2,463,768)

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10. INCOME TAX (continued)

The deferred income tax in 2017 and 2016 is as follows:

	Balance as at January 1, 2016	Recognized through profit or loss	Recognized through other comprehensiv e income	Balance as at December 31, 2016	Recognized through profit or loss	Recognized through other comprehensive income	Balance as at December 31, 2017
Tangible assets – revaluation reserves	(3,862,833)	163,904	-	(3,698,929)	39,364	-	(3,659,565)
Employee benefits liabilities	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-
Net tax (asset)/liability	(3,862,833)	163,904	-	(3,698,929)	39,364	-	(3,659,565)

In 2017, the Company registered income from deferred tax in amount of RON 39,634 due to the decrease of the deferred tax liability as at December 31, 2017.

Deferred tax consists of:

	Assets		Liabilities		Net	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Tangible assets – revaluation reserves	-	-	(3,659,565)	(3,836,824)	(3,659,565)	(3,836,824)
Employee benefits liabilities	-	66,150	(19,572)	-	(19,572)	66,150
Provisions	120,318	71,745	-	-	120,318	71,745
Net tax (asset)/liability	120,318	137,895	(3,779,884)	(3,836,824)	(3,659,565)	(3,698,929)

The unrecognised deferred income tax is RON 2,293,514 corresponding to value adjustment of inventories. It was not registered in the financial statements, since the recognition criteria in accordance with IFRS are not fulfilled.

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11. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Technical installations and machinery</u>	<u>Equipment and vehicles</u>	<u>Tangible assets in progress</u>	<u>Total</u>
COST						
January 1, 2016	19,885,045	11,519,933	26,314,931	49,302	1,031,339	58,800,550
Inflows	1,411,355	2,524,121	3,843,029	86,822	5,524,862	13,390,189
Transfers	-	-	-	-	-	-
Outflows	-	-	(40,926)	(88)	(6,453,972)	(6,494,986)
Inflows / (outflows) from revaluation	-	-	-	-	-	-
December 31, 2016/January 1, 2017	21,296,400	14,044,054	30,117,034	136,036	102,232	65,695,756
Inflows	-	1,422,440	1,656,083	30,759	3,318,155	6,427,436
Transfers	-	-	-	-	-	-
Outflows	-	144	74,970	1,929	3,099,091	3,176,136
Inflows pending supply	-	-	1,473,225	-	-	-
Inflows / (outflows) from revaluation	85,125	(6,065,497)	(4,453,111)	(32,232)	-	(10,465,715)
December 31, 2017	21,381,525	9,400,854	28,718,196	132,633	328,747	59,961,955
Accumulated depreciation						
January 1, 2016	-	372,118	3,352,851	24,134	-	3,749,103
Depreciation for the year	-	441,377	3,479,149	9,118	-	3,929,644
Accumulated depreciation related to outflows	-	-	(22,792)	(88)	-	(22,880)
Disposals due to revaluation	-	-	-	-	-	-
December 31, 2016	-	813,495	6,809,208	36,874	-	7,659,578
Depreciation for the year	-	548,067	3,747,322	19,335	-	4,314,724
Accumulated depreciation related to outflows	-	-	-	-	-	-
Disposals due to revaluation	-	(1,361,563)	(10,563,918)	(56,209)	-	(11,981,690)
December 31, 2017	-	-	-	-	-	-
NET BOOK VALUE						
January 1, 2016	19,885,045	11,147,815	22,962,080	21,458	1,031,339	55,047,738
December 31, 2016	21,296,400	13,230,559	23,307,826	99,162	102,232	58,036,177
December 31, 2017	21,381,525	9,400,854	28,718,196	132,633	328,747	59,961,955

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

Fixed assets pledged or mortgaged

As at December 31, 2017 the Company pledged or mortgaged property, plant and equipment of RON 35,382,791 in net book value.

12. INTANGIBLE ASSETS

	Other intangible assets	Intangible assets in progress	Total
COST			
As at January 1, 2016	16,717,755	255,877	16,973,631
Inflows	1,735,370	1,716,749	3,452,119
Outflows	-	(1,735,370)	(1,735,370)
As at December 31, 2016	18,453,125	237,256	18,690,381
Inflows	596,881	632,477	1,229,359
Outflows	-	825,223	825,223
As at December 31, 2017	19,041,091	44,511	19,085,602
ACCUMULATED AMORTISATION			
As at January 1, 2016	8,043,090	-	8,043,090
Amortisation for the year	1,870,204	-	1,870,204
Accumulated amortisation related to outflows	9,913,294	-	9,913,294
As at December 31, 2016	9,913,294	-	9,913,294
Amortisation for the year	2,387,699	-	2,387,699
Accumulated amortisation related to outflows	-	-	-
As at December 31, 2017	12,300,992	-	12,300,992
NET BOOK VALUE			
As at January 1, 2016	8,634,583	255,877	8,890,461
As at December 31, 2016	8,539,831	237,257	8,777,087
As at December 31, 2017	6,740,099	44,511	6,784,610

Intangible assets consist of ERP IT software. Such software amortizes over 9 years. The net book value of the ERP as at December 31, 2017 is of RON 5,489,390 with a remaining useful life of 3 years.

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13. INVENTORIES

	December 31, 2017	December 31, 2016
	RON	RON
Raw materials	29,403,962	22,302,937
Consumables	1,282,599	1,481,650
Items of inventory	-	-
Packaging	23,885	12,540
Finished goods	2,459,668	2,020,671
Work in progress	17,759,652	11,209,414
Semi-finished goods	-	-
Residual products	66,051	22,922
Merchandise	-	51,925
Inventory allowances	(14,048,035)	(12,062,782)
Total	36,947,781	25,039,278

Finished goods and work in progress are expected to be realized in the next twelve months while the remaining are expected to be realized in a period of five years depending on the orders received from customers.

Obsolete inventories were adjusted as follows: by 100% inactive inventories in the last 5 years (or more), by 70% inactive inventories in the last 4 years and by 50% inactive inventories in the last 3 years. Inactive inventories in the last 2 years have not been adjusted since most manufactured products have long cycle of use. To adjust slow moving inventories, only those materials that registered outflows in 2017 have been taken into account, and inventories as at 31.12.2016 and 31.12.2017 were different from zero. The rate was calculated as the ratio between the average inventories (as at 31.12.2016 and 31.12.2017) and 2017 outflows. The adjustments were calculated according to the size of rate: 30% for a rate equal to 3, 70% for a rate equal to 4 and 100% for a rate equal to 5 (and higher).

Inventories of raw materials and consumables managed by DPPV – Finished parts VIPER; DPRP – Repaired parts; DPMP – hazardous materials, intended only for the manufacturing and repair or VIPER 632-41 engines, were 100% provisioned.

The movement of allowances for inventory impairment is as follows:

	December 31, 2017	December 31, 2016
	RON	RON
Balance at the beginning of the year	(12,062,782)	(15,720,931)
Increase of provision in profit or loss	(1,985,253)	(3,658,149)
Balance at the end of the year	(14,048,035)	(12,062,782)

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14. TRADE RECEIVABLES

	December 31, 2017	December 31, 2016
	RON	RON
Trade receivables	2,887,931	2,713,882
Clients - invoices to be issued	31,284	68,125
Allowance for doubtful debts	(286,426)	(97,386)
Total	2,632,790	2,684,621

The movement of allowances for impairment of trade receivables is as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	(97,386)	125,559
(Decrease) / Increase of provision in profit or loss	275,595	(28,173)
Balance at the end of the year	286,426	(97,386)

The following table analyses trade receivables:

	December 31, 2017	December 31, 2016
Not due and without impairment	471,023	652,854
Maturity expired, without impairment	2,161,767	1,963,642
Impairment allowances	286,426	97,386
Total	2,887,931	2,713,882

Age of trade receivables whose maturity has expired, but which bear no impairment allowances:

	December 31, 2017	December 31, 2016
Due and without impairment		
Within 3 months	1,933,425	1,458,182
Between 3 months and 6 months	64,792	121,545
Between 6 months and 9 months	160,131	66,434
Between 9 months and 1 year	91	152,183
Within more than 1 year	3,328	165,298
Total	2,161,767	1,963,642

15. OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
Sundry debtors	21,683	57,713
Prepaid expenses	51,846	120,060
Advances to suppliers	1,178,231	1,102,073
Other receivables	459,424	1,768,697
Impairment allowances	-	-
Total	1,711,184	3,048,543

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16. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash in banks	9,627,196	11,418,476
Petty cash	6,782	4,397
Other cash equivalents	-	-
Cash equivalents	2,878	78,620
Total	9,636,856	11,501,493

17. ASSETS HELD FOR SALE

	December 31, 2017	December 31, 2016
Land held for sale	6,966,252	7,038,705
Buildings held for sale	-	-
Vehicles and machinery held for sale	-	10,184
Total	6,966,252	7,048,889

In the General Meeting of Shareholders no. 70/14.05.2012 the Company decided to sell such fixed assets. The Company is seeking potential buyers.

During 2017, the breakdown of assets held for sales has changed. In November 2017, the Company transferred equipment in amount of RON 10,184 from assets intended for sale to operating assets.

The net book value of pledged assets held for sale is in amount of RON 6,966,252.

18. SHARE CAPITAL

The share capital is fully paid in:

	No. of shares	Share capital RON
Share capital as at December 31, 2016 and December 31, 2017	369,442,475	36,944,248
Effect of inflation on the share capital		987,626,807
Share capital as at December 31, 2016 and December 31, 2017		1,024,571,055

The Company's share capital was indexed to inflation as at December 31, 2003, from which date the Romanian economy was no longer considered inflationary.

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19. RESERVES

	December 31, 2017	December 31, 2016
Legal reserves	15,691,483	15,458,440
Revaluation reserves	37,657,605	33,771,624
Other reserves	35,023,655	31,290,748
Total	88,372,743	80,520,812

The revaluation reserve is related to revaluations performed on property, plant and equipment and cannot be distributed to shareholders until it is realized.

In 2017, the Company created a legal reserve in amount of RON 233,042 out of the profit of the year.

Other reserves include the fiscal facilities for exports received in the period 2000-2003 in amount of RON 6,100,419 (their value prior to inflation adjustment was RON 4,957,578). If the management decides to change their destination, they will be taxed. The management has decided not to use such reserves, thus no deferred tax has been established in relation thereto.

In 2017, the Company established reserves for the profit reinvested in amount of RON 3,732,907.55, representing tax facilities. The management decided not to use such reserves, and therefore, it did not register deferred tax in this respect. The remaining reserves are distributions from the previous years' profit.

20. BORROWINGS

	December 31, 2017	December 31, 2016
a) Short-term debts to shareholders	4,880,000	4,880,000
Secured loans	4,880,000	4,880,000
Interest payable to shareholders	-	-
b) Loans from banking institutions	38,503,087	41,406,464
Secured loans	32,288,913	36,526,464
Short-term loans		-
Long-term secured loans	4,312,628	3,186,318
Long-term loans	-	-
Total short- and long-term loans	42,815,715	44,592,782

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20. BORROWINGS (continued)

Contract	Balance as at December 31, 2017	Interest payable as at December 31, 2017	Commissions as at December 31, 2017
(A) BRD – Credit facility no. 103 BIS/28.04.2006 FACILITY A	13,433,418	2,687	-
FACILITY B	10,784,798	2,157	-
(B) Banca Transilvania – Loan contract no. 186/24.06.2009	9,052,895	-	165
(C) Banca Transilvania – Loan contract no. 40/04.02.2011	1,604,218	-	26
(D) Banca Transilvania – Loan contract no. 664/21.11.2011	800,846	-	13
(E) Banca Transilvania – Loan contract no. 385/02.07.2012	781,254	-	12
	36,457,429	4,844	216

Contract	Balance as at December 31, 2016	Interest payable as at December 31, 2016	Commissions as at December 31, 2016
(A) BRD – Credit facility no. 103 BIS/28.04.2006	26,454,625	16,707	
(B) BRD – Credit facility no. 103/16.05.2008	1,501,360	167	300
(C) BRD – Loan contract no. 567/10.12.2007	-	-	-
(D) Banca Transilvania – Loan contract no. 186/24.06.2009	-	-	-
(E) Banca Transilvania – Loan contract no. 187/24.06.2009	6,833,510	-	253
(F) Banca Transilvania – Loan contract no. 40/04.02.2011	2,479,247	-	40
(G) Banca Transilvania – Loan contract no. 664/21.11.2011	1,237,670	-	20
(H) Banca Transilvania – Loan contract no. 665/21.11.2011	-	-	-
(I) Banca Transilvania – Loan contract no. 385/02.07.2012	1,188,864	-	19
(J) Banca Transilvania – Loan contract no. 386/02.07.2012	-	-	-
	39,712,782	16,874	632

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20. BORROWINGS (continued)

a) Amounts owed to shareholders

At the end of March 2009, the Company concluded loan contracts with shareholders to finance its operating activity as follows:

- (I) with Mr. Radu Viehmann, for RON 3,000,000;
- (II) with Mr. Paul Radulescu, for RON 250,000;
- (III) with Mr. Ion Dinca, for RON 350,000;
- (IV) with Mr. Danut Spirea, for RON 200,000.

In 2016, the Company paid the interest owed for 2016 to Mr. Viehmann Radu and Ms. Ciorapciu Dana Maria and paid to the State budget the tax on the interest paid for each of them as follows:

Viehmann Radu: interest in amount of RON 249,300 and tax in amount of RON 47,485;
Ciorapciu Dana Maria: interest in amount of RON 16,620 and tax for January 2016 – October 2016 in amount of RON 2,636.

The tax on the interest paid for November – December 2016 in amount of RON 527 was established in December 2016 and was paid in January 2017 within the legal term.

The loan balance as at December 31, 2016 is:

Viehmann Radu: RON 4,580,000 of which RON 4,500,000 according to Contract 178/2009 and the subsequent addenda (due date 31.01.2017) and RON 80,000 according to short-term contract no. 538/2011, non-interest bearing.

Ciorapciu Dana Maria: RON 300,000 according to Contract 867/2012 and the subsequent addenda (due date 31.01.2017).

In 2017 the Company paid the interest owed for 2017 to Mr. Viehmann Radu and Ms. Ciorapciu Dana Maria and paid to the State budget the tax on the interest paid for each of them as follows:

Viehmann Radu: interest in amount of RON 240,244 and the related tax in amount of RON 47,761;
Ciorapciu Dana Maria: interest in amount of RON 16,620 and the related tax in amount of RON 3,050.

The balance of the loans as at December 31, 2017 is:

Viehmann Radu RON 4,580,000 of which RON 4,500,000 according to Contract 178/2009 and the subsequent addenda (due on January 31, 2018) and RON 80,000 according to short-term contract no. 538/2011, not interest bearing.

Ciorapciu Dana Maria: RON 300,000 according to Contract 867/2012 and subsequent addenda (due on January 31, 2018).

b) Amounts owed to credit institutions

(A) BRD – Credit facility no. 103 BIS/28.04.2006

On April 13, 2005, the Company concluded a loan contract which, until present, was substantially amended.

The addendum that amended the contract in 2016 and 2017 are presented below.

Addendum no. 54/23.05.2016 extended the validity of the contract until 25.05.2017.

Current interest and commissions are paid monthly.

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

As at December 31, 2016 the approved credit limits are RON 3,977,712.73 and USD 6,259,922.00 and the amounts drawn are USD 6,147,520.51 (equivalent of RON 26,454,625.01) and RON 1,501,350.87.

By Letter no. 3117/02.06.2016, registered with Turbomecanica SA under no. 3133/06.06.2016, BRD Special Loans communicated that BRD approved and written off from its records all interest and fees related to the facilities granted by the Bank and owed by TURBOMECHANICA SA by 25.01.2016.

By Addendum no. 55/24.05.2017 the contract validity was extended until 31.08.2017.

Current interest and commissions are paid monthly.

By Addendum no. 56/30.08.2017, the outstanding credit as at the conclusion date of such addendum in amount USD 6,259,190.61 and RON 1,771,394.88 and a non-cash exposure of RON 685,771.03 is converted to RON.

The total loan amounts to RON 30,149,798.40 at USD 1 = RON 3.8730 exchange rate and has the following structure:

Facility A – global financing threshold, multi-option, non-binding in amount of RON 19,365,000 used as follows:

- Facility credit line;
- Facility for issuance of bank letter of guarantee;
- Facility to open letters of credit ("L/C facility")

Facility B – long-term loan repayable based on a repayment schedule, in amount of RON 10,784,798.40.

The maturity date for Facility A is 31.08.2018.

The termination date for Facility B is 31.12.2020.

The interest rate is:

- for Facility A: ROBOR 3M + 3.5% (bank margin)
- for Facility B: ROBOR 3M + 3.5% (bank margin)

The addendum stipulated the repayment terms and guarantees that had to be established.

By Addendum no. 57/31.08.2017, the parties agreed upon the conditions of the addendum and amended article 7.3 of Addendum no. 56/30.08.2017 regarding the suspensive conditions for drawing the loan. As at December 31, 2017, the balance of Facility A is RON 5,125,429.04 formed of RON 3,898,052.90 representing balance of the Credit Line and RON 1,227,377.04 not drawn due to the expiry of the Letters of Guarantee issued within the threshold.

The balance of Facility B is RON 10,784,798.40 as at December 31, 2017.

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(A1) BRD - Factoring contract 539/04.05.2006

On 04.05.2006, the Company concluded the factoring contract with BRD-Groupe Societe Generale, which comprises the General and Special Terms.

The contract was amended in the following years, and the latest addenda are presented below.

On 15.06.2016, the Company concluded with BRD - Groupe Societe Generale Addendum no. 1 to Special Terms no. 2 to Factoring Contract no. 539/04.05.2006 applicable to the commercial relationship between TURBOMECANICA SA and the debtor of the assigned receivable, IAR SA.

The financing ceiling is RON 10,000,000, the validity term of the financing ceiling is 25.05.2017 and the financing percentage of approved receivables is set at 75%.

In addition, the Company concluded Mortgage Contract on Bank Accounts no. 3378/13.06.2016 and Mortgage Contract on Movable Assets no. 3380/13.06.2016.

On 15.06.2016, the Company concluded with BRD - Groupe Societe Generale Addendum no. 1 to Special Terms no. 3 to Factoring Contract no. 539/04.05.2006 applicable to the commercial relationship between TURBOMECANICA SA and the debtor of the assigned receivable GE Hungary Kft Hungary.

The financing ceiling is EUR 1,500,000, the validity term of the financing ceiling is 25.05.2017, and the financing percentage of approved receivables was set at 75%.

In addition, the Company concluded Mortgage Contract on Bank Accounts no. 3379/13.06.2016 and Mortgage Contract on Movable Assets no. 3381/13.10.2016.

On 15.06.2016, the Company concluded with BRD - Groupe Societe Generale Addendum no. 1 to Special Terms no. 2 to Factoring Contract no. 539/04.05.2006 applicable to the business relation between TURBOMECANICA SA and debtor of the assigned receivable IAR SA.

The financing ceiling is RON 10,000,000, the validity term of the financing ceiling is 25.05.2017 and the financing percentage of approved receivables was set at 75%.

At the same time, the Company concluded Mortgage Contract on Bank Accounts no. 3378/13.06.2016 and Mortgage Contract on Movable Assets no. 3380/13.06.2016.

Addendum no. 2 to Special Terms no. 2 to Factoring Contract no. 539/04.05.2006 applicable to the business relation between TURBOMECANICA SA and debtor of the assigned receivable IAR SA stipulates that, as of 25.05.2017 the financing limit for IAR is cancelled and the provisions of Special Terms no. 2 to Factoring Contract no. 539/04.05.2006 are terminated.

Addendum no. 2 to Special Terms no. 3 to Factoring Contract no. 539/04.05.2006 the validity term of the financing ceiling was extended to 31.08.2017 and the financing percentage of approved receivables was set at 75%.

Addendum no. 3 to Special Terms no. 3 to Factoring Contract no. 539/04.05.2006 the validity term of the financing ceiling was extended to 31.08.2018 and the financing percentage of approved receivables was set at 90%.

On December 10, 2007, the Company concluded with BRD - Group Société Générale loan contract no. 567, with an initial value of EUR 3,250,000

By Letter no. 3117/02.06.2016, registered with Turbomecanica SA under no. 3133/06.06.2016, BRD Special Loans communicated that BRD approved and written off from its records all interest and fees related to the facilities granted by the Bank and owed by TURBOMECANICA SA by 25.01.2016.

As at December 31, 2016, the balance of the loan for the land (contract 567/10.12.2007) in RON and EUR is "0".

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(C) BRD – Loan contract no. 103/16.05.2008

As at May 16, 2008, the Company concluded long-term contract no. 103 with BRD – Groupe Société Générale amounting to EUR 3,400,000 for the acquisition of equipment for the pinion cell/gear, including customs duties related to such equipment, for a period of 7 years.

By Letter no. 3117/02.06.2016, registered with Turbomecanica SA under no. 3133/06.06.2016, BRD Special Loans communicated that BRD approved and written off from its records all interest and fees related to the facilities granted by the Bank and owed by TURBOMECHANICA SA by 25.01.2016.

As at December 31, 2016, the balance of the loan for the land (contract 103/16.05.2008) is "0".

(C1) BRD – Contract no. 4104-A of 22.12.2016 for issuance of Letter of Guarantee

On 22.12.2016, Turbomecanica SA concluded a contract for issuance of a letter of guarantee in amount of RON 125,959.72, with expiry on 31.12.2016.

The beneficiary of the bank letter of guarantee is UM 01836 Otopeni, and the contract underlying the request is A 12331/19.12.2016.

The contract stipulates: an issuance fee (0.50 flat minimum RON 150), risk commission (0.25%), payment commission in case of an application for enforcement (0.15%), commission for change of value and/or validity 0.50% of the value of the letter minimum RON 150, commission for other changes RON 100.

The Company also concluded Mortgage Contract on Bank Accounts no. 4104-B/22.12.2016 whereby a mortgage was instituted over all amounts, securities, interests and benefits related to the identified bank accounts.

Following the expiry of the Guarantee Letter, in January Turbomecanica SA requested the bank to close the cash collateral deposit and the related amount was cashed in the Company's current account RO37 BRDE 410S V2016 4067 4100 on 09.01.2017.

Following the expiry of the letter, the original of the Bank letter of guarantee was submitted to BRD Militari Branch by letter 86/22.02.2017.

(C2) BRD - Contract no. 4296/ 28.12.2016 for issuance of Letter of Guarantee

On 28.12.2016, Turbomecanica SA concluded a contract for issuance of a letter of guarantee in amount of RON 478,000.00, with expiry on 31.12.2017.

The beneficiary of the bank letter of guarantee is UM 01836 Otopeni, and the contract underlying the request is A 10090/28.10.2016.

The contract stipulates: an issuance fee (0.50 flat minimum RON 150), risk commission (0.25%), payment commission in case of an application for enforcement (0.15%), commission for change of value and/or validity 0.50% of the value of the letter minimum RON 150, commission for other changes RON 100.

The Company also concluded Mortgage Contract on Bank Accounts no. 4296-A/28.12.2016 whereby a mortgage was instituted over all amounts, securities, interests and benefits related to the identified bank accounts.

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

In 2016, the Company reimbursed on a monthly basis the amount of RON 72,919.02 as per the schedule.

The total value of reimbursements is RON 875,028.24. The balance of the loan as at 31.12.2016 is RON 2,479,246.52.

The management commission related to 2016 due on 31.01.2017 is RON 39.99.

On 24.07.2017 the Company concluded Addendum no. 11/40 to revise the description of the guarantees.

The balance of the loan as at December 31, 2017 is RON 1,604,218.28.

The management commission related to 2017 due on 31.01.2018 is RON 39.99.

In 2017, the Company reimbursed on a monthly basis the amount of RON 72,919.02 as per the schedule.

The total value of reimbursements is RON 875,028.24.

(F) Banca Transilvania – Loan contract no. 664/21.11.2011

On 21.11.2011, the Company concluded contract no. 664 in the form of an investment loan from Banca Transilvania Militari Branch amounting to RON 1,700,000 for improvement of buildings, utility reconfiguration and recertification of technological processes, in order to relocate the production facilities.

The security consists of:

1. Contract no. 664/GAJ/01/21.11.2011 of security interest in personal property over existing determined goods;
2. Contract no. 664/CES/01/21.11.2011 of chattel mortgage over collections and current account balance.

The final due date of the loan is October 16, 2019.

In 2016, the Company reimbursed on a monthly basis the amount of RON 36,402.07 as per the schedule. The total value of reimbursements is RON 436,824.84.

The balance of the loan on 31.12.2016 is RON 1,237,670.47.

The management commission related to 2016 due on 31.01.2017 is RON 19.96.

In 2017, the Company reimbursed on a monthly basis the amount of RON 36,402.07 as per the schedule. The total value of reimbursements is RON 436,824.84.

The balance of the loan as at December 31, 2017 is RON 800,845.63.

The management commission related to 2017 due on 31.01.2017 is RON 12.92.

(G) Banca Transilvania – Loan contract no. 665/21.11.2011

On 21.11.2011, the Company concluded non-revolving short-term loan contract no. 665/21.11.2011 for VAT financing to develop and upgrade buildings, reconfigure utilities and recertify technological processes in order to relocate production capacities.

The security consists of:

1. Contract no. 665/GAJ/01/21.11.2011 of security interest in personal property over existing determined goods;
2. Contract no. 665/CES/01/21.11.2011 of chattel mortgage over collections and current account balance.

As at December 31, 2016 the loan balance was RON 0.

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(H) Banca Transilvania - Loan contract no. 385/02.07.2012

On 02.07.2012, the Company concluded loan contract no. 385 for an investment loan for improvement of buildings, utility reconfiguration and recertification of technological processes, in order to relocate the production facilities.

The loan contract is due on November 15, 2019.

The balance of the loan as at 31.12.2016 is RON 1,188,864.40.

The management commission for 2016 due on 31.01.2017 is RON 19.18.

In 2017, the Company reimbursed on a monthly basis the amount of RON 33,967.55 as per the schedule.

The total value of reimbursements is RON 407,610.60.

The balance of the loan as at December 31, 2017 is RON 781,253.80.

The management commission for 2017 due on January 31, 2017 is RON 12.62.

(I) Banca Transilvania - Loan contract no. 386/02.07.2012

On 02.07.2012, the Company concluded loan contract no. 386, granting a non-revolving short-term loan ceiling for VAT financing to relocate the production facilities, to develop and upgrade buildings, reconfigure utilities and recertify technological processes in order to relocate the production facilities.

The balance of the loan as at December 31, 2016 is RON 0.

(J) BRD – Subordinating agreements

On 29.02.2012, BRD and Messrs. Viehmann Radu, as President and General Manager, and Dinca Ion, as Financial Manager, concluded subordinating agreements.

On 18.02.2013, BRD and Ms. Ciorapciu Dana-Maria concluded a subordinating agreement.

(K) BRD – contract for issuance of letter of guarantee no. 4104-A of December 22, 2016

On 22.12.2016, Turbomecanica SA concluded a contract for issuance of a letter of guarantee in amount of RON 125,959.72, with expiry on 31.12.2016.

The beneficiary of the bank letter of guarantee is UM 01836 Otopeni, and the contract underlying the request is A 12331/19.12.2016.

The contract stipulates: an issuance fee (0.50 flat minimum RON 150), risk commission (0.25%), payment commission in case of an application for enforcement (0.15%), commission for change of value and/or validity 0.50% of the value of the letter minimum RON 150, commission for other changes RON 100.

The Company also concluded Mortgage Contract on Bank Accounts no. 4104-B/22.12.2016 whereby a mortgage was instituted over all amounts, securities, interests and benefits related to the identified bank accounts.

Following the expiry of the Guarantee Letter, in January Turbomecanica SA requested the bank to close the cash collateral deposit and the related amount was cashed in the Company's current account RO37 BRDE 410S V2016 4067 4100 on 09.01.2017.

Following the expiry of the letter, the original of the Bank letter of guarantee was submitted to BRD Militari Branch by letter 86/22.02.2017.

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20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

On 28.12.2016, Turbomecanica SA concluded a contract for issuance of a letter of guarantee in amount of RON 478,000.00, with expiry on 31.12.2017.

The beneficiary of the bank letter of guarantee is UM 01836 Otopeni, and the contract underlying the request is A 10090/28.10.2016.

The contract stipulates: an issuance fee (0.50 flat minimum RON 150), risk commission (0.25%), payment commission in case of an application for enforcement (0.15%), commission for change of value and/or validity 0.50% of the value of the letter minimum RON 150, commission for other changes RON 100.

The Company also concluded Mortgage Contract on Bank Accounts no. 4296-A/28.12.2016 whereby a mortgage was instituted over all amounts, securities, interests and benefits related to the identified bank accounts.

Compliance with the bank contractual clauses

According to the loan contracts concluded with BRD and Banca Transilvania, the Company must meet the following economic – financial indicators in order not to change the terms of loan contracts: the EBITDA/turnover ratio not less than 17% and the net profit compared to turnover not less than 5% as at December 31, 2016. As at December 31, 2016, respectively at December 31, 2017, the Company complied with these economic and financial indicators.

21. PROVISIONS

	December 31, 2017	December 31, 2016
Provisions for post-employment benefits	439,908	1,382,087
Other personnel-related provisions	1,259,764	2,405,889
Provisions for compensatory salaries	3,157,879	450,992
Total	4,857,551	4,238,968

Compensatory salaries provisions mean provisions for compensatory salaries to be paid to the Company's employees who are dismissed, according to the collective employment contract.

"Other personnel-related provisions" includes as follows: provision for performance bonuses for 2017 which will be granted in 2018, provision for rest leaves not taken as at December 31, 2017, provisions for meal vouchers related to December 2017 which will be granted in 2018.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2017 by GELID ACTUARIAL COMPANY. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Credit Unit Method (PCUM). Retirement benefits are expected to be paid in a period of 5-15 years.

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21. PROVISIONS (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

1) Demographic assumptions on the future characteristics of employees eligible for receiving benefits:

Mortality of employees and their family members. Romanian Mortality Table for 2013 (men and women) issued by the National Institute of Statistics.

Rate of employee turnover In 2017, the employee turnover was 18.8%. For this year, the Company considered the average of the last five years, of 8.6% pa. Based on employees' age structure, the model of the employee turnover rate takes into account the number of remaining years until retirement, resulting a number of employees who would be leaving and who would be equally replaced with 8.6% of the total number of employees. The rate of employee turnover is:

- 26.11% pa for employees over 35 years until retirement;

- decreasing to 0% for employees with 35 to 5 years until retirement;

For the last 5 years until retirement, the Company considered that the employees are not looking for a change of job and have gained enough experience not to be replaced on disciplinary or professional grounds.

Rate of dismissals For the period after December 2017, the Company did not communicate a personnel redundancy plan.

2) Financial assumptions

Discount rate As regards the discount rate, the Company took into account the yields of bonds on the active market at the end of December 2017. The available residual terms until maturity were 1-9 years and 11 years. For the other terms, the Company estimated the discount rate using the Smith-Wilson method. The long-term assumptions were:

- estimated long-term inflation rate 2% pa
- estimated long-term real yield of government bonds 2.2% pa
- liquidity premium for Romania 0%.

Thus, a balancing forward rate of 4.2% pa was considered. The method ensures compatibility between the discount rate and inflation rate.

Inflation rate Based on the statistics issued by INSSE and the NBR forecast, the Company estimated an inflation rate of:

- 3.20% in 2018
- 3.1% in 2019
- Decreasing on a straight line up to 2.5% in 2020-2023

- 2.50% in 2024-2030 following a decreasing trend in the upcoming years.

- The Company estimates an average growth of maximum 3% in 2018 apart from the changes determined by the application of GEO 79/2017. For 2019 and the following years, the Company estimated that salaries will increase by an average of the consumer price index of each year.

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21. PROVISIONS (continued)

Components of defined benefit costs recognised in profit or loss are as follows:

Service cost:	December 31, 2017
Current service cost	65,477
Interest cost	43,192
Past service cost	-
Benefits paid	(229,624)
TOTAL	(120,955)

Amounts recognised in the comprehensive income in respect of these defined benefit plans are as follows:

Re-measurement of the net defined benefit liability:	December 31, 2017
Actuarial gains and losses from changes in financial assumptions	135,976
TOTAL	135,976

The current service cost, the interest cost, the past service cost and the benefits paid are included in other gains and losses in profit or loss.

The re-measurement of the net defined benefit liability is included in other comprehensive income.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality.

22. TRADE AND OTHER LIABILITIES

	December 31, 2017	December 31, 2016
Trade liabilities	5,226,251	6,518,315
Liabilities on invoices to be received	328,686	373,547
Other creditors	262,369	115,729
Total	5,817,305	7,007,591

23. OTHER CURRENT LIABILITIES AND DEFERRED INCOME

Other current liabilities

	December 31, 2017	December 31, 2016
Salaries	1,146,398	1,081,375
Salary taxes	1,877,345	2,758,632
VAT payable	1,275,553	3,937,219
Other creditors	46,097	70,772
Other taxes	308,453	610,498
Advances from clients	10,314	10,584
Dividends	305,669	-
Total	4,969,829	8,469,080

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23. OTHER CURRENT LIABILITIES AND DEFERRED INCOME (continued)

Deferred income

Deferred income represent repairs invoiced and collected which are delivered at a later date (after balance sheet date) - which is determined based on client's request. The amount as at December 31, 2017 of RON 868,861.

24. OTHER LONG-TERM LIABILITIES

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salary taxes	-	707,531
VAT payable	-	66,701
Other taxes and penalties	-	248,736
Total	-	1,022,968

Long-term liabilities comprise the liabilities included in Rescheduling Decision no. 14947/15.05.2013; 18348/20.02.2014; 18772/10.03.2014 issued by the Ministry of Public Finance, the General Directorate for Large Taxpayers, regarding salary taxes, VAT payable.

The Company has been granted a payment postponement until the end date of the payment scheduling of accessory tax liabilities related to the main tax liabilities subject to a payment schedule in amount RON 1,022,406, according to Decision no. 14948/15.05.2013. Thus, the Company did not register such amount in its financial statements. If the Company complies with the payment schedule, then such amount will be exempted from payment at the end of the scheduling period, otherwise, the payment obligation above will be activated.

25. SEGMENT REPORTING

Operating segments of the Company are driven by the main products and services delivered, as it is shown below: manufacturing of aircraft parts, repairs of engines and other. The geographical segmentation of the operations derives from the country of origin for the main customers of the Company.

	Segmenting income	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	RON	RON
Aircraft benchmarks and parts	3,958,822	5,492,880
Current engine repairs	79,818,209	64,090,520
Other	16,989,038	13,446,850
Total from operations	100,766,069	83,030,250

In 2017, the depreciation and amortization is allocated to Aircraft makers and parts – 3.9%, Current engine repairs – 79.2%, others 9%. Material non-cash items not allocated consist of RON 39,364 reversal of deferred tax asset.

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25. SEGMENT REPORTING (continued)

	Asset Segment		Liability Segment	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Assets and liabilities segment				
Aircraft benchmarks and parts	78,268,986	59,553,013	4,234,353	3,828,263
Current engine repairs	21,273,539	26,207,064	1,071,077	3,179,327
Not allocated	25,099,903	30,980,972	59,224,343	63,435,140
Total Assets / Liabilities	124,642,428	116,741,048	64,529,773	70,442,730

	Profit/(loss)	
	December 31, 2017	December 31, 2016
Aircraft benchmarks and parts	1,101,729	722,977
Current engine repairs	22,232,890	10,232,590
Other	4,731,893	2,269,394
Unallocated	(14,415,591)	(2,351,916)
Total	13,650,921	10,873,045

The reported profits above are presented based on internal managerial reports, direct costs are allocated by per segments while the overheads are included in Other. Unallocated refers to financing costs, sale of assets held for sale and related deferred tax.

	Revenues by geographical areas	
	December 31, 2017	December 31, 2016
Europe	97,366,795	82,586,204
US	213,223	444,046
Asia	3,186,051	-
Total	100,766,069	83,030,250

26. FINANCIAL INSTRUMENTS

a) Capital risk management

The Company manages its capital so as to make sure that it will continue its business along time with the maximization of the shareholders' wealth, by optimizing the balance of liabilities and equity.

The Company's capital consists of debts, which include the borrowings disclosed in Note 20, cash and cash equivalents and equity.

Equity comprises share capital, reserves and retained earnings, as disclosed in Notes 18 and 19.

The Company monitors capital based on the gearing ratio. Such ratio is calculated as ratio between the net debt and total capital. The net debt is calculated as total borrowings (including both long and short-term loans) less cash and cash equivalents.

The total capital is calculated as "capital and reserves" as reported in the balance sheet.

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26. FINANCIAL INSTRUMENTS (continued)

a) Capital risk management (continued)

The gearing ratio as at December 31, 2017 and December 31, 2016 is as follows:

	December 31, 2017	December 31, 2016
Total borrowings	42,839,163	44,592,782
Cash and cash equivalents	9,636,856	11,501,493
Net debt	33,202,307	33,091,289
Total capital and reserves	60,112,656	46,298,318
Gearing ratio	55%	71%

Gearing ratio has been positively changed from last year as the Company managed to improve its financial position by selling assets held for sale and repayment of loans, in order to reduce the debt and the interest payable in the future.

b) Foreign currency risk management

The Company is exposed to foreign currency fluctuations in commercial and financing transactions. Foreign currency risk arises from recognized trade assets and liabilities, borrowings inclusively, expressed in foreign currency. Due to high associated costs, the Company's policy is not to use financial derivatives to mitigate such risk.

c) Interest rate risk management

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's operating cash flows are impacted mainly by the changes in interest rates, due to the foreign borrowings with variable interest rates contracted from internal credit institutions. The Company has significant borrowings with variable interest rates that expose the Company to significant cash flow risk. The Company is on ongoing negotiation process with the bank to renegotiate repayment terms and interest.

d) Credit risk management

The Company is exposed to credit risk due to its trade and other receivables. The Company has adopted a policy of only dealing with creditworthy clients. The due date of the liabilities is closely monitored and the amounts owed after expiry of the maturity date are promptly supervised. Trade receivables (clients) are disclosed net of allowances for doubtful debts. The Company has adopted policies limiting the value of the credit exposure towards any financial institution. Collaterals are not required however advance payments are in certain cases required. Cash is placed in financial institutions, which are considered to have minimal risk of default. The deposits are held at the BRD and Banca Transilvania.

The carrying amounts represent the Company's maximum exposure to credit risk for existing receivables.

e) Liquidity risk management

A prudent liquidity risk management requires maintaining sufficient cash and available credit lines, by continually monitoring the estimated and actual cash flow and by correlating the maturities of financial assets and liabilities.

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26. FINANCIAL INSTRUMENTS (continued)

f) Fair value of financial instruments

The fair values of financial assets and liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of financial derivatives is calculated using quoted prices. Where such prices are not available, the discounted cash flow analysis is used, using the yield curve applicable to the duration of derivatives that do not include options and the models to assess options for derivatives based on options.

Financial instruments in the balance sheet include trade and other receivables, cash and cash equivalents, short and long-term loans and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts.

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26. FINANCIAL INSTRUMENTS (continued)

The carrying values of the Company's currencies expressed in monetary assets and liabilities as at the reporting date are the following:

2017	EUR 1EUR = RON 4.6597	USD 1USD= RON 3.8915	GBP 1GBP=RON 5.2530	CHF 1 CHF = RON 3.99	RON 1 RON = RON	TOTAL December 31, 2016
ASSETS	RON	RON	RON	RON	RON	RON
Cash and cash equivalents	1,879,173	328,091	1,165	1,103	7,427,324	9,636,856
Receivables and other current assets	2,166,425	37,370	-	-	428,995	2,632,790
LIABILITIES						
Trade and other liabilities	947,550	1,886,953	1,917	-	2,980,885	5,817,305
Short and long-term loans	-	-	-	-	42,839,163	42,839,163
Net balance exposure (assets - liabilities)	3,098,048	(1,521,492)	(752)	1,103	(37,963,729)	(36,386,822)
2016	EUR 1EUR = RON 4.5411	USD 1USD= RON 4.3033	GBP 1GBP=RON 5.2961	CHF 1 CHF = RON 4.2245	RON 1 RON = RON	TOTAL December 31, 2016
ASSETS	RON	RON	RON	RON	RON	RON
Cash and cash equivalents	254,918	430	2,385	348	11,243,412	11,501,493
Receivables and other current assets	2,512,733	141,596	-	-	1,824,113	4,478,442
LIABILITIES						
Trade and other liabilities	87,162	1,885,727	27,569	-	5,007,133	7,007,591
Short and long-term loans	-	26,471,332	-	-	18,121,450	44,592,782
Net balance exposure (assets - liabilities)	2,680,489	(28,215,033)	(25,184)	348	(10,061,058)	(35,620,438)

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26. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

The Company is mainly exposed in respect of the exchange rate of the EUR and USD vs. RON. The following table details the Company's sensitivity to a 10% increase and decrease in EUR/USD against RON. 10% is the sensitivity rate used when reporting foreign currency risk internally to senior management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A negative number below indicates a decrease in profit, when there is a 10% weakening of the RON against the EUR / USD. For a 10% strengthening of RON against the EUR / USD there would be an equal and opposite impact on the profit and equity and the balance would be positive.

	Impact on the result as at:	
	December 31, 2017	December 31, 2016
EUR	309,805	267,317
USD	(152,149)	(2,792,891)
GBP	(75)	(2,728)
CHF	110	35

Tables regarding liquidity and interest rate risks

The following tables detail the Company's remaining contractual maturity for financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

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26. FINANCIAL INSTRUMENTS (continued)

2017	Interest rate	Less than 1 month	Less than 1 year	1 - 5 years	5+ years	Total
Trade and other current liabilities	-	4,564,286	1,253,019	-	-	5,817,305
Other liabilities	-	4,661,069	308,760	1	-	4,969,830
<i>Interest bearing instruments</i>						
Long and short-term loan (of which)						
Long-term real estate loan BTRL	ROBOR 6M+4.4%	72,919	802,109	729,190	-	1,604,218
Long-term loan for RELOCATION RON BT	ROBOR 6M+4.4%	33,968	373,643	373,643	-	781,254
Long-term loan BTRL RON	ROBOR 6M+4,4%	36,402	400,423	364,021	-	800,846
	ROBOR 3M +					
Short-term bank loan in RON BRD	3.5% pa	-	13,433,418	-	-	13,433,418
Loan ceiling in RON from Banca Transilvania M	ROBOR 6M+4.4%	-	9,052,895	-	-	9,052,895
	ROBOR 3M +					
Medium-term bank loans - BRD	3.5% pa	-	7,939,025	2,845,773	-	10,784,798
Finance lease BTRL		-	139,050	1,357,622	-	1,496,672
Loans from shareholders	6.6%/6.33%	-	4,880,000	-	-	4,880,000
Interest payable		5,060	-	-	-	5,060
Total debt		9,373,704	38,582,342	5,670,250	-	53,626,296
Cash and cash equivalents	-	9,636,856	-	-	-	9,636,856
Receivables and other current assets	-	532,342	2,097,029	3,419	-	2,632,790
Total assets		10,169,198	2,097,029	3,419	-	12,269,646
Total Net		795,494	(36,485,313)	(5,666,831)	-	(41,356,650)

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26. FINANCIAL INSTRUMENTS (continued)

2016	Interest rate	Less than 1 month	Less than 1 year	1 - 5 years	5+ years	Total
Trade and other current liabilities	-	1,917,008	4,052,908	334,368	703,307	7,007,591
Other liabilities	-	6,244,156	2,232,934	1,014,958	-	9,492,048
<i>Interest bearing instruments</i>						
Long and short-term loan (of which)						
Long-term real estate loan BTRL	ROBOR 6M+4.4%	72,919	802,108	1,604,218	-	2,479,247
Long-term loan for RELOCATION RON BT	ROBOR 6M+4.4%	33,968	373,643	781,254	-	1,188,864
Long-term loan BTRL RON	ROBOR 6M+4.4%	36,402	400,423	800,846	-	1,237,670
Short-term bank loan in RON BRD	ROBOR 3M + 2% pa		1,501,360	-	-	1,501,360
Loan ceiling in RON from Banca Transilvania M	ROBOR 6M+4.4%		6,833,510	-	-	6,833,510
Short-term bank loans in USD - BRD	LIBOR 1M + 3.0% pa		26,454,625	-	-	26,454,625
Loans from shareholders	6.6%		4,880,000	-	-	4,880,000
Interest payable		17,506	-	-	-	17,506
Total debt		8,321,958	47,531,512	4,535,644	703,307	61,092,421
Cash and cash equivalents	-	11,501,493	-	-	-	11,501,493
Receivables and other current assets	-	1,181,984	2,160,264	1,136,194	-	4,478,442
Total assets		12,683,477	2,160,264	1,136,194	-	15,979,935
Total net		4,361,519	(45,371,248)	(3,399,450)	(703,307)	(45,112,486)

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27. EARNINGS PER SHARE

(a) Basic

The basic result per share is calculated by dividing the shareholders' profit to the weighted average number of ordinary shares issued during the year, except for ordinary shares purchased by the Company and kept as treasury shares (Note 18).

	<u>2017</u>	<u>2016</u>
Company shareholders result	13.650.921	10.873.045
Weighted average number of ordinary shares issued	369.442.475	369.442.475
Basic earnings per share	0.03	0.03

(b) Diluted

The diluted result per share is calculated by adjusting the weighted average of existing shares to take into account the translation of all potentially diluted shares. The Company did not register convertible debts or share issuance options which may be converted to ordinary shares that may adjust the weighted average number of shares.

In 2017, the company distributed dividends from the 2016 profit, in amount of RON 3,573,477.26, the balance of which as at December 31, 2017 is RON 305,668.74.

28. RELATED PARTIES

The loans from the shareholders are presented in Note 20.

29. COMMITMENTS AND CONTINGENCIES

Potential liabilities:

Taxation

Taxation system in Romania is still developing trying to consolidate and harmonize with the European legislation. In this respect, there still are various interpretations of the tax laws. In certain cases, tax authorities may treat differently certain aspects and calculate supplementary taxes and levies and related interests and penalties.

According to the legislation in force, in 2015, interest and delay penalties were levied for tax payers' failure to pay their tax obligations on time.

In 2017 the interest value is 0.02% for each day of delay; the delay penalties are 0.01% for each day of delay.

In Romania, the fiscal year stays open for verifications during 5 years. The management estimates that the tax liabilities included in these financial statements are adequate.

In accordance with the provisions issued by the Ministry of Public Finance, which regulate the tax regime of items of equity which have not been subject to income tax as at their accounting registration, due to their nature, should the Company change the destination of revaluation reserves (by covering losses or allocation to shareholders), it will incur additional income tax liabilities.

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29. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

Environmental regulations are developing in Romania, and the Company did not register any liabilities as at December 31, 2017 or December 31, 2016 for any estimated costs, including legal and consulting fees, site surveys, the design and implementation of recovery plans as regards the environment.

Inventories held in custody

As at December 31, 2017, the Company did not hold inventories in custody.

30. SUBSEQUENT EVENTS

In 2018, the loan contracts of Mr. Viehmann Radu (Addendum no. 9 authenticated under no. 19/18.01.2018) and Ms. Ciorapciu Dana Maria (Addendum no. 5 authenticated under no. 20/18.01.2018) were extended until 31.01.2019, the interest rate was established at 6.50%.

For January 2018, Mr. Viehmann Radu collected interest in amount of RON 21,781 and paid the tax in amount of RON 2421 and Ms. Ciorapciu Dana Maria collected interest in amount of RON 1,448 and paid tax in amount of RON 261.

In January 2018, all the commissions for December 2017 and due on 01.01.2018 (with BRD) and 31.01.2018 (with Banca Transilvania) were paid.

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2018.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO



TURBOMECHANICA

Bd. Iuliu Maniu Nr. 244 Sector 6 Cod Poștal 061126 București – Romania

Tel.: (+4) 021 434 32 06; (+4) 021 434 07 41 Fax: (+4) 021 434 07 94

Cod Registrul Comerțului J40/533/1991

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Capital Social subscris integral vărsat 36.944.247,50 RON

www.turbomecanica.ro; e-mail: office@turbomecanica.ro

ANNUAL REPORT OF THE BOARD OF ADMINISTRATION OF TMB FOR 2017 ACCORDING TO NSC REGULATION NO. 1/2006

TURBOMECHANICA SA ("TMB") is a Romanian open joint-stock company according to the Constitutive Act and applicable regulations, entirely privately owned, whose shares are listed on the Bucharest Stock Exchange.

It operates exclusively in the field of manufacturing and, according to the classification of activities in the national economy, its main object of activity is the Manufacturing of engines, mechanical assemblies and equipment for aircraft – NACE CODE 3030.

The Company carries out its activity in a highly competitive environment according to the widely recognized principles of corporate governance, in accordance with Romanian legislation, the legislation of the European Union and international practices, supplying on domestic and foreign markets products and services both in the field of defense and civil aviation.

The company has a long history of start-ups, diversifications and developments, but also restructuring, falls, searches, new beginnings. However, what is important is that throughout all this time, it has never stopped operating in the defense and aviation industry.

The program of technical restructuring and relocation of the technological flows, started a long time ago, and realization of the assets made available further to the reorganization of the company are in the third year in which they produce the estimated effects, strengthening the company's capacity to generate profit and re-balancing the company financially.

In 2017, there was no significant event or reorganization of the company.

The entire financial and accounting activity was based on the following principles:

- principle of prudence;
- principle of permanence of methods;
- going concern principle;
- cut-off principle;
- principle of intangibility;
- non-offsetting principle;
- principle of substance over form.

The accounting of Turbomecanica SA is the main instrument to know, manage and control the assets, to ensure chronological and systematic registration of information, to process and store it, presenting the real status of the assets and the results obtained.

The Company manages its accounting using the double-entry method, prepares monthly, quarterly reports and at year end it presents the accounting balance sheet.

The accounting registrations are made chronologically and systematically according to the chart of accounts and the rules in force, and any asset-related operation is registered in a supporting document.

In addition, the Financial and Accounting Department is organized so as to enable a high quality financial reporting process. The roles and responsibilities are specifically defined and a control process is in place to ensure that the financial reporting is conducted accurately and correctly.

The 2017 results are included in the financial statements of the year, prepared in accordance with International Financial Reporting Standards (IFRS). Some of the elements are listed below:

A. STATEMENT OF COMPREHENSIVE INCOME

NAME	2017	2016
Revenues	100,766,069	83,030,250
Other revenues and (losses)	3,732,181	(1,529,345)
Variation of stocks	5,847,409	652,921
Revenues from production of fixed assets	-	336,608
Raw materials	(38,753,621)	(31,302,180)
Expenses with employees' benefits	(31,184,420)	(26,083,371)
Expenses with depreciation of assets	(6,702,423)	(5,799,848)
Net financial expenses	(3,413,951)	(3,076,578)
Financial income	-	2,945,009
Other operating expenses	(5,638,683)	(5,743,465)
Gains / Loss on sales of assets available for sale	20,104	(93,188)
Favorable/Unfavorable differences from revaluation	(6,214,653)	-
Profit/ (Loss) before tax	18,458,013	13,336,813
Tax on profit	(4,846,456)	(2,627,672)
Deferred income tax	39,364	163,904
Profit/ (Loss) for the year	13,650,921	10,873,045
Other comprehensive income, net of tax		
Actuarial (loss) / gain on defined benefits plan		(221,439)
Total other comprehensive income		(221,439)
Comprehensive result of the year	13,650,921	10,651,606

B. STATEMENT OF FINANCIAL POSITION

NAME	2017	2016
Long-term assets		
Tangible assets	59,961,955	58,036,177
Intangible assets	6,784,610	8,777,087
Other assets	1,000	604,960
Total long-term assets	66,747,565	67,418,225
Current assets		
Stocks	36,947,781	25,039,278
Trade receivables	2,632,790	2,684,621
Other receivables	1,711,184	3,048,543
Cash and cash equivalents	9,636,856	11,501,493
Assets for sale	6,966,252	7,048,889
Total current assets	57,894,863	49,322,823
Total assets	124,642,427	116,741,048

NAME	2017	2016
Equity and liabilities		
Capital and reserves		
Capital issued	1,024,571,055	1,024,571,055
Reserves	88,372,743	80,520,812
Retained earnings	(1,052,231,734)	(1,058,231,122)
Own shares	(598,408)	(562,427)
Total equity	60,112,656	46,298,318
Long-term liabilities		
Loans	5,670,250	3,186,319
Deferred tax liabilities	3,659,565	3,698,929
Provisions	1,259,764	1,382,087
Other long-term liabilities	-	1,022,968
Total long-term liabilities	10,589,580	9,290,302
Current liabilities		
Trade payables and other payables	5,817,305	7,007,591
Borrowings	37,168,913	41,406,464
Current income tax	1,517,497	1,252,348
Provisions	3,597,787	2,856,881
Deferred income	868,861	160,063
Other current liabilities	4,969,829	8,469,080
Total current liabilities	53,940,192	61,152,428
Total liabilities	64,529,773	70,442,730
Total equity and liabilities	124,642,427	116,741,048

C. TURBOMECANICA SHARES

NAME	2017	2016
Number of shares	369,442,475	369,442,475
Nominal value per share	0,10	0,10
Book value per share	0,163	0,125
Average price per share	0,228	0,059
Net profit per share	0,04	0,03
Market value per share at the end of the period	0,294	0,097
Stock capitalization	108,616,087	35,762,032

D. MACRO-ECONOMIC INDICATORS

NAME	2017	2016
Inflation	1.3	1.5
EUR average exchange rate	4.57	4.49
USD average exchange rate	4.05	4.06
GBP average exchange rate	5.21	5.5

This is a free translation from the original Romanian version.

E. TURNOVER ON SEGMENTS

NAME	2017	2016
Turnover, of which:	100,766,069	83,030,250
Benchmarks and aircraft parts	3,958,822	5,492,880
Engine repairs	79,818,209	64,090,520
Others	16,989,038	13,446,850

The 2017 results prove once again the success of the measures taken given the technical restructuring and relocation of technological flows. The total revenues obtained in 2017 are RON 112,731 thousand. The net turnover represents 89% thereof, namely RON 100,766 thousand.

The investment expenses totaled RON 3,109.3 thousand in 2017, accounting for 3% of the turnover.

Exports reached 19.08% of the turnover and are continuing to grow.

The net profit obtained by the Company in relation to the turnover determines a rate of return of 13.55%, but the gross margin rate from operations, which measures the gross result from operations independently of the financial policies, investment, taxation levels and extraordinary elements, is 18.46%.

The net result obtained in 2017 is substantially growing compared to 2016, namely 1.25 times higher and is real, being included in the cash available as at December 31, 2017. It will cover most of the resources the company needs in the upcoming period.

F. PATRIMONY STOCK COUNTING

According to the provisions of the Accounting Law, the International Financial Reporting Standards, the Rules on the organization and conduct of assets, liabilities and equity counting, the stock counting was performed in 2017 based on Decision no. 488/06.10.2017 for the annual stock counting of fixed assets and items of inventory, raw materials, consumables, unfinished and finished products, scraps, packaging and merchandise and Decision no. 487/06.10.2017 for the annual inventory of assets, suppliers and creditors.

The results of the annual stock counting were recorded in the Annual Stock Counting Minutes of TURBOMECANICA SA, registered under no. 42/31.01.2018.

The cash and cash equivalents at banks as at December 31, 2017 were traced to the accounting documents and cash and cash equivalents in foreign currency were measured at the valid exchange rate of the NBR.

G. ORGANISATION OF CASH EQUIVALENT MANAGEMENT, ANALYTICAL AND SYNTHETIC ACCOUNTING

The management of cash equivalent is organized by the nature thereof by categories and storage or utilization places as follows:

- fixed assets are organized in terms of quantity and value
- raw materials, items of inventory, consumables are organized in warehouses in the company by quantity and value

Cash equivalent is accounted using the permanent inventory and control is exercised in accordance with MoPFO no. 2861/2009.

H. QUALITY

In 2017, the following actions were conducted in the field of **quality assurance**:

1. To align to the reference standard requirements, the requirements of the regulatory authorities and to implement the organizational changes applied this year at TMB, the structural entities of TMB made changes to the following documents of the Quality/Environmental Management System

In 2017, 161 regulations were prepared/revised as follows:

- ◆ 39 General Procedures including Independent Annexes
- ◆ 32 Company Standards including Independent Annexes
- ◆ 71 Working Instructions including Independent Annexes
- ◆ 7 Regulations including Independent Annexes (detailed below)
- ◆ 6 Quality Plans (detailed below)
- ◆ 2 Policies (detailed below)
- ◆ 2 Manuals (detailed below)
- ◆ 1 Memorandum (detailed below)
- ◆ 1 Strategy (detailed below)
- ◆ The following regulations were revised: RI-TMB Internal Regulations, R SO-01 the Internal Program and Compliance Regulation – Policies and Procedures on Exports, Imports and other Operations involving Military Products and double-use products, R RU-01 the Regulation on the Personnel's Access to and Monitoring in TMB, R EC-01 Regulation on the annual stock-count of assets, R-CA-TMB Regulation of the Board of Directors, R-AU-TMB Regulation of the Audit Committee; ROF-TMB Regulation for the Organization and Operation of TMB;
- ◆ prepared 4 System Quality Plans including Product Quality Plans to comply with the contractual provisions of client Ministry of National Defense, regarding the manufacturing/repair of aerospace products produced by TMB, in accordance with the specific provisions of standards NATO, AQAP 2120 and AQAP 2105 in accordance with the requirements of the commercial relationship with such client (PQ S-0025, PQ S-0026, PQ S-0027, PQ S-0028);
- ◆ revised 2 Quality Plans given the changes occurred in the business relationship with customers LEONARDO HELICOPTERS (PQ S-0002) and PZL SWIDNIK (PQ S-0020);
- ◆ 2 policies were revised: TMB Salary Policy and the Security Policy on Personal Data Processing;
- ◆ The Quality Manual TMB (MQ-TMB) was revised and a new manual was drawn up, the Manual of the Operational Radioprotection System in Laboratory CND-RX (MSRO-RX);
- ◆ Revised the TMB Memorandum of Presentation of Production Organization, required for TMB to obtain the authorization of the Romanian Civil Aeronautical Authority for the manufacturing of products for program Leonardo Helicopters, given the changes occurred in the contractual relationship with this customer;
- ◆ Designed the S-RU-01 Human Resources Strategy.

In 2017, the Quality System and Organization Department acted towards constantly improving the organization and design of the Quality Management System.

2. To prove compliance with its clients' requirements, TMB submitted itself to, and obtained qualification further to second party audits conducted thereby, as presented below:

In April 2017, **Honda Aero Inc. (USA)** conducted an audit to evaluate the quality management system of TMB and the product manufacturing system in accordance with the provisions of client specification **SRM "Supplier Requirements Manual"**. Further to the audit, Honda Aero Inc. maintained TMB as supplier previously approved by **General Electric Aviation**.

In September 2017, **IAR SA Brasov** conducted an audit at **TMB** to evaluate the quality management system of **TMB** according to **ISO 9001:2008 and EN 9100:2009** standards. Further to the audit, **IAR SA Brasov** prepared **Audit Report no. 350 of 25.09.2017** and did not find any inconsistencies. **IAR SA Brasov** maintains **TMB** as previously approved supplier.

3. To prove compliance with its clients' requirements, TMB submitted itself to, and obtained qualification further to third party audits conducted thereby, as presented below:

In October 2017, the Romanian Civil Aeronautical Authority (AACR) conducted a scheduled audit at TMB to supervise on an ongoing basis the production organization of Turbomecanica S.A. in accordance with the provisions of EU Regulation no. 748/2012, Part 21, Section A, Subpart G. Further to the audit, AACR prepared Investigation Report no. **RTI-TMB-2017-MSG-NP/1&MMG-NP/2&SCG-P/1&P/2 of 31.10.2017** and found 5 inconsistencies of level 2 (minor) and 5 inconsistencies of level 3 (recommendation), through Non-compliance/recommendation reports TMB-043, TMB-044, TMB-045 **TMB-046, TMB-047, TMB-048, TMB-049, TMB-050, TMB-051 and TMB-052** attached to the Investigation Report mentioned above. TMB conducted an analysis to identify the causes of the inconsistencies, to determine the proper correction/prevention measures to remove such inconsistencies, which were accepted by AACR. For the level 2 inconsistencies found, 11 corrections and correction measure were set (all completed). AACR maintains TMB as authorized production organization.

In October 2017, **AEROQ** conducted a scheduled audit at TMB to supervise TMB's quality and environmental management systems, while recertifying TMB's quality and environmental management systems according to **ISO 9001:2015 and ISO 14001:2015** standards.

Further to the audit, AEROQ prepared **Audit Report no. 3362 of 31.10.2017** and did not find any inconsistencies. **AEROQ** granted the new certifications for TMB's quality and environmental management systems valid until **09.11.2020**.

In December 2017, **TUV Nord Cert** conducted a scheduled audit at TMB to supervise TMB's quality management system, while recertifying TMB's quality management system according to **ISO 9001:2015 and AS/EN 9100:2016**. Further to the audit, **TUV Nord Cert** prepared **Audit Report no. 35210567 of 14.12.2017** and did not find any inconsistencies. **TUV Nord Cert** will issue the new certifications for TMB's quality management system.

4. To guarantee the TMB management, clients and certification bodies that the company properly implements the requirements of the quality management/environmental management system and keeps them efficient and effective, in 2017, the Department of Quality and Organization conducted internal/external audits as follows:

The Company has implemented procedures for each business activity. The Company periodically checks the compliance with such procedures. Each employee has well-established duties and responsibilities, and is periodically evaluated. The Company is aware of the risk of depending on the IT data, for which reason it has implemented procedures to periodically check the system data against paper documents. Each employee has access rights to the IT system specific to their position, rights that are revised periodically by the IT department and the management.

4.1 Internal system audits

The internal audits on the quality management system were conducted in accordance with Audit Plan PA-TMB 2017, 1st and then 2nd Edition, approved by the CEO.

In 2017, 51 SMQ audits were conducted that found 8 inconsistencies for which the company established 10 correction measures, which were 90% completed (one of which is pending for 2018).

The internal audits on the environmental management system were conducted in accordance with Audit Plan PA-TMB 2017 1st and then 2nd edition, approved by the CEO.

In 2017, 1 SMM audit was conducted that found 1 inconsistency for which the company established 1 correction measure, which was 100% completed.

4.2. Internal product audits

The internal product audits were conducted in accordance with Audit Plan PA-TMB 2017, 1st and then 2nd Edition, approved by the CEO.

In 2017, 8 product audits were conducted that found 3 inconsistencies for which the company established 7 correction measures, which were 100% completed.

4.3. Internal process audits

The internal process audits were conducted in accordance with Audit Plan PA-TMB 2017 1st and then 2nd edition, approved by the CEO.

In 2017, 19 process audits were conducted that found 2 inconsistencies for which the company established 3 correction measures, which were 100% completed.

4.4. External audits at suppliers

The external audits at supplies were conducted in accordance with Audit Plan PA-TMB 2017 1st and then 2nd edition, approved by the CEO as follows:

In November 2017, TMB representatives (within DCO and CCU) conducted an audit at IAR SA Brasov to evaluate the quality management system installed at such supplier according to **ISO 9001:2008 and EN 9100:2009** standards. Further to the audit, the TMB audit team prepared Audit Report no. A4F of 07.12.2017, which found no inconsistencies, but made 4 comments (improvements recommendations) for the activities that fall under the scope of the collaboration with **IAR SA Brasov**.

5. To ensure the monitoring of the performance of TMB's processes with a view to increasing customer satisfaction as regards the quality of the products/services delivered and increase the attractiveness of such products/processes on the aeronautical market, the following actions were conducted in 2017:

5.1 Under the general procedure PG SMQ-05 "Management analysis", the key process indicators are set, which are required to reach the strategic and quality objectives and which influence the customer satisfaction level. Such indicators in 2017 are:

- Indicator I1 (compliance of delivery terms) is increasing, is consistent with the planned of minimum 97%, having an aggregate value of 99.26%. This means that TMB observes the production program and the failures are very low;
- Indicator I2 (compliance of quantities requested by TMB customers for delivery) is increasing, is slightly below the planned objective of minimum 97%, having an aggregate value of 96.65%. This means that TMB takes efforts to observe the sales program and failures are dropping;
- Indicator I3 (non-compliance of the requirements of the technical execution documentation – non-compliance and scraps) is decreasing, falls under the objective set (maximum 0.75%), having an aggregate value way below such objective, namely 0.18%. This means that TMB complies with the requirements of the documentation and deviations are few;
- Indicator I4 (non-compliance of products/services delivered – customer complaints) is decreasing, meets the objective set (maximum 1.0% and has an aggregate value of 0.53%). This means that TMB ensures the conformity of products/services delivered and complaints are few;
- Indicator I5 (non-quality costs), as internal percentage loss, is increasing, meets the objective set (maximum 5%, having an aggregate value of 4.80% of the value of the prior computation of internal orders affected production).

5.2 As regards special processes and the activity of quality laboratories, in 2017 the Company continued its policy of meeting the customers' needs, and increasing the attractiveness of the Company for potential active customers in the aeronautical industry by the following actions:

5.2.1. Accreditation of special processes

The most significant events as regards the growth of the level of attractiveness of TMB in the aeronautical industry remain the accreditations from the NADCAP for the special processes in effect.

In 2017, the following special processes were re-accredited:

In February 2017, **NADCAP** conducted a re-accreditation audit of the non-destructive control processes at TMB according to the AC7114 requirements. Further to the audit, 4 minor inconsistencies were found, (corrected during the audit) **and 1 major inconsistency** for which the proper corrections/correction actions were set and completed. Therefore, **TMB's non-destructive control processes were re-accredited for 18 months (Merit Program)** (certificate expiry: **31 October 2018**).

In April 2017, **NADCAP** conducted a re-accreditation audit at **TMB** of the heat treatment processes installed at **TMB** according to the requirements of **AC7102**. Further to the audit, **3 minor inconsistencies** were found which the proper corrections/correction actions were set and completed. Therefore, **the heat treatment processes of TMB were re-accredited for 24 months (Merit Program)** (certificate expiry: **31 July 2019**).

In May 2017, **NADCAP** conducted a re-accreditation audit at **TMB** of the **cold-hardening processes** installed at **TMB** according to the requirements of **AC7117**. Further to the audit, **2 minor inconsistencies and 2 major inconsistencies** were found, for which the proper corrections/correction actions were set and completed. Therefore, **the cold-hardening processes of TMB were re-accredited for 12 months (Merit Program)** (certificate expiry: **31 October 2018**).

In July 2017, **NADCAP** conducted a re-accreditation audit at **TMB** of the **chemical processing processes** installed at **TMB** according to the requirements of **AC7108**. Further to the audit, **1 minor inconsistency** was found, for which the proper corrections/correction actions were set and completed. Therefore, **the chemical processing processes of TMB were re-accredited for 24 months (Merit Program)** (certificate expiry: **31 October 2019**).

In August 2017, **NADCAP** conducted a re-accreditation audit at **TMB** of the **composite production processes** installed at **TMB** according to the requirements of **AC7118 and AC7122**. Further to the audit, **1 minor inconsistency** was found, for which the proper corrections/correction actions were set and completed. Therefore, **the composite production processes of TMB were re-accredited for 24 months (Merit Program)** (certificate expiry: **31 October 2019**).

5.2.2. Second-party process certifications

5.2.2.1. Leonardo S.p.A. – Helicopters certifications

In January 2017, the Company received the certificates for the special heat treatment processes on benchmarks LH (IT12/194/01 and IT12/196/01).

As of January 2017, **the certification files for the special surface coating processes, which expired in December 2017, were prepared and submitted. Compared to previous years, LH no longer accepted any deviation from its documentation, which generated an extended internal activity of amending and adjusting TMB's documentation as requested by the customer, which delayed the certification of the special surface coating processes.**

During July - December 2017, the Company obtained the certifications for the special chemical processing processes on benchmarks LH (IT13/0146/02, IT13/0156/02, IT13/0158/02 and IT13/161/02).

5.2.2.2. PZL Swidnik certifications

Further to the procedures to certify the processes of special heating treatment and chemical processes applicable to steel 12H2N4AZ and 18H2N4MAZ, for which PZL Swidnik requested separate qualifications in addition to the other Leonardo Helicopters processes, in February 2017, the cadmium plating process was qualified (PL10/0050/00).

In July – December 2017, the Company received no other certifications of the heat treatment and chemical processing processes applicable to PZL Swidnik benchmarks.

5.2.2.3 General Electric certifications

In 2017, all the **special process and laboratory certifications** previously obtained by TMB from **General Electric Aviation** were maintained/extended, because for the processes accredited by NADCAP, certificates GT193 are issued so long as the NADCAP accreditation is maintained.

5.2.2.4. Introducing new benchmarks in production

For client General Electric Power and Water (GE PW) Hungary, 2 FAI files were created, which were approved by CLT.

For client Leonardo Italy (former AgustaWestland), 6 FAI (internal or external) files were created, which were approved by CLT. Through the integration of such benchmarks at TMB, the Company continues the assimilation of the package of benchmarks for the Master Transmission Box for the Leonardo Italy helicopters.

6. Central Laboratory Accreditations

In 2017, **TMB** took part through the **SCPL** Laboratories, in two Round-Robin Inter-laboratory Cross-testing Programs organized by PTP Centeh Exova in France and Dirats Laboratories in the USA to check the performance of mechanical testing, metalography laboratories and physical and chemical testing laboratories (salt fog testing). These programs are undertaken under the patronage of GE, Airbus, Airbus Helicopters, GKN, MTU, Safran and Rolls-Royce and are mandatory for maintaining the NADCAP and GT193 certifications for special processes. All tests have proven that the results fall under performance Classes 1 and 2.

7. Complaints / Notifications

In 2017, **TMB** received **41 complaints** from clients, of which:

- 2 from foreign customers (1 from General Electric Power & Water - Hungary and 1 from Avio Aero); the status thereof is presented in table 7.1 herein below:
- 39 from domestic customers (31 complaints from military units of the Ministry of National Defense and 8 complaints from IAR Brasov); the status thereof is presented in table 7.2 herein below.

Further to the analysis and settlement of **C/N**, the Company established correction measures meant to correct, strengthen or improve process performances.

Status of **C/N** received from external and domestic customers is indicated below:

Total number of C/N :	41
Total number of rejected C/N :	5
Total number of closed C/N :	34
Total number of open C/N :	2

7.1. Complaints/notifications for parts filed by foreign customers

Total C/N:	2	Complaint
Client - benchmark C/N (no. of affected pieces):		
- GE PW (Hungary) – P/N 203D2114P001 (2 pieces)	1	Complaint closed
- Avio Aero – P/N L57354P01 (5 pieces)	1	Complaint closed

7.2 Complaints/notifications for products filed by domestic customers

Total C/N :	39	Complaints
Total C/N per category of products:		
- TURMO engine	4	Complaints
- VIPER engine	6	Complaints
- ventilating level	1	Complaint
- VIPER motor oil pump	1	Complaint
- TURMO engine control block	2	Complaints
- TURMO engine start-up block	7	Complaints
- BRP scavenger	1	Complaint
- BRP rotor	1	Complaint
- TURMO engine overcharge electromagnet	1	Complaint
- CTI intermediary transmission	1	Complaint
- CTS rear transmission	5	Complaints
- CTP main transmission	3	Complaints
- TURMO engine frost protection valve	2	Complaints
- VIPER engine frost protection valve	1	Complaint
- TURMO engine oil pressure transmission	1	Complaint
- TURMO engine starter	1	Complaint
- TURMO engine micro-pump	1	Complaint

As regards domestic customers, the status of C/N is as follows:

Domestic customer	Number of C/N	
Total C/N from domestic customers:	39	Complaints
UM 01836 - Otopeni	6	Complaints
UM 01838 - Bobocu	2	Complaints
UM 02015 - Bacau	9	Complaints
UM 01969 - Campia Turzii	9	Complaints
UM 01945E - Mihail Kogalniceanu	3	Complaints
UM 02040 - Tuzla	2	Complaints
IAR - Brasov	8	Complaints
Total closed C/N :	33	Complaints
Total open C/N :	2	Complaints
Total rejected C/N :	4	Complaints

I. HUMAN RESOURCES

The company management ensured the operation of Production, Technical and Compliance, Quality Assurance, Human Resources, Financial - Accounting, Marketing - Sales.

As at December 31, 2017, **TMB** had a total of **453** employees.

The personnel's average age as at such date was 49.01 years.

Between January and December 2017, 112 employees left the company and 116 were employed.

In 2017, the expenses with employees' benefits totaled:

- salaries:	RON 23,258,485
- meal vouchers:	RON 1,522,805
- gift vouchers:	RON 687,080
- social security:	RON 5,716,046

The recruitment costs incurred were approximately RON 6,503.

The company's personnel policy regarding the vocational training of its personnel was well implemented as regards internal trainings, and the budget allocated to external trainings was increased. Trainings were delivered in accordance with the plan approved for 2017.

According to it, the company invested approximately RON 66,504 in improving the competences and certifications outside the company.

Improvement and certification courses were delivered in the company, which totaled approximately 2,176 hours for 358 employees.

During the period under review, only 32 employees attended educational courses and various courses, qualifications/poly-qualifications totaling 12,746 hours.

Personnel expenses totaled 30.96% of the turnover obtained in 2017.

48% of the company employees are trade union members.

Regarding the training and qualification of the personnel, the situation is as follows:

- 27.05% employees with higher education – 122 employees, of which:
 - Post-university studies: 2 EMBA employees
- 43.90% of employees with secondary and post-secondary studies - 198 employees
- 23.50% of employees with vocational studies - 106 employees
- 5.54% of employees with primary studies - 25 employees

The relationship between the management and employees is regulated under the Collective Labor Agreement for 2016-2017. The social and professional environment is permanently monitored, through a communication system between social partners, which prevents conflicts, which were non-existent in 2017.

J. Assessment of occupational health and safety

Occupational health and safety at **TMB** represent a priority in the Company's policy.

The entire activity of the Company is based on the principle of improving on an ongoing basis the productions conditions, which directly affect the increase of occupational health and safety.

The Company monitors on a permanent basis, both through the occupational health and safety specialist and the operating management of each department, the conditions to conduct the production activity observing the safety conditions for all employees.

In 2017, the Company continued the investment started in 2016 for improving the working conditions.

The Installations and Trials Workshop was completely revamped.

The inside of the warehouse was re-organized, and the working conditions and production flows were streamlined.

The space for the dismantling, sorting and remounting Turmo and Viper engines was enlarged and a fully-modernized space intended for the dismantling, sorting and remounting of hydraulic, electric and oil aggregates was developed.

The sanitary facilities suffered major renovations and lockers for men and women and a lunch area equipped with refrigerators and appliances for heating food were installed.

Another workshop in which the Company invested in 2017 is the Special Processes Workshop.

The Company continued to revamp the special processes lines, and improve working conditions, by completing the program for the modernization of ventilation and exhaust installations that would ensure enhanced protection both for employees, and the environment. The room of the fans was insulated against water infiltration and the outer fan for exhaust and dispersion of emissions.

For this workshop also, the Company revamped the sanitary facilities, showers both for men and women and the lockers.

The investment program for 2017 also included the full modernization of the space intended for plasma jet delivery in the Mechanical Processing Workshop. In this workshop the Company fully revamped the sanitary facilities both in the gear workshop and the general work-out workshop. It also fully revamped the locker and sanitary facility in the pressing-welding area and a sanitary facility equipped with showers was built in the gear area also.

The Company also undertook the process of improving the conditions for locker rooms and eating areas, both by modernizing the existing ones and installing refrigerators and food heating equipment, and by building other areas to be used as locker rooms and eating areas for all the employees of the General Services Workshop and those of the Mechanical Processing Workshop and the Special Processes Workshop. A new locker was built, equipped with showers and lunch area for women in the production support departments (ATD, SCPL).

In order to improve the sanitary conditions of the staff of TMB, all sanitary facilities were equipped with hand-washing foam dispensers, and new equipment for toilet paper, disposable paper for toilet seat covers and paper towels.

All old access doors in the production workshops were replaced with thermally insulated doors to increase the energy efficiency of the buildings. Lighting was modernised in all of the Company's workshops.

Under the labor protection and security program for 2017, the company carried out all the activities required to comply with Law no. 319/2006 on Occupational Safety and Health and the application rules thereof, as well as the other acts of legislation in the field, by taking the following measures:

- assessed the risks for occupational safety and health in all the working locations;
- based on the risk assessment, it took preventive measures to ensure the improvement of the level of safety and health protection of its workers;
- it filled in at all times the occupational safety and health materials, according to the current legislation, which are used in delivering the periodical occupational safety and health trainings to TMB employees and it established the measures required to operate the technological processes under safe conditions;
- it continued to purchase working equipment for all TMB employees, both the existing ones and the newly-employed,
- it provided cleaning and sanitary materials (protection creams, etc.) in compliance with the provisions of the Internal Regulations;
- it purchased on a regular basis emergency eye cleaning solutions for the personnel working in the Galvanizing, Storing-Packaging and Painting Workshops and safety masks for the personnel working in the Non-destructive Testing Laboratory, the plasma cutting personnel, as well as the personnel in charge of polishing and adjustments
- it continued to purchase new masks according to the latest requirements in the field for welders;

- for personnel whose activity is carried out in a toxic environment, it purchased, on a regular basis, an antidote consisting of powder milk and sparkling water, according to the regulations in force;
- an eye examination was conducted for all of **TMB**'s employees, in order to assess the need to purchase protective spectacles fitted with corrective lenses
- it performed repair works on sanitary groups, locker rooms, washing areas, showers, etc., on all shop floors;
- it extended the permits for the hoisting machines and pressurized installations held by TMB (in accordance with the CNCIR instructions);
- it performed the mandatory annual occupational medicine investigations for employees; the Medical Supervisory Report concluded that the employees examined did not suffer from any professional illness.

In 2017, a single labor accident at **TMB** occurred, in October.

The labor accident is still under investigation at the Bucharest Territorial Labor Inspectorate.

K. NUCLEAR PROTECTION

In **2017**, as regards nuclear protection, applications and files were sent to the **CNCAN** to obtain the permits for

- **holding Viper parts out of MSRR 8014 material**, valid until 17.01.2018, for which the file was checked and accepted by CNCAN, and the new permit will be valid for another 2 years;
- **holding the radiation generator**, kept by the CND-RX laboratory, the validity of which was extended until October 2019
- **use / operation of CND RX laboratory**, which expired on 18.12.2017, and for which the Company obtained and submitted to CNCAN a Sanitary Permit issued by the Public Health Authority – Nuclear Radiation Laboratory. The files were checked and accepted by the CNCAN, and the permit will be valid for another 5 years.

L. ENVIRONMENTAL PROTECTION

1. Integrated Environmental Permit and Water Management Permit

TMB submitted the documentation to renew the Water Management permit within the legal term required by the regulatory authorities:

- **Standard Form – order for issuance of water management regulatory deed no. 12521/28.11.2017**

To fully comply with the provisions in the environmental integrated permit, the Company has laid down objectives and actions, included in the Environmental Management System Program of TMB and the 2017 Investment Plan, most of which have been met and those unsettled were included in the Environmental Management System Program of TMB and the 2018.

The Integrated Environmental Permit and the Water Management Permit allow the legal operation of facilities, equipment and processes existing at TURBOMECANICA SA.

In 2017, no environmental incidents occurred, or cases of pollution of used water or air above the maximum values admitted by the legislation in force.

Further to the controls of the **National Environmental Guard** concluded in 2017 by Minutes:

- no. 100/03.05.2016, two aspects were notified: the hazardous waste found in the dedicated warehouse will be handed over for disposal to companies legally authorized to dispose the waste in safe conditions for the environment and the population and the company undertakes to notify the Bucharest Environmental Protection Agency regarding the maximum allowed values of used water discharged in the city sewage for indicator CCO-Cr. Such deficiencies were solved, and their settlement was reported to the regulatory and control authorities.
- no. 102/22.06.2017 the following was notified: compliance with the conditions and limitations of **REACH** Regulation no. 1907/2008 on an ongoing basis, the company must perform a set of night-time sound measurements at an accredited laboratory, of all sound sources from the two operational workshops and to present the result thereof to the National Environmental Guard – Bucharest CMB. The measure was solved within the term imposed by the authorities and notified to them.
- no. 104/07.09.2017 the following was notified: each transport of hazardous waste larger than 1 ton/year from the same category of hazardous waste must be accompanied by the Hazardous Waste Delivery Form and the Form for approval of transport of hazardous waste on an ongoing basis.

The control conducted the National Administration Romanian Waters concluded by Minutes no. 99/16.03.2017 ordered the following mandatory measures: revision of the Prevention and Fight against Accidental Pollution Plan. The measure was solved and notified to the authorities.

The control conducted by the **Local Police - General Directorate of Local Police and Supervision, Ecology and Environmental Protection Department** concluded by Minutes no. 6136/11.07.2017 ordered the insulation of the heating area of the exhaust towers, equipping the existing metal doors with insulating panels. Measure solved.

2. Certification of Environment Management System

Further to the audit for recertification of the management system of 26.10.2017, **TURBOMECANICA SA** was audited by **AEROQ SA**, for recertification of the Environmental Management System in accordance with the requirements of SR EN ISO 14001:2015 – Environmental Management System. Further to such audit, **TURBOMECANICA SA** no inconsistency was found, only 1 observation and 1 recommendation were made.

3. Personnel trainings

In 2017, in accordance with the provisions of **TMB Periodic Personnel Training Plan**, by specific trainings and certifications courses, the Company secured and maintained the necessary competences of the 116 operators, inspectors and lab assistants for special processes and laboratories, conducting 33 specific trainings.

M. MARKETING

For foreign market, the sales of TMB continued in 2017 to be represented mainly by components and subparts for aircraft engines, and gas turbines, programs which grew compared to the previous years due to the company's commercial policy and marketing strategy.

The company's sales activity focused on strategic objectives which aimed at:

- reaffirming the company's image domestically and internationally and, on the other hand
- regaining its market stability,
- making known to potential business partners the company's capabilities and getting in touch with large airline and industry corporations (especially in the field of "ENERGY – components for gas turbines").

In support of the above, in 2017, TMB participated with its own stand in a series of national and international events of the aerospace industry, among which:

- the 52nd edition of **PARIS AIR SHOW-Le Bourget** took place during 19 - 25 June 2017, which was attended by 2,380 participants from 47 countries; TURBOMECANICA representatives had the opportunity to meet Secretary of State in the Ministry of National Defense and head of Arms Departments Mr. Florin Lazar Vladica and to receive in its stand the visit of the delegation of the Ministry of National Defense – Joint Chiefs of Staff and the delegation of the Joint Chiefs of Staff of the Romanian Air Forces.

The event, which was widely covered by *HOT NEWS* and *TVR 1 News*, was marked by the signing on 20.06.2017, in the presence of many honorable guests, of the Memorandum of Understanding with SAFRAN HELICOPTER ENGINES on the collaboration in program Maintenance, Repair & Overhaul (MRO) for the Makila 1A1 engine (which fits the *AIRBUS H215* helicopter that will be manufactured in Brasov).

TURBOMECANICA had a series of other business-to-business meetings with business partners and potential clients/suppliers, such as: GIFAS – FRENCH GROUP OF AIRSPACE INDUSTRY, ELBIT SYSTEMS Israel, in order to promote the company's values and capabilities, consolidate the grounds of the current international collaborations and identify the new business opportunities.

- Domestically, TURBOMECANICA attended during 04 – 06 April 2017 the **CNC Technologies** International Conference and Exhibition, 11th edition, organized by the Polytechnics University in Bucharest, on which occasion Engineer Florian Bunea with TMB presented the paper "Risk analysis, solution to mitigate production costs in the aeronautical industry". The event was attended by prestigious companies, users and suppliers of industrial machinery and robots, university professors, teachers from technically vocational high schools, researchers and specialists of research institutes, students passionate about such technologies and equipment. The speech was preceded by the presentation of DCO / HR: "Turbomecanica – top employer", where the company built concrete opportunities to hire and train young higher education graduates in the field.
- 24 – 26 October 2017 the 12th edition of the international aerospace supply fair **AIRTEC 2017** took place in **München, Germany**.

Over the 3 days of the exhibition, the TURBOMECANICA team held a series of B2B meetings both with its current business partners, and potential clients/suppliers, such as: ROLLS ROYCE Deutschland Ltd.&Co KG, SIEMENS AG Deutschland, MITSUBISHI HEAVY INDUSTRIES EUROPE Ltd., MECAPOLE Franta, XRIS X-RAY IMAGING SOLUTIONS Belgium, HEMPEL SPECIAL METALS Ltd. UK, DUTCH THERMOPLASTIC COMPONENTS BV The Netherlands, SIGMA PRECISION COMPONENTS UK, OGMA – The Aerospace Industry of Portugal, other companies.

We consider that the presence of TURBOMECANICA in AIRTEC_2017 was a real opportunity which was successfully capitalized, to **reaffirm, resume based on new principles and develop historical partnerships with globally renowned companies.**

The results were soon noticeable:

- **TMB** further maintained, with responsibility and dedication, the national flying capabilities for PUMA IAR-330 helicopters and IAR 99/ SOIM test planes owned by the Ministry of National Defence (**SMFA, SMFN**) and the **National Intelligence Office** (total turnover – domestic aviation: EUR 17,735,055.74).
- TMB managed to maintain in 2017 a high place in the supply chain of world-wide renowned producers of engines and mechanical aviation parts (LEONARDO HELICOPTERS Italy – 2017 turnover: EUR 545,682.79), especially in the ENERGY field: GE Power & Water–Hungary and China (2017 turnover: EUR 3,453,391.40) along with other historical partners (PZL SWIDNIK Poland, HONDA AERO SUA, AVIALL USA, AVIO ITALY, UNISON POLAND and others).
- In addition to the partners mentioned, already historical, the Company developed programs by attracting new clients: **GE AVIATION CZECH REPUBLIC, KAWASACHI HEAVY INDUSTRIES JAPAN** (collaboration by SHINTOA UK), **MB AEROSPACE POLAND**, and laid the foundation for new business relations with companies such as AIRBUS Helicopters France, **SAFRAN FRANCE, SIEMENS UK, SIEMENS CANADA, AUBERT & DUVAL France** and others alike.

This is a free translation from the original Romanian version.

It is important to notice that the Company has successfully maintained its permit granted in 2014 by the Romanian Civil Aeronautical Authority for the production of products/components/equipment to fit out AW109 and AW119 helicopters – LEONARDO Helicopters (AGUSTA WESTLAND) ITALY (according to Certificate no. RO.21G.0008/02.12.2014).

Based on such permit, TMB continued in 2017 to deliver full subsets for rear transmission for helicopters (production, mounting, trial) and will continue to develop cooperation programs with FINMECCANICA ITALIA in 2018, too.

On the domestic market, for aeronautical products, TMB is the only manufacturer and repairer in Romania of gas turbine engines for aircraft and mechanical assemblies for helicopters, its main clients being the Ministry of National Defense (S.M.F.A., S.M.F.N.), the PUMA helicopter producers S.C. IAR S.A. Braşov with which we collaborated in various aviation programs (revamping of PUMA-SOCAT and PUMA-NAVAL, SRI, OMAN, INDONESIA helicopters, and other collaborations).

Given the circumstances, where conflict is still present on the international political scene, in 2018 the domestic market still represents an opportunity to consolidate the company's turnover, by continuing the equipment programs of the Ministry of National Defense both in terms of maintaining the existing fighting technique at optimum parameters and in particular by continuing the upgrading of helicopters with SOCAT systems throughout 2018 – 2019 (3 more helicopters) and the research-saving program which includes the revamping of 6 UN helicopters during 2018-2019, as well as the maintenance programs for the IAR 99 SOIM aircraft fleet (by bringing a considerable number of VIPER 632-41M engines equipping such aircraft to the optimum operation parameters).

TMB's major strategic objective continues to be in 2018 the identification of new clients for the processing processes which may secure in 2019 at least 25% of turnover. Therefore, we are focusing on efficiently loading the production capacity in the field of mechanical processing along with maintaining flexibility in meeting the specific needs of each customer (such as *just in time* deliveries, accepting the reasonable variation of customers' needs, the existence of a reasonable back-up stock of finished products, etc.).

Correlated with the policy of expanding its production of parts across the global market, a policy applied by the big companies, this strategy of the company aims at increasing the efficiency of production.

In addition to the matters presented, TMB envisages for 2018 a marketing policy oriented towards TMB's strategic objectives mentioned above, including in the marketing budget for this year the Company's participation in many international promotional events (fairs/exhibitions), when the Company will present on the domestic and foreign market its capabilities, the programs that we wish to develop in the future, hoping that these activities will be followed by requests for offer and will take the shape of businesses beneficial for the Company both in 2017 and in the future.

Some of these events are:

- **AEROSPACE MEETINGS ROMANIA**, 13-15.02.2018;
- **ILA BERLIN**, 25-29.04.2018 – with the participation of 37 countries, more than 1,000 participants and more than 150,000 visitors;
- **Black Sea Defence and Aerospace**, 16 - 18 May 2018 in Bucharest, organized with the support of the Government of Romania by the Ministry of National Defense, Ministry of Internal Affairs, Ministry of Economy, Ministry of Foreign Affairs - ANCEX, Ministry of Justice - ANP and the National Intelligence Office, hosting more than 250 companies in the defense industries, security and aerospace. TURBOMECANICA will attend this event under the umbrella of the newly established association A.R.I.E., along with AIRBUS Helicopters Romania, IAR Brasov, AEROTEH, AEROFINA, INCDT COMOTI.

Some of the largest national and international companies in the field will attend this 7th edition: Lockheed Martin Company, Elbit Systems, Naval Group, Thyssenkrupp Marine Systems, Bell Helicopter, Rafael Advanced Systems, Airbus Helicopter, as well as Romanian companies in the field: Aerostar SA, Romaero SA, Romarm SA, etc.

- **FARNBOROUGH INTERNATIONAL AIRSHOW 2018**, 16 - 22.07.2018, UK;
- **AIRTEC 2018, Germany**, 13th edition, 23-25 October 2018.

This is a free translation from the original Romanian version.

These national and international events are the best opportunity to promote our company both in Romania and also for foreign delegations that will attend or visit the exhibitions, as well as an ideal platform to get into touch with large aerospace and industry companies in order to initiate business partnerships.

N. CORPORATE GOVERNANCE

In 2017, the Company took great care to implement the corporate governance principles in the Company's organisation and management of activity. In this sense, two elements are extremely important for TMB when it comes to corporate governance: increasing the confidence of investors, business partners, clients and employees in the management and control bodies of the company, as well as maintaining the economic situation of the Company at a high level, which also implies increasing the Company's value. The adoption of good practices and corporate governance policies in accordance with the regulations and instructions issued by the Bucharest Stock Exchange is one of the strong grounds for a solid development of the Company in the upcoming period.

Compliance with the provisions of the Corporate Governance Code of the Bucharest Stock Exchange

The company's board of administration has adopted the Corporate Governance Regulation (CGR) of TMB, in compliance with Recommendation 3 of the Corporate Governance Code of the Bucharest Stock Exchange (CGC). The CGR includes the structures, responsibilities and practices provided in the CGC, which arise from the constitutive acts of TMB supplemented by the legislative provisions in force and the recommendations in the CGC.

The Corporate Governance Regulation is available on the website of TMB www.turbomecanica.ro. The implementation by TMB of the principles and recommendations of the CGC are reported in the Annex on the status of compliance with the Corporate Governance Code of the Bucharest Stock Exchange, which will be communicated to the BSE along with the 2017 Annual Report and posted on the Company's website, www.turbomecanica.ro.

As at the date of the 2017 Annual Report (31 December 2017), TMB complies with the Corporate Governance Code, except for the aspects detailed below, which are close to implementation, for which the Company took measures in 2017 and the implementation of which will be complete in 2018.

The Corporate Governance Code of the Bucharest Stock Exchange, which are close to implementation, are as follows:

A.8 The Statement on Corporate Governance must contain information on the evaluation of the Board lead by the President or the Appointment Committee, will summarize the key measures and the resulting changes. The Company must have a policy/guideline regarding the evaluation of the Board, which includes the purpose, criteria and frequency of the evaluation process.

The Board of Administration adopted in its internal regulations the principles to evaluate its activity, but the evaluation guide will be completed and implemented in 2018.

B.10 The Board must have a policy that would make sure that any of the Company's transactions with any of the related companies whose value is equal to or higher than 5% of the Company's net assets (according to the last financial report) is approved by the Council based on a mandatory opinion of the Board's Audit Committee and disclosed properly to shareholders and potential investors, to the extent such transactions fall under the category of events subject to reporting requirements.

This item is not applicable to TMB because the Company does not have close relations with other companies holding 5% or more of TMB's net assets.

C.1 The Company must publish on its website the remuneration policy and must include in the Annual Report a statement on the remuneration policy during the annual period under review. The remuneration policy of administrators and the CEO is provided in the Regulation of the Board of Administration and the Administration Contract.

D.3 The Company will adopt a policy on forecasts, regardless whether they are made public or not. The requirement will be implemented in the upcoming period through a policy prepared in relation to the forecasts.

Corporate governance structures and Membership of the BoA

TMB is a company operating in accordance with Company Law no. 31/1990, amended and supplemented. The company was included in the initial public offering initiated by the Government of Romania in 1995 as "Mass Privatization Program". Under this program, the Company has fulfilled the conditions to be listed on the regulated market Bucharest Stock Exchange (BSE), where it was listed on 07.10.1998.

As issuer, the Company complies with the provisions of Law no. 24/2017 on the capital market, and of the specific regulations issued by the National Securities Commission (NSC) based on such law.

TMB is managed under a monistic system by a Board of Administration (BoA), formed of 5 members elected by the general meeting of shareholders of 25.04.2016 for a 4-year term, with possibility of re-election.

Administrators in office as at December 31, 2017

Name	Position	Year of first election	Expiry of current mandate
Radu Viehmann	Chairman, CEO	2000	2020
Dana Maria Ciorapciu	Non-executive Administrator	2006	2020
Radu Ovidiu Sarbu	Independent Non-executive Administrator	2016	2020
Grigore Florescu	Non-executive Administrator	2006	2020
Henriette Spinka	Non-executive Administrator	2008	2020

The BoA members have adopted the CGC of the BSE voluntarily, have approved the CGR, which is available in the Romanian language on the company's website www.turbomecanica.ro and report to the BSE the level of compliance with Corporate Governance Code of the Bucharest Stock Exchange. TMB has taken and will take all professional, legal and administrative measures required to align to the Corporate Governance Code of the Bucharest Stock Exchange and present such results in a transparent manner.

The powers and responsibilities of the BoA are provided in the CGR and the Regulation of the Board of Administration. The chairman of the BoA is also the Company's CEO.

The BoA formed three working committees as follows: audit committee, nomination committee and remuneration committee. Most of such committees include the BoA's non-executive members.

The administrators' professional training and experience is presented in the CVs which are available on the Company's website www.turbomecanica.ro.

The administrators' participation in the share capital of TMB as at December 31, 2017

Name	Position	No. of shares	% of share capital
Radu Viehmann	Chairman, CEO	95,758,800	25.9198
Dana Maria Ciorapciu	Non-executive Administrator	56,003,876	15.1590
Radu Ovidiu Sarbu	Independent Non-executive Administrator	0	0
Grigore Florescu	Non-executive Administrator	0	0
Henriette Spinka	Independent Non-executive Administrator	600,000	0.16

In 2017, the BoA convened in 14 meetings, at least two meetings per quarter, which were attended by 4 to 5 of its members – and adopted decisions which enable it to fulfil its duties efficiently and effectively. Therefore, in its meetings, the BoA has analyzed the financial results obtained during the reporting period and cumulated from the beginning of the year, as well as its economic performance by reference to the budget and the similar period of the previous year. The administrators' remuneration policy applied until present is based on the national legislation in force. The administrators concluded mandate contracts, setting a fixed remuneration. The template contract may be accessed on the Company's webpage www.turbomecanica.ro.

There is no variable remuneration component or other forms of reward for administrators. In order to remunerate the executive management based on efficiency and performance, a Remuneration Committee was created within the Board of Administration.

Shareholders' rights

TMB offers a fair treatment to all shareholders, including minority and foreign shareholders, in accordance with the legal provisions and the Company's Constitutive Act.

As at December 31, 2017, TMB had 5,804 shareholders, according to the data reported by Depozitarul Central S.A. Bucharest, the company that keeps the shareholders' registry.

TMB respects its shareholders' rights, providing them with relevant and updated information so that they may exercise their rights in a fair manner. The Company uses its best efforts to achieve an effective and proactive communication with its shareholders and to facilitate the shareholders' participation in the works of the general meetings of shareholders (GMS), and to exercise their full rights. The shareholders' participation in the works of the GMS is fully encouraged, shareholders that cannot attend may exercise their vote *in absentia*, based on a special power of attorney and by correspondence voting. Dialogue is encouraged in the GMS between shareholders and BoA members and the executive management.

TMB has adopted rules regarding the internal circulation and dissemination to third parties of documents and information on the issuer, focusing on information that may influence the market evolution of securities issued by it, which forms the object of current reports or market releases, making them readily available to investors on the web page of the Bucharest Stock Exchange and on its own web page, www.turbomecanica.ro.

The Company's web page is a useful platform of communication with shareholders. It contains an investor-dedicated section called Investors, and all the information and releases of interest for shareholders are hosted and available in the *Investors* and *News* section, in Romanian and English languages.

The structure of the organization that refers to the relationship with shareholders and other categories of public interested is the Investor Relations Advisor.

Contact data: address: SC TURBOMECANICA SA, b-dul Iuliu Maniu nr. 244 sector 6 code 061126 Bucharest, Romania, telephone: (+40 21) 434.07.55; (+40)722 200 288.

Transparency, financial reporting, internal control

For TMB, transparency in communication is essential. The fulfillment of the reporting obligations and transparency in communication are modalities to gain the trust of shareholders and stakeholders. TMB seeks to ensure continuous and periodical reporting in an objective and honest manner, which comprises all the important aspects of the company's activity, its financial standing, applied accounting policies, the performance registered.

In 2017, the Company prepared reports and releases regarding the financial results, the GMS calls and resolutions, periodical reporting (monthly, quarterly, biannual, annual), transactions with the stakeholders, etc. The information that were subject to mandatory reporting- current reports and periodical reports - were also posted on the company's web page, www.turbomecanica.ro, in Romanian and English languages.

As regards the financial reporting system for 2017, TMB complied with the accounting regulations, i.e., MoPFO 2844/2016, Accounting Law no. 82/1991 (republished and amended), and MoPFO no. 470/2018 on the main aspects related to the preparation and submission of the annual financial statements and annual accounting reports of economic operators at the territorial units of the Ministry of Public Finance.

In accordance with the legal provisions, the financial and accounting statements and the statements regarding the TMB operations are audited by Deloitte Audit SRL, an independent financial auditor, appointed by the general meeting of shareholders of 14.11.2017 for a period of 4 years.

Conflict of interests and transactions with stakeholders

The Board of Administration has adopted and has identified proper solutions for the cases in which an administrator or an employee has a material interest in its own name or on behalf of third parties in the relationship with TMB.

Each BoA member avoids any direct or indirect conflict of interest with TMB. If a conflict of interest occurs, the administrator at issue must inform the BoA and must abstain from the debates and votes on the matters in question.

In accordance with the provisions of Law no. 24/2017 and NSC Regulation no. 1/2006, initiated persons and persons with access to privileged information on TMB must notify the BSE of any transactions with TMB shares. Notifications are published on the BSE webpage. The Company has also met its obligation to notify initiated persons and keeps record thereof according to the applicable provisions of Law 24/2017.

CEO

Eng. RADU VIEHMANN

Signature_____

Date



TURBOMECHANICA

Bd. Iuliu Maniu Nr. 244 Sector 6 Cod Poștal 061126 București – Romania

Tel.: (+4) 021 434 32 06; (+4) 021 434 07 41 Fax: (+4) 021 434 07 94

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Cod Registrul Comerțului J40/533/1991

Cod Fiscal RO3156315 Cod Unic de Înregistrare 3156315

Capital Social subscris integral vărsat 36.944.247,50 RON

www.turbomecanica.ro; e-mail: office@turbomecanica.ro

No.: 1599 Date:19.03.2018

Re: STATEMENT

I the undersigned, Eng. Radu Viehmann Chairman of the Board of Administration and CEO, hereby take responsibility for the preparation of the accounting reports as at December 31, 2017.

We hereby state that the accounting policies used by TURBOMECHANICA SA to prepared the accounting reports as at December 31, 2017 are in compliance with Accounting Law no. 82/1991 republished, as subsequently amended and supplemented, with MoPFO no. 2844/2016 approving the accounting regulations compliant with International Financial Reporting Standards and MoPFO no. 470/2018 "Preparation and submission of annual financial statements as at December 31, 2017", on the main aspects related to the preparation and submission of the annual financial statements and annual accounting reports of economic operators with the territorial units of the Ministry of Public Finance, and the modification and supplementation of accounting regulations.

We hereby confirm that in 2017 there were no cases of breaches or potential breaches of non-compliance with laws or regulations, which might substantially affect the accounting reports.

We hereby state that the accounting reports as at December 31, 2017 of TURBOMECHANICA SA give a fair view of the financial position, financial performance and the other information related to the activity carried out between January 1, 2017 and December 31, 2017.

We hereby state that TURBOMECHANICA SA carries out its activity on a going concern basis, does not intend and does not need to liquidate or significantly reduce the amount of its activity from:

- loss of important customers,
- application of a restructuring plan,
- overdue payments,
- breach of scheduling agreements,
- liquidity issues, court actions as defendant or claimant against shareholders, debtors, significant creditors, State authorities, claims,
- sector, market risk,
- other factors.

We hereby declare that the management is not aware of any material uncertainties related to events or circumstances that might raise significant doubts on the Company's ability to operate on a going concern basis.

**CEO,
Eng. VIEHMANN RADU**

**ECONOMIC-COMMERCIAL MANAGER,
Ec. ION DINCA**