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ANNUAL REPORT OF THE BOARD OF ADMINISTRATION OF TMB FOR 2018 ACCORDING TO ASF REGULATION NO. 5/2018

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

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

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

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

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

In 2018, there was no significant event or reorganization of the company.

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

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

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

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

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

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

The 2016 results are included in the financial statements of the year, prepared in accordance with International Financial Reporting Standards (IFRS). Some of the elements are listed below:

A. STATEMENT OF COMPREHENSIVE INCOME

NAME	2018	2017
Revenues	112,387,772	100,766,069
Other revenues and (losses)	484,761	3,732,181
Variation of stocks	(1,043,853)	5,847,409
Revenues from production of fixed assets	-	-
Raw materials	(30,764,226)	(38,753,621)
Expenses with employees' benefits	(34,250,069)	(31,184,420)
Expenses with depreciation of assets	(8,490,388)	(6,702,423)
Net financial expenses	(2,895,023)	(3,413,951)
Financial income	504	1
Other operating expenses	(7,016,569)	(5,,638,683)
Gains / Loss on sales of assets available for sale	809,724	20,104
Favorable/Unfavorable differences from revaluation		(6,214,653)
Profit/ (Loss) before tax	**29,222,612**	**18,458,013**
Income tax	(5,870,710)	(4,846,456)
Deferred income tax	1,495,815	39,364
Comprehensive income of the year	**24,847,717**	**13,650,921**

B. STATEMENT OF FINANCIAL POSITION

NAME	2018	2017
Long-term assets		
Tangible assets	54,393,716	59,961,955
Intangible assets	4,620,293	6,784,610
Other assets	1,772,000	1,000
Total long-term assets	**60,786,009**	**66,747,565**
Current assets		
Stocks	38,203,237	36,947,781
Trade receivables	2,452,667	2,632,790
Other receivables	1,762,178	1,711,184
Cash and cash equivalents	6,990,513	9,636,856
Assets for sale		6,966,252
Total current assets	**49,408,595**	**57,894,863**
Total assets	**110,194,604**	**124,642,427**

NAME	2018	2017
Capital and reserves		
Capital issued	1,024,571,055	1,024,571,055
Reserves	87,815,126	88,372,743
Retained earnings	(1,036,441,556)	(1,052,231,734)
Own shares	(599,408)	(598,408)
Total equity	**75,345,217**	**60,112,656**
Long-term liabilities		
Loans	1,713,317	5,670,250
Deferred tax liabilities	2,163,750	3,659,565
Provisions	1,493,086	1,259,764
Other long-term liabilities	1	-
Total long-term liabilities	**5,370,154**	**10,589,580**
Current liabilities		
Trade payables and other payables	2,791,929	5,817,305
Borrowings	12,019,269	37,168,913
Current income tax	3,303,399	1,517,497
Provisions	3,900,826	3,597,787
Deferred income	159,227	868,861
Other current liabilities	7,304,321	4,969,829
Total current liabilities	**29,479,233**	**53,940,192**
Total liabilities	**34,849,387**	**64,529,773**
Total equity and liabilities	**110,194,604**	**124,642,427**

C. TURBOMECANICA SHARES

NAME	2018	2017
Number of shares	369,442,475	369,442,475
Nominal value per share	0.1	0.10
Book value per share	0.204	0.163
Average price per share	0.247	0.228
Net profit per share	0.07	0.04
Market value per share at the end of the period	0.28	0.294
Stock capitalization	103,443,893	108,616,087

D. MACRO-ECONOMIC INDICATORS

NAME	2018	2017
Inflation	4.6	1.3
EUR average exchange rate	4.65	4.57
USD average exchange rate	3.94	4.05
GBP average exchange rate	5.25	5.21

E. TURNOVER ON SEGMENTS

NAME	2018	2017
Turnover, of which:	**112,387,772**	**100,766,069**
Benchmarks and aircraft parts	6,332,351	3,958,822
Engine repairs	102,662,977	79,818,209
Others	3,392,444	16,989,038

The 2018 results prove once again the success of the measures taken given the technical restructuring and relocation of technological flows.

The investment expenses totalled RON 2,276.5 thousand in 2018, accounting for 3% of the turnover.

Exports reached 6.27% of the turnover and are continuing to grow.

The net profit obtained by the Company in relation to the turnover determines a rate of return of 22.1%, but the gross margin rate from operations, which measures the gross result from operations independently of the financial policies, investment, taxation levels and extraordinary elements, is 26%.

The net result obtained in 2018 is substantially growing compared to 2017, namely 1.82 times higher and is real, being included in the cash available as at December 31, 2018. It will cover most of the resources the company needs in the upcoming period.

F. PATRIMONY STOCK COUNTING

According to the provisions of the Accounting Law, the International Financial Reporting Standards, the Rules on the organization and conduct of assets, liabilities and equity counting, the stock counting was performed in 2018 based on Decision no. 561/10.10.2018 for the annual stock counting of fixed assets and items of inventory, raw materials, consumables, unfinished and finished products, scraps, packaging and merchandise and Decision no. 563/10.10.2018 for the annual inventory of assets, suppliers and creditors.

The results of the annual stock counting were recorded in the Annual Stock Counting Minutes of TURBOMECANICA SA, registered under no. 80/28.01.2019.

The cash and cash equivalents at banks as at December 31, 2018 were traced to the accounting documents and cash and cash equivalents in foreign currency were measured at the valid exchange rate of the NBR.

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

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

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

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

H. In 2018, the following actions were conducted in the field of **quality assurance**:

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

In 2018, 101 regulations were prepared/revised as follows:

- 31 General Procedures including Independent Annexes
- 19 Company Standards including Independent Annexes
- 31 Working Instructions including Independent Annexes
- 7 Regulations including Independent Annexes (detailed below)
- 5 Quality Plans (detailed below)
- 2 Policies (detailed below)
- 3 Manuals (detailed below)
- 1 Memorandum (detailed below)
- 1 Strategy (detailed below)
- The following regulations were revised: ROF-TMB Internal Regulations; RI-TMB Internal Regulations, R SO-01 the Internal Program and Compliance Regulation – Policies and Procedures on Exports, Imports and other Operations involving Military Products and double-use products, R RU-01 the Regulation on the Personnel's Access to and Monitoring in TMB, R EC-01 Regulation on the annual stock-count of assets, SSM-01 Regulations on Ocupational Safety and Security at TMB; R SSM-02 Regulations on Emergency Situations at TMB;
- prepared 4 System Quality Plans including Product Quality Plans to comply with the contractual provisions of client Ministry of National Defense, regarding the manufacturing/repair of aerospace products produced by TMB, in accordance with the requirements of the commercial relationship with such client (PQ S-0029, PQ S-0030, PQ S-0031, PQ S-0032);
- revised 1 Quality Plan given the changes occurred in the business relationship / client's supplier requirements LEONARDO HELICOPTERS (PQ S-0002);
- 2 policies were revised: TMB Salary Policy and the Security Policy on Personal Data Processing;
- The Quality Manual TMB (MQ-TMB), the Manual of the Operational Radioprotection System in Laboratory CND-RX (MSRO-RX, TMB' s Accounting Policies Manual (MPC-TMB)) were revised;
- Revised the TMB Memorandum of Presentation of Production Organization, required for TMB to obtain the authorization of the Romanian Civil Aeronautical Authority for the manufacturing of products for program Leonardo Helicopters, given the organisational changes occurred at TMB;
- Updated the S-RU-01 Human Resources Strategy.

In 2018, the Quality System and Organization Department acted towards constantly improving the organization and design of the Quality Management System.

2. To prove compliance with its clients' requirements, TMB was subject to second party audits conducted thereby, as presented below:

In November 2018, **MTU (Germany)** conducted an audit at TMB to evaluate the quality and environment management system of TMB, according to **ISO 9001:2015** and **ISO 14001:2015** standards. Further to the audit, **MTU** found **2** inconsistencies (**Supplier Audit Report no. LAB02307 of 08.11.2018**) which established opportunities to improve the compliance with the requirements of a potential supplier.

3. To prove compliance with its clients' requirements, TMB was subject to third party audits conducted by certification/supervisory authorities/bodies, as presented below:

In May 2018, the **Romanian Civil Aeronautical Authority (AACR)** conducted a spontaneous audit at TMB to approve the significant amendment and the minor amendments of the POA communicated by Turbomecanica SA in accordance with the provisions of EU Regulation no. 748/2012, Part 21, Section A, Subpart G. Further to the audit, AACR prepared Investigation Report no. **RTI-TMB-2018-MSG-NP/3&MMG-NP/4 of 30.05.2018**, which found no **inconsistencies** and approved all the communicated amendments.

In November 2017, **AEROQ** conducted a scheduled audit at TMB to supervise TMB's quality and environmental management systems, according to **ISO 9001:2015 and ISO 14001:2015** standards. Further to the audit, AEROQ did not find any inconsistencies (**Audit Report no. 001 of 01.11.2018**), keeping the certifications for TMB's quality and environmental management systems valid until **09.11.2020**.

In November 2018, the **Romanian Civil Aeronautical Authority (AACR)** conducted a scheduled audit at TMB to supervise on an ongoing basis the production organisation at **Turbomecanica SA** according to the provisions of **EU Regulation no. 748/2012, Part 21, Section A, Subpart G**. Further to the audit, **AACR** did not find any **inconsistencies**, keeping the license for production organisation issued on **02.12.2014.**

In December 2018, **TUV Nord** conducted a scheduled audit to supervise TMB's quality management system according to **ISO 9001:2015** and **AS/EN 9100:2018**. Further to the audit, **TUV Nord** did not find any inconsistencies (**Audit Report no. 35229053/06.12.2018**), keeping the license for TMB's quality management system valid until **22.02.2020**.

4. To guarantee the TMB management, clients and certification bodies that the company properly implements the requirements of the quality management/environmental management system and keeps them efficient and effective, in 2018, the Department of Quality and Organization conducted internal/external audits as follows:

4.1 Internal quality management system and environment management system audits

The internal audits on the quality management system were conducted in accordance with Audit Plan PA-TMB 2018, 1st, revised to 2nd and 3rd Editions, approved by the CEO.

In 2018, 24 SMQ audits were conducted that found 37 inconsistencies for which the company established 62 correction measures, which were 84% completed (10 of which is pending/rescheduled for 2019).

The internal audits on the environmental management system were conducted in accordance with Audit Plan PA-TMB 2018, 1st revised to 2nd and 3rd Editions, approved by the CEO.

In 2018, 1 SMM audit was conducted that found 1 inconsistency for which the company established 12 correction measures, which were 100% completed.

4.2. Internal product audits

The internal product audits were conducted in accordance with Audit Plan PA-TMB 2018, 1st Edition revised to 2nd and 3rd Editions, approved by the CEO.

In 2018, 9 product audits were conducted that found 5 inconsistencies for which the company established 9 correction measures, which were 100% completed.

4.3. Internal process audits

The internal process audits were conducted in accordance with Audit Plan PA-TMB 2018 1st Edition, revised to 2nd and 3rd Editions, approved by the CEO.

In 2018, 11 process audits were conducted that found 2 inconsistencies for which the company established 4 correction measures, which were 100% completed.

4.4. External audits at suppliers

The external audits at supplies were conducted in accordance with Audit Plan PA-TMB 2018 1st Edition revised to 2nd and 3rd Editions, approved by the CEO as follows:

In March 2018, TMB representatives (within DCO and CCU) conducted an audit at **Cristal R Chim SRL Bucuresti** to evaluate the quality management system installed at such supplier according to **ISO 9001:2015** standard. Further to the audit, the TMB audit team prepared Audit Report no. A1F of 27.03.2018, which found **2 inconsistencies**. After the supplier established the necessary correction actions and completed them by the deadline, TMB decided to keep such supplier on TMB's supplier list.

5. To ensure the monitoring of the performance of TMB's processes with a view to increasing customer satisfaction as regards the quality of the products/services delivered and increase the attractiveness of such products/processes on the aeronautical market, the following actions were conducted in 2018:

5.1 The general procedure PG SMQ-05 "Management analysis", lays down the indicators required to reach the strategic and quality objectives and which influence the customer satisfaction level. Such indicators in 2018 are:

- Strategic Indicator I1 (compliance of delivery terms) is decreasing and is slightly below (0.24%) the planned objective of minimum 97%, having an aggregate value of 96.76%. This means that TMB observes the production program and the failures are very low;

- Strategic Indicator I2 (compliance of selling plan) is decreasing, and falls within the planned objective of minimum 97.06%, having an aggregate value of 96.65%. This means that TMB takes efforts to observe the sales program and failures are dropping;

- Strategic Indicator I3 (non-compliance of the requirements of the technical execution documentation – non-compliance and scraps) is decreasing, falls under the objective set (maximum 0.75%), having an aggregate value way below such objective, namely 0.24%. This means that TMB complies with the requirements of the documentation and deviations are very few;

- Strategic Indicator I4 (non-compliance of products/services delivered – complaints) is increasing, and slightly exceeds (0.1%) the objective set (maximum 1.0% and has an aggregate value of 1.10%). This means that TMB ensures the conformity of products/services delivered and complaints are few;

- Strategic Indicator I5 (non-quality costs), as internal percentage loss, is decreasing, and slightly exceeds (0.33%) the objective set (maximum 5%, having an aggregate value of 5.33% of the value of the prior computation of internal orders affected production).

5.2 As regards special processes and the activity of quality laboratories, in 2018 the Company continued its policy of meeting the customers' needs, and increasing the attractiveness of the Company for potential active customers in the aeronautical industry by the following actions:

5.2.1. Accreditation of special processes

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

In 2018, the following special processes were re-accredited:

In January 2018, **NADCAP** conducted at **TMB** an audit for the re-accreditation of the **welding processes** at **TMB** according to the requirements of **AC7110**. The audit found no **inconsistencies**. Thus, TMB's welding processes **received re-accreditation for a period of 24 months (Merit Programme)** (certificate expiry: **30 April 2020**).

In June 2018, **NADCAP** conducted a re-accreditation audit at **TMB** of the **cold-hardening processes** installed at **TMB** according to the requirements of **AC7117**. Further to the audit, **1 major inconsistency** was found, for which **SCPL** set and completed the proper corrections/correction actions to solve the inconsistency. The correction actions were accepted by **NADCAP**, and the cold-hardening process of **TMB** was re-included in the **Merit Programme for 18 months**, until **30 April 2020**

In August 2018, **NADCAP** conducted a re-accreditation audit of the non-destructive control processes at TMB according to the AC7114 requirements. Further to the audit, 4 minor inconsistencies were found, for which the proper corrections/correction actions were taken. Therefore, **TMB's non-destructive control processes were re-accredited for 24 months (Merit Program)** (certificate expiry: **31 October 2020**).

5.2.2. Second-party process certifications

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

Between January and June 2018, a special process of chemical processing was qualified (Chromate Conversion Treatment of Alluminium Alloys), carried out on LH benchmarks (IT12/0476/00).

Between July and December 2018, the qualifications for the following special processes applicable to Leonardo Helicopters items were extended:

- Magnetic Flaw Detection (IT12/0199/03; valid until 03.08.2021);
- External Rolled Thread (IT12/0256/04; valid until 20.09.2021);
- Assembling Thermal Fits (IT12/0458/01; valid until 28.09.2021).

5.2.2.2. PZL Swidnik certifications

In 2018, the Company received no other certifications of the heat treatment and chemical processing processes applicable to PZL Swidnik benchmarks.

5.2.2.3 General Electric certifications

In 2018, the **special process and laboratory certifications** previously obtained by TMB from **General Electric Aviation** were maintained, and process certifications reaccredited by NADCAP were extended (for the processes evaluated by NADCAP, certificates GT193 are issued so long as the NADCAP accreditation is maintained).

5.2.2.4. Introducing new benchmarks in production

For client **PZL Swidnik (Polonia)**, 2 FAI files were created, which were approved by CLT.

For client **Unison Engine Components Bucuresti**, 1 FAI file was created, which was approved **internally**.

For client Leonardo **Helicopters (Italy)**, 18 FAI files were created, which were approved internally and 1 FAI file, which was approved by CLT; other 4 FAI files were created and sent for approval to CLT. Through the integration of such benchmarks at TMB, the Company continues the assimilation of the package of benchmarks for the Master Transmission Box for the Leonardo helicopters.

6. Central Laboratory Accreditations

In July – December 2018, **TMB** took part through the **SCPL** Laboratories, in two Round-Robin Inter-laboratory Cross-testing Programs organized by PTP Centeh Exova in France and Dirats Laboratories in the USA to check the performance of mechanical testing, metalography and physical and chemical testing laboratories (salt fog testing). These programs are undertaken under the patronage of General Electric, Airbus, Airbus Helicopters, GKN, MTU, Safran and Rolls-Royce and are mandatory for maintaining the NADCAP and GT193 certifications for special processes. All tests have had positive results and the results provided by TMB fall under performance Classes 1 and 2.

7. Complaints / Notifications

In 2018, **TMB** received **42 complaints** from clients, of which:

- 1 from foreign customers (1 from Leonardo Helicopters); the status thereof is presented in table 7.1 herein below:

- 41 from domestic customers (18 complaints from military units of the Ministry of National Defense, 21 complaints from IAR Brasov and 2 from Aeroteh); the status thereof is presented in table 7.2 herein below.

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

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

Total number of **C/N**:	42
Total number of rejected **C/N**:	10
Total number of closed **C/N**:	18
Total number of open **C/N**:	14

7.1. Complaints/notifications for parts filed by foreign customers

Total C/N:	**1**	**Complaint**
Client - benchmark C/N (no. of affected pieces):		
LH (Italy) – retrieval pump casing (1 piece)	1	Complaint closed

7.2 Complaints/notifications for products filed by domestic customers

Total **C/N:**	**41**	**Complaints**
Total **C/N** per category of products:		
- Rear transmission IAR-330A	3	Complaints
- TURMO engine	11	Complaints
- VIPER engine	5	Complaints
- TURMO engine ventilating level	1	Complaint
- CTP main transmission	1	Complaint
- TURMO engine start-up block	2	Complaints
- TURMO engine control block	4	Complaints
- TURMO motor oil pump	1	Complaint
- IAR-330A ventilating level	3	Complaints
- VIPER engine thermocouple	2	Complaints
- CTP rotor	1	Complaint
- CTS rear transmission	1	Complaint
- CTI intermediary transmission	2	Complaints
- 2 transmission Satellites	2	Complaints
- TURMO engine ignition wire	1	Complaint
- Scavenger	1	Complaint

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

Domestic customer	Number of C/N	
Total C/N from domestic customers:	**41**	Complaints
- IAR Braşov	21	Complaints
- UM01969 - Campia Turzii	1	Complaints
- UM02015 - Bacau	10	Complaints
- UM02040 - Otopeni	3	Complaints
- UM01838 - Boboc	3	Complaints
- UM02512Z - Craiova	1	Complaints
- Aeroteh	2	Complaints

I. HUMAN RESOURCES

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

As at December 31, 2018, **TMB** had a total of **441** employees.

The personnel's average age as at such date was 49.50 years.

Between January and December 2018, 87 employees left the company and 85 were employed.

In 2018, the expenses with employees' benefits totalled Ron **34,250,089**, of which:

- salaries: RON 30,575,196
- meal vouchers: RON 1,555,625
- gift vouchers: RON 875,530
- social security: RON 1,243,738

The recruitment costs incurred were approximately RON 6,121.

The company's personnel policy regarding the vocational training of its personnel was well implemented as regards internal trainings, and the budget allocated to external trainings was increased. Trainings were delivered in accordance with the plan approved for 2018.

According to it, the company invested approximately RON 37,044 in improving the competences and certifications outside the company.

Improvement and certification courses were delivered in the company, which totalled approximately 8,281 hours for 143 employees.

During the period under review, only 149 employees attended educational courses and various courses, qualifications/poly-qualifications totalling 7,828 hours.

Personnel expenses totalled 30.47% of the turnover obtained in 2018.

58% of the company employees are trade union members.

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

- 27.98% employees with higher education – 119 employees, of which:
- Post-university studies: 2 EMBA employees
- 43.99% of employees with secondary and post-secondary studies - 194 employees
- 22.67% of employees with vocational studies - 100 employees
- 5.76% of employees with primary studies - 21 employees

The relationship between the management and employees is regulated under the Collective Labor Agreement for 2017-2018. The social and professional environment is permanently monitored, through a communication system between social partners, which prevents conflicts, which were non-existent in 2018.

J. Assessment of occupational health and safety

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

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

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

In 2018, the Company continued the investment started in 2016 for improving the working conditions.

The access doors to the workshops were completely upgraded, in the sense of increasing the insulating capacity.

The main workshop in which the Company invested in 2018 is the Special Processes Workshop.

The Company continued to revamp the special processes lines, and improve working conditions, by completing the program for the modernization of ventilation and exhaust installations that would ensure enhanced protection both for employees, and the environment. All existing lighting appliances were replaced with new ones, which are more sealed and ensure increased air temperature.

For this workshop also, the Company added more lighting appliances to as to provide the best working conditions.

The investment program for 2017 also included the partial modernization of the space used as warehouse in the Acquisitions department, and a sanitary facility equipped with showers was built in this area also.

The Company also continued the process of improving the conditions for locker rooms and eating areas, both by modernizing the existing ones and installing refrigerators and food heating equipment, and by building other areas to be used as locker rooms and eating areas for all the employees of Turbomecanica.

The modernisation of lighting in all of the Company's workshops was completed.

Under the labor protection and security program for 2018, the company carried out all the activities required to comply with Law no. 319/2006 on Occupational Safety and Health and the application rules thereof, as well as the other acts of legislation in the field, by taking the following measures:

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

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

In 2018, no labour accident occurred at **TMB**. In December, the investigation regarding the labour accident that occurred in 2017 at the Company was completed and the conclusion was that it had been caused by a negligence of the employee involved.

K. NUCLEAR PROTECTION

In **2018**, as regards nuclear protection, the following actions were undertaken:

- authorisation of Viper parts out of MSRR 8014 material, valid until 27.02.2020;

- prepared and sent to CNCAN the file for the authorisation of internal transfer to RATEN – ICN Piteşti of 10% of the entire amount of radioactive materials held.

L. ENVIRONMENTAL PROTECTION

1. Integrated Environmental Permit and Water Management Permit

TMB obtained Water Management Permit no. 250B/11.03.2018 with a validity of 3 years.

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

To fully comply with the provisions in the environmental integrated permit, the Company has laid down objectives and actions, included in the Environmental Management System Program of TMB and the 2018 Investment Plan, most of which have been met and those unsettled were included in the Environmental Management System Program of TMB and the 2019.

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

In 2018, no environmental incidents occurred, but in April – May the accidental pollution of used water above the maximum values admitted by the legislation in force was registered.

Further to the controls of the **National Environmental Guard** concluded in 2018 by Minutes no. 296/01.10.2018 permanent measures were ordered:

1. In case of accidental discharge of pollutants in the air or in case of major accident, report to GNM-CMB;
2. Avoid stocks of waste to be sold, as well as by-products that may cause environmental pollution or present risks for the population's health;
3. Keeping record of chemical substances and compositions in strict compliance with the provisions of GEO no. 195/2005.

The Company was fined according to Minutes no. 13654/30.10.2018 for failure to comply with GEO 195/2005 article 1 letters b and l as regards water protection.

The inspection conducted the **National Administration Romanian Waters** concluded by Minutes no. 7826/05.12.2018 ordered one mandatory measure: compliance with the water management permit.

The control conducted by the **Local Police - General Directorate of Local Police and Supervision, Ecology and Environmental Protection Department**, concluded by Minutes no. 316/11.09.2018, no measures or sanctions were established.

Further to the inspection carried out by the **Bucharest City Hall – General Directorate of Local Police and Supervisory** concluded by Minutes no. 4157/21.08.2018, the following permanent measures were established, no sanctions were imposed:

- Compliance with the provisions included in the Integrated Environmental Permit;
- Submission of the Air Emission Analysis Reports for 2018 within 7 days from the inspection. Measure completed.

Further to the inspection carried out by the **Bucharest Public Health Directorate – inspection and Public Health Department**, concluded by Minutes no. 3019/29.08.2018, the following measure was ordered: sonometric testing within 30 days by a company authorised in this field according to Ministry og Health Order no. 119/2018 as amended by Order no. 994/2018. Measure completed.

2. Certification of Environment Management System

Further to the audit for supervision of the integrated quality and environment management system of 01.11.2018, **TURBOMECANICA SA** was audited by **AEROQ SA** in accordance with the requirements of SR EN ISO 14001:2015 – Environmental Management System and ISO 9001:2015 – Quality Management System. Further to such audit, **TURBOMECANICA SA** no inconsistency was found, only 8 recommendations were made.

3. Personnel trainings

In 2018, in accordance with the provisions of **TMB Periodic Personnel Training Plan**, by specific trainings and certifications courses, the Company secured and maintained the necessary competences of the 116 operators, inspectors and lab assistants for special processes and laboratories, conducting 33 specific trainings.

M. MARKETING

For foreign market, the sales of TMB continued in 2018 to be represented mainly by components and subparts for aircraft engines, programs which continued to grow/develop compared to the previous years due to the company's commercial policy and marketing strategy, the Company continuing to sell components for **gas turbines**.

The company's marketing strategy for 2018 focused on strategic objectives which aimed at:

- further reaffirming the company's image domestically and internationally, and
- gaining its market stability,
- contacting the large industry corporations (especially in the field of "ENERGY – components for gas turbines"), but also their suppliers ("Tier 1") known internationally – in order to take part in sub-contracting programmes for high aviation corporations as sub-supplier of components for mechanical processing ("Tier 2");
- Identifying and attracting new clients for mechanical processing and business resumption with currently inactive traditional customers (RR, MTU Germany) to provide about 25% of the 2019 turnover.

In support of the above, in 2018, TMB participated with its own stand in a series of national and international events of the airspace industry, among which:

- **ILA BERLIN 2018 international fair of suppliers in the aeronautics industry, which** took place during 25 - 27 April 2018.

During the 3 days of the exhibition, business meetings were held with prestigious companies in the field, such as: AEROTECH PEISSENBERG-GERMANY, a company that expressed interest in working with TURBOMECANICA and visiting the factory and BET SHEMESH ENGINES LTD (BSEL) / Israel, a company interested in long-term cooperation for the delivery of aviation components (rotors, loudspeakers, etc.), has already been awarded awards for aviation programs by the end of 2018.). TURBOMECANICA also had the honor to welcome Mr. Stefan Oprea, Trade Minister, accompanied by a delegation from the Romanian-German Chamber of Commerce and Industry and the Ministry of Foreign Affairs of Berlin. During these meetings the company's capabilities were presented, analyzing the opportunities and identifying the possible cooperation segments, TURBOMECANICA thus consolidating the bases for expanding its collaborations at international level.

- between 16 and 22 July 2018, the 51st edition of **FARNBOROUGH INTERNATIONAL AIRSHOW**, which brought together 1,482 exhibitors; Thus, during the 7 days of the exhibition, business meetings took place with the representatives of the companies: LIEBHERR AEROSPACE-GERMANY, MTU AERO ENGINEES AG-GERMANY, SAFRAN GROUP-FRANCE LEONARDO HELICOPTERS-ITALY, MB AEROSPACE-POLAND, MECACHROME- others. TURBOMECANICA also hosted meetings with various suppliers, including LEISTRITZ TURBINENTECHNIK-CANADA, SETFORGE-FRANCE, WUYI TURBINE BLADE-CHINA, GRUPO INMAPA-SPAIN, BLADES & TOOLS-INDIA and others.

The aim of these meetings was to identify and initiate new business opportunities in the field of mechanical processing & special processes that allow optimal capitalization of currently available production capacities and current company resources.

- Between 20 and 22 November 2018, the **13th edition** of the **AIRTEC 2018** Aerospace Suppliers International Fair, which was held in **Munich, Germany**.

During the 3-day exhibition, the TURBOMECANICA team had a series of B2B meetings with potential clients / suppliers, including: KAWASAKI HEAVY INDUSTRIES-JAPAN, THALES ALENIA SPACE-ITALY, DAVI-PROMAU ITALY, GWD TECHNOLOGIEZENTRUM-GERMANY, PRP-ITALIA, POLYMIM-GERMANY, LATECORE INTERCONNECTION SYSTEMS-HAMBURG, MARLETTI-ITALY, TURBOCAST-INDIA, TAKUMI PRECISION ENGINEERING – IRLELAND, other companies.

We appreciate that the presence of TURBOMECANICA at these international events in 2018 represented an important opportunity that was successfully used for the development of partnership relations with internationally renowned companies, an opportunity materialised through the entry of TMB by the end of 2018 in competitive bidding processes followed by audit as a potential supplier to MTU Germany, Witzenmann Germany and Rolls-Royce. We estimate that in the first part of 2019 we would initiate cooperation programs with these companies that would allow the successful achievement of the strategic objectives targeted by TMB for this year.

Domestically, in order to attract the human resources necessary to successfully meet its strategic objectives, the participation of TURBOMECANICA between 22 and 23 March 2018 in the **CNC Technologies** International Conference and Exhibition, 12th edition, organized by the Polytechnics University in Bucharest, along with prestigious companies, university professors, teachers from technically vocational high schools, researchers and specialists of research institutes, students passionate about such technologies and equipment.

The TMB lecture was preceded by a presentation by **DDCO / HR: "Turbomecanica - Top Employer"**, a concrete opportunity to hire and train young university graduates.

In the same way, during 23-24 April 2018 the 9th edition of AEOCONSULT took place, a large event organized annually by the **EUROAVIA** Students Association in collaboration with the Faculty of Aerospace Engineering, in which **TURBOMECANICA** participated as Gold Sponsor.

By participating in AEROCONSULT 2018, we were able to directly inform and present in detail the programs for students, as well as the available jobs and the opportunities they offer. The representation team provided details on how to conduct internships, information on the departments where the programs are running, the benefits and opportunities for students. The event was also a good opportunity to promote the company, which also provided detailed information through the promotional materials presented at the stand (roll-ups, flyers, brochures, etc.).

The results were soon noticeable:

- **TMB** further maintained, with responsibility and dedication, the national flying capabilities for PUMA IAR-330 helicopters and IAR 99/ SOIM test planes owned by the Ministry of National Defence **(SMFA, SMFN)** and the **National Intelligence Office** (total turnover – domestic aviation: EUR 22,606,828.13).

- TMB managed to maintain in 2018 a high place in the supply chain of world-wide renowned producers of engines and mechanical aviation parts (LEONARDO HELICOPTERS Italy – 2018 turnover: EUR 1,018,474.03), especially in the ENERGY field: GE Power & Water–Hungary and China (2018 turnover: EUR 448,013.25) along with other historical partners (PZL SWIDNIK Poland, HONDA AERO SUA, AVIALL USA, AVIO ITALY, UNISON POLAND and others.

- In addition to the partners mentioned, already historical, the Company developed programs by attracting new clients: *WITZERMANN-GERMANIA, ROLLS ROYCE-GERMANIA. AEROTECH PEISSENBERG-GERMANIA, MTU FRIEDRICHSHAFEN-GERMANIA, SEKO AEROSPACE-CEHIA* and others alike.

It is important to notice that the Company has successfully maintained its permit granted by the Romanian Civil Aeronautical Authority for the production of products/components/equipment to fit out AW109 and AW119 helicopters – LEONARDO Helicopters (AGUSTA WESTLAND) ITALY (according to Certificate no. RO.21G.0008/02.12.2014). Based on such permit, TMB continued in 2018 to deliver full subsets for rear transmission for helicopters (production, mounting, trial) and will continue to develop both the current cooperation programs and new programmes with **LEONARDO Helicopters** ITALIA (TGB repair programme, MGB components execution programme for civil helicopters).

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

Given the circumstances, where conflict is still present on the international political scene, in 2019 the domestic market still represents an opportunity to consolidate the company's turnover, by continuing the equipment programs of the Ministry of National Defense both in terms of maintaining the existing fighting technique at optimum parameters and in particular by continuing the upgrading of helicopters with SOCAT systems throughout 2018 – 2020 and the SAR research-saving program which includes the revamping of 6 UN helicopters during 2018-2019, as well as the maintenance programs for the IAR 99 SOIM aircraft fleet (by bringing a considerable number of VIPER 632-41M engines equipping such aircraft to the optimum operation parameters).

TMB's major strategic objective continues to be in 2019 the identification of new clients for the processing processes which may secure in 2020 at least 40% of turnover and for repairs, clients that secure 40% of turnover in 2021. Therefore, we are focusing on efficiently loading the production capacity in the field of mechanical processing along with maintaining flexibility in meeting the specific needs of each customer (such as *just in time* deliveries, accepting the reasonable variation of customers' needs, the existence of a reasonable back-up stock of finished products, etc.).

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

In addition to the matters presented, TMB envisages for 2019 a marketing policy oriented towards TMB's strategic objectives as regards the provision of human resources in the period 2018-2021 (according to SRU-01, AI1), by launching and implementing media projects (TV, WEBSITE TMB, publications, other media) to ensure the dissemination of information on TMB partnerships in dual education enrolling the required number of students to the specializations of interest for TMB.

Thus, the marketing budget for this year ensured the Company's participation in many international educational and promotional events, the financing of specific marketing activities in the field of HR, which would allow the Company to sucessfully meet such objectives, thus providing the new generation of workers and specialists for TURBOMECANICA.

N. CORPORATE GOVERNANCE

TURBOMECANICA SA ("the Company") applies the provisions of the Corporate Governance Code and the Bucharest Stock Exchange, the regulated market where the shares of such company are traded at standard category.

1. Statement on Code compliance

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
Section A Duties of the Board of Administration			
A.1 The Company has an internal BoA regulation that includes terms of reference for BoA and for corporate governance.	X		The Company has adopted a functioning regulation for the BoA. BoA's responsibilities, key functions and mode of operation are provided by the constitutive act and the legal provisions.
A.2 The provisions for management of conflict of interest are included in the BoA regulation.	X		The Company has adopted an operating regulation for the BoA, which contains provisions on the management of conflict of interest. The Board of Administration will oversee the implementation and compliance with the applicable legal provisions, as well as the policies approved by the BoA on non-competition and conflict of interest.
A.3 The Board of Administration or the Supervisory Board must be composed of at least five members.	X		The Board of Administration consists of 5 members.
A.4 Most members of the Board of Administration should not have executive functions. At least one member of the Board of Administration or the Supervisory Board must be independent in the case of Standard Category companies. Each independent member of the Board of Administration or the Supervisory Board, as the case may be, must file a statement at the time of its nomination for election or re-election, as well as when any change of its status occurs, indicating the elements on the basis of which it is deemed independent in terms of character and judgment.	X		Membership of the Board of Administration: **Radu Viehmann** – President, CEO **Dana Maria Ciorapciu** – Non-executive Administrator **Radu Ovidiu Sarbu** - Independent Non-executive Administrator **Grigore Florescu** - Non-executive Administrator **Henriette Spinka** - Non-executive Administrator Out of the 5 members of the Board of Administration, one is executive administrator – president CEO, – and the rest are non-executive. Mr. **Radu Ovidiu Sarbu** declared that he is independent administrator, fulfilling the criteria provided for by the CGC of the BSE in articles A41-A49.
A.5 Other relatively permanent commitments and obligations of a member of the Board, including executive and non-executive positions in the Board of Non-profit Companies and institutions, must be disclosed to potential shareholders and investors prior to nomination and during their term of office.	X		The BoA members have submitted their statements regarding their relatively permanent commitments and obligations.

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
A.6 Any BoA member should provide the BoA with information on any report on a shareholder directly or indirectly owning shares representing more than 5% of all voting rights. This obligation refers to any report that may affect the member's position on matters decided by the BoA.	X		Members of the BoA have filed statements relating to shareholders who directly or indirectly own more than 5% of all voting rights in addition to the provisions of the constitutive act and the legal provisions applicable to the BoA members' obligation to exercise their mandate with loyalty, which compels them to refrain from any attitude that may affect the position of the member on matters decided by the Board.
A.7 The Company must designate a Board secretary responsible for supporting the work of the Board.	X		The Board of Administration has confirmed Mrs. Claudia Anghel in the position of secretary.
A.8 The Annual report provides information whether an evaluation of the Board took place under the supervision of ?		X	Annually, the Board of Directors presents the activity report at the first Ordinary General Meeting of Shareholders. The Company is in process of implementing the evaluation policies of the Board of Administration, the activity of the Board of Administration being analyzed mainly by the GMS.
A.9 The corporate governance statement should contain information on the number of Board and committee meetings over the past year, the participation of the administrators (in person and in absentia) and a report by the Board and committees on their activities.	X		In 2018, the Council met 10 times, all of its members being present in person. The Audit Committee carries out its activity in accordance with the internal regulations adopted.
A.10 The annual report must contain information on the exact number of independent members of the BoA.	X		Of the appointed members of the BoA, Mr. **Radu Ovidiu Sarbu** declared that he fulfils conditions provided by the Applicable regulations in order to be independent member of the Board.
A.11 The Company holds a nomination committee consisting of non-executive members, which will lead the nomination process of new members in the Board and make recommendations to the Board.	X		Pursuant to the provisions of the BoA Regulations, in the event of the appointment of a new BoA member / renewal of mandates, the BoA will establish a nomination committee.
Section B Risk management system and internal control			
B.1 The BoA should set up an audit committee where at least one member should be an independent non-executive administrator. Most members, including the chairperson, must have proven that they have appropriate qualifications relevant to the functions and responsibilities of the Committee. At least one member of the audit committee must have proven and appropriate audit or accounting experience.	X		The Audit Committee consists of administrators with relevant audit or accounting experience.
B.2 The chairman of the audit committee must be an independent non-executive member.	X		Mr. Radu Ovidiu Sarbu is an independent administrator and has been appointed as chairman of the BoA’s Audit Committee.
B.3 As part of its responsibilities, the audit committee must carry out an annual assessment of the internal control system.	X		The Audit Committee carries out its work in accordance with the adopted regulation including the assessment of the internal control system.

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
B.4 The assessment should take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Council's audit committee, the promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified by the internal audit and the submission of relevant reports to the BoA.	X		The Audit Committee has been set up and operates in accordance with the adopted regulation including as regards the assessment of the internal control system and internal control mechanisms.
B.5 The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties.	X		The Audit Committee has been set up and operates in accordance with the adopted regulation including the assessment of conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties.
B.6 The audit committee should assess the effectiveness of the internal control system and risk management system.	X		The Audit Committee was set up and operates in accordance with the adopted regulation including the analysis of the effectiveness of the internal control system and risk management system.
B.7 The Audit Committee should monitor the application of generally accepted legal standards and internal audit standards. The Audit Committee should receive and evaluate internal audit team reports.	X		The Audit Committee has been set up and operates in accordance with the regulations adopted including the assessment of the application and the observance of the generally accepted standards, a function which is specific to the audit committee.
B.8 Whenever the Code mentions reports or analyses initiated by the Audit Committee, they must be followed by regular reports (at least annually) or ad hoc reports to be submitted to the Council.	X		The Audit Committee has been set up and operates in accordance with the regulations adopted, including as regards reporting to the BoA in accordance with the provisions of the Corporate Governance Code of the BSE.
B.9 No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with shareholders and their affiliates.	X		The Company applies the regulations in force established both by the Constitutive Act and by other derivative corporate regulations.
B.10 The Board must adopt a policy to ensure that any Company transaction with any of the related parties with a value equal to or greater than 5% of the Company's net assets (according to the latest financial report) is approved by the BoA following a mandatory opinion of the Board's audit committee and properly disclosed to shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.	X		The Audit Committee has been set up and operates in accordance with the adopted regulation including the issuance of opinions on the Company's transactions with related parties, transactions worth more than 5% of the net assets of the Company. The legal provisions for reporting transactions of over EUR 50,000 concluded with related parties are considered sufficient, covering the 5% criterion of net assets of the company.
B.11. Internal audit should be performed by a separate structural division (internal audit department) within the company or by hiring an independent third party.	X		The Company has an internal structure of internal audit.

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
B.12 In order to ensure the fulfillment of main functions of the internal audit department, it must report functionally to the BoA through the audit committee. For administrative purposes and within the management's obligations to monitor and mitigate risks, the internal audit must report directly to the CEO.	X		The internal audit division must report to the audit committee and the BoA.
Section C Fair salaries and incentives			
C.1 The Company must publish the remuneration policy on its website and include in the annual report a statement on the implementation of the remuneration policy during the annual period under review.	X		The remuneration of BoA members is set upon the members' appointment by the GMS and the related decisions are published both on the Company's website, on the BSE and in the Official Journal.
Section D Value added through investor relations			
D.1 The company must organize an Investor Relations Service - made known to the general public through the responsible person or as an organizational unit. In addition to the information required by the legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:	X		The company has organized the Investor Relations Service coordinated by a specialized advisor who manages the relationship with investors. There is a dedicated section on the Company's website www.turbomecanica.ro, which includes various information about investors, structured according to the nature of the information.
D.1.1 The main corporate regulations: the constitutive act, the procedures for general meetings of shareholders;	X		
D.1.2 Professional CVs of members of the governing bodies of the company, other professional engagements of Board members including executive and non-executive positions on boards of administration in companies or non-profit institutions;	X		Currently there are on the company's website updated CVs for each member of the BoA and executive management.
D.1.3 Current reports and periodic reports (quarterly, half-year and annual) - at least those set out in point D.8 - including current reports with detailed information on non-compliance with this Code;	X		
D.1.4 Information on general meetings of the shareholders: agenda and informative materials; the procedure for electing members in the Board, including the decisions adopted;	X		The information provided by the law is published on the Company's website. It is necessary to implement the necessary steps according to the BoA Regulation regarding the issues related to: the procedure of electing the members of the Board; the arguments supporting proposals for candidates in the Board, along with their professional CVs.
D.1.5 Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of the rights of a shareholder, including the deadlines and the principles applied to such operations. Such information will be published within a timeframe that will allow investors to take investment decisions;	X		All information on the payment of dividends is published on the Company's website as well as in current reports.

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
D.1.6 The name and contact details of a person who will be able to provide relevant information upon request;	X		
D.1.7 Company presentations (e.g., investor presentations, quarterly results, etc.), financial statements (quarterly, half-year, annual), audit reports, and annual reports.	X		The Company publishes all the information provided by the law, including the reports in the dedicated section of the BSE site and on its own website.
D.2 The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the CEO or the Directorate and adopted by the Board in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the annual distribution policy to shareholders will be published on the Company's website.	X		The Company has adopted the dividend distribution policy and procedures for each dividend distribution, but due to the fluctuating economic situation and especially the uncertainties surrounding the defense and / or aeronautics field, it is difficult to establish a long-term policy on the annual distribution of dividends. Insofar as net dividable profit was recorded in the form of dividend and to the extent that the losses of the previous financial years have been covered, the Company has proven consistency and predictability in the allocation of dividends when the Company's profit has allowed it.
D.3 The company will adopt a policy regarding the forecasts, whether they are made public or not. The forecast policy will determine the frequency, timing and content of the forecasts. If published, forecasts may only be included in the annual, half-year or quarterly reports.		X	The Company could not objectively adopt a forecasting policy to determine the frequency, timing and content of whether or not to be made public due to the fluctuating economic situation and, in particular, the uncertainties in the defense and / or aeronautics sector. The annual reports of the administrators and published annually in the income and expenditure budget contain the forecasts and estimates of the management bodies of the Company in this respect.
D.4 The rules of the general meetings of shareholders should not limit shareholders' participation in general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting the next meeting of shareholders.	X		
D.5 External auditors will be present at the shareholders' general meeting when their reports are presented at these meetings.	X		
D.6 The Board will present to the Annual General Meeting of Shareholders a brief description of the internal control system and system of management of significant risks, as well as opinions on matters subject to the decision of the general meeting.	X		According to the BoA regulation, the annual report contains a brief description of the internal control and risk management systems.

Provisions of the code on corporate governance	Yes	No	Reason for non-compliance/Details
D.7 Any specialist, consultant, expert or financial analyst may attend the shareholders' meeting upon a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	X		
D.8 The quarterly and half-year financial reports will include both Romanian and English information on key factors that affect changes in sales, operating profit, net profit and other relevant financial ratios from quarter to quarter, as well as year-on-year.	X		All financial reports are published both in Romanian and English.
D.9 A company will hold at least two meetings / conference calls with analysts and investors each year. The information presented on these occasions will be published in the Investor Relations section on the company's website at the dates of the meetings / conference calls.	x		The financial calendar provides for meetings with analysts and investors especially when publishing the annual financial statements (as material for OGMS) and half-year financial statements.
D.10 If a company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers that their impact on the innovation and competitiveness of the company is part of its development mission and strategy, it will publish the policy on its activity in this area.		X	The Society has not been able to adopt and publish a policy to support forms of artistic and cultural expression, sporting, educational and scientific activities, due to the fluctuating economic situation and, in particular, the uncertainties related to the field of defense and / or aeronautics. However, numerous actions to support the above areas have been carried out, as disclosed in the financial statements of the company.

2. Reporting information on the standalone provisions of the Corporate Governance Code

A. Duties of the Board of Administration ("BoA")

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

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

TMB is managed by a Board of Administration formed of five (5) members elected by the general meeting of shareholders of 25.04.2016 for a 4-year term, with possibility of re-election. Out of such members elected by the ordinary General meeting of Shareholders, the Board members will elect a president and a vice-president. The president is also the Company's CEO.

The Board of Administration is lead by the President, or, in his absence, the vice-president, holding the same rights as the incumbent president.

Out of the 5 members of the Board of Administration, one is also the executive administrator –president CEO – and the rest are non-executive. Mr. Radu Ovidiu Sarbu declared himself independent administrator, fulfilling the criteria provided for by the CGC of the BSE at points A41-A49.

Administrators in office as at December 31, 2018

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

The administrators' obligations and responsibilities are governed by the provisions on mandate and those especially provided for in relation to companies. In addition to this, the Company adopts the BoA's Regulations detailing the main tasks, organization, committees and policies to be implemented and supervised by the BoA.

The BoA Regulation provides for the rules applicable by the BoA to manage conflicts of interest in Chapter F of the BoA Regulation.

Members of the Board of Administration, including the President, may delegate the powers of representation and / or decision to the Company's managers, appointed from among the administrators or outside the Board.

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

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

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

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

The administrators' participation in the share capital of TMB as at December 31, 2018

Name	Position	No. of shares	% of share capital
Radu Viehmann	Chairman, CEO	95,758,800	25.9198
Dana Maria Ciorapciu	Non-executive Administrator	56,003,876	15.1590
Radu Ovidiu Sarbu	Independent Non-executive Administrator	-	-
Grigore Florescu	Non-executive Administrator	-	-
Henriette Spinka	Independent Non-executive Administrator	610,000	0.1626

In 2018, the BoA convened in 10 meetings, at least two meetings per quarter, which were attended by 4 to 5 of its members – and adopted decisions which enable it to fulfil its duties efficiently and effectively. Therefore, in its meetings, the BoA has analyzed the financial results obtained during the reporting period and cumulated from the beginning of the year, as well as its economic performance by reference to the budget and the similar period of the previous year. The administrators' remuneration policy applied until present is based on the national legislation in force. The administrators concluded mandate contracts, setting a fixed remuneration. The template contract may be accessed on the Company's webpage www.turbomecanica.ro. There is no variable remuneration component or other forms of reward for administrators. In order to remunerate the executive management based on efficiency and performance, a Remuneration Committee was created within the Board of Administration.

B. Risk management and internal control

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

Risk management and internal control have been carried out so far by the specialized department within the Company and by the BoA.

The Audit Committee has been set up and operates in accordance with the adopted regulation.

The Company has developed all aspects of the management of the conflicts of interest, transaction advertising, audit, fair treatment of shareholders in the Company's current work, approval of shareholder transactions by the BoA under the supervision of the BoA and in strict compliance with the legal provisions applicable to companies whose shares are traded on a regulated market.

Also, regarding internal audit, the Company has fulfilled its requirements, implemented the policies and conditions stipulated by law.

C. Fair compensation and incentives

Considering the corporate size of the company until present, the remuneration policy has not been adopted since the remuneration of the BoA members has been set by the General Meeting at a level similar to those existing on the market.

The Company owns a website with a section dedicated to investor relations whose content is to be updated according to the provisions of the BoA Regulation and the Corporate Governance Code.

The Company publishes on its website all information on general meetings, participation conditions, documents, etc., current reports, corporate events, including dividend payments.

The Company has not yet adopted a dividend payment policy, but has demonstrated its steady and predictable payout.

The dedicated section contains information about Company leadership, board members, contact details of the person in charge of investor relations.

Upon request, the Company invites specialists, consultants or experts as well as accredited journalists at the GMS meetings to the extent that the President of the Board deems appropriate and organizes two meetings with analysts and investors each year.

CEO

Eng. RADU VIEHMANN

TURBOMECANICA SA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2018

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)

This is a free translation from the original Romanian version.

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This is a free translation from the original Romanian version.

TURBOMECANICA SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(all the amounts are expressed in „RON", unless otherwise specified)

	Note	December 31, 2018	December 31, 2017
		RON	*RON*
Revenues	**4**	112,387,772	100,766,069
Other gains and losses	**9**	484,761	3,732,181
Income from production of goods		-	-
Changes in inventories		(1,043,853)	5,847,409
Raw materials and consumables	**5**	(30,764,226)	(38,753,621)
Employee benefits	**6**	(34,250,089)	(31,184,420)
Asset impairment		(8,490,388)	(6,702,423)
Financial costs, net	**7**	(2,895,023)	(3,413,951)
Finance income	**7**	504	1
Other operating expenses	**8**	(7,016,569)	(5,638,683)
Gain / Loss from assets held for sale		809,724	20,104
Favorable /unfavorable differences from revaluation		-	(6,214,653)
Profit before taxation		**29,222,612**	**18,458,013**
Income tax / Deferred income tax	**10**	(4,374,895)	(4,807,092)
Profit for the year		**24,847,717**	**13,650,921**
Other comprehensive income, net of taxation			
Deferred income tax		-	-
Revaluation differences		-	-
Actuarial (loss) / gain on defined benefits plan	**21**	-	-
Other comprehensive income for the year		674.648	-
Comprehensive income for the year		**24,173,069**	**13,650,921**
Result per share	**27**		
Number of shares		369,442,475	369,442,475
(RON / share) basic and diluted		0,07	0,03

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

TURBOMECANICA SA
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(all the amounts are expressed in „RON”, unless otherwise specified)

	Note	December 31, 2017	December 31, 2016
ASSETS		*RON*	*RON*
Long-term assets			
Property, plant and equipment	**11**	54,393,716	59,961,955
Intangible assets	**12**	4,620,294	6,784,610
Other assets		1,772,000	1,000
Total long-term assets		**60,786,009**	**66,747,565**
Current assets			
Inventories	**13**	38,203,237	36,947,781
Trade receivables	**14**	2,452,667	2,632,790
Other receivables	**15**	1,762,178	1,711,184
Cash and cash equivalents	**16**	6,990,513	9,636,856
Assets held for sale	**17**	-	6,966,252
Total current assets		**49,408,595**	**57,894,863**
Total assets		**110,194,604**	**124,642,427**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	**18**	1,024,571,055	1,024,571,055
Reserves	**19**	87,815,126	88,372,743
Retained earnings		(1,036,441,556)	(1,052,231,734)
Own shares	**27**	(599,408)	(599,408)
Total equity		**75,345,217**	**60,112,656**
Long-term liabilities			
Borrowings	**20**	1,713,317	5,670,250
Deferred tax liabilities	**10**	2,163,750	3,659,565
Provisions	**21**	1,493,086	1,259,764
Other long-term liabilities	**24**	1	-
Total long-term liabilities		**5,370,154**	**10,589,580**
Current liabilities			
Trade and other liabilities	**22**	2,791,929	5,817,305
Borrowings	**20**	12,019,531	37,168,913
Current income tax	**10**	3,303,399	1,517,497
Provisions	**21**	3,900,826	3,597,787
Deferred income	**23**	159,227	868,861
Other current liabilities	**23**	7,304,321	4,969,829
Total current liabilities		**29,479,233**	**53,940,192**
Total liabilities		**34,849,387**	**64,529,773**
Total equity and liabilities		**110,194,604**	**124,642,427**

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA,	**RADU VIEHMANN,**
Economic - Commercial Manager	Chairman - CEO

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, 2018	December 31, 2017
Cash flow from operations		
Net profit / (loss) of the year	**24,847,717**	**13,650,921**
Adjustments for:		
Income tax	4,374,895	4,807,092
Impairment expenses	8,490,388	6,702,423
Charge / (Reversal) of provision for receivables	(250,012)	189,040
Provision for inventories	(109,059)	1,985,253
Other provisions	536,360	(2,883,012)
Net gain on sale of fixed assets	(806,041)	(16,421)
Financial costs	2,555,591	2,670,158
Other financial gains	(504)	(1,721)
Net gains / loss from exchange rate differences	12,599	(3,023,463)
Changes in working capital		
(Increase) / Decrease in trade and other receivables	(1,391,226)	1,803,476
(Increase) / Decrease of inventories	(1,146,396)	(13,893,757)
(Increase) / Decrease in trade and other liabilities	(2,894,907)	(1,434,654)
Net cash generated by / (used in) operating activities	**34,219,403**	**10,555,336**
Income tax paid	(3,988,314)	(4,581,307)
Interest paid/received, net	(2,555,087)	(2,663,377)
Net cash generated by / (used in) operating activities	**27,676,002**	**3,310,652**
Cash flows from investment activities		
Purchase of tangible assets	(2,860,293)	(2,585,398)
Purchase of intangible assets	(493,708)	(466,092)
Proceeds from sale of fixed assets	10,368,460	16,421
Net cash generated by / (used in) investment activities	**7,014,459**	**(3,035,069)**
Net cash from financing activities		
(Repayments) / collection of borrowings	(29,118,913)	1,269,844
Actuarial gain/ (loss) on defined benefits plan	-	-
Dividends paid	(8,217,891)	(3,573,477)
Disposals / (Payments) on redeemed own shares	-	163,417
Net cash used in financing activities	**(37,336,804)**	**(2,140,216)**
Net increase / (decrease) of cash and cash equivalents	**(2,646,343)**	**(1,864,633)**
Cash and cash equivalents at the beginning of the period	**9,636,857**	**11,501,493**
Cash and cash equivalents at the end of the period	**6,990,513**	**9,636,856**

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

TURBOMECANICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(all the amounts are expressed in „RON", unless otherwise specified)

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

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

TURBOMECANICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(all the amounts are expressed in „RON", unless otherwise specified)

	Share capital	Reserves	Revaluation reserve	Retained earnings	Total
Balance as at January 1, 2018	**1,024,571,055**	**50,715,138**	**37,657,605**	**(1,052,831,142)**	**60,112,656**
Profit / (Loss) for the year	-	-	-	24,847,717	24,847,717
Realization of revaluation reserves	-	-	(2,308,288)	2,308,288	-
Increase in legal reserves	-	1,750,671	-	(1,750,671)	-
Other reserves	-	-	-	(674,648)	(674,548)
Dividends paid	-	-	-	(8,940,508)	(8,940,508)
Balance as at December 31, 2018	**1,024,571,055**	**52,465,809**	**35,349,317**	**1,037,040,964**	**75,355,217**

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA,
Economic - Commercial Manager

RADU VIEHMANN,
Chairman - CEO

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:

	2018	**2017**
Average number of employees	426	447

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:

- **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),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

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 IFRS 1 and IAS 28 due to "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 – adopted by the EU on 7 February 2018 (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"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

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 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

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 IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general 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.

  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.

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

- **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 reporaters 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.

- **IFRS 17 "Insurance Contracts"** issued by IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied.

- **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.

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

- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** issued by IASB on 12 October 2017. The amendments modifies the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.

- **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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material** issued by IASB on 31 October 2018. The amendments clarify the definition of material and how it should be applied by including in the definition guidance.

- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement issued by IASB on 7 February 2018. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures** issued by IASB on 12 October 2017. Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

- **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 IFRS 1 and IAS 28 due to "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 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.

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

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business issued by IASB on 22 October 2018. Amendments were introduced to improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** issued by IASB on 12 December 2017. Amendments to various standards resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).

- **Amendments to References to the Conceptual Framework in IFRS Standards** issued by IASB on 29 March 2018. Due to the fact that Conceptual Framework was revised, the IASB updated references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

- **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.

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** issued by IASB on 7 June 2017. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 the Company registered a cumulated loss of RON 1.059.538.602 which also includes the effects of the application of inflation ratios according to IAS 29. In 2018, the Company registered a profit of RON 24,847,717, much of the Company's business being redressed. The Company has stable orders and clients. These financial statements have been prepared based on the going concern principle. Still, 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 any uncertainty related to the going concern.

The Company is currently dependent on the activity with two main internal customers. Turnover with these clients for 2018 represents 91% of total turnover of the Company.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenues from services

Revenues generated by a services supply contract are recognised at the completion of the service. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 4.6639 (December 31, 2018) and USD 1 = RON 4.0736 (December 31, 2018), average rate 2018 EUR 1 = RON 4.6535.

Foreign exchange differences for monetary elements are recognised 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 capitalised.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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, 2018 was 16% (December 31, 2017: 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.

The depreciation periods for tangible assets are:

	Years
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.

The net book value of buildings, plant and machinery is of approximately RON 35.6 million and the net book value of the land (including locally mandatory indexation) is approximately RON 18.8 million.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally generated intangible assets – research and development expenses (continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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.

<u>Financial assets</u>

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.

<u>Effective interest method</u>

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.

<u>Financial assets at fair value through profit or loss</u>

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments (continued)

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 made 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.

IFRS 9 "Financial instruments"

As of January 1, 2018, the Company first applied IFRS 9 "Financial Instruments". IFRS 9 introduces changes in the recognition and measurement of financial assets and results in prior recognition of non-performing debt allowances for receivables. Being permitted by the standard, the Company adopted IFRS 9 from 1 January 2018 using the revised retroactive method, with cumulative adjustments from the initial application recognized in equity as of 1 January 2018 and without disclosing the comparatives. For trade receivables, there is no significant difference between the initial measurement method in accordance with IAS 39 and the new criteria.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" introduces a comprehensive model for the recognition and measurement of income. The standard replaces the existing income recognition criteria, replacing IAS 18 "Income", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs". Under the new standard, revenue is recognized when the customer acquires control of the goods or services provided, at the amount that reflects the price that the company expects to receive in exchange for those goods or services.

Being permitted by the standard, the Company adopted IFRS 15 from 1 January 2018 using the revised retrospective method with cumulative adjustments from the initial application recognized in equity as of 1 January 2018 and without restating the comparatives. Initial application has no impact on the retained earnings of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting (continued)

As far as the moment of revenue recognition is concerned, all services provided by the Company are transferred to the customer when the services are rendered. On the basis of the internal assessment, the impact was identified in the amount of RON 1,232,247 from extended guarantees. Also, a number of other amendments and interpretations have been effective since January 1, 2018, but do not have a material effect on these separate financial statements.

If the new IFRS 15 had been adopted, the Income lines in the statement of comprehensive income for the period ended December 31, 2018 would have been higher by RON 1,232,247 without impact on the margin.

IFRS 16 "Leases"

Starting January 1, 2019, the Company will adopt the new IFRS 16 "Leasing" standard. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing guidelines for lease agreements, including IAS 17 Leasing, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the Fund of Transactions involving the Legal Form of a Lease Agreement. The Company is currently conducted a detailed assessment of the impact of applying IFRS 16 and doesn't resulted a significant impact.

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, 2018 is of RON 59,014,010. As at December 31, 2018, 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. 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 1,493,086 as at December 31, 2018, of which RON 221,146 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 2018.

iv) Deferred tax. The carrying amount as at December 31, 2018 and December 31, 2017 is presented in Note 10.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting judgements (continued)

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.

4. INCOME

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

	December 31, 2018	**December 31, 2017**
	RON	***RON***
Income from the sale of finished products	111,002,984	99,511,084
Income from the sale of merchandise	85,966	50,630
Income from services provided	738,170	398,839
Income from other activities	46,641	48,254
Income from the sale of residual products	514,011	757,263
Total	**112,387,772**	**100,766,069**

Starting January 1, 2018, the Company adopted the new IFRS 15 "Revenue from Contracts with Customers". If the new IFRS 15 had not been adopted, the Income lines in the statement of comprehensive income for the period ending December 31, 2018 would have been higher by RON 1,232,247 without impact on the margin.

5. RAW MATERIALS AND CONSUMABLES USED

	December 31, 2018	**December 31, 2017**
Expenses with raw materials	24,889,284	31,336,212
Expenses with utilities	2,180,162	1,975,808
Expenses with auxiliary materials	2,436,585	3,754,806
Other similar expenses	1,126,042	1,420,340
Packaging expenses	61,626	237,714
Cost of goods sold	70,527	28,741
Total	**30,764,226**	**38,753,621**

6. EMPLOYEE BENEFITS

	December 31, 2018	December 31, 2017
Salaries	33,006,351	23,258,489
Social security contributions	1,243,738	5,716,046
Other expenses with contributors	-	2,209,885
Total	**34,250,089**	**31,184,420**

7. NET FINANCIAL LOSSES

	December 31, 2018	December 31, 2017
Interest expense	2,554,007	2,665,756
Bank commissions	249,913	242,726
Other financial expenses	89,522	494,763
Other financial income	1,581	12,427
Interest income	(504)	(1,721)
Total	**2,894,519**	**3,413,951**
Other financial income	**-**	**-**

8. OTHER OPERATING EXPENSES

	December 31, 2018	December 31, 2017
	RON	***RON***
Services provided by third parties	2,843,749	2,962,547
Other operating expenses	577,482	256,336
Duties and taxes	975,827	492,254
Repairs	876,669	796,993
Advertising, publicity and protocol	792,621	543,841
Insurance premiums	301,512	275,802
Secondments	262,827	150,313
Rental expenses	192,275	85,541
Employee training	78,914	74,538
Transport expenses	114,693	518
Total	**7,016,569**	**5,638,683**

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

	December 31, 2018	December 31, 2017
	RON	*RON*
Net gain on foreign exchange	(12,599)	3,023,463
Movement of provisions	(734,888)	(2,792,876)
Gain / (Expenses) with the impairment of assets intended for sale	-	3,501,595
Total	**(747,486)**	**3,732,181**
Other gains and losses from sale of assets		
Losses from sale of assets held for sale	809,724	20,104

Details regarding the sale of assets held for sale in the year 2018 are presented in Note 17.

10. INCOME TAX

In 2018 and 2017, the income tax rate was 16%.

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

The income tax recognised in profit or loss:

	December 31, 2018	December 31, 2017
Income tax – current liabilities	(3,303,399)	(1,517,497)
Deferred income tax	1,495,815	39,364
Total	**(1,807,584)**	**(1,478,133)**

Reconciliation of current income tax:

	December 31, 2018	December 31, 2017
Profit before taxation	**29,383,363**	**18,458,013**
Legal reserve	-	(233,042)
Elements similar to revenues	2,311,971	149,226
Elements similar to expenses	-	-
Non-taxable income	(6,399,167)	(6,502,304)
Non-deductible expenses	18,169,068	24,873,189
Tax deductions	(3,736,985)	(4,004,949)
Taxable result	**39,728,250**	**32,740,134**
Fiscal losses used	-	-
Income tax expense	**(5,870,710)**	**(4,846,456)**
Deferred income tax	**1.495.815**	**39.364**
Total tax expenses	**(4.374.895)**	**(4.807.092)**

10. INCOME TAX (continued)

The deferred income tax in 2018 and 2017 is as follows:

	Balance as at January 1, 2017	Recognized through profit or loss	Recognized through other comprehensive income	Balance as at December 31, 2017	Recognized through profit or loss	Recognized through other comprehensive income	Balance as at December 31, 2018
Tangible assets – revaluation reserves	(3,698,929)	39,364	-	(3,659,565)			(2,163,750)
Employee benefits liabilities	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-
Net tax (asset)/liability	**(3,698,929)**	**39,364**	**-**	**(3,659,565)**			**(2,163,750)**

In 2018, the Company registered income from deferred tax in amount of RON 1,495,815 due to the decrease of the deferred tax liability as at December 31, 2018.

Deferred tax consists of:

	Assets		Liabilities		Net	
	31-Dec-18	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
Tangible assets – revaluation reserves	-	-	(2,249,568)	(3,659,565)	(2,249,568)	(3,659,565)
Employee benefits liabilities	-	-	(1,773)	(19,572)	(1,773)	(19,572)
Provisions	87,591	120,318	-	-	87,591	120,318
Net tax (asset)/liability	**87,591**	**120,318**	**(2,251,341)**	**(3,779,884)**	**(2,163,750)**	**(3,659,565)**

The unrecognised deferred income tax is RON 2,236,021 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.

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and other constructions	Technical installations and machinery	Equipment and vehicles	Tangible assets in progress	Total
COST						
January 1, 2017	**21,296,400**	**14,044,054**	**30,117,034**	**136,036**	**102,232**	**65,695,756**
Inflows	-	1,422,440	1,656,083	30,759	3,318,155	6,427,436
Transfers	-	-	-	-	-	-
Outflows	-	144	74,970	1,929	3,099,091	3,176,136
Inflows pending supply	-	-	1,473,225	-	-	-
Inflows / (outflows) from revaluation	85,125	(6,065,497)	(4,453,111)	(32,232)	-	(10,465,715)
December 31, 2017/January 1, 2018	**21,381,525**	**9,400,854**	**28,718,196**	**132,633**	**328,747**	**59,961,955**
Inflows	-	112,526	2,163,951	-	1,855,902	4,132,379
Transfers	-	-	-	-	-	-
Outflows	2,586,529	-	1,484,634	-	803,252	4,874,415
Inflows pending supply	-	-	1,072,651	-	-	1,072,651
Inflows / (outflows) from revaluation	-	-	-	-	-	-
December 31, 2018	**18,794,996**	**9,513,380**	**30,470,164**	**132,633**	**1,381,397**	**60,292,570**
Accumulated depreciation						
January 1, 2017	**-**	**813,495**	**6,809,208**	**36,874**	**-**	**7,659,578**
Depreciation for the year	-	548,067	3,747,322	19,335	-	4,314,724
Accumulated depreciation related to outflows	-	-	-	-	-	-
Disposals due to revaluation	-	(1,361,563)	(10,563,918)	(56,209)	-	(11,981,690)
December 31, 2017/January 1, 2018	-	-	-	-	-	-
Depreciation for the year	**-**	392,171	5,477,348	31,106	-	5,900,625
Accumulated depreciation related to outflows	-	-	(1,770)	-	-	(1,770)
Disposals due to revaluation	-	-	-	-	-	-
December 31, 2018	**-**	**392,171**	**5,475,578**	**31,106**	**-**	**5,898,855**
NET BOOK VALUE						
January 1, 2017	**21,296,400**	**13,230,559**	**23,307,826**	**99,162**	**102,232**	**58,036,177**
December 31, 2018	**21,381,525**	**9,400,854**	**28,718,196**	**132,633**	**328,747**	**59,961,955**
December 31, 2017	**18,794,996**	**9,121,209**	**24,994,586**	**101,527**	**1,381,397**	**54,393,716**

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Fixed assets pledged or mortgaged

As at December 31, 2018 the Company pledged or mortgaged property, plant and equipment of RON 35,382,791 in net book value.

12. INTANGIBLE ASSETS

	Other intangible assets	Intangible assets in progress	Total
COST			
As at January 1, 2017	**18,453,125**	**237,256**	**18,690,381**
Inflows	596,881	632,477	1,229,359
Outflows	-	825,223	825,223
As at December 31, 2017	**19,041,091**	**44,511**	**19,085,602**
Inflows	402,849	425,448	828,297
Outflows	710,684	402,850	1,113,534
As at December 31, 2018	**18,733,256**	**67,109**	**18,800,365**
ACCUMULATED AMORTISATION			
As at January 1, 2017	**9,913,294**	**-**	**9,913,294**
Amortisation for the year	2,387,699		2,387,699
Accumulated amortisation related to outflows	-	-	-
As at December 31, 2017	**12,300,992**	**-**	**12,300,992**
Amortisation for the year	2,589,764	-	2,586,764
Accumulated amortisation related to outflows	(710,685)	-	(710,685)
As at December 31, 2018	**14,180,071**	**-**	**14,180,071**
NET BOOK VALUE			
As at January 1, 2017	**8,539,831**	**237,257**	**8,777,087**
As at December 31, 2017	**6,740,099**	**44,511**	**6,784,610**
As at December 31, 2018	**4,553,185**	**67,109**	**4,620,294**

Intangible assets largely consist of ERP IT software. Such software amortizes over 9 years. The net book value of the ERP as at December 31, 2018 is of RON 4,307,240 with a remaining useful life of 23 months.

13. INVENTORIES

	December 31, 2018	December 31, 2017
	RON	*RON*
Raw materials	33,604,946	29,403,962
Consumables	1,237,393	1,282,599
Items of inventory	-	-
Packaging	27,173	23,885
Finished goods	1,155,592	2,459,668
Work in progress	16,054,191	17,759,652
Semi-finished goods	-	-
Residual products	62,917	66,051
Merchandise	-	-
Inventory allowances	(13,938,976)	(14,048,035)
Total	**38,203,237**	**36,947,781**

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 2018 have been taken into account, and inventories as at 31.12.2017 and 31.12.2018 were different from zero. The rate was calculated as the ratio between the average inventories (as at 31.12.2017 and 31.12.2018) and 2018outflows. The adjustments were calculated according to the size of rate: 30% for a rate equal to 3, 70% for a rate equal to 4 and 100% for a rate equal to 5 (and higher).

Inventories of raw materials and consumables managed by DPPV – Finished parts VIPER; DPRP – Repaired parts; DPMP – hazardous materials, intended only for the manufacturing and repair or VIPER 632-41 engines, were 100% provisioned.
The raw materials and consumables managed by DPSM in amount of RON 2,463,196., procured in 2017 for the GE HUNGARY programme at clients' request, were 100% provisioned due to the decrease of demand for finished goods.

The movement of allowances for inventory impairment is as follows:

	December 31, 2018	December 31, 2017
	RON	*RON*
Balance at the beginning of the year	**(14,048,035)**	**(12,062,782)**
Increase of provision in profit or loss	79,059	(1,985,253)
Balance at the end of the year	**(13,938,976)**	**(14,048,035)**

14. TRADE RECEIVABLES

	December 31, 2018 *RON*	December 31, 2017 *RON*
Trade receivables	2,447,343	2,887,931
Clients - invoices to be issued	41,738	31,284
Allowance for doubtful debts	(36,414)	(286,426)
Total	**2,452,667**	**2,632,790**

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

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**(286,426)**	**(97,386)**
(Decrease) / Increase of provision in profit or loss	250,012	275,595
Balance at the end of the year	**36,414**	**(286,426)**

The following table analyses trade receivables:

	December 31, 2018	December 31, 2017
Not due and without impairment	41.737	471,023
Maturity expired, without impairment	2.447.343	2,161,767
Impairment allowances	36,414	286,426
Total	**2.452.667**	**2,887,931**

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

Due and without impairment	December 31, 2018	December 31, 2017
Within 3 months	1,739,833	1,933,425
Between 3 months and 6 months	410,429	64,792
Between 6 months and 9 months	256,284	160,131
Between 9 months and 1 year	-	91
Within more than 1 year	40,797	3,328
Total	**2,447,343**	**2,161,767**

15. OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Sundry debtors	65,778	21,683
Prepaid expenses	34,976	51,846
Advances to suppliers	1,050,387	1,178,231
Other receivables	611,037	459,424
Impairment allowances	-	-
Total	**1,762,178**	**1,711,184**

16. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Cash in banks	6,982,769	9,627,196
Petty cash	5,173	6,782
Other cash equivalents	261	-
Cash equivalents	2,310	2,878
Total	**6,990,513**	**9,636,856**

17. ASSETS HELD FOR SALE

	December 31, 2018	December 31, 2017
Land held for sale	-	6,966,252
Buildings held for sale	-	-
Vehicles and machinery held for sale	-	-
Total	**-**	**6,966,252**

During 2018, the breakdown of assets held for sales has changed. In April 2018, the Company sold the land in Dragomiresti. The book value was RON 6,966,252.

As at December 31, 2018, the Company does not hold any asset held for sale.

18. SHARE CAPITAL

The share capital is fully paid in:

	No. of shares	Share capital
		RON
Share capital as at December 31, 2017 and December 31, 2018	369,442,475	36,944,248
Effect of inflation on the share capital		987,626,807
Share capital as at December 31, 2017 and December 31, 2018		**1,024,571,055**

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

19. RESERVES

	December 31, 2018	December 31, 2017
Legal reserves	15,691,483	15,691,483
Revaluation reserves	35,349,317	37,657,605
Other reserves	36,774,326	35,023,655
Total	**87,815,126**	**88,372,743**

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

In 2018, the Company did not create a legal reserve, as it was established in 2017 in amount of 20% of the share capital.

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 2018, the Company established reserves for the profit reinvested in amount of RON 1,750,671, representing tax facilities. The management decided not to use such reserves, and therefore, it did not register deferred tax in this respect. The remaining reserves are distributions from the previous years' profit.

20. BORROWINGS

	December 31, 2018	December 31, 2017
a) Short-term debts to shareholders	**4,880,000**	**4,880,000**
Secured loans	4,880,000	4,880,000
Interest payable to shareholders	-	-
b) Loans from banking institutions	**6,796,587**	**38,503,087**
Secured loans	**7,139,531**	**32,288,913**
Short-term loans		
Long-term secured loans		4,312,628
Long-term loans	-	-
Total short- and long-term loans	**12,019,531**	**42,815,715**

20. BORROWINGS (continued)

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

Contract	Balance as at December 31, 2018	Interest payable as at December 31, 2018	Commissions as at December 31, 2018
(A) BRD – Credit facility no. 103 BIS/28.04.2006	5,417,687		1,084
(D) Banca Transilvania – Loan contract no. 186/24.06.2009	1,378,900		356
(F) Banca Transilvania - Loan contract no. 40/04.02.2011			
(G) Banca Transilvania – Loan contract no. 664/21.11.2011			
(I) Banca Transilvania - Loan contract no. 385/02.07.2012			
	6,796,587		**1,440**

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.

20. BORROWINGS (continued)

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).

In 2018, the Company paid the interest owed for 2018 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: the interest in amount of RON 262,672 and related tax in amount of RON 29,195;
Ciorapciu Dana Maria: interest in amount of RON 17,508 and related tax in amount of RON 1,951.
The outstanding loans as at December 31, 2018 are:
Viehmann Radu – RON 4,580,000 of which RON 4,500,000 as per Contract 178/2009 and the subsequent addenda (due on January 31, 2019) and RON 80,000 as per Short-term contract no. 538/2011, not interest bearing.
Ciorapciu Dana Maria – RON 300,000 as per Contract no. 867/2012 and the subsequent addenda (due on January 31, 2019)

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 addenda 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.

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 TURBOMECANICA 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.

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

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 – multi-option non-binding global financing threshold, 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.

Addendum no. 59/29.08.2018 extended the validity of Facility A – multi-option non-binding global financing threshold to 31.08.2019, amended article 4 of Addendum 56/30.08.2017, amended article 6 "Due date" of Addendum 56/30.08.2017, amended article 7.3 (Suspensive conditions) and article 7.4 (Other provisions) of Addendum 56/30.08.2017, amended article 3.3 Financial obligations in Part B – General Terms and Conditions.

On 29.08.2018 the Company concluded:

Mortgage contract no. 7003 on movable goods, to secure all of the assumed obligations (19 mortgaged goods as per Annex 1);

Mortgage contract no. 7004 on movable goods, to secure all of the assumed obligations (2 mortgaged goods as per Annex 1);

Contract for mortgage on all bank accounts no. 7005/29.08.2018 to secure all of the obligations assumed (19 current accounts as per Annex 1);

Contract for mortgage on all of the Company's receivables no. 7006/29.08.2018 (6 contracts or other trade documents as per Annex 1).

In March 2018, the Company received from BRD -GSG for signing, the updated repayment schedule of Facility B to Contract 103 bis.

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

The entire balance of Facility B to Contract 103 bis in amount of RON 10,784,798.40 was paid 2018 as follows:

06.03.2018 RON 554,398.90
13.04.2018 RON 6,830,227.30
30.09.2018 RON 554,398.90
24.12.2018 RON 2,845,773.30

The interest rate is ROBOR 3 M+3.5% p.a.

As at December 31, 2018, the balance of the loan under Contract 103 bis is:

Facility A RON 5,417,686.55

Facility B 0

The value of the letters of guarantee issued out of the loan threshold, valid in 2019, is RON 74,235.60.

The value of the letters of guarantee issued out of the loan threshold, valid until December 31, 2018 is RON 1,576,291.66. RON 1,576,291.66 was released in the credit line on 03.01.2019.

The management fee for December 2018 was in amount of RON 1,083.54 and was established in December 2018 (account 51861000) and paid on 01.01.2019, i.e., when due.

(A1) BRD - Factoring contract 539/04.05.2006

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

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

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

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

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

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

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

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

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

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

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

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

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

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

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

On 10.10.2018, the Company concluded Addendum no. 4 to Factoring Contract no. 539/04.05.2006, which amended article XI(2) (The amount of taxes and fees provided for under article 1 shall be established in the Special Terms) and article XVI (These general terms shall be concluded for a period of 1 year as of the date of last signing, and the validity thereof shall be automatically extended over successive periods of 1 year, the validity of the thresholds is not extended automatically, termination conditions, etc).

On the same date, 10.10.2018, the Company concluded Addendum no. 4 to Special Terms no. 3 to Factoring Contract no. 539/04.05.2006, which provided for certain supplementations/amendments (financing threshold of EUR 500,000, validity term of financing threshold - 31.08.2019, 90% financing of approved receivables, other terms)

The factoring fee is 1.1% + VAT and EUR 9 /document + VAT.

The annual financing rate is: EURIBOR/3M + 4% margin p.a. + VAT.

(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.

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(D) Banca Transilvania – Loan contract no. 186/24.06.2009

On 24.06.2009, the Company concluded loan contract no.186 with Banca Transilvania Militari Branch, to be used as global ceiling.

The loan was amended by addenda, having the following structure in 2016 and 2017:

On 22.03.2016, the Company concluded Addendum no.12/186 whereby the interest margin was reduced from 6.4% to 4.4% and a new clause was inserted, namely the submission of the documentation to extend the credit facility 45 days prior to the due date.

On 26.05.2016, the Company concluded Addendum no.13/186 whereby the validity of the credit line was extended to 27.05.2017, the variable interest rate was set at 5.42 % (ROBOR 6 M namely 1.02 +4.4 % bank's margin), the guarantees were maintained, special granting clauses were introduced.

The loan balance as at 31.12.2016 is RON 6,833,510.

The commissions payable for 2016 due on 31.01.2017 are:
- management commission RON 110.22;
- non-withdrawal commission RON 142.58.

On 25.05.2017 the Company concluded Addendum no. 14/186 which technically extended the credit line in amount of RON 9,400,000 to finance the current activity until 26.06.2017.

On 22.06.2017, the Company concluded Addendum no. 15/186 whereby the validity of the credit line was extended to 25.05.2018, the variable interest rate was set at 5.47% (ROBOR 6M namely 1.72 +4.4% bank margin), registered the guarantees and the terms of the facility.

On 22.06.2017, the Company concluded Addendum no. 03/186/GAJ/01 which amends and supplements Mortgage Contract on Specific Existing Goods no. 186/GAJ/01,27.02.2014.

On 24.07.2017 the Company concluded Addendum no. 16/186 to revise the description of the guarantees according to the changes made in sites 10 and 11.

The balance of the loan as at December 31, 2017 is RON 9,052,895.35.

The commissions payable for 2017 due on January 31, 2018 are:

- management commission RON 146.01;
- non-withdrawal commission RON 19.28.

On 24.05.2018 the Company concluded Addendum no. 17/186 which technically extended the credit line until 06.06.2018.

On 30.05.2018 the Company concluded Addendum no. 18/ whereby the validity of the credit line was extended to 24.05.2019.

The interest rate was set to 6.39% (ROBOR 6M + 4% bank margin), penalties and commissions were set (0.60% for extension, risk, non-withdrawal, reivew, management, evaluation and early repayment), guarantees, insurance of collateral, facility clauses.

On 10.12.2018 the Company concluded Addendum no. 19/186 which amended the guarantees (added collateral) and added conditions to the credit line in amount of RON 9,400,000.

The condition imposed is to finalise, within 30 days from approval of the request, the evaluation report for the real estate brought as security.

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

Deposit contract no. 186/DEP/01/10.12.2018 was added to guarantees, which is registered in the Electronic Archive for Security Interests in Movable Property, whereby a movable mortgage is established on the balance of the savings account in amount of RON 1,771,000 opened by Turbomecanica with Banca Transilvania.

The balance of the loan as at December 31, 2018 is RON 1,378,900.04.

The commissions payable for 2018 due on January 31, 2018 are:

- management commission RON 22.24
- non-withdrawal commission RON 334.24

(E) Banca Transilvania - Loan contract no. 40/04.02.2011

On 04.02.2011, the Company concluded with Banca Transilvania - Militari Branch loan contract no. 40.

The guarantee consists of:

1. Contract of security interest in personal property over determined existing goods no. 40/GAJ/01/04.02.2011;
2. Contract of security interest in personal property over collections and current account balance no. 40/CES/02/04.02.2011;
3. Receivables assignment contract no. 40/CES/02/04.02.2011.

The final due date of the loan is October 1, 2019.

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.

In 2018, the Company reimbursed on a monthly basis the amount of RON 72,919.02 as per the schedule.

On 10.12.2018, the entire loan balance was repaid, i.e., RON 729,190.4.

The total value of reimbursements is RON 1.604.218,28

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(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.

In 2018, the Company reimbursed on a monthly basis the amount of RON 36,402.07 as per the schedule.

On 10.12.2018, the entire loan balance was repaid, i.e., RON 400,422.86.

The total value of reimbursements is RON 800,845.63.

(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.

In 2018, the Company reimbursed on a monthly basis the amount of RON 33,967.55 as per the schedule.

On 10.12.2018, the entire loan balance was repaid, i.e., RON 407,610.75.

The total value of reimbursements is RON 781,253.80.

20. BORROWINGS (continued)

b) Amounts owed to credit institutions (continued)

(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.

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, 2017 and December 31, 2018, the Company complied with these economic and financial indicators.

21. PROVISIONS

	December 31, 2018	December 31, 2017
Provisions for post-employment benefits	428,824	439,908
Other personnel-related provisions	1,493,086	1,259,764
Provisions for compensatory salaries	3,472,002	3,157,879
Total	**5,393,912**	**4,857,551**

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 2018 which will be granted in 2019, provision for rest leaves not taken as at December 31, 2018, provisions for meal vouchers related to December 2018 which will be granted in 2019.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2018 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.

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

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

Mortality of employees and their family members.	Romanian Mortality Table for 2013 (men and women) issued by the National Institute of Statistics.
Rate of employee turnover	In 2018, the employee turnover was 9.1%, a more than 50% decrease compared to 2017. For this year, the Company considered the average of the last five years, of 7.83% 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 7.83% of the total number of employees. The rate of employee turnover is: - 23.62% 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 2018, the Company did not communicate a personnel redundancy plan.

21. PROVISIONS (continued)

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 2018. The available residual terms until maturity were 1-10 years and 13 years. For the other terms, the Company estimated the discount rate using the Smith-Wilson method. The long-term assumptions were: – estimated long-term inflation rate 2% pa – estimated long-term real yield of government bonds 2.05% pa – liquidity premium for Romania 0%. Thus, a balancing forward rate of 4.05% pa was considered. The method ensures compatibility between the discount rate and inflation rate.
Inflation rate	Based on the statistics issued by INSSE and the NBR forecast, the Company estimated an inflation rate of: – 3.75% in 2019 – 3.1% in 2020 – Decreasing on a straight line up to 2.5% in 2021-2025 – 2.50% in 2025-2030 following a decreasing trend in the upcoming years.
-	The Company estimates an average growth of maximum 7% in 2019. For 2019 and the following years, the Company estimated that salaries will increase by an average of the consumer price index of each year.

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

Service cost:	**December 31, 2017**
Current service cost	174,259
Interest cost	46,887
Past service cost	-
Benefits paid	(434,690)
TOTAL	**(213,544)**

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

Re-measurement of the net defined benefit liability:	**December 31, 2017**
Actuarial gains and losses from changes in financial assumptions	895,794
TOTAL	**895,794**

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 in included in other comprehensive income.

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

22. TRADE AND OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Trade liabilities	2,521,140	5,226,251
Liabilities on invoices to be received	270,789	328,686
Other creditors	-	262,369
Total	**2,791,929**	**5,817,305**

23. OTHER CURRENT LIABILITES AND DEFERRED INCOME

Other current liabilities

	December 31, 2018	December 31, 2017
Salaries	1,267,357	1,146,398
Salary taxes	1,545,826	1,877,345
VAT payable	2,144,944	1,275,553
Other creditors	37,561	46,097
Other taxes	59,912	308,453
Liabilities with material guarantees	1,232,247	-
Advances from clients	10,314	10,314
Dividends	1,006,159	305,669
Total	**7,304,321**	**4,969,829**

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, 2018 of RON 159,227.

24. SEGMENT REPORTING

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

Segmenting income	**Segmenting income**	
	December 31, 2018	**December 31, 2017**
	RON	***RON***
Aircraft benchmarks and parts	6,332,351	3,958,822
Current engine repairs	102,662,977	79,818,209
Other	3,392,444	16,989,038
Total from operations	**112,387,772**	**100,766,069**

In 2018, the depreciation and amortization is allocated to Aircraft makers and parts – 5.63%, Current engine repairs – 91.34%, others 3.03%. Material non-cash items not allocated consist of RON 1,495,815 reversal of deferred tax asset.

24. SEGMENT REPORTING (continued)

	Asset Segment		Liability Segment	
	31-Dec-18	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
Assets and liabilities segment				
Aircraft benchmarks and parts	79,826,158	78,268,986	2,198,946	4,234,353
Current engine repairs	15,211,980	21,273,539	-	1,071,077
Not allocated	15,144,984	25,099,903	32,650,441	59,224,343
Total Assets / Liabilities	**110,194,604**	**124,642,428**	**34,849,387**	**64,529,773**

	Profit/(loss)	
	December 31, 2018	**December 31, 2017**
Aircraft benchmarks and parts	2,107,891	1,101,729
Current engine repairs	28,596,064	22,232,890
Other	603,453	4,731,893
Unallocated	(6,459,691)	(14,415,591)
Total	**24,847,717**	**13,650,921**

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.

	Income by geographical areas	
	December 31, 2018	**December 31, 2017**
Europe	112,211,307	97,366,795
US	176,465	213,223
Asia	-	3,186,051
Total	**112,387,772**	**100,766,069**

25. 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.

The gearing ratio as at December 31, 2018 and December 31, 2017 is as follows:

	December 31, 2018	December 31, 2017
Total borrowings	13,732,848	42,839,163
Cash and cash equivalents	6,990,513	9,636,856
Net debt	**20,723,361**	**33,202,307**
Total capital and reserves	75,345,217	60,112,656
Gearing ratio	28%	55%

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.

25. FINANCIAL INSTRUMENTS (continued)

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.

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.

25. 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:

2018	**EUR 1EUR = RON 4,6639**	**USD 1USD= RON 4,0736**	**GBP 1GBP=RON 5,1931**	**CHF 1 CHF = RON 4,1404**	**RON 1 RON = RON**	**TOTAL December 31, 2018**
ASSETS	***RON***	***RON***	***RON***		***RON***	***RON***
Cash and cash equivalents	471,948	41,577	11,451	3,561	6,461,976	
Receivables and other current assets	2,313,142	-	-	-	139,525	
LIABILITIES						
Trade and other liabilities	844,744	49,439	13,728	-	1,884,018	
Short and long-term loans	-		-	-	13,732,848	
Net balance exposure (assets - liabilities)	**1,940,346**	**(7,862)**	**(2,277)**	**3,561**	**(9,015,365)**	

2017	**EUR 1EUR = RON 4.5411**	**USD 1USD= RON 4.3033**	**GBP 1GBP=RON 5.2961**	**CHF 1 CHF = RON 4.2245**	**RON 1 RON = RON**	**TOTAL December 31, 2017**
ASSETS	***RON***	***RON***	***RON***		***RON***	***RON***
Cash and cash equivalents	1,879,173	328,091	1,165	1,103	7,427,324	
Receivables and other current assets	2,166,425	37,370	-	-	428,995	
LIABILITIES						
Trade and other liabilities	947,550	1,886,953	1,917	-	2,980,885	
Short and long-term loans	-		-	-	42,839,163	
Net balance exposure (assets - liabilities)	**3,098,048**	**(1,521,492)**	**(752)**	**1,103**	**(37,963,729)**	

25. 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.

	10% strengthening of RON against EUR / USD - impact on the result as at:	
	December 31, 2018	**December 31, 2017**
EUR	194,035	309,805
USD	(786)	(152,149)
GBP	(228)	(75)
CHF	356	110

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.

25. FINANCIAL INSTRUMENTS (continued)

2018	**Interest rate**	**Less than 1 month**	**Less than 1 year**	**1 - 5 years**	**5+ years**	**Total**
Non-interest bearing						
Trade and other current liabilities	-	1,007,399	1,784,530	-	-	2,791,929
Other liabilities	-	5,349,458	1,954,862	1	-	7,304,321
Long and short-term loan (of which)	-	-	-	-	-	-
Long-term real estate loan BTRL	-					
Long-term loan for RELOCATION RON BT	-					
Long-term loan BTRL RON						
Short-term bank loan in RON BRD	ROBOR 3M + 3,5% pa	-	5,417,687	-	-	5,417,687
Loan ceiling in RON from Banca Transilvania M	ROBOR 6M+4.4%	-	1,378,900	-	-	1,378,900
Medium-term bank loans - BRD						
Finance lease BTRL			341,504	1,713,317		2,054,821
Loans from shareholders	6.33%/6.50%	-	4,880,000	-	-	4,880,000
Interest payable		1,440	-	-	-	1,440
Total debt		**6,358,297**	**15,757,483**	**1,713,318**	**-**	**23,829,099**
Cash and cash equivalents	-	**6,990,513**	-	-	-	**6,990,513**
Other receivables and other current assets	-	1,082,711	1,323,998	45,958	-	2,452,667
Total assets		**8,073,224**	**1,323,998**	**45,958**	**-**	**9,443,180**
Total Net		**1,714,927**	**(14,433,485)**	**(1,667,360)**	**-**	**(14,385,919)**

25. FINANCIAL INSTRUMENTS (continued)

2017	**Interest rate**	**Less than 1 month**	**Less than 1 year**	**1 - 5 years**	**5+ years**	**Total**
Non-interest bearing						
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
Interest bearing instruments						
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
Short-term bank loan in RON BRD	ROBOR 3M + 3.5% pa	-	13,433,418	-	-	13,433,418
Loan ceiling in RON from Banca Transilvania M	ROBOR 6M+4.4%	-	9,052,895	-	-	9,052,895
Medium-term bank loans - BRD	ROBOR 3M + 3.5% pa	-	7,939,025	2,845,773	-	10,784,798
Finance lease BTRL			139,050	1,357,622		1,496,672
Loans from shareholders	6.6%/6.33%	-	4,880,000	-	-	4,880,000
Interest payable		5,060	-	-	-	5,060
Total debt		**9,373,704**	**38,582,342**	**5,670,250**	**-**	**53,626,296**
Cash and cash equivalents	-	**9,636,856**	-	-	-	**9,636,856**
Other receivables and other current assets	-	532,342	2,097,029	3,419	-	2,632,790
Total assets		**10,169,198**	**2,097,029**	**3,419**	**-**	**12,269,646**
Total Net		**795,494**	**(36,485,313)**	**(5,666,831)**	**-**	**(41,356,650)**

26. 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).

	2018	2017
Company shareholders result	24,847,717	13,650,921
Weighted average number of ordinary shares issued	369,442,475	369,442,475
Basic earnings per share	0.07	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 2018, the company distributed dividends from the 2017 profit, in amount of RON 8,494,681, the balance of which as at December 31, 2018 is RON 283,543.

27. RELATED PARTIES

The loans from the shareholders are presented in Note 20.

28. 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.

In 2018, 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.

28. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

Environmental regulations are developing in Romania, and the Company did not register any liabilities as at December 31, 2018 or December 31, 2017 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, 2018, the Company did not hold inventories in custody.

29. SUBSEQUENT EVENTS

In 2019, the loan contracts of Mr. Viehmann Radu (Addendum no. 10 authenticated under no. 67/22.01.2019) and Ms. Ciorapciu Dana Maria (Addendum no. 6 authenticated under no. 68/22.01.2019) were extended until 31.01.2020, the interest rate was established at 6.35%.

For January 2019, Mr. Viehmann Radu collected interest in amount of RON 22,358 and paid the tax in amount of RON 2,476 and Ms. Ciorapciu Dana Maria collected interest in amount of RON 1,491 and paid tax in amount of RON 160.

In January 2019, all the commissions for December 2018 and due on 01.01.2018 (with BRD) and 31.01.2018 (with Banca Transilvania) were paid.

On 07.01.2019, Addendum no. 20/186 was concluded, which amended the conditions of the credit line in amount of RON 9,400,000.

The condition is that, within 60 days from approval of the request, to have the evaluation report of the real estate established as security finalised.

On 11.02.2019 Addendum no. 21/186 was concluded, which amended the conditions of the credit line in amount of RON 9,400,000.

The condition is that, within 105 days from approval of the request, to have the evaluation report of the real estate established as security finalised.

The financial statements were approved by the Board of Administration and authorized for issuance on March 21, 2019.

ION DINCA, Economic - Commercial Manager	**RADU VIEHMANN,** Chairman - CEO

STATEMENT OF THE RESPONSIBLE PERSONS

I the undersigned, Eng. Radu Viehmann Chairman of the Board of Administration and CEO, hereby take responsibility for the preparation of the accounting reports as at December 31, 2018.

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

We hereby confirm that in 2018 there were no cases of breaches or potential breaches of non-compliance with laws or regulations, which might substantially affect the accounting reports.

We hereby state that the accounting reports as at December 31, 2018 of TURBOMECANICA SA give a fair view of the financial position, financial performance and the other information related to the activity carried out between January 1, 2018 and December 31, 2018.

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

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

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

CEO,	**ECONOMIC-COMMERCIAL MANAGER,**
Eng. VIEHMANN RADU	**Ec. ION DINCA**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of,
Turbomecanica SA

Opinion

1. We have audited the financial statements of Turbomecanica SA (the "Company"), with registered office in Bucharest, identified by unique tax registration code 3156315, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

2. The financial statements as at December 31, 2018 are identified as follows:

• Net assets/Equity	RON 110,194,604
• Net profit for the financial year	RON 24,847,717

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Income recognition	
We have identified two core matters regarding the income obtained from repairs and sales of airspace parts manufactured by the Company, presented below, which we consider important due to the complexity of the operation and the judgment applied: • the complete registration of contracts/large clients • timing of income recognition The accounting policies on income recognition are mentioned in Note 3 to the financial statements and the two income sources mentioned above have been presented in Note 3 to the financial statements.	We have performed the following audit procedures: • assessed the existing controls of the sales activity, namely invoicing and income recognition; • assessed the adequate design of the controls over the income and their implementation within the Company, by obtaining evidence in the form of relevant supporting documents, signatures and related approvals; • confirmed income with the most important clients selected; • conducts analytical procedures regarding income; • analysed the commercial agreements concluded by the Company with its most important clients and compared the amounts stipulated in the agreements with the actual income registered in the financial statements; • selected a sample of income, which we compared with the relevant supporting documents.

Other Information – Administrators' Report

6. The administrators are responsible for the preparation and presentation of the other information. The other information comprises the Administrators' report, but does not include the financial statements and our auditor's report thereon.

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

   In connection with our audit of the financial statements for the year ended December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

   a) the information included in the Administrators' report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements;

   b) the Administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement of this Administrators' report. We have nothing to report in this regard.

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

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

9. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on 14.11.2017 to audit the financial statements of Turbomecanica SA for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 1 year, covering the financial year ended December 31, 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- We have not provided for the Company the prohibited **non-audit services** referred to in Article 5 (1) of EU Regulation No.537 / 2014.

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

Madeline Alexander, Audit Partner

For signature, please refer to the original Romanian version.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 36

On behalf of:

DELOITTE AUDIT SRL

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte și Etajul 3, sector 1,
Bucharest, Romania
March 21, 2019