

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR CONCLUDED ON 31 DECEMBER 2017

**Drawn up in accordance with:
Order of the Public Finance Ministry no. 2844 /2016 and
subsequent amendments**

BALANCE SHEET 2017

	<u>Row</u>	<u>Note</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2017</u>
<u>A. Non current assets</u>				
I. INTANGIBLE ASSETS				
1. Set up expenses	1			
2. Development expenses	2			
3. Concessions, rights, patents, licenses, trade marks and other similar rights and other intangible assets	3		291,597	672,769
4. Goodwill	4			
5. Payments in advances and intangible assets in progress	5			
TOTAL	6	1(a)	291,597	672,769
II. Tangible assets				
1. Land and buildings	7		55,433,235	54,078,928
2. Technical equipment & machinery	8		1,812,386	2,719,865
3. Other equipment & furniture	9		84,160	75,298
4. Advances and tangible assets in progress	10		395,093	395,093
5. Advances (acc. 4093)	10a		5,604	216,614
TOTAL	11	1(b)	57,730,478	57,485,798
III. Financial Investments				
1. Shares in subsidiaries	12			
2. Loans to subsidiaries	13			
3. Participating interests	14			
4. Loans to entities who own participating interests	15			
5. Investments held as non-current assets	16		5,430,247	5,430,247
6. Other loans	17			
TOTAL	18	1(c)	5,430,247	5,430,247
Non-current assets - Total	19		63,452,322	63,588,814
<u>b. Current assets</u>				
I. Inventories				
1. Raw materials and consumables	20		33,798,642	49,084,663
2. Work in progress	21		7,308,320	16,825,449
3. Finished goods and merchandise	22		6,322,275	22,079,539
4. Advances for inventory acquisition	23		1,029,972	27,661,166
TOTAL:/ TOTAL:	24		48,459,209	115,650,817
II. Receivables				
1. Trade receivables	25	12	34,457,051	91,311,048
2. Advances paid	26		515,028	1,176,193
3. Amounts receivable from participating interests	27			
4. Other receivables	28	13	298,373	532,382
5. Share capital called up but not paid up	29			
TOTAL	30		35,270,452	93,019,623
<u>III. Short term investments</u>				
1. Shares in subsidiaries	31			
2. Other short term investments	32			
TOTAL	33			

BALANCE SHEET 2017

IV. Cash and bank accounts	34	11	82,101,001	63,574,862
Current assets - Total	35		165,830,662	272,245,302
C. Prepayments	36			
D. Liabilities payable in a period of one year				
1. Debenture loans	37			
2. Bank loans	38			
3. Advance payments from customers	39		9,250,766	49,969
4. Trade payables	40	14	12,565,273	14,150,533
5. Trade notes payable	41			
6. Amounts due to associates	42			
7. Amounts due to entities with participating interests	43			
8. Other payables, including debts to the state budget and social security budget	44	15	11,393,678	7,362,018
TOTAL	45		33,209,717	21,562,520
e. Current assets, net current liabilities	46		132,619,403	251,221,124
f. Total assets minus current liabilities	47		196,071,725	314,809,938
g. Amounts payable in a period above a year				
1. Debenture loans	48			
2. Bank loans	49			
3. Advance payments from customers	50			93,944,319
4. Trade payables	51			
5. Trade notes payable	52			
6. Payables to subsidiaries	53			
7. Amounts due to entities with participating interests	54			
8. Other payables, including debts to the state budget and social security budget	55		5,903,447	5,708,632
TOTAL/ TOTAL	56		5,903,447	99,652,951
h. Provisions for risks and expenses		2		
1. Provisions for pensions and other similar items	57		2,531,184	3,293,587
2. Provisions for employees' benefits	58		1,079,386	1,526,485
3. Other provisions	59		75,028,618	80,307,528
TOTAL PROVISIONS	60		78,639,188	85,127,600
i. Deferred Income				
- Investment subsidies	61			
- Deferred income	62		1,542	0
Total	63		1,542	0
j. Capital and reserves				
I. Capital				
out of which				
- Paid in capital	64		47,197,132	47,197,132
- Un-paid capital	65			
- Company's patrimony	66			
TOTAL	67		47,197,132	47,197,132

BALANCE SHEET 2017

II. Share premium	68		
III. Revaluation reserve	69	26,044,409	26,044,409
IV. Reserves			
1. Legal reserves	70	3,753,653	5,266,503
2. Statutory and contractual reserves	71		
3. Reserves representing the surplus obtained from revaluation reserves	72		
4. Other reserves	73	19,635,538	25,774,042
TOTAL	74	23,389,191	31,040,545
Own shares	75		
Gains related to own shares instruments	76		
Losses related to own shares instruments	77		
V. Result carried forward			
Credit balance	78	3,951,194	3,951,194
Debit balance	79		
VI. Result of the exercise			
Credit balance	80	12,213,227	24,191,976
Debit balance	81		
Profit appropriation	82	3	1,266,063
Total equity	83	111,529,090	129,491,045
Public patrimony	84		
TOTAL CAPITAL	85	111,529,090	129,491,045

GENERAL DIRECTOR,
Engineer Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

BALANCE SHEET 2017

	Row	Note	Dec. 31, 2016	Dec 31, 2017
1. Net turnover	1		152,096,365	192,724,954
Sold production	2		139,118,880	167,735,650
Income from sale of goods	3		12,977,485	24,989,304
Income from interests registered by entities whose main activity is the leasing	4			
Income from operating subsidies related to net turnover	5			
2. Changes in inventories of finished goods and production in progress	6			10,285,478
Balance C	7		2,218,242	
Balance D				
3. Production made by the entity for its own purposes and capitalized	8			
4. Other operating income	9		9,861,320	335,619
Operating income- Total	10		159,739,443	203,346,051
5. a) Raw materials and consumables expenses	11		85,297,152	102,902,438
Other material expenses	12		411,798	767,457
b) Other external expenses (on power and water)	13		1,609,629	1,558,516
c) Merchandise expenses	14		10,667,879	21,975,914
Commercial discounts received				
6. Personnel expenses	15		20,306,804	24,155,500
a) Salaries	16		16,490,087	19,450,005
b) Social security costs	17		3,816,717	4,705,495
7. a) Value adjustments related to tangible and intangible assets	18		3,915,663	4,416,362
a.1) Expenses	19		3,915,663	4,416,362
a.2) Income	20			
7. b) Ajustarea valorii activelor circulante/Adjustment on the value of circulating assets	21		0	0
b.1) Cheltuieli / Expenses	22			
b.2) Venituri/ Income	23			
8. Other operating expenses	24		6,202,410	9,018,395
8.1 Expenses regarding external services	25		5,518,861	8,391,942
8.2 Expenses with other taxes, duties and assimilated payments	26		360,806	236,386
8.3 Expenses on compensations, donations and disposed assets, environment expenses, other operating expenses, revaluation of tangible assets expenses	27		322,743	390,067

BALANCE SHEET 2017

Expenses on refinancing interests registered by the entities whose main activity is represented by the leasing	28		0	0
Adjustments related to provisions for risks and expenses	29		15,574,752	8,198,688
Expenses	30		57,735,679	14,527,347
Income	31		42,160,927	6,328,659
Operating expenses - total	32		<u>143,986,087</u>	<u>172,993,270</u>
Operating result				
- Profit	33	4	<u>15,753,356</u>	<u>30,352,781</u>
- Loss	34			
9. Income from participating interests	35		<u>1,308,445</u>	<u>260,528</u>
- out of which, income from subsidiaries	36			
10. Income from other investments and loans which are a part of the non-current assets	37			
- out of which within the group	38			
11. Income from interests	39		<u>149,198</u>	<u>519,295</u>
- out of which within the group	40			
Other financial income	41		<u>2,285,670</u>	<u>2,466,295</u>
Financial income- total	42		3,743,313	3,246,119
12. Adjustment of the value of financial assets and financial investments held as current assets	43			
Expenses	44			
Income	45			
13. Expenses on interests	46			70,152
- out of which within the group	47			
Other financial expenses	48		1,200,969	3,271,737
Financial expenses - total	49		<u>1,200,969</u>	<u>3,341,889</u>
Financial result				
- Profit	50		<u>2,542,344</u>	
- Loss	51			<u>95,770</u>
14. Current result				
- Profit	52		<u>18,295,700</u>	<u>30,257,011</u>
- Loss	53			
15. Extraordinary revenues	54			
16. Extraordinary expenses	55			
17. Extraordinary result				
- Profit	56			
- Loss	57			
Total income	58		<u>163,482,756</u>	<u>206,592,170</u>
Total expenses	59		<u>145,187,056</u>	<u>176,335,159</u>
Gross result				
- Profit	60		<u>18,295,700</u>	<u>30,257,011</u>
- Loss	61			

BALANCE SHEET 2017

18. Income tax	62	6,082,473	6,065,035
19. Other expenses on taxes not presented among the above items	63		
20. Net result of the financial year			
- Profit	64	<u>12,213,227</u>	<u>24,191,976</u>
- Loss	65		

All the Company's activities are continuous.

Signed on behalf of the Board of Directors

GENERAL DIRECTOR,

Engineer Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,

Ec. Ion DUMITRESCU

**SITUATION OF CHANGES IN OWN CAPITAL
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2017**

Item denomination		Balance on 31-12- 2016	Increases		Decreases		Balance on 31-12-2017
			total , out of which:	by transfer	total , out of which:	by transfer	
A		1	2	3	4	5	6
Un-paid capital							
Paid up capital		47,197,132					47,197,132
The company's patrimony							
Share premiums							
Revaluation reserves		26,044,409					26,044,409
Legal reserves		3,753,653	1,512,850				5,266,503
Statutory or contractual reserves							
Reserves representing the surplus obtained from revaluation reserves							
Other reserves		19,635,538	6,138,504				25,774,042
Own shares							
Reported result representing the undistributed profit or the uncovered loss	Balance C						
	Balance D						
Reported result arising from the first adoption of IAS, except for IAS 29	Balance C	3,951,194					3.951.194
	Balance D						
Reported result from the correction of accounting errors	Balance C						
	Balance D						
Reported result from the application of the Accounting regulations compliant with Directive IV of the E.E.C.	Balance C						
	Balance D						
Profit or loss of the financial year	Balance C	12,213,227	24,191,976		12,213,227		24.191.976
	Balance D						
Profit appropriation		1,266,063	2,934,211		1,266,063		2,934,211
Total equity		111,529,09	28,909,119		10,947,164		129,491,045

GENERAL DIRECTOR,

ECONOMIC AND COMMERCIAL DIRECTOR,

Engineer Neculai BANE

Ec. Ion DUMITRESCU

Ing. / Engineer Neculai BANE

Ec. Ion DUMITRESCU

TREASURY CASH FLOWS STATEMENT 2017

Item denomination	Financial year	
	2016	2017
Operational activities		
Net profit before taxation	12,213,227	24,191,976
Adjustments for the reconciliation of net result to net cash used in operational activities	23,615,174	-78,267,657
<i>Depreciation and other provisions for fixed assets</i>	3,915,663	4,416,362
<i>Provisions for current assets</i>	-1,753,690	1,710,274
<i>Profit from the sale of tangible assets</i>	1,600	210
Cash from exploitation before the changes to current capital	37,991,974	45,995,484
Changes to current capital (Note 19)	-25,016,529	-42,838,472
<i>Paid interests</i>	0	0
<i>Interests received</i>	149,198	519,295
<i>Paid income tax</i>	-7,741,922	-6,167,628
Cash generated from / (used in) operational activities	5,382,721	-2,491,321
Investment activity:		
Acquisition of fixed assets	2,892,132	-8,374,246
Receivables from the sale of fixed assets	1,600	210
Net cash used for investment	1,308,445	260,528
Financing activity:	4,202,177	-8,113,508
Net (decrease)/increase of credits and long-term payables	-159,896	93,749,504
Paid dividends	-6,561,670	-6,666,975
Amounts paid in respect to employees' participation to profit	-926,168	-1,059,520
Net cash (used)/generated from the financing activity	-7,647,734	-7,921,310
Changes in cash and cash equivalents	1,937,164	18,526,139
Balance at the beginning of the year	80,163,837	82,101,001
Increase/(decrease) in cash and cash equivalents	1,937,164	-18,526,139
Balance at the end of the year	82,101,001	63,574,862

GENERAL DIRECTOR,
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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

1 NON-CURRENT ASSETS

a) INTANGIBLE ASSETS

- lei -

Intangible items	Row no.	Gross value				Depreciation (amortization and provisions)				
		Decreases	Increases	Reduceri		Final balance (row 5 = 1+2-3)	Opening balance	Depreciation during the year	Depreciation related to written-off assets	Depreciation at the end of the year (row 9 = 6+7-8)
				Total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
INTANGIBLE ASSETS										
Set up and development expenses	01								0	
Other fixed assets	02	1,064,675	563,789			1,628,464	773,078	182,617		955,695
Advances and intangible assets in progress	03									
TOTAL (row 01 to 03)	04	1,064,675	563,789			1,628,464	773,078	182,617		955,695

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

NON-CURRENT ASSETS (CONTINUATION)

b) Tangible assets

- lei -

Items of fixed assets	Row no.	Gross value					Depreciation (amortization and provisions)			
		Opening balance	Increases	Decreases		Final balance (row 5 = 1+2-3)	Opening balance	Depreciation during the year and provisions	Depreciation related to written-off assets and cancellation of provisions	Depreciation at the end of the year (row 9 = 6+7-8)
				Total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
TANGIBLE ASSETS										
Land	05	26,569,109				26,569,109				
Buildings	06	38,443,759	2,363,241	37,623	37,623	40,769,377	9,579,633	3,695,884	15,959	13,259,558
Technical equipment and machinery	07	8,037,769	1,430,690	366,393	366,150	9,102,066	6,225,383	523,211	366,393	6,382,201
Other equipment and furniture	08	602,610	5,790			608,400	518,450	14,652		533,102
Tangible assets in progress	09	395,093	3,799,726	3,799,726		395,093				
Advances given for tangible assets	10	5,604	211,010			216,614				
TOTAL (row 05 to 10)	11	74,053,944	7,810,457	4,203,742	403,773	77,660,659	16,323,466	4,233,747	382,352	20,174,861

The tangible assets of the Company were assessed at historical cost to which were added the reassessments ordered by normative acts; The tangible assets in Group 1, Buildings, were evaluated according to the Romcontrol evaluation report.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

1 NON-CURRENT ASSETS (CONTINUATION)

c) Financial fixed assets****

- lei -

Items of fixed assets	Row no.	Gross value					Depreciation (amortization and provisions)			
		Opening balance	Increases	Decreases		Final balance (row 5 = 1+2-3)	Opening balance	Provisions established during the financial year, deprec.	Provisions charged to income	Closing balance (row.13 = 10+11-12)
				total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
FINANCIAL FIXED ASSETS	11	5,430,247				5,430,247				
TOTAL row 11)	12	5,430,247				5,430,247				
NON-CURRENT ASSETS - TOTAL (row 04+10+11)	13	80,548,866	8,374,246	4,203,742	403,773	84,719,370	17,096,544	4,416,364	382,352	21,130,556

2. PROVISIONS FOR RISKS AND EXPENSES

Denomination of the provision*)	Balance at the start of the financial year	Transfers**)		Balance at the end of the financial year
		into the account	out of the account	
0	1	2	3	4 = 1+2-3
Provisions for receivables and payables	199,775			199,775
Provisions for risks and expenses	81,388,672	9,724,892	4,445,981	86,667,583
Provisions for inventories	2,718,768	2,079,036	368,762	4,429,042
Provision for retirement premiums	2,531,184	1,196,933	434,530	3,293,587
Provision for participation to profit	1,079,386	1,526,485	1,079,386	1,526,485
TOTAL	87,917,785	14,527,346	6,328,659	96,116,472

3. PROFIT APPROPRIATION - RON

Destination	31-12-2016	31.12.2017
Net profit to be appropriated:	12,213,226	24,191,976
- Legal reserve	914,785	1,512,850
- Reinvested profit	351,278	1,421,361
- Unappropriated profit	10,947,163	21,257,765
Out of which:		
- Offsetting the accounting loss from previous years		
- Shareholders' current dividends	6,230,021	
- Own financing source	4,717,142	

The above appropriations were made according to official regulations on the appropriation of profit performed by the company in accordance with the law no. 31/1990 on commercial companies and law no. 232/2016 on the national defense industry.

4. ANALYSIS OF THE OPERATING INCOME (lei)

Crt. No.	Indicator	Fiscal year Prior year	Fiscal year Current year
1	Net turnover	152,096,365	192,724,954
2	Cost of sold goods and services rendered (3+4+5)	127,353,777	163,934,060
3	Main activities expenses	111,216,820	147,345,302
4	Auxiliary activities expenses	6,866,810	6,275,031
5	Production overheads	9,270,147	10,313,727
6	Gross result corresponding to the net turnover (1-2)	24,742,588	28,790,894
7	Selling expenses	559,116	489,288

NOTES TO THE FINANCIAL STATEMENTS 2017

8	General administration expenses (with acc.658)	16,073,194	8,569,922
9	Other expenses / operating income	7,643,078	10,621,097
10	Operating result (6-7-8+9)	15,753,356	30,352,781

5. SITUATION OF RECEIVABLES AND PAYABLES**A. SITUATION OF RECEIVABLES (LEI)**

	Balance on 31/12/2017	term of liquidity	
		Under a year	Over a year
1. Trade receivables	91,311,048	4,536,826	86,774,222
2. Paid advances	1,176,193	1,176,193	
3. Other receivables	532,382	532,382	
4. Investment held as fixed assets			
5. Other fixed receivables			
TOTAL:	93,019,623	6,245,401	86,774,222

B. SITUATION OF PAYABLES (LEI)

	Balance on 31/12/2017	maturity for balance		
		Under 1 year	Between 1 and 5 years	Over 5 years
1. Trade payables	14,150,533	14,150,533		
2. Other payables	13,070,650	7,362,018		5,708,632
3. Payables to credit institutions	0	0	0	
4. Advance payments from customers	93,994,288	49,969	93,944,319	
TOTAL:	121,215,471	21,562,520	93,944,319	5,708,632

6 ACCOUNTING PRINCIPLES, POLITICS AND METHODS

The main accounting policies adopted in preparing these financial statements are summarized below.

General information

These financial statements have been prepared in accordance with the Accounting Regulations in conformity with the Directive IV of the European Economic Community and with International Accounting Standards, approved by the Romanian Public Finance Ministry's Order No. 2844/2016 for the approval of Accounting Regulations in accordance with the European directives. This order requires these financial statements to be prepared in accordance with:

- The Accounting Law no. 82/1991 (republished);
- The disclosure requirements contained in the FMO 2844/2016

These specific provisions stipulate that the annual financial statements are compiled based on the trial balance resulting after applying the IAS.

These financial statements have been prepared based on the historical cost convention, with the exceptions set out in the accounting policies.

Basis of accounting

The Company keeps the accounting records in lei ("RON") and prepares the financial statements in accordance with the Accounting and reporting Standards issued by the Ministry of Finance.

The statements are based on the company's accounting records, drawn up on an going concern principle and history of costs basis and modified to their current form which is in conformity with Order no. 2844/2016. The financial statements ensure the comparability with the financial statements for the previous period.

Use of estimates

The preparation of financial statements in accordance with PMFO 2844/2016 requires the management of the Company to make estimates and hypotheses that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the financial statement preparation date and the expenses reported for that period.

Going concern

The nature of the company's main activity and the uncertainty existing in Romania regarding the outcome of current economic policies implemented in real operational conditions, enable the emergence of considerable unpredictable variations regarding future cash inflows. However, the directors believe that the Company will be able to continue its activity using the going concern principle in the near future and therefore, the financial statements have been prepared on the basis of this principle.

Conversion of transactions in foreign currency

The company's transactions in foreign currencies are registered at the exchange rates from the transaction date: the gains and losses resulting from the settlement of transactions in a foreign currency and from the conversion of monetary assets and liabilities in foreign currencies, are specified in the profit and loss account. Such balances are converted in lei at the exchange rates established by the end of the year.

On December 31, 2017, the exchange rate used was 1 euro = 4,6597 lei, 1 usd = 3,8915 lei.

Trade receivables

The trade receivables are registered at anticipated attainable value, which is the amount originally invoiced except for a provision for doubtful receivables. For the doubtful receivables an estimation is made based on a review of all outstanding amounts at the end of the year.

Cash and cash equivalents

These are registered in the balance sheet under cost. For the treasury flow statement, these include cash in hand, sight deposits and other short-term investments with high liquidity.

Tangible assets

(i) Cost

The cost of purchase of the fixed assets is the value of the element taken into consideration when purchasing the assets and other directly attributable costs that are incurred when bringing the assets at the present location and the necessary condition provided for their use. The costs incurred with the maintenance and repair of fixed assets are included in the profit and loss account, as they were executed. The improvements that significantly increase the life of the assets or their technical performance are capitalized.

The fixed assets elements that are written off or sold are removed from the balance sheet together with the corresponding accumulated depreciation. Profit or loss resulting from such an operation is determined as a difference between the amount obtained and the net accounting value and are included in the operating profit for that period.

Profit or loss resulting from such an operation is determined as a difference between the amount obtained and the net accounting value and are included in the operating profit for that period. Fixed assets registered as inventory objects, including equipment and tools, are registered as expenses when put into use and are not included in the accounting value of fixed assets.

(ii) Depreciation

Depreciation is determined by linear method, in order to distribute the cost of the recorded asset during the estimated lifespan, as follows:

<u>Asset</u>	<u>Depreciation method</u>
Buildings	40-50 years, using the linear method
Other equipment and furniture	8-10 years, using the linear method
Technical equipment	5-10 years, using the linear method
Transportation means	5 years, using the linear method

(iii) Land

Land is registered at the value given by the measurement. Land is not depreciated as it is deemed to have an indefinite lifespan.

Intangible assets

Development expenses for IT programs

Expenses which increase and extend the benefits of IT programs beyond their description and initial lifespan are recorded as improvements and added to the original cost of the IT program. IT programs development costs recognized as assets are depreciated on a linear method basis over their lifespan, which does not exceed 3 years.

Other intangible assets

Intangible assets are not re-evaluated.

Inventories

Raw materials' inventories, materials, inventory objects are recorded at the purchase price. The cost of finished goods and of production in progress includes materials, labour force and related production costs.

The storage and picking method is FIFO.

Inventories are recorded at the lowest value between the cost and net realizable value. The cost is generally determined on the basis of the weighted average cost. The cost of finished goods and work in progress includes materials, labor force and related production overheads. Where necessary, provisions are made for slow moving or defective inventories. The net realizable value is the normal selling price, except for costs of completion and selling expenses.

Taxation

The company records the current income tax based on the net profit in the Romanian financial statements, under Romanian law on income tax.

The differences between the International Accounting Standards and the Romanian Accounting and Taxation Principles do not lead to the emergence of differences between the accounting basis of certain assets and liabilities, namely income and expenses in connection with their tax basis.

Income recognition

Income from sales is recorded when the goods are delivered to the customer at an amount that does not include commercial rebates or discounts offered.

Turnover

Turnover, excluding VAT, represents the amounts invoiced to third parties.

Turnover totaling 192,724,954 lei, is obtained as a result of activity in the field: repair and maintenance of aircraft and spacecraft (NACE code 3030).

Cost of debt

Cost for interest on all loans are registered on expenses when they are made. Interest on loans obtained for financing of construction of fixed assets are capitalized only until commissioning. Future interests are registered on costs.

Pensions and other post retirement benefits

In the normal course of business, the Company makes payments to the Romanian state in its employees' account. All employees of the Company are included in the state pension system. The company does not operate any other pension scheme or post retirement benefits and, consequently, has no other obligations related to pensions. Furthermore, the Company is not required to provide additional benefits to employees.

Liabilities

Liabilities are recorded at nominal value.

In 2017, the Company established provisions for risks and expenses. Rate exchanges related to obligations were recorded under costs.

Provisions are recognized when the Company has a legal or implicit obligation arising from past events, when in order to settle the obligation an outflow of resources is necessary, encompassing economic benefits, and when a reliable estimate can be made regarding the value of the obligation.

PROVISIONS

In 2017, the following provisions were established:

❖ **Tax deductible, amounting to 1.382.527 lei, as follows:**

- Provisions for performance guarantees given to internal customers in conformity with the contracts concluded with them, amounting to 6,070,319 lei;

❖ **Nondeductible, amounting to 56.353.153 lei, out of which:**

- Provision for employees' participation to profit amounting to 1,523,485 lei;
- Provision for the pension premium amounting to 1,196,933 lei;
- Provision for performance guarantees given to internal customers amounting to 7,096,222 lei
- Provision for inventories, raw materials, materials and outstanding production, amounting to 2,079,036 lei;

Also, provisions amounting to 6,328,659 lei were cancelled, as follows:

- Provision for performance guarantees given to internal customers, amounting to 4,445,981 lei;
- Provision for employees' participation to profit amounting to 1,079,386 lei;
- Provision for the pension premium, amounting to 434,530 lei;
- Provision for raw materials, materials and outstanding production's depreciation, amounting to 368,762 lei;

Warranties

The Company is not registered with any responsibility for the repair and replacement of products under warranty at the balance sheet date. This provision has not been established based on the costs level of earlier repairs and replacements, but based on the theoretical maximum risk value stipulated in economic contracts.

7 SHARES AND BONDS**a) Shares**

The shareholding structure is as follows:

SHAREHOLDERS	NUMBER OF SHARES 2016	HELD PERCENTA NGE	/ NUMBER OF SHARES 2017	HELD PERCENTA GE
TOTAL OF SHARES	18,878,853	100%	18,878,853	100%

NOTES TO THE FINANCIAL STATEMENTS 2017

MINISTRY OF ECONOMY	12,250,488	64.89%	12,250,488	64.89%
LEGAL PERSONS	2,905,820	15.39%	2,768,076	14.66%
NATURAL PERSONS	3,722,545	19.72%	3,860,289	20.45%

All shares are ranked pari passu (have equal voting rights) and have a nominal value of 2.5 RON / share.

8 INFORMATION REGARDING EMPLOYEES, ADMINISTRATORS AND DIRECTORS**a) Remuneration of directors and administrators (lei)**

Fiscal year 2016

Fiscal year 2017

GROSS REMUNERATION GENERAL DIRECTOR ACCORDING TO MANDATE CONTRACT

BANEA NECULAI	14,380	192,816
TOTAL	14,380	192,816

BOARD OF DIRECTORS AND GSM

STUPARU LILIANA	16,779	0
BACIU SORANA RODICA	11,985	9,588
ION RARES POPESCU	28,764	30,300
CLAUDIA MARIA BAICU	28,764	30,300
IOAN TOMA	28,764	30,300
RAZVAN POPA	28,764	21,573
BUSCU ALEXANDRU		20,712
PISTOL MARIUCA OANA		8,727
ANGHEL RUXANDRA RODICA		3,933
TOTAL	143,820	155,433

b) Employees

In the fiscal year ended on the 31st December, 2017, the company had an average of 341 employees (in the fiscal year in 2016 = 316 employees).

In the normal course of business, the company makes payments to the Romanian state institutions on behalf of its employees' pensions. All company employees are members of the Romanian State pension plan. The company does not operate any other pension scheme or post retirement benefits and, consequently, has no other obligations in respect of pensions. The Company is not obliged to provide additional benefits to employees after retirement.

9 ANALYSIS OF MAIN ECONOMIC AND FINANCIAL INDICATORS**1. Liquidity indicators**

Denomination	Calculation formula	(A) year 2016	(B) year 2017	(B - A) Variation	Observations
Rapid ratio (acid test)	(current assets- inventories) / current liabilities	3.53	7.26	3.73	must be >1
Current ratio	<u>current assets</u> current liabilities	4.99	12.63	7.64	must be ~ 2

NOTES TO THE FINANCIAL STATEMENTS 2017

2. Risk indicators

a) Gearing ratio

Denomination	Calculation formula	(A) year 2016	(B) year 2017	(B - A) Variation	Observations
Gearing ratio	$\frac{\text{total liabilities}}{\text{total assets}}$	17%	36.1%	19.1%	trebuie sa fie / must be <35%
Leverage ratio	$\frac{\text{borrowed capital}}{\text{employed capital}}$	0%	0	0	must be <35%
Interest Coverage Ratio	$\frac{\text{gross profit} + \text{interest expenses}}{\text{interest expenses}}$	0	0	0	must not be <2

3. Profitability indicators

Denomination	Calculation formula	(A) year 2016	(B) year 2017	(B - A) Variation	Observations
Profit ratio	$\frac{\text{net profit}}{\text{sales figure}}$	8.03%	12.55%	4.52%	must be > than 1,8
Return on investment	$\frac{\text{net profit}}{\text{total assets}}$	5.33%	7.20%	1.87%	must be > than 13%
Rentabilitatea financiara / Financial return	$\frac{\text{profit net}}{\text{total capital propriu}}$ $\frac{\text{net profit}}{\text{total equity}}$	10.95%	18.68%	7.73%	trebuie sa fie > / must be > than 5%

4. Activity indicators (management indicators)

Denomination	Calculation formula	(A) year 2016	(B) year 2017	(B - A) Variation	Observations
Inventory turnover ratio	$\frac{\text{sales figure}}{\text{inventories value}}$	3.14	1.66	-1.48	inventory turnover ratio has increased
Number of storage days	$\frac{\text{average inventory} * 365}{\text{sales figure}}$	102.09	155.40	53.31	
	$\frac{\text{clients}}{\text{daily sales}}$	32.64	53.27	20.63	should be 30-45 days

NOTES TO THE FINANCIAL STATEMENTS 2017

	Average cash collection of clients (IN DAYS)				
	Days payable outstanding	average balance supplier*365/ goods purchases	23.58	5.96	-17.62
	Rata de utilizare a activelor fixe / Use ratio of fixed assets	<u>cifra vanzarilor</u> valoarea neta a activelor fixe / <u>sales figure</u> net value of fixed assets	2.40	3.03	0.63 must be > than 1

5. Indicators regarding the result per share**a) Result per share**

The result per share is calculated by dividing the net profit attributable to the shareholders by the average number of ordinary shares outstanding during the year, except for the shares repurchased by the Company during the year. There were no dilutive potential ordinary shares during the year.

	<u>2016</u>	<u>2017</u>
Net profit attributable to Shareholders – lei	12,213,227	24,191,976
Weighed average ordinary shares outstanding during the year	18,878,853	18,878,853
Gross profit per share	0.6469 lei/ share	1.2814 lei / share

b) The method used to express in national currency the patrimony assets, income and expenses outlined in a foreign currency

The Company's transactions in foreign currencies are recorded at the exchange rate on the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of assets and foreign currency monetary liabilities denominated in foreign currencies are recognized in the profit and loss account. Such balances are converted in lei at the exchange rates at the end of the year, communicated by the National Bank of Romania.

10 OTHER INFORMATION**a) Information regarding the company's presentation**

- The Company is headquartered in Brasov, 34 Hermann Oberth Street, and is constituted as a joint stock company, being founded in Romania.
- The company's main activity is the construction and repair of aircraft.
- The shares issued by IAR SA were traded on the Bucharest Stock Exchange, the Equity Sector - Standard Class actions.

b) The method used to express in the national currency the assets, revenues and expenses which are outlined in a foreign currency

The company's transactions in foreign currencies are registered at the exchange rates from the transaction date. The gains and losses resulting from the settlement of transactions in a foreign currency and from the conversion of monetary assets and liabilities in foreign

NOTES TO THE FINANCIAL STATEMENTS 2017

currencies, are recognized in the profit and loss account. Such balances are converted in lei at the exchange rates established at the end of the year, communicated by the National Bank of Romania.

c) Information on the income tax

Note: The reconciliation of the fiscal year result and the fiscal result, as shown in the tax declaration.

31.12.2017
(lei)

1. Gross accounting profit according to declaration 101	24,191,976
2. Legal reserves	1,512,850
3. Non-taxable income	4,109,135
3.1 Other deductions	1,509,639
4. Tax non-deductible expenses	22,489,518
5 Income taxable before the tax loss	39,549,870
6. Prior tax loss	
7. Tax loss (5-4)	
8. Taxable profit	39,549,870

d) Fees paid to auditors

The company signed audit contracts worth 62,680 lei in 2017, as follows:

- addendum no. 2 dated 30 March 2012 to the external audit contract no.8/17.02.2004 worth 9,800 Euro, respectively 44,800 lei
- addendum dated 16 April 2012 to the internal audit contract no.44/18.08.2008 worth 17,880 lei.

e) THERE ARE NO PLEDGED/MORTGAGED FIXED ASSETS IN 2017**11 CASH AND BANK ACCOUNTS (lei)**

	<u>Dec. 31, 2016</u>	<u>Dec. 31, 2017</u>
Bank deposits in lei	73,157,476	61,969,287
Bank deposits in foreign currency	8,928,839	456,108
Other values	14,651	1,148,369
Cash in lei	35	1,098
Cash in foreign currency	0	0
Interests receivable	98,538	102,916
TOTAL	82,199,539	63,677,778

In order to present the cash flow statements, the cash and the cash equivalents comprise the following elements (lei):

	Dec. 31, 2016	Dec. 31, 2017
Cash, bank accounts, other values	72,680,961	42,842,126
Interests receivable	98,538	102,916
Other short-term financial investments	9,420,040	20,732,736
TOTAL	82,199,539	63,677,778

12 TRADE RECEIVABLES (lei)

	2016	2017
External trade receivables	9,276,935	1,234,946
Internal trade receivables	4,323,828	1,575,052
Advances to internal suppliers	48,189	241,562
Advances to external suppliers	466,841	934,631
Deposit for the SGB real estate receivable	21,043,471	88,688,234
Provisions for doubtful customers	-187,184	-187,184
TOTAL :	34,972,079	92,487,241

13 OTHER RECEIVABLES (lei)

	2016	2017
Personnel receivables	1,542	0
VAT to be recovered		
Other taxes (excise and customs duties + CCI)	143,627	234,534
Various debtors	51,250	103,632
Income tax		102,593
Receivable interest	98,538	102,916
Provision for doubtful debtors	-12,592	-12,592
Other receivables – VAT not due	16,008	1,299
TOTAL :	298,373	532,382

14 TRADE PAYABLES (lei)

	2016	2017
Suppliers, of which	11,660,435	13,700,663
Internal	8,259,634	9,935,340
External	3,400,801	3,765,323
Fixed assets suppliers, of which	904,838	449,870
Internal	904,838	449,870
External	0	0
Advance payments from customers	9,250,766	93,994,288
TOTAL :	21,816,039	108,144,821

14 OTHER PAYABLES. INCLUDING FISCAL PAYABLES AND SOCIAL SECURITY PAYABLES

	2016	2017
State budget, TOTAL, of which :	2,266,962	346,830
- Salary tax	310,197	346,830
- Income tax	1,956,765	0
Social Security Budget	862,389	986,929
VAT payment	6,662,081	4,417,718
VAT not due	0	
Various creditors	27,728,129	5,728,134
Payables related to personnel	854,799	844,295
Other payables	738,804	746,744
TOTAL:	39,113,164	13,070,650

15. INCOME TAX

The Company registered an income tax due for the previous concluded fiscal year worth 6,065,035 lei. The accounting gross profit was adjusted based on fiscal principles, determining the fiscal profit. The differences applied in preparing these financial statements between regulations issued by the Ministry of Finance of Romania and the accounting rules do not give rise to significant differences between the accounting value of certain assets and liabilities on the one hand, and their value established for the purposes of fiscal taxation on the the other hand.

16. EXPENSES WITH PERSONNEL(lei)

	2016	2017
Salaries and indemnities	16,490,087	19,450,005
Expenses with social security and other		
personnel expenses	3,816,717	4,705,495
Total	20,306,804	24,155,500

The average number of employees during the year was as follows:

TOTAL	316	341
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17. INTEREST EXPENSES AND OTHER SIMILAR EXPENSES (lei)

	2016	2017
Losses from foreign exchange differences	1,200,969	3,271,737
Interests	-	70,152
- Expenditure on discounts granted		
other financial expenses	-	-
financial leasing	-	-
TOTAL	1,200,969	3,341,889

NOTES TO THE FINANCIAL STATEMENTS 2017**18. CHANGES IN CURRENT ASSETS ELEMENTS(LEI)**

	<u>December 31, 2016</u>	<u>December 31, 2017</u>
Receivables	35,270,452	93,019,623
Inventories	48,459,209	115,650,817
Trade payables and other payables(-)	39,113,164	121,215,471
TOTAL	44,616,497	87,454,969

19 FINANCIAL RISKS**(i) Market risk**

The assets and monetary payables expressed in lei are analysed below:

Asset

	<u>December 31, 2016</u>	<u>December 31, 2017</u>
Monetary assets in lei	63,737,470	41,236,552
Monetary assets in foreign currency	8,928,839	456,108
Net monetary position in lei	63,737,470	41,236,552
Net monetary position in foreign currency	8,928,839	456,108

(ii) Interest rate risk

The interest rate risk means the risk that the value of a financial instrument will fluctuate due to variations of interest rates on the market.

The company did not sign foreign currency loan agreements at variable interest rates.

Credit risk

The credit risk means the risk that one of the parties who participate to a financial instrument shall fail to fulfill an obligation, which will cause the other party to record a financial loss. In the given situation the management of the company argues that there may not be situations with significant influence. Since the company did not apply for credits in 2017, the influence was zero.

(iii) Liquidity risk

The company's policy concerning liquidity is to maintain sufficient liquidity so that it can pay its obligations on maturities' dates. The assets and liabilities are analyzed according to the period remaining until the contractual maturities.

(iv) Fair values

The accounting amounts of financial assets and liabilities with maturity under one year approximates their fair value. On 31 December 2017, the fair value of short-term debts, estimated by updating future cash flows with current interest rate for similar instruments on the market, does not differ significantly, according Company's management, from the value to which these financial instruments are registered.

20. CONTINGENT LIABILITIES

Litigations and other disputes - On the date of the balance sheet, various legal actions, proceedings and investigations were open against the company. Based on the professional advice received from the legal advisors of the Company, the Company's management believes

that the Company is unlikely to register any significant material obligation, arising from legal proceedings against the Company.

Onerous contracts. Other aspects concerning the contingent liabilities - The environmental regulations are under development in Romania, and the Company did not register any obligations on 31 December 2017 for any anticipated costs, including legal and consulting fees, studies of site, design and implementation of remedial plans, concerning components of the environment. The Company's management does not consider the costs associated to any environmental problems to be significant.

GENERAL DIRECTOR,

Engineer Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,

Ec. Ion DUMITRESCU

NOTES TO THE FINANCIAL STATEMENTS 2017

I. Data on Result	Row no.	No. of units	Amounts	
A	B	1	2	
Units with profit	01	1	24.191.976	
Units with loss	02			
II. Data on outstanding payments	Row no.	Col total 2+3	Out of which	
			For the current activity	For investments
A	B	1	2	3
Outstanding payments- total (row 04+08+14 to 18 +22).	03	0	0	
Outstanding suppliers – total (row 05 to 07) out of which:	04	0		
- over 30 days	05	0		
- over 90 days	06	0		
- over 1 year	07	0		
Outstanding liabilities to the social security budget – total (row 09 o 13) out of which	08	0		
- Contributions to state social security due by employers, employees and other related persons	09	0		
- contributions to the health fund	10	0		
- contributions to the supplementary pension fund	11	0		
- ccontributions to the unemployment fund	12	0		
- other social liabilities	13	0		
Outstanding liabilities to special funds budget	14	0		
outstanding liabilities to other creditors	15	0		
outstanding taxes to the state busget not paid at due term	16	0		
outstanding taxes to the local budget not paid at due term	17	0		
bank loans not repaid at due time – total (row 19 to 21) out of which	18	0		
- outstanding above 30 days	19	0		
- outstanding above 90 days	20	0		
- outstanding above 1 year	21	0		
Outstanding interests	22	0		

I. Average number of employees		Previous year	Current year
A	B	1	2
Average number of employees	01	316	341
Actual number of employees at the end of the fiscal year, namely on 31 December	02	326	355

GENERAL DIRECTOR,
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ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

RON

Data on intangible assets		Gross values				
	Row no.	Opening balance	Increases	Decreases		Final balance
				Total/ Total	out of which decommissioning	(col. / column 5 = 1+2-3)
Fixed assets						
A	B	1 (1)	2 (2)	3 (3)	4 (4)	5 (5)
Intangible assets						
Set up and development expenses	01				x	
Other intangibles	02	1,064,675	563,789			1,628,464
Advances for intangible assets in progress	03					
TOTAL (row 01 to 03)	04	1,064,675	563,789			1,628,464
Tangible assets						
Land	05	26,569,109				26,569,109
Buildings	06	38,443,759	2,363,241	37,623	37,623	40,769,377
Technical equipment and machinery	07	8,037,769	1,430,690	366,393	366,150	9,102,066
Other equipment and furniture	08	602,610	5,790			608,400
Tangible assets in progress	09	395,093	3,799,726	3,799,726		395,093
Advances for intangible assets	09a	5,604	211,010			216,614
TOTAL (row 05 to 09)	10	74,053,944	7,810,457	4,203,742	403,773	77,660,659
Long term financial investments	11	5,430,247				5,430,247
NON-CURRENT ASSETS - TOTAL (row 04+10+11)	12	80,548,866	8,374,246	4,203,742	403,773	84,719,370

Depreciations				RON	
Fixed assets	Row no.	Opening balance	Depreciation and provisions during the year	Depreciation corresponding to fixed assets written off, adjustments charged to income	Depreciation at the end of the year (col. / column 9=6+7-8)
A	B	6 (1)	7 (2)	8 (3)	9 (4)
Intangible assets					
Set up and development expenses	13				
Other intangibles	14	773,078	182,617		955,695
TOTAL (ROW 13+14)	15	773,078	182,617		955,695
Tangible assets					
Land	16				
Buildings	17	9,579,633	3,695,884	15,959	13,259,558
Technical equipment and machinery	18	6,225,383	523,211	366,393	6,382,201
Other equipment and furniture	19	518,450	14,652		533,102
TOTAL (ROW 16 to 19)	20	16,323,466	4,233,747	382,352	20,174,861
DEPRECIATIONS - TOTAL (rd. 15+20) / (row 15 + 20)	21	17,096,544	4,416,364	382,352	21,130,556

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