



## **TURBOMECANICA**

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### **ANNUAL REPORT OF THE BOARD OF ADMINISTRATION OF TMB FOR 2016 ACCORDING TO NSC REGULATION NO.1/2006**

SC TURBOMECANICA 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 2016, 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 S.A. 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 2016 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	2016	2015
Revenues	83,030,250	69,141,032
Other revenues and (losses)	(1,529,345)	(14,985,665)
Variation of stocks	652,921	2,529,251
Revenues from production of fixed assets	336,608	-
Raw materials	(31,302,180)	(15,864,137)
Expenses with employees' benefits	(26,083,371)	(22,301,787)
Expenses with depreciation of assets	(5,799,848)	(5,445,365)
Net financial expenses	(131,569)	(3,385,665)
Other operating expenses	(5,743,465)	(6,399,707)
Gains / Loss on sales of assets available for sale	(93,188)	115,948
<b>Profit/ (Loss) before tax</b>	<b>13,336,813</b>	<b>3,403,905</b>
Tax on profit	(2,627,672)	(431,310)
Deferred income tax	163,904	874,664
<b>Profit/ (Loss) for the year</b>	<b>10,873,045</b>	<b>3,847,259</b>
<b>Other comprehensive income, net of tax</b>		
<b>Actuarial (loss) / gain on defined benefits plan</b>	(221,439)	238,668
<b>Total other comprehensive income</b>	(221,439)	238,668
<b>Comprehensive result of the year</b>	<b>10,651,606</b>	<b>4,085,927</b>

**B. STATEMENT OF FINANCIAL POSITION**

NAME	2016	2015
<b>Long-term assets</b>		
Tangible assets	58,036,177	55,047,738
Intangible assets	8,777,087	8,930,542
Other assets	604,960	1,000
<b>Total long-term assets</b>	<b>67,418,225</b>	<b>63,979,280</b>
<b>Current assets</b>		
Stocks	25,039,278	23,951,055
Trade receivables	2,684,621	2,250,180
Other receivables	3,048,543	2,396,696
Cash and cash equivalents	11,501,493	7,118,858
Assets for sale	7,048,889	10,638,705
<b>Total current assets</b>	<b>49,322,823</b>	<b>46,355,494</b>
<b>Total assets</b>	<b>116,741,048</b>	<b>110,334,774</b>
<b>Equity and liabilities</b>		

NAME	2016	2015
<b>Capital and reserves</b>		
Capital issued	1,024,571,055	1,024,571,055
Reserves	80,520,812	80,140,683
Retained earnings	(1,058,231,122)	(1,068,502,598)
Own shares	(562,427)	-
<b>Total equity</b>	<b>46,298,318</b>	<b>36,209,140</b>
<b>Long-term liabilities</b>		
Loans	3,186,319	4,905,781
Deferred tax liabilities	3,698,929	3,862,833
Provisions	1,382,087	968,649
Other long-term liabilities	1,022,968	3,474,291
<b>Total long-term liabilities</b>	<b>9,290,302</b>	<b>13,211,554</b>
<b>Current liabilities</b>		
Trade payables and other payables	7,007,591	4,145,741
Borrowings	41,406,464	44,518,895
Current income tax	1,252,348	431,310
Provisions	2,856,881	2,558,999
Deferred income	160,063	515,658
Other current liabilities	8,469,080	8,743,477
<b>Total current liabilities</b>	<b>61,152,428</b>	<b>60,914,080</b>
<b>Total liabilities</b>	<b>70,442,730</b>	<b>74,125,634</b>
<b>Total equity and liabilities</b>	<b>116,741,048</b>	<b>110,334,774</b>

#### C. TURBOMECHANICA SHARES

NAME	2016	2015
Number of shares	369,442,475	369,442,475
Nominal value per share	0.10	0.10
Book value per share	0.125	0.098
Average price per share	0.059	0.031
Net profit per share	0.03	0.01
Market value per share at the end of the period	0.097	0.034
Stock capitalization	35,762,032	12,561,044

#### D. MACRO-ECONOMIC INDICATORS

NAME	2016	2015
Inflation	-1.5	-0.6
EUR average exchange rate	4.49	4.45
USD average exchange rate	4.06	4.01
GBP average exchange rate	5.5	6.13

#### **E. TURNOVER ON SEGMENTS**

<b>NAME</b>	<b>2016</b>	<b>2015</b>
<b>Turnover, of which:</b>	83,030,250	69,141,032
Benchmarks and aircraft parts	5,492,880	8,787,712
Engine repairs	64,090,520	59,646,134
Others	13,446,850	707,186

The 2016 results prove once again the success of the measures taken given the technical restructuring and relocation of technological flows. The total revenues obtained in 2016 are RON 89,645 thousand. The net turnover represents 93% thereof, namely RON 83,030 thousand.

The investment expenses totaled RON 9,591.7 thousand in 2016, accounting for 11.5% of the turnover.

Exports reached 18.9% of the turnover and are continuing to grow, double than 2015.

The net profit obtained by the Company in relation to the turnover determines a rate of return of 13.1%, 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 17.5%.

The net result obtained in 2016 is substantially growing compared to 2015, namely 2.8 times higher and is real, being included in the cash available as at December 31, 2016. 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 2016 based on Decision no. 439/13.10.2016 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. 438/13.10.2016 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 SC TURBOMECANICA SA, registered under no. 1012/15.02.2017.

The cash and cash equivalents at banks as at December 31, 2016 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 M.O.P.F.O no. 2861/09.10.2009.

## **H. QUALITY**

**I.** In 2016, 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:**

- ◆ prepared/revised 22 General Procedures including Independent Annexes
- ◆ prepared/revised 13 Company Standards including Independent Annexes
- ◆ prepared/revised 27 Working Instructions including Independent Annexes
- ◆ revised the TMB Production Organization Presentation Memoire that TMB required in order to receive the civil authorization from the Romanian Civil Aeronautical Authority, for the manufacturing of products intended for the Leonardo Helicopters program, given the changes occurred in the contractual relationship with such client
- ◆ revised Quality Plan code PQ S-0002 related to the contractual relationship with Leonardo Helicopters given the changes in the commercial relationship with such client
- ◆ they prepared Quality Plan code PQ S-0020 related to the contractual relationship with PZL Swidnik, in accordance with the requirements of the commercial relationship with such client
- ◆ 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
- ◆ prepared/revised the Regulation for the Organization and Operation of TMB, the Internal Program and Compliance Regulation – Policies and Procedures on Exports, Imports and other Operations involving Military Products, the Regulation on the Personnel's Access to and Monitoring in TMB, the Regulation on Video Surveillance, the Regulation on Emergency Situations in TMB and the Regulation on the Annual Stock Count of the Assets
- ◆ revised the TMB Quality Manual and Quality Policy
- ◆ prepared the Non-Destructive X-Ray Testing Manual
- ◆ prepared the Security Policy on Personal Data Processing

In 2016, 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 October 2016**, PZL Swidnik (Poland) conducted an audit to evaluate the quality management system of TMB in accordance with the provisions of client specification QRS01 "Quality Requirements for Suppliers". Further to the audit, PZL Swidnik prepared Audit Report (Activity Report) no. AKD-2016-22/07.11.2016 and found no inconsistencies. Further to the audit, PZL Swidnik accepted TMB as approved supplier, issuing Statement of Approval no. PL/2076/07.11.2016 (unlimited validity).

**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 January 2016**, TÜV Nord Cert conducted at TMB a supervision audit on the quality management system, based on standards EN 9100:2009 and ISO 9001:2008. Further to the audit, TÜV Nord Cert prepared Audit Report no. 35160679 of 25.01.2016 and found no inconsistencies. The results of the audit maintained the certification of TMB's Quality Management System according to Standards EN 9100:2009 and ISO 9001:2008 and maintained Certificates no. 44 100 090174/23.02.2014 (ISO 9001) and no. 44 117 090174/20.02.2014 (EN 9100) (valid until 22.02.2017).

In **April 2016**, the Romanian Civil Aeronautical Authority (AACR) conducted a spontaneous audit at TMB to supervise 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-2016-MMG-NP/4 of 26.04.2016 and found 2 inconsistencies of level 2 (minor) and 2 inconsistencies of level 3 (recommendation), through Non-compliance/recommendation reports TMB-030, 031 TMB-032 and TMB-033 attached to the Investigation Report mentioned above. TMB conducted an analysis to identify the causes of the inconsistencies and determine the corrections, to determine the proper correction/prevention measures, which were accepted by AACR. For level 2 inconsistencies found, 3 correction/preventive measures were set, for level 3 inconsistencies, 2 correction/preventive measures were set.

In accordance with the requirements of POE-TMB "Presentation of TMB Production Organization", all the regulations of the POE-TMB have been sent to AACR, updated as per the results of AACR's audits, the internal audits and changes in the organization and operations of TMB.

**In July 2016**, the Romanian Civil Aeronautical Authority (AACR) conducted a spontaneous audit at TMB to evaluate the implementation of the minor changes notified by Turbomecanica S.A. production organization in accordance with the provisions of EU Regulation no.748/2012, Part 21, Section A, Subpart G. Further to the audit, AACR found that the minor changes notified were duly implemented and made several recommendations.

**In July 2016**, AEROQ conducted an audit at TMB to re-certify the quality management system, using as reference standard ISO 9001:2008. Further to the audit, AEROQ prepared the audit report no. 2591/22.07.2016, AEROQ found no inconsistencies, but indicated some improvement opportunities. The audit team recommended AEROQ to re-certify the quality management system of TMB and re-issue the certificate. Consequently, AEROQ issued Certificate no. 001/27.07.2016 (valid until 21.09.2018).

**In September 2016**, 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-2016-SCG-P/3 of 30.09.2016 and found 3 inconsistencies of level 2 (minor) and 1 inconsistency of level 3 (recommendation), through Non-compliance/recommendation reports TMB-034, TMB-035, TMB-036 and TMB-037 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, 5 corrections and correction/preventive measure were set, for the level 3 inconsistency found, 1 preventive measure was set.

**In November 2016**, TÜV conducted an audit to re-certify the quality management system of TMB in accordance with standards ISO 9001:2008 and EN 9100:2009. Further to the audit, TÜV Nord prepared Audit Report no. 35187223/25.11.2016 and found 1 inconsistency, and indicated an improvement opportunity. TMB conducted an analysis to identify the causes of the inconsistency and lay down the proper corrections and correction measures, which were accepted by TÜV Nord. For the inconsistency found, 2 corrections and correction measures were set. The audit recommended TÜV Nord to re-certify the quality management system of TMB and re-issue the certificates; consequently, TÜV Nord issued certificates no. 44 100 090174/23.02.2017 (ISO 9001) and no. 44 117 090174/23.02.2017 (EN 9100) (valid until 22.02.2020, provided TMB adopts standards ISO 9001:2015 and EN 9100:2016).

**In November 2016**, 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-2016-MMG-NP/6&SCG-P/4&F56 of 29.11.2016 and found 3 inconsistencies of level 2 (minor) and 2 inconsistencies of level 3 (recommendation), through Non-compliance/recommendation reports TMB-038, TMB-039, TMB-040, TMB-041 and TMB-042 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, 7 corrections and correction/preventive measure were set.

**In December 2016**, AEROQ conducted an audit to supervise the environmental management system at TMB in accordance with standard ISO 14001:2005. Further to the audit, AEROQ prepared the Audit Report no. 4123/14.12.2016 and found no inconsistencies, but indicated several improvement opportunities. The audit team recommended AEROQ to maintain the certification granted (Certificate no. 811M/22.12.2015, valid until 13.09.2018).

**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 2016, the Department of Quality System and Organization conducted internal/external audits as follows:**

#### **4.1 Internal system audits**

The internal audits on the quality management system were conducted in accordance with Audit Plan PA-TMB 2016, 2<sup>nd</sup> Edition, approved by the General Director.

In 2016, 54 audits were conducted that found 9 inconsistencies for which the company established 16 correction measures, which were 97% completed (one of which is not completed and rescheduled in 2017).

The internal audits on the environmental management system were conducted in accordance with Audit Plan PA-TMB 2016 second edition, approved by the General Director.

In 2016, 1 audit was conducted that found no inconsistencies.

#### **4.2. Internal product audits**

The internal product audits were conducted in accordance with Audit Plan PA-TMB 2016, 2<sup>nd</sup> Edition, approved by the General Director.

In 2016, 7 audits were conducted that found 3 inconsistencies for which the company established 3 correction measures, which were 100% completed.

#### **4.3. Internal process audits**

The internal process audits were conducted in accordance with Audit Plan PA-TMB 2016 2<sup>nd</sup> edition, approved by the General Director.

In 2016, 13 audits were conducted that found no inconsistencies.

#### **4.4. External audits at suppliers**

The external audits at supplies were conducted in accordance with Audit Plan PA-TMB 2016 2<sup>nd</sup> edition, approved by the General Director as follows:

In **May 2016**, TMB (through the representatives of DCO and SCPL) conducted at Mobil Industrial AG - Pitești an audit to evaluate the quality management system and the testing of the measurement lines for the balancing machines installed by the supplier. Further to the audit, Audit Report RA C2F of 09.05.2016 was prepared, which found no inconsistencies. Therefore, by Activity Report no. 951/09.05.2016, the audit team proposed to include this supplier on the list of Approved Suppliers by TMB.

In **June 2016**, TMB (through the representatives of DCO and CCU) conducted at Trelleborg Sealing Solutions - Bridgwater an audit to evaluate the quality management system and the production of landmarks 109-0445-50-101 and 109-0445L02-101 installed by the supplier. Further to the audit, Audit Report RA B1.1F of 15.06.2016 was prepared, which found no inconsistencies. Therefore, by Activity Report no. 963/15.06.2016, the audit team proposed to keep this supplier on the list of Approved Suppliers by TMB.

**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 2016:**

**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 2016 are:

- Indicator I1 (compliance of delivery terms) is increasing throughout the year towards reaching the maximum of the objective of a minimum of 97%, having an aggregate value of 98.37%;
- Indicator I2 (compliance of quantities requested by TMB customer) is decreasing throughout the year and falls outside the tolerance of the objective set (minimum 97%), having an aggregate value of 96.18%;
- Indicator I3 (non-compliance of the requirements of the technical execution documentation – non-compliance and scraps) is decreasing compared to the objective set (maximum 0.75%), having an aggregate value way below such objective, namely 0.06%. This means that TMB complies with the requirements and deviations are insignificant;
- Indicator I4 (non-compliance of products delivered – customer complains) is decreasing throughout the year, having an aggregate value of 0.67%, not meeting the objective set (maximum 0.5%);
- Indicator I5 (non-quality costs), as percentage loss, is increasing throughout the year, having an aggregate value of 0.93%, maintained within the limits imposed for the objective set (maximum 5% 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 2016 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**

NADCAP third party 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 and re-accreditations from the NADCAP.

In 2016, the following special processes were re-accredited:

In February 2016, NADCAP conducted a re-accreditation audit at TMB on the welding processes at TMB according to the AC7110 requirements. Further to the audit, no inconsistencies were found, which was corrected by the end of the audit. Therefore, the process received re-accreditation for 24 months (Merit Program) (certificate expiry: April 30, 2018).

#### **5.2.2. Second-party process certifications**

##### **5.2.2.1. Leonardo S.p.A. - Helicopters**

In 2016, all the special process and laboratory certifications previously obtained were maintained.

The requalification files were sent to the client and re-qualifications were obtained for the following processes:

- non-destructive examination through chemical attack according to DQP IT12/0397/01 (valid until 15.03.2019);
- non-destructive testing by penetrating liquids according to DQP IT12/0193/02 (validity: 11.01.2019);
- verification of contact surface (Green Run Test) according to DQP 1854 (validity: 22.01.2019).

##### **5.2.2.2. PZL Swidnik certifications**

In 2016, the Company initiated 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 September 2016, PZL Swidnik qualified the following special processes:

- the heating treatment process for steel alloys according to DQP PL10/0043/00 (revised by DQP PL10/0043/01) (valid until 22.09.2019).



### 5.2.2.3 General Electric certifications

In 2016, all the **special process and equipment certifications** previously obtained were maintained.

For the processes accredited by NADCAP, certificates GT193 are issued so long as the NADCAP accreditation is maintained.

To maintain the accreditation of General Electric-Aviation for lab testing according to S-400, the Compliance Control Bodies for the supervision of chemical and heating processes within the process Control and Laboratory Department participated in the cross-testing with Dirats Laboratories, requested by General Electric, for which the data was sent in Semester 1 – 2016 and in Semester 2 – 2016 the Company was notified that the results are good.

### 5.2.2.4. Introducing new benchmarks in production

In 2016, 11 new benchmarks were introduced in production for Leonardo PZL-Swidnik. For such landmarks, FAI files are to be prepared upon completion of the lots.

For client General Electric Power and Water (GEPW) Hungary, 4 FAI files were created, which were approved by CLT. With the closing of such files, the production technological conditions and the criteria for acceptance of such benchmarks are homologated, which enables series production.

For customer Leonardo Italy (Agusta-Westland), 5 FAI external files were created, which are approved and were sent to CLT. Through the integration of such benchmarks at TMB, the Company continues the assimilation of the new package of benchmarks for the Master Transmission Box for the Leonardo Italy helicopters.

In addition, for such customer, for 11 landmarks in the current production, 9 FAI internal files were created (administrative changes) and 2 FAI external files (technological changes), all of which are approved.

## 6. Central Laboratory Accreditations

In 2016, TMB took part in **Round-Robin** Inter-laboratory Cross-testing Program organized at the **EXOVA Toulouse - France Institute**, supported by **Airbus, Safrane Grup, Eurocopter, MTU and GKN**. The laboratory procedures subject by TMB to cross-testing were as follows:

- steel Rockwell / Vickers, kit 6-1 hardness
- aluminum Brinell / Rockwell B, kit 6-2 hardness
- cemented steel kit 6-3 micro-hardness
- aluminum kit 10-7 electrical conductivity.
- salt spray, kit 7-1

All the kits presented herein above and processed in TMB laboratories yielded results falling under **performance categories 1 and 2**. Thus, **TMB** further complies with the requirements of NADCAP and customers Rolls Royce and **Leonardo Helicopters Division**, regarding the laboratory procedures mentioned.

In addition, to maintain the **S-400 Laboratory certification**, for customers **GEAE** and Unison, a first-time inter-lab cross-testing between **TMB** and **Dirats** laboratories for the following laboratory procedures:

- XN – Hydrogen Embrittlement
- OM – Hardness
- OQ – Corrosion and Stress Corrosion
- OL-GN – General metallography

For all the above kits, the results were consistent with the requirements.

## 7. Complaints / Notifications

In 2016, TMB received 35 complaints from clients, of which:

- 2 from external customer (Leonardo Helicopters); the status thereof is presented in table 7.1 herein below:

- 33 from domestic customers (13 complaints from military units of the Ministry of National Defense and 20 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.

### **7.1. Complaints/notifications for parts filed by external customers**

<b>Total C/N:</b>		<b>Complaint</b>
Client - benchmark C/N (no. of affected pieces):		
- Leonardo Helicopters – P/N 109G6320A45-101 (1 piece)		Complaint
- Leonardo Helicopters – P/N 109-0440-01-123 (2 pieces)		Complaint

The status of correction and preventive measures is indicated below:

Total <b>ACP</b> :	
Total <b>C/N</b> rejected:	
Total <b>CPA</b> closed:	
Total <b>CPA</b> opened:	

### **7.2 Complaints/notifications for products filed by domestic customers**

<b>Total C/N:</b>	<b>3</b>	<i>Complaints / Notifications</i>
<b>Total C/N per category of products:</b>		
- TURMO engine		<i>5 complaints/2 notifications</i>
- motor VIPER		<i>Complaint</i>
- ventilating level		<i>Complaint</i>
- VIPER engine thermocouple platform		<i>Complaint</i>
- Viper motor oil pump		<i>Complaint</i>
- steering knuckle - collar		<i>Complaint</i>
- control block		<i>Complaint</i>
- start-up block		<i>Complaint</i>
- BRP scavenger		<i>Complaint</i>
- BRP rotor		<i>Complaint</i>
- electrical magnet		<i>Complaint</i>
- CTS rear transmission		<i>Complaint</i>
- CTI intermediary transmission		<i>Complaint</i>
- rear transmission tree		<i>Complaint</i>
- main transmission		<i>Complaint</i>

Total C/N from domestic clients:	<b>3</b>	Complaints
<b>UM 01836 Otopeni</b>		Complaints
<b>UM 01838 Bobocu</b>		Complaints
<b>UM 02015 Bacau</b>		Complaints
<b>UM 0991 SRI</b>		Complaints
<b>IAR Brasov</b>	<b>0</b>	Complaints
Total closed C/N:	<b>9</b>	Complaints
Total open C/N:		Complaints

## 8. Nuclear protection

In **2016**, as far as nuclear protection is concerned, following the transfer of two Viper casings made of **MSRR 8014** scrap, to **RATEN-ICN Pitești** as radioactive waste, the Company prepared and sent to **CNCAN applications and files** to obtain the permits regarding:

- **Permit IP 211/2016** for the transfer of the two scrap casings to **RATEN ICN-Pitești**;
- **Permit VI 7/2017**, for holding the Viper pieces made of MSRR 8014, valid until 17.01.2018.

## 9. Environmental protection

### 9.1 Integrated environmental permit

TMB has obtained from the republican regulatory authorities the following permits/evaluations:

- **Integrated Environmental Permit no. 5/11.02.2016** for the entire company and the sector of metallic covers valid for 10 years; issued by the Bucharest Environmental Protection Agency;
- **Classification Decision no. 143 / 28.11.2016** regarding the oversight of the test bench by lifting the exhaust tower, issued by the Bucharest Environmental Agency.

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 2016 Investment Plan, most of the actions being completed, and those not completed were included in the Environmental Management System Program of TMB and the 2017 Investment Plan.

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

In 2016, there were no environment related incidents or used water or air pollution above the maximum values admitted by the legislation in force.

Upon the controls conducted by the National Environmental Guard concluded in 2016 by:

- Minutes no. 86/02.02.2016, two aspects were found, i.e., the removal of the stock of emulsion from the metal tank of the company and provision of special measures and equipment to insulate and protect against the noise pollution of the noise generating sources in accordance with the legislation in the field. Such deficiencies were solved, and their settlement was reported to the regulatory and control authorities.
- Minutes No. 222/09.06.2016, which provided the compliance with the restrictions and requirements of REACH Regulation no. 1907/2008 on a permanent basis.

The control conducted the National Administration Romanian Waters of 22.06.2016 ordered no mandatory measures, but maintained the two permanent measures ordered further to the control of 2015.

## **9.2. Certification of Environment Management System**

Based on the audit of the Management System of 14.12.2016, **TURBOMECHANICA SA** was audited by **SC AEROQ SA**, in order to supervise the Environment Management System according to standard SR EN ISO 14001:2005 – Environment Management System. Further to such audit, no inconsistencies were found at **TURBOMECHANICA SA**, only 2 proposals for improvement.

## **10. Personnel training**

In 2016, in accordance with the provisions of the **TMB Periodical Personnel Training Plan**, through specific training and certification sessions, the company provided and maintained the required competences of the 116 operators, inspector and laboratory technicians for special processes and laboratories. 33 specific trainings were actually delivered.

### **I. HUMAN RESOURCES**

Through the specialized departments, the company management ensured the operation of Production, Quality Assurance, Financial - Accounting, Marketing – Sales and Human Resources.

As at December 31, 2016, **TMB** had a total of **439** employees.

The personnel's average age as at such date was 48.93 years, approximately the same value as in 2015, 48.64 years.

Between January and December 2016, 79 employees left the company and 111 were employed.

In 2016, the expenses with employees' benefits totaled:

- salaries:	RON 19,667,558
- meal vouchers:	RON 895,803
- gift vouchers:	RON 711,150
- social security:	RON 4,808,860

The recruitment costs incurred were approximately RON 1,844.

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 2016.

According to it, the company invested RON 75,324 in improving the competences and certifications outside the company, of which RON 70,865 for training and improvement courses for TESA employees.

Improvement and certification courses were delivered in the company, which totaled approximately 4,512 hours for 167 employees.

During the period under review, only 21 employees attended educational courses and various courses, qualifications/poly-qualifications totaling 4,180 hours.

Personnel expenses totaled 31.42% of the turnover obtained in 2016.  
59% of the company employees are trade union members.

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

- 27.10% employees with higher education – 119 employees, of which:
  - PhD: 1 employee
  - Post-university studies: 4 EMBA employees
- 42.83% of employees with secondary and post-secondary studies - 188 employees
- 25.06% of employees with vocational studies - 110 employees
- 5.01% of employees with primary studies - 22 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 2016.

### **Assessment of labor protection and occupational safety**

Labor protection and security 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 labor protection and security.

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

In 2016, the Company continued the investment started in 2015 for improving the working conditions.

The Installations and Trials Workshop was completely revamped.

This activity consisted in the outer insulation of both the warehouse intended for Installations and Trials Workshop, and the roof.

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

Modern ventilating equipment was installed inside the warehouse and the lighting was improved.

An important chapter in the 2016 investments represented the revamping of the Viper exhaust tower, which significantly reduced, by approximately 37 db, the noise level, which improved both the production and the working conditions.

Another workshop in which the Company invested in 2016 is the Special Processes Workshop.

The purpose of this activity was both to continue to revamp the special processes lines, and improve working conditions, by building an additional heating installation.

For this workshop also, the Company purchased and revamped a horizontal vacuum furnace, which reduced the pollution in the area of the Heating Treatment.

The Company continued the revamping of ventilations and exhaust installations, so as to ensure enhanced protection both to employees, and the environment.

The investment program for 2016 also included the modernization of the space intended for adjustment and recovery in the Mechanical Processing Workshop.

The entire area intended for adjustment activities was reorganized, and to improve the working conditions, ventilation installations were mounted in all the areas.

Absorption and filtering installations were purchased.

New spaces were assigned for this activity, which were also equipped with ventilating installations.

In the welding robot warehouse, modernized in 2015, the Company installed closed premises, equipped with own ventilating systems both for recovery and for adjustment.

An industrial dust vacuum cleaner was purchased for general use in all spaces where dust and metal particles are deposited.

The Company also undertook the process of improving the conditions for locker rooms and eating areas, both by modernizing the existing ones and installing food heating equipment, and by building other areas to be used as locker rooms and eating areas for the employees of the General Services Workshop and those of the Mechanical Processing Workshop and the Special Processes Workshop.

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 and paper towels.

Under the labor protection and security program for 2016, 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;
- 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 2016, 3 employees had to change jobs, in order to avoid getting ill, given that they already suffered from diseases not necessarily work-related.

In 2016, no labor accidents or professional illnesses were found at TMB.

## **J. SALES - MARKETING**

In 2016, the foreign market continued to be represented mainly by components and subparts for aircraft engines, and gas turbines, epitomizing all the Company's efforts to reaffirm its image and regain its market stability, through the aggressive marketing done in 2016, offering the opportunity to make known the company's capabilities, to get in touch with large corporations in the field and consolidating the bases for extending collaborations/partnerships at international level.

In support of the above, last year, TMB participated with its own stand in a series of national and international events of the airspace industry, among which: Romanian Aerospace Meetings-Bucharest (14-16 March), ASD DAYS UK (3-4 May 2016), Black Sea Defense and Aerospace - Bucharest (18-20 May), ILA Berlin Air Show-Germania (01-04 June), Farnborough International Airshow-UK (11-17 July) and AIRTEC MUNICH AIRSHOW-Germany (25-27 October).

These activities were supported by continuing the re-branding process aimed at growing TMB's visibility at international level, creating a new image, permanently updating the Company's website with all the key events in the company's life, extending and developing the promotion materials based on modern principles that include all the current achievements.

Consequently, in 2016, TMB improved the

Company's brochure in a new format – currently in the final phase of execution

The Company's ppt presentation – currently in the revision phase for 2017

The Company's presentation video - completed

The results were soon noticeable, TMB managed to position itself in 2016 on a high place in the supply chain of world-wide renowned producers of engines and mechanical aviation parts (LEONARDO HELICOPTERS Italy – 2016 turnover: EUR 531,240.22), especially GE Power & Water-Hungary (2016 turnover: EUR 2,822,525.31) along with other historical partners (PZL SWIDNIK Poland, HONDA AERO SUA, AVIALL USA, AVIO ITALY, UNISON POLAND, continuing to maintain, with commitment and dedication, the national flight capabilities for helicopters PUMA IAR-330 and training airplanes IAR 99/ SOIM held by the Ministry of National Defense (SMFA, SMFN) and the National Intelligence Office.

In addition to the partners mentioned, already historical, the Company developed GE programs by attracting new clients: GE Power Componets China and GE International-Greenville USA and contacted GE OIL & GAS ITALY, GE Energy Switzerland and GE Aviation the Czech Republic to extend its business, and entered into new business relations with companies such as AIRBUS Helicopters France both in view of potential collaborations in the field of production, but also as regards the supply of TMB with benchmarks specific for repairs of gas turbine engines for aircraft and helicopter mechanical parts) AD INDUSTRIES France, MB AEROSPACE Poland, others alike.

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 2016 to deliver full subsets for rear transmission for helicopters (production, mounting, trial) and will continue to develop cooperation programs with FINMECCANICA ITALIA in 2017, 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 the international political situation is not at harm's way from conflict, in 2017 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 2017 – 2019 (5 more helicopters) and the research-saving program which includes the revamping of 7 UN helicopters during 2017-2019, 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 continues to focus to a great extent in 2017 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 2017 the continuation of its current marketing policy, including in the marketing budget for this year the Company's participation in minimum two international promotional events (fairs/exhibitions) such as: Paris Airshow-Le Bourget in June and si AIRTEC MUNICH AIRSHOW (Oct 2017), 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.

## **K. CORPORATE GOVERNANCE**

Corporate governance means responsible management and control over a commercial company. 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 balancing the economic situation and then increasing the company's value. The adoption of good practices and corporate governance policies must represent for TMB strong grounds for a solid development, after a difficult and costly restructuring process.

### **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](http://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 Annual Report and posted on the Company's website, [www.turbomecanica.ro](http://www.turbomecanica.ro).

In September 2015, the Bucharest Stock Exchange issued a new Corporate Governance Code. In accordance with the provisions of art. 87, paragraphs 1 and 2 of the Bucharest Stock Exchange Code, Book I – Title II issuers and Financial Instruments. TMB informed investors through the Current Report sent on 15.01.2016 on the status of the compliance with the Corporate Governance Code of the Bucharest Stock Exchange.

As at date of the 2016 annual report, TMB complied with 29 provisions of which 1 was partly enforced.

The Company could not align entirely to 3 provisions, for which the management will decide upon and will implement the required measures in order to observe them. Please find below the provisions that were not complied with and the reason for non-compliance:

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 requirement will be implemented in 2017.

B.3 As part of its responsibilities, the Audit Committee must conduct an annual evaluation of the internal control system.

The requirement will be implemented in 2017, upon the annual evaluation of the internal control system.

B.4. The evaluation must consider the efficacy and extent of the internal control function, the adequacy of the management reports on the internal control risk submitted to the Board's audit committee, the executive management's diligence and efficacy in settling deficiencies or weaknesses identified during internal control and the submission of relevant reports to the Board.

The requirement will be implemented in 2017.

B.6 The audit committee must assess the efficiency of the internal control system and risk management system.

The requirement will be implemented in 2017.

B.7 The audit committee must monitor the application of the generally accepted legal standards and internal audit standards. The audit committee must receive and assess the reports of the internal audit team.



The requirement will be implemented in 2017.

B.8 Anytime the Code makes reference to reports or analyses initiated by the Audit Committee, they must be followed by periodic reports (at least annually) or ad-hoc reports which must then be submitted to the Board.

The requirement will be implemented in 2017.

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.

Reason for non-compliance: The remuneration policy of administrator and the CEO is included in 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 commercial 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. 297/2004 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, 2016**

<b>Name</b>	<b>Position</b>	<b>Year of first election</b>	<b>Expiry of current mandate</b>
<b>Radu Viehmann</b>	President, General Director	2000	2020
<b>Dana Maria Ciorapciu</b>	Non-executive Administrator	2006	2020
<b>Radu Ovidiu Sarbu</b>	Independent Non-executive Administrator	2016	2020
<b>Grigore Florescu</b>	Non-executive Administrator	2006	2020
<b>Henriette Spinka</b>	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](http://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. The president of the BoA is also the Company's general director.

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](http://www.turbomecanica.ro).

#### **The administrators' participation in the share capital of TMB as at December 31, 2016**

<b>Name</b>	<b>Position</b>	<b>No. of shares</b>	<b>% of share capital</b>
<b>Radu Viehmann</b>	President, General Director	95,758,800	25.9198
<b>Dana Maria Ciorapciu</b>	Non-executive Administrator	56,003,876	15.1590
<b>Radu Ovidiu Sarbu</b>	Independent Non-executive Administrator	0	0
<b>Grigore Florescu</b>	Non-executive Administrator	0	0
<b>Henriette Spinka</b>	Independent Non-executive Administrator	500,000	0.14

In 2016, 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](http://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. Given the changes the Company goes through, further to the restructuring process, the administrators consider that it is inappropriate to declare the income obtained by them.

#### **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, 2016, TMB had 5,492 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](http://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 Shareholding Department.

**Contact data: address:** SC TURBOMECHANICA SA, b-dul Iuliu Maniu nr. 244 sector 6 code 061126 Bucharest, Romania, telephone: (+40 21) 434.07.55; 434.07.41 prefix 245.

### **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 2016, 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](http://www.turbomecanica.ro), in Romanian and English languages.

As regards the financial reporting system for 2016, TMB complied with the accounting regulations, i.e., MoPFO 2844/2016, and Accounting Law no. 82/1991 (republished and amended). MoPFO no. 166/2017 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 S.C. Deloitte Audit S.R.L., an independent financial auditor, appointed by the general meeting of shareholders of 25.04.2016 for a period of 3 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. 297/2004 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.

PRESIDENT,

GENERAL DIRECTOR

RADU VIEHMANN

Signature \_\_\_\_\_

Date: 23.03.2017

