

**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)**

**CONTENTS:****PAGE:**

INDEPENDENT AUDITOR'S REPORT	1 – 4
STATEMENT OF COMPREHENSIVE INCOME	5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF CASH FLOWS	7
STATEMENT OF CHANGES IN EQUITY	8 – 9
NOTES TO THE FINANCIAL STATEMENTS	10 – 59
ADMINISTRATORS' REPORT	1 – 20
ADMINISTRATOR'S STATEMENT	

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

	Note	December 31, 2017 RON	December 31, 2016 RON
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)	-
<b>Profit before taxation</b>		<b>18,458,013</b>	<b>13,336,813</b>
Income tax	10	4,807,092	(2,463,768)
<b>Profit for the year</b>		<b>13,650,921</b>	<b>10,873,045</b>
<b>Other comprehensive income, net of taxation</b>			
Deferred income tax		-	-
Revaluation differences		-	-
Actuarial (loss) / gain on defined benefits plan	21	-	(221,439)
Other comprehensive income for the year		-	(221,439)
<b>Comprehensive income for the year</b>		<b>13,650,921</b>	<b>10,651,606</b>
<b>Result per share</b>	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**

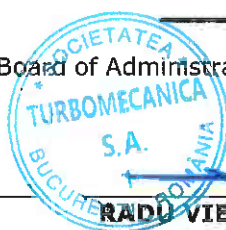
(all the amounts are expressed in „RON“, unless otherwise specified)

	Note	December 31, 2017 RON	December 31, 2016 RON
<b>ASSETS</b>			
<b>Long-term assets</b>			
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
<b>Total long-term assets</b>		<b>66,747,565</b>	<b>67,418,225</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>57,894,863</b>	<b>49,322,823</b>
<b>Total assets</b>		<b>124,642,427</b>	<b>116,741,048</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
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)
<b>Total equity</b>		<b>60,112,656</b>	<b>46,298,318</b>
<b>Long-term liabilities</b>			
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
<b>Total long-term liabilities</b>		<b>10,589,580</b>	<b>9,290,302</b>
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>53,940,192</b>	<b>61,152,428</b>
<b>Total liabilities</b>		<b>64,529,773</b>	<b>70,442,730</b>
<b>Total equity and liabilities</b>		<b>124,642,427</b>	<b>116,741,048</b>

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

  
**ION DINCA,**  
Economic - Commercial Manager

  
**RADO VIEHMANN,**  
Chairman - CEO



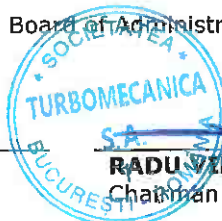
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**TURBOMECANICA SA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(all the amounts are expressed in „RON“, unless otherwise specified)

	December 31, 2017	December 31, 2016
<b>Cash flow from operations</b>		
<b>Net profit / (loss) of the year</b>	<b>13,650,922</b>	<b>10,873,045</b>
<b>Adjustments for:</b>		
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
<b>Changes in working capital</b>		
(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)
<b>Net cash generated by / (used in) operating activities</b>	<b>10,555,336</b>	<b>17,400,894</b>
Income tax paid	(4,581,307)	(1,375,324)
Interest (paid)/received, net	(2,663,377)	359,417
<b>Net cash generated by operating activities</b>	<b>3,310,652</b>	<b>16,384,987</b>
<b>Cash flows from investment activities</b>		
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
<b>Net cash generated by / (used in) investment activities</b>	<b>(3,035,069)</b>	<b>(5,162,401)</b>
<b>Net cash from financing activities</b>		
(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)
<b>Net cash generated by financing activities</b>	<b>(2,140,216)</b>	<b>(6,839,951)</b>
<b>Net increase / (decrease) of cash and cash equivalents</b>	<b>(1,864,633)</b>	<b>4,382,635</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>11,501,493</b>	<b>7,118,858</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>9,636,856</b>	<b>11,501,493</b>

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**ION DINCA,**  
Economic - Commercial Manager



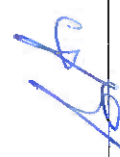
  
**RADU VEZHMAN,**  
Chairman - CEO

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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)

	Share capital	Reserves	Revaluation reserve	Retained earnings	Total
<b>Balance as at January 1, 2016</b>	<b>1,024,571,055</b>	<b>46,074,152</b>	<b>34,066,531</b>	<b>(1,068,502,598)</b>	<b>36,209,140</b>
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)
<b>Balance as at December 31, 2016</b>	<b>1,024,571,055</b>	<b>46,749,188</b>	<b>33,771,624</b>	<b>(1,058,793,549)</b>	<b>46,298,318</b>

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**ION DINCA,**  
Economic - Commercial Manager



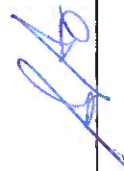
  
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**TURBOMECANICA SA**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
(all the amounts are expressed in „RON”, unless otherwise specified)

	Share capital	Reserves	Revaluation reserve	Retained earnings	Total
<b>Balance as at January 1, 2017</b>	<b>1,024,571,055</b>	<b>46,749,188</b>	<b>33,771,624</b>	<b>(1,058,793,549)</b>	<b>46,298,318</b>
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
<b>Balance as at December 31, 2017</b>	<b>1,024,571,055</b>	<b>50,715,138</b>	<b>37,657,605</b>	<b>(1,052,831,142)</b>	<b>60,112,656</b>

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

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**1. GENERAL INFORMATION**

TURBOMECANICA 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)

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

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**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)**

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**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**  
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**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.

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

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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.

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

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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'.

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

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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.

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

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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.

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

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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.

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

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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.

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

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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.

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

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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.

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

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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.

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

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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 of 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.

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

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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.

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

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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.

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

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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.

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

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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.

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

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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.

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

**4. REVENUES**

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>RON</b>	<b>RON</b>
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
<b>Total</b>	<b>100,766,069</b>	<b>83,030,250</b>

**5. RAW MATERIALS AND CONSUMABLES USED**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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
<b>Total</b>	<b>38,753,621</b>	<b>31,302,180</b>

**6. EMPLOYEE BENEFITS**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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
<b>Total</b>	<b>31,184,420</b>	<b>26,083,371</b>

**7. NET FINANCIAL LOSSES**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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)
<b>Total</b>	<b>3,413,951</b>	<b>3,076,578</b>
<b>Other financial income</b>	<b>-</b>	<b>(2,945,004)</b>

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

**8. OTHER OPERATING EXPENSES**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<i>RON</i>	<i>RON</i>
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
<b>Total</b>	<u><b>5,638,683</b></u>	<u><b>5,743,465</b></u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<i>RON</i>	<i>RON</i>
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)
<b>Total</b>	<u><b>3,732,181</b></u>	<u><b>(1,529,345)</b></u>
<b>(Losses)/gains from sale of assets held for sale</b>	<u><b>20,104</b></u>	<u><b>(93,188)</b></u>

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:

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

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

**10. INCOME TAX (continued)**

Reconciliation of current income tax:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Profit before taxation</b>	<b><u>18,458,013</u></b>	<b><u>13,500,717</u></b>
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	<u>(4,004,949)</u>	<u>(2,950,913)</u>
<b>Taxable result</b>	<b><u>32,740,134</u></b>	<b><u>20,494,719</u></b>
Fiscal losses used	<u>-</u>	<u>-</u>
<b>Income tax expense</b>	<b><u>(4,846,456)</u></b>	<b><u>(2,463,768)</u></b>

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

**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 comprehensive 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	-	-	-	-	-	-	-
<b>Net tax (asset)/liability</b>	<b>(3,862,833)</b>	<b>163,904</b>	<b>-</b>	<b>(3,698,929)</b>	<b>39,364</b>	<b>-</b>	<b>(3,659,565)</b>

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:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
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
<b>Net tax (asset)/liability</b>	<b>120,318</b>	<b>137,895</b>	<b>(3,779,884)</b>	<b>(3,836,824)</b>	<b>(3,659,565)</b>	<b>(3,698,929)</b>

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.

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

**11. PROPERTY, PLANT AND EQUIPMENT**

<b>COST</b>	<b>Land</b>	<b>Buildings and other constructions</b>	<b>Technical installations and machinery</b>	<b>Equipment and vehicles</b>	<b>Tangible assets in progress</b>	<b>Total</b>
<b>January 1, 2016</b>	<b>19,885,045</b>	<b>11,519,933</b>	<b>26,314,931</b>	<b>49,302</b>	<b>1,031,339</b>	<b>58,800,550</b>
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	-	-	-	-	-	-
<b>December 31, 2016/January 1, 2017</b>	<b>21,296,400</b>	<b>14,044,054</b>	<b>30,117,034</b>	<b>136,036</b>	<b>102,232</b>	<b>65,695,756</b>
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)
<b>December 31, 2017</b>	<b>21,381,525</b>	<b>9,400,854</b>	<b>28,718,196</b>	<b>132,633</b>	<b>328,747</b>	<b>59,961,955</b>
<b>Accumulated depreciation</b>						
<b>January 1, 2016</b>	-	<b>372,118</b>	<b>3,352,851</b>	<b>24,134</b>	-	<b>3,749,103</b>
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	-	-	-	-	-	-
<b>December 31, 2016</b>	-	<b>813,495</b>	<b>6,809,208</b>	<b>36,874</b>	-	<b>7,659,578</b>
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)
<b>December 31, 2017</b>	-	-	-	-	-	-
<b>NET BOOK VALUE</b>						
<b>January 1, 2016</b>	<b>19,885,045</b>	<b>11,147,815</b>	<b>22,962,080</b>	<b>21,458</b>	<b>1,031,339</b>	<b>55,047,738</b>
<b>December 31, 2016</b>	<b>21,296,400</b>	<b>13,230,559</b>	<b>23,307,826</b>	<b>99,162</b>	<b>102,232</b>	<b>58,036,177</b>
<b>December 31, 2017</b>	<b>21,381,525</b>	<b>9,400,854</b>	<b>28,718,196</b>	<b>132,633</b>	<b>328,747</b>	<b>59,961,955</b>

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

**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**

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

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.

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

**13. INVENTORIES**

	<b>December 31, 2017 RON</b>	<b>December 31, 2016 RON</b>
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)
<b>Total</b>	<b>36,947,781</b>	<b>25,039,278</b>

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 of VIPER 632-41 engines, were 100% provisioned.

The movement of allowances for inventory impairment is as follows:

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

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

**14. TRADE RECEIVABLES**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>RON</b>	<b>RON</b>
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)
<b>Total</b>	<b>2,632,790</b>	<b>2,684,621</b>

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

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

The following table analyses trade receivables:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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
<b>Total</b>	<b>2,887,931</b>	<b>2,713,882</b>

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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
<b>Total</b>	<b>2,161,767</b>	<b>1,963,642</b>

**15. OTHER RECEIVABLES**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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	-	-
<b>Total</b>	<b>1,711,184</b>	<b>3,048,543</b>

This is a free translation from the original Romanian version.

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

**16. CASH AND CASH EQUIVALENTS**

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

**17. ASSETS HELD FOR SALE**

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

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:

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

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.

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

**19. RESERVES**

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

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**

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

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

**20. BORROWINGS (continued)**

<b>Contract</b>	<b>Balance as at December 31, 2017</b>	<b>Interest payable as at December 31, 2017</b>	<b>Commissions as at December 31, 2017</b>
(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
	<b>36,457,429</b>	<b>4,844</b>	<b>216</b>

<b>Contract</b>	<b>Balance as at December 31, 2016</b>	<b>Interest payable as at December 31, 2016</b>	<b>Commissions as at December 31, 2016</b>
(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	-	-	-
	<b>39,712,782</b>	<b>16,874</b>	<b>632</b>

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

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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.

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

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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.

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

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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 TURBOMECHANICA 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 TURBOMECHANICA 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 TURBOMECHANICA 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 TURBOMECHANICA 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 TURBOMECHANICA 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".

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

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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.



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

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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.

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

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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.

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

**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**

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

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.

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

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

**21. PROVISIONS (continued)**

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

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

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

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

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**

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

**23. OTHER CURRENT LIABILITIES AND DEFERRED INCOME**

**Other current liabilities**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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	-
<b>Total</b>	<b>4,969,829</b>	<b>8,469,080</b>

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

**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
<b>Total</b>	<u>-</u>	<u><b>1,022,968</b></u>

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 revenues**

	<u>Segmenting income</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<u>RON</u>	<u>RON</u>
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
<b>Total from operations</b>	<u><b>100,766,069</b></u>	<u><b>83,030,250</b></u>

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.

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

**25. SEGMENT REPORTING (continued)**

	<b>Asset Segment</b>		<b>Liability Segment</b>	
	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Assets and liabilities segment</b>				
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
<b>Total Assets / Liabilities</b>	<b>124,642,428</b>	<b>116,741,048</b>	<b>64,529,773</b>	<b>70,442,730</b>

	<b>Profit/(loss)</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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)
<b>Total</b>	<b>13,650,921</b>	<b>10,873,045</b>

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.

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

**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.

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

**26. FINANCIAL INSTRUMENTS (continued)**

**a) Capital risk management (continued)**

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Total borrowings	42,839,163	44,592,782
Cash and cash equivalents	9,636,856	11,501,493
<b>Net debt</b>	<b>33,202,307</b>	<b>33,091,289</b>
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.

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

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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.

**S.C. TURBOMECANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

**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 RON
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
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
<b>Net balance exposure (assets - liabilities)</b>	<b>3,098,048</b>	<b>(1,521,492)</b>	<b>(752)</b>	<b>1,103</b>	<b>(37,963,729)</b>	<b>(36,386,822)</b>
<b>2016</b>						
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
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
<b>Net balance exposure (assets - liabilities)</b>	<b>2,680,489</b>	<b>(28,215,033)</b>	<b>(25,184)</b>	<b>348</b>	<b>(10,061,058)</b>	<b>(35,620,438)</b>

This is a free translation from the original Romanian version.

**S.C. TURBOMECHANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

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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.

	<b>Impact on the result as at:</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
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.

**S.C. TURBOMECANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

**26. FINANCIAL INSTRUMENTS (continued)**

<b>2017</b>	<b>Interest rate</b>	<b>Less than 1 month</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>5+ years</b>	<b>Total</b>
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 + 3.5% pa	-	13,433,418	-	-	13,433,418
Short-term bank loan in RON BRD						
Loan ceiling in RON from Banca Transilvania M	ROBOR 6M+4.4% ROBOR 3M + 3.5% pa	-	9,052,895	-	-	9,052,895
Medium-term bank loans - BRD						
Finance lease BTRL	6.6%/6.33%	-	7,939,025	2,845,773	-	10,784,798
Loans from shareholders			139,050	1,357,622	-	1,496,672
Interest payable		5,060	4,880,000	-	-	4,880,000
			-	-	-	5,060
<b>Total debt</b>		<b>9,373,704</b>	<b>38,582,342</b>	<b>5,670,250</b>	-	<b>53,626,296</b>
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
<b>Total assets</b>		<b>10,169,198</b>	<b>2,097,029</b>	<b>3,419</b>	-	<b>12,269,646</b>
<b>Total Net</b>		<b>795,494</b>	<b>(36,485,313)</b>	<b>(5,666,831)</b>	-	<b>(41,356,650)</b>

**S.C. TURBOMECANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

**26. FINANCIAL INSTRUMENTS (continued)**

<b>2016</b>	<b>Interest rate</b>	<b>Less than 1 month</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>5 + years</b>	<b>Total</b>
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% LIBOR 1M + 3.0% pa		6,833,510	-	-	6,833,510
Short-term bank loans in USD - BRD	6.6%		26,454,625	-	-	26,454,625
Loans from shareholders			4,880,000	-	-	4,880,000
Interest payable		17,506	-	-	-	17,506
<b>Total debt</b>		<b>8,321,958</b>	<b>47,531,512</b>	<b>4,535,644</b>	<b>703,307</b>	<b>61,092,421</b>
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
<b>Total assets</b>		<b>12,683,477</b>	<b>2,160,264</b>	<b>1,136,194</b>	<b>-</b>	<b>15,979,935</b>
<b>Total net</b>		<b>4,361,519</b>	<b>(45,371,248)</b>	<b>(3,399,450)</b>	<b>(703,307)</b>	<b>(45,112,486)</b>

**S.C. TURBOMECHANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

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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.

**S.C. TURBOMECANICA S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(all the amounts are expressed in „RON”, unless otherwise specified)**

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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