

REPORT OF THE BOARD OF DIRECTORS

For the financial year 2016

S.C.AEROSTAR S.A. Bacău

EVENTS OF THE YEAR 2016

- **2016, the year of AEROSTAR's full recognition as a supplier for the civil aviation industry.**

The awards “Detail Parts Partner Award 2016” from Airbus Group and “Premier Supplier Award 2015/2016” from GKN Aerospace, received in May and July, respectively, outline AEROSTAR's footprint as a supplier who delivers quality, on time, for the global aviation.

- **Commissioning of the new surface coating and painting capacities, with the effect of increased productivity, improved environment footprint, growing competitiveness and market footprint for AEROSTAR**

At the end of 2015, the investments were completed for the new tartaric sulphur anodizing line (TSA), as well as for the automatic painting line with water based paints, of high productivity and of special importance for the compliance with the environment requirements.

A second important step was made in June 2016 when the two investments were qualified with the customer and the processing approval was received; this was the base to start the approval process for the First article Inspection parts. The start-up of production was successful.

Currently, the series production goes in parallel with new parts loading the capacity.

- **On 21 April 2016, in the general meeting of shareholders, AEROSTAR's shareholders approved the distribution of the amount of 12.791.305,80 lei from the profit of the year 2015 for dividends, which means a gross dividend per share of 0,084 lei.**

The payment of the dividends was made starting with the date of 21.09.2016. The balance still to pay as on 31.12.2016, amounts to 591 thousand, for those shareholders who did not present themselves at the cashier desks of CEC Bank S.A. (the payment agent designated by AEROSTAR).

- **The General Meeting of Shareholders held on 5 July 2016 decided to extend the mandate of the Board of Directors for a duration of four years, from 11.07.2016 until 10.07.2020.**

When the mandate of Mr. Nijnic Marin-Ilie was terminated appreciations were given for the activity performed while the nomination made instead of him was Mr. Liviu-Claudiu DOROȘ.

The members of the Board of Directors on 31 December 2016 are:

	Name	Position	Background
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vicepresident of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	LIVIU-CLAUDIU DOROȘ	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

- The general meeting of shareholders on 5 July 2016 took note of the decisions made by the Board of Directors in its first meeting regarding the appointment of Mr. Grigore FILIP as President of the Board of Directors- General Director and appointment of Mr. Doru DAMASCHIN as Vicepresident of the Board of Directors- Financial Director.

The direct participation of the administrators to the registered capital of the company is lower than 1%.

There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals from among the members of the board of directors, or in connection with the auditor.

There is no litigation between the company and the administrators with reference to their activity.

None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

No modifications were made to the constitutive deed of the company in 2016.

“AEROSTAR” (ARS) SHARES

AEROSTAR’s registered capital is 48.728.784 lei, divided into a total number of 152.277.450 shares with a nominal value of 0,32 lei.

“ARS” stock indicator		year 2016	year 2015	
Number of shares	no.	152.277.450	152.277.450	
Nominal value per share	lei	0,32	0,32	
Net profit per share (EPS ratio)	lei	0,371	0,343	↑
Market value per share per share at year end	lei	3,27	2,72	↑
Stock exchange capitalization	lei	497.947.262	414.194.664	↑

AEROSTAR shares are nominative, ordinary, of equal value, issued in dematerialized form and identified by registration in the Registry of Shareholders. This is under the administration of Depozitarul Central S.A. Bucharest.

According to the records available at Depozitarul Central S.A., the share issuer AEROSTAR S.A. is registered with the following data:

Individual Identification Number 950531,

ISIN code ROAEROACNOR5, stock exchange symbol ARS.

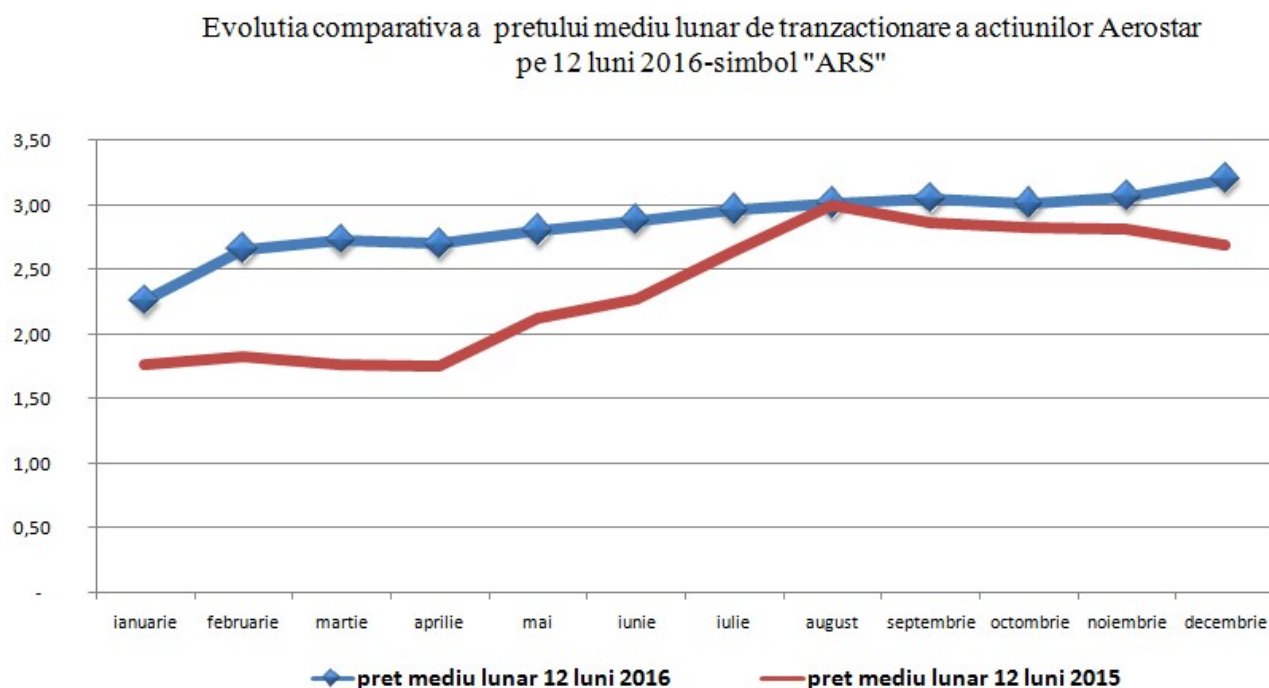
The share capital of the company is 48.728.784 lei, a total number of 152.277.450 shares, with a nominal value of 0.32 lei.

The main shareholders are S.C.IAROM S.A. Bucharest and SIF MOLDOVA S.A. There is a further large number of shareholders, natural and legal persons, holding stock below the significance threshold as defined in the regulations of the Financial Supervisory Authority and Bucharest Stock Exchange.

In 2016 as well, AEROSTAR fulfilled all its reporting obligations arising from the legal provisions by publication of the current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the company webpage and by press releases.

The shareholders can obtain information on AEROSTAR from the company's webpage www.aerostar.ro. Also, annual, half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

The trading price of an AEROSTAR share fluctuated in 2016 between a minimum level of 2,24 lei and a maximum level of 3.27 lei.



As on 31.12.2016, AEROSTAR's participations in other companies are as follows:

Subsidiary/ affiliated company name	Basic activity	No of shares	Voting rights	Contribution held (thousand lei)	thousands lei - Financial Info for last financial year (year 2015) when financial statements of affiliated company were approved		
					Registered Capital	Reserve	Net Profit
SC Airpro Consult SRL	Temporary contracting for manpower	100	100%	10	10	55	50
SC Foar SRL	Renting and leasing with other machinery, eqpt and tangible goods	408	51%	4	8	1.739	355
SC Aerostar Transporturi Feroviare S.A.	Mnfg lifting and handling eqpt	9150	45,75%	92	200	38	3
				Total	106	218	408






AEROSTAR's contributions in these companies are registered on cost.

During the year 2016, no modifications were registered, meaning the increase/decrease of the contribution percentage, Aerostar maintaining the same influence as in the year 2015.

All the companies where AEROSTAR holds participation contributions are registered in Romania.

GROWTH IN KEY FIGURES

AEROSTAR Bacău plans to extend its market footprint, on the foreign market in special, so that exports represent over 80% of the turnover.

	MU	31.12.2016	31.12.2015	growth (%)
Registered Capital	thousand lei	48.729	48.729	 + 8,0%
Turnover	thousand lei	356.219	329.764	 + 7,6 %
• Export sales	thousand lei	255.274	253.084	 + 10,6%
Employees, effective, of which:	no	2.164	2.012	 + 8,0%
- Own employees	no	1.878	1.792	
- Employees attracted through temporary labour agent	no	286	220	
Total Gross Profit (before tax)	thousand lei	65.865	59.554	 + 8,0%
Net Profit	thousand lei	56.472	52.268	
General Liquidity	-	4,74	4,12	

Expenses for investments from company sources	thousand lei	19.498
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FINANCIAL PERFORMANCE

(thousand lei)	31.12.2016	31.12.2015
• TOTAL REVENUES	372.807	351.842
• TOTAL EXPENSES	306.942	292.288
• GROSS PROFIT	65.865	59.554



FINANCIAL POSITION (thousand lei)	31.12.2016	31.12.2015
• Immobilized Assets (net values)	154.397	150.744
• Circulating Assets	256.174	202.055
• Registered Capital	48.729	48.729
• Company Capitals	213.908	181.519
• Total Debts	72.939	67.564

EXCHANGE RATES

	MU	2016	2015
Average exchange rate EURO/12 months	lei/euro	4,4907	4,4448
Average exchange rate USD/12 months	lei/USD	4,0585	4,0038
Average exchange rate GBP/12 months	lei/GBP	5,5016	6,1224

AEROSTAR SA prepares and releases the financial statements in accordance with the international financial reporting standards (IFRS).

AEROSTAR FOOTPRINT GETS PROJECTED ON A GLOBAL MARKET

On globalization, in a different way

Since its establishment to date, AEROSTAR has operated in conditions of continuity in the industry for aviation and defence.

The main field of activity is production.

According to the classification of activities in Romanian economy, the main object of activity is the manufacture of aircraft and spacecrafts– CAEN code 3030.

AEROSTAR acts on a global market of great competitiveness.

Aviation is a major sector which sustains the global economy and the connectivity between people and places, it is a sector which has embraced the largely recognized objectives for sustainable development.

The aviation industry, part of air transport, contributes to balance and social development – reducing the poverty, contributing to economic development and growth.

Aviation projects business on long-term while the impact on society and environment must be taken responsibly into consideration for the next generations.

The air transport industry sustains a total of over 62,7 millions jobs on a global scale, out of which 9,9 millions direct jobs; of these, over 1,1 million people work directly in aviation manufacturing . There are 11,2 million indirect jobs generated by purchasing products and services from the companies of its supply chains.

The global economical impact of aviation is of 2,7 trillion USD, which means 3,5% of the global GDP.

Air transport contributes to sustainable development: facilitates tourism and trade, generates economic growth, provides jobs, improves the living standard and reduces poverty, increases the revenues from taxes and dues.

(source: Air Transport Action Group, Aviation: Benefits beyond frontiers, edition 2016)

Aviation and defence industry in 2016

Oil price has a significant impact on the aviation and defence industry.

Further instability factors, geopolitical turbulences, phenomena and crises of a new type, of asymmetrical nature were present at global scale.

The communities in security and defence focus increasingly on cyber security and on the vulnerability of the strategic infrastructures.

In the defence industry, the synergies with the aviation, security and cyber security industries provide efficiency and secure the compliance with the requirements for interoperability and cost effectiveness.

In the field of aviation, the intensive efforts of the two global players Airbus and Boeing continue in order to secure the production capacities capable to build a combined number as high as 120 aircraft, A320 and B737, per month, by the end of the decade.

Also, the year 2016 outlines that additional manufacturing capacities are needed to support the growth potential in civil aviation.

The stability and quality of the resources are critical for the supply chains, of high complexity and global geographical spread, as they are in these industries.

AEROSTAR is rated as a strong company in the Romanian industry

In a profitability rating AEROSTAR is part of the group of companies considered the driver motor of the Romanian economy, which is 4% from the total of 1,4 million entities registered in Romania.

The profits of the companies in this group represent 92% of the total profit obtained by the companies in Romania.

The total turnover of these companies is 41% from the turnover registered by all the companies in the country.

1 of 3 employees (33%) works in these companies.

The criteria considered are the turnover, profitability, duration of over 2 years on the market, no debts to the state budget, a positive payment record, low risk or normal credit rating, current liquidity higher than 1.0 and capital profitability higher than 20%.

(source: Creditinfo Romania, December 2016)

AEROSTAR is appreciated as a showcase for the business environment in Romania, winning from the Romanian Chamber of Commerce and Industry, at the National Top of Companies, edition XXIII, November 2016, the national award – 1st place at the Industry category, very large companies.

The criteria and indicators considered the turnover, net profit from operations, efficiency in human resource utilisation and efficiency in the utilisation of the employed capital.

BUSINESS MODEL

The business model followed by AEROSTAR is determined by the requirements of the customers and the evolutions on the aviation and defence industry market and takes into account of the synergies specific for these industries, which generate value for the customers in conditions of competitiveness.

The value proposed by Aerostar on the market is created in its core business, in the main business lines:

- Manufacturing of aviation products
- Maintenance of commercial aircraft
- Aero and ground systems for defence, production and integrations

During the year 2016 there was no merger or significant reorganisation, either in AEROSTAR, or of the companies under AEROSTAR control.

AEROSTAR, a pole of aeronautical development

Aerostar is number 1 in Romania for its scope of activity.

- Number 1 in aviation manufacturing
- Number 1 in civil aircraft maintenance
- Number 1 for the solutions supplied in the aero and ground defence systems domain

Aerostar is regional leader in these market domains.

Aerostar's footprint in the global aeronautical manufacturing programmes is significant.

BUSINESS MANAGEMENT

AEROSTAR's administration is made in a unitary system, with the management of the company delegated to the steering committee.

The steering committee runs AEROSTAR's operations at executive level.

The members of the steering committee are Mr. Filip Grigore, President of the Board of Directors and General Director and Mr. Damaschin Doru, Vice-president of the Board of Directors and Financial Director.

The members of the executive management of the company in 2016 were:

	Name and surname	Position
▪	FILIP GRIGORE	General Director
▪	DAMASCHIN DORU	Director, Finance-Accounting
▪	FILIP ALEXANDRU	Quality Director
▪	POPA DAN PAUL MALIN	Director , HR & Industrial Engineering
▪	IOSIPESCU SERBAN	Director , Aeronautical Products Division
▪	BUHAI OVIDIU	Director , Aviation MRO & Upgrades Division
▪	ARHIRE SILVIU EMANUEL	Director , Special Products Division
▪	VLAD GABRIEL REMUS	Director , Logistics Division
▪	THEODOR PLACINTA	Director, Utilities & Infrastructure Division

With a division type organisation structure, based on profit & cost centres in the field of operations, auxiliary profit & cost centres, and cost centres in the area of functional activities, Aerostar performs its object of activity by utilising in an integrated way the common resources of the organisation.

The direct participation of the executive management members to the share capital of the company is lower than 1%.

There were no acts of resignation or dismissal among the members of the executive management, or the auditor.

There is no litigation between the company and its administrators or members of the executive management of the company in connection with their activity.

None of the administrators or directors were involved in litigation or other administrative proceedings with AEROSTAR over the last 5 years.

BUSINESS IN 2016

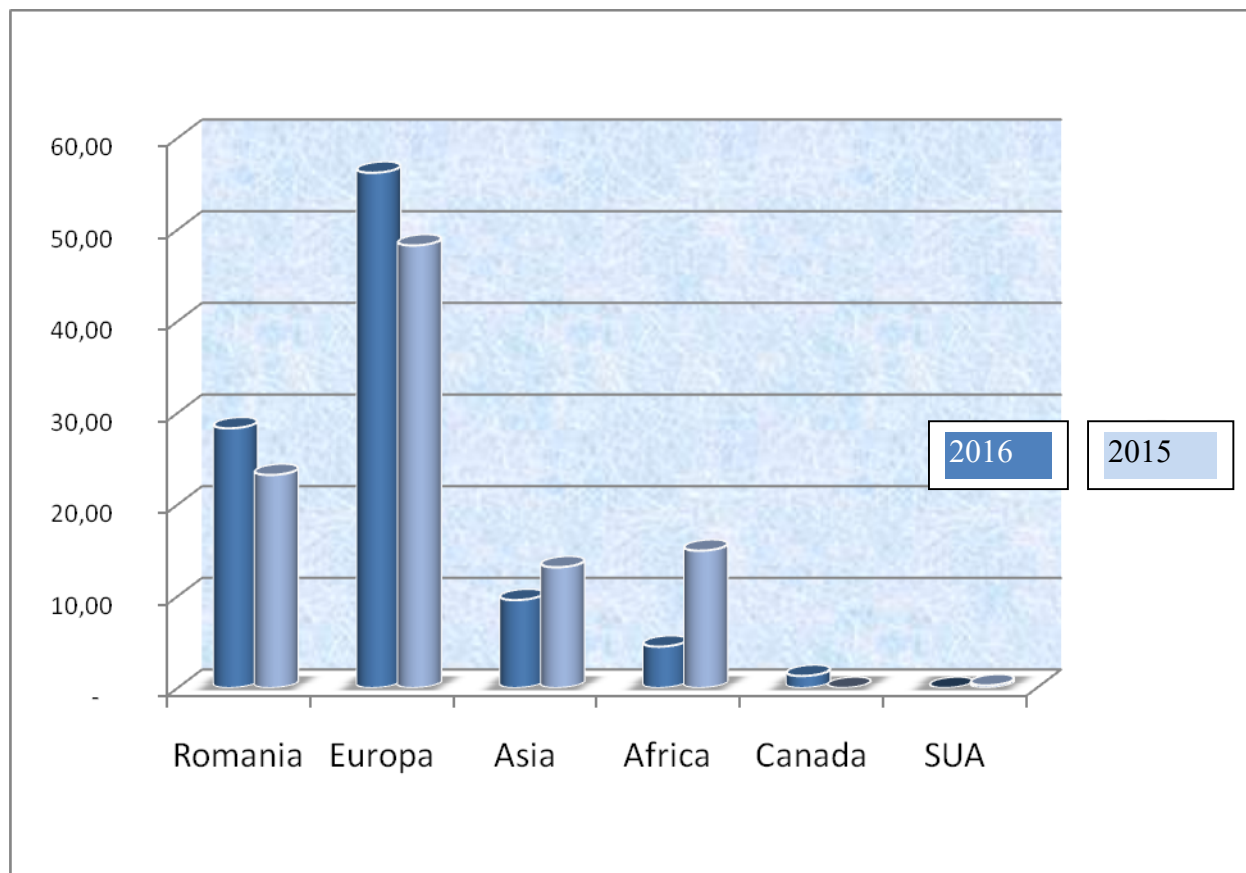
In 2016 AEROSTAR maintained and developed a solid business base, the new programmes representing the majority of the sales made during the period.

AEROSTAR sales in 2016 amounted to 356.219 thousand lei, of which 255.274 thousand lei was export sales, with a large diversity of customers, in a high number of different production programmes.

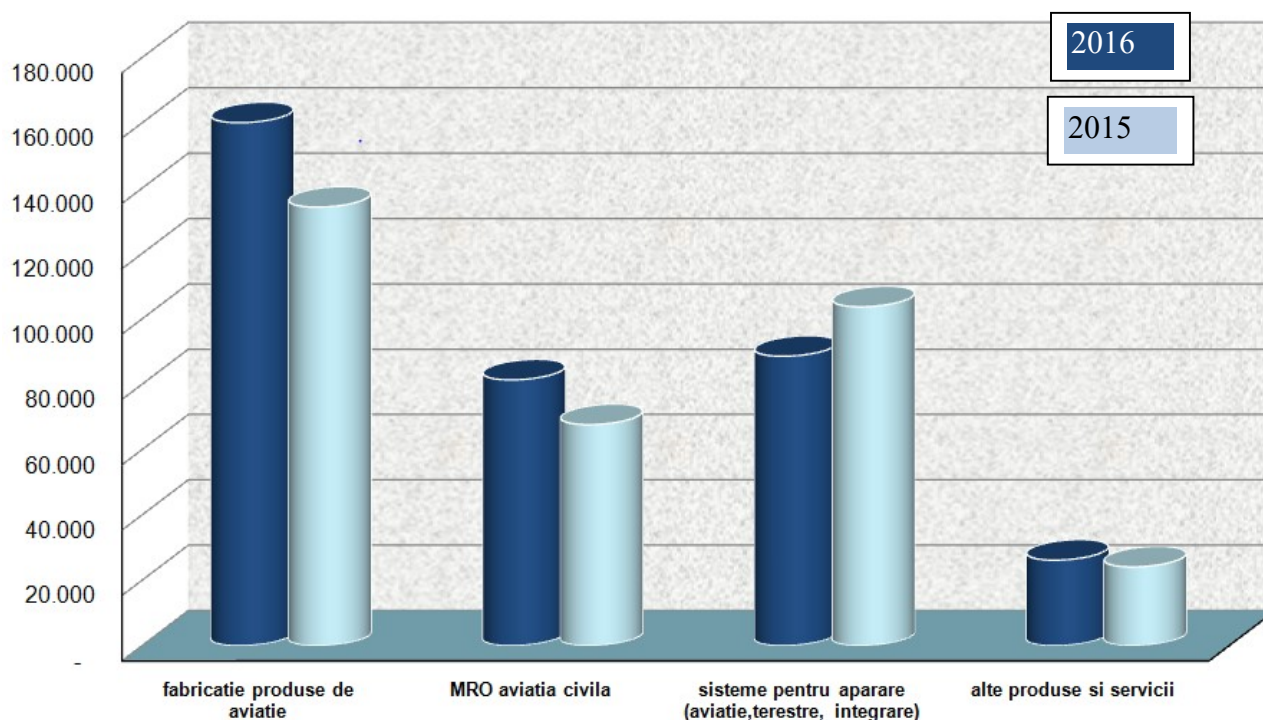
The evolution of the sales made during the year 2016 compared to the year 2015 follows the growing trend in the recent years:

	Year 2016	Year 2015	
Turnover (thousand lei)	356.219	329.764	↑ + 8,0%

Aerostar sales are made on a global market of large geographical spread both in the civil area and in defence.



The comparative evolution of the sales for products and services confirm the market trends:



AEROSTAR runs its business and commercial transactions on its own, the same as for obtaining the licences and authorisations for the activities undertaken.

In the field of import and export operations, AEROSTAR is an Authorised Economic Agent to perform customs clearance, security and safety proceedings, as approved by the Romanian Customs Authorities.

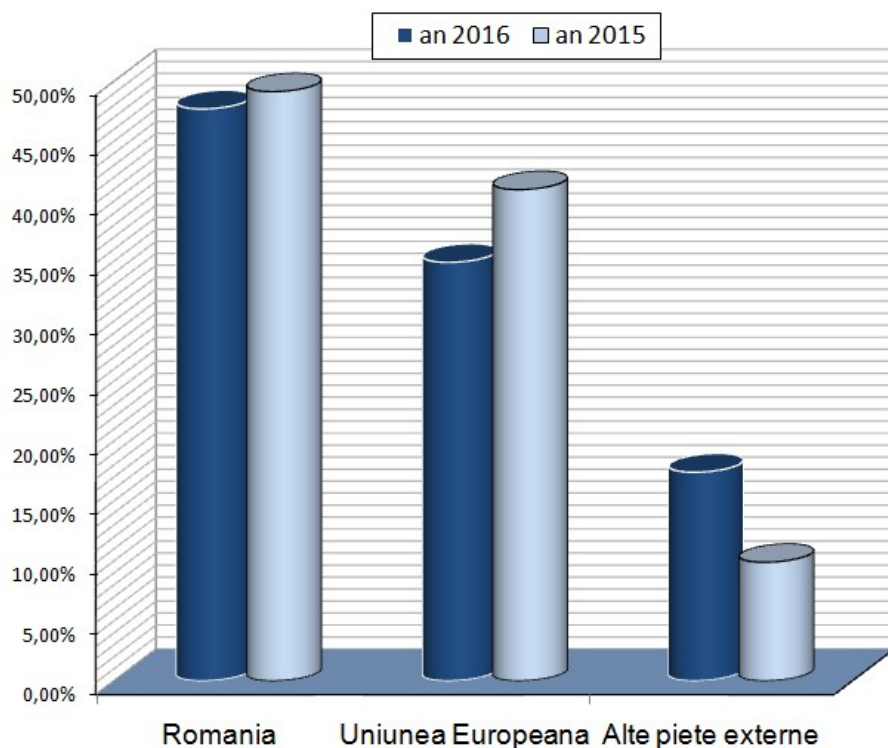
The company is registered by the Ministry of Foreign Affairs – Exports Control Department to perform import and export operations with military products.

AEROSTAR fully observes all the national and international regulations applicable in the trade and delivery and, naturally, in the production of all the goods and services in its supply profile.

During 2016, the company purchased goods and services for the production activity in amount of 196.722 thousand lei.

The purchasing of goods and services was made from Romania, the European Union market, as well as from other foreign markets.

The comparative evolution of the purchases made in 2016 vs 2015 in relation to the geographical markets:



OPERATIONAL PERFORMANCE

Synergy of the business operations

AEROSTAR's present market profile is characterized by advanced capabilities and new programmes, which replaced successfully most of the old, traditional programmes.

Specific for the industry where it operates, Aerostar makes use in a competitive way of the technologies in the field of civil aviation in order to develop solutions in technologies requested on today's defence market.

AEROSTAR's capability offer, with a balanced structure in relation to the needs and the market demand, provides for a growing strength of the company in the competitive environment; at the same time, Aerostar's integration of the improvement programmes and a good reactivity to opportunities secure an important competitive advantage positioning and agility, which are important for the success of the company.

AEROSTAR successfully capitalizes the investments made in capabilities, in advanced equipment and technologies, in capacities and infrastructure, as well as in organization and planning and thus is a competitive and significant supplier in programmes with a high degree of vertical integration.

The operational performance, confirmed by performance indicators of large recognition, is supported by an intensive management act, based on the management by budgets and by projects and on a participative management, which capitalizes the integration of the operations and the available resources as a whole.

92% of the production in 2016 is in the aeronautical field.

In the field of civil aviation

Number 1 in Romania for aviation manufacturing

AEROSTAR's supply capacity is outstanding.

In the field of production of parts, subassemblies and aviation components all the manufacturing programmes are new, in the category of global scope programmes, high volume, on mid and long term.

The company produces a significant volume of aluminium parts and small subassemblies exceeding five-six million units yearly; with reference to the manufacturing of subassemblies in the category of aerostructures or hydraulic systems, the contribution in certain programmes is over half of the total annual production rate, while in other programmes AEROSTAR is sole source.

Increasing the production volume as a subcontractor for parts, aerostructures and equipment for the civil aviation in modern processing technologies specific for aluminium, titanium, steels, a.o. is based on the partnership with the customers.

Also important are the firm actions to improve the utilization of the resources as a whole and the launch of major initiatives for the improvement of the processes, growing their effectiveness while reducing the environmental impact.

The objective to increase of the competitiveness is achieved through integrated investments implemented to modernize and expand the production capacities, as well as by actions to improve the agility at reduced production time and at minimal risks when production grows.

A pillar of the competitive advantage is the **centre for special processes** and the introduction of state-of-the-art practices and standards related to environment protection. At the same time, the development of this capability has a synergic impact on the business lines approached by the company as a whole.

Aerostar develops an identity footprint on the jigs and tooling market for the aeronautical industry. This covers the production of a range from small to medium-size, from ground support equipment (GSE) to assembly and calibration fixtures and jigs. The plan is to increase the complexity and manufacture devices with complex hydraulic or electrical actuations.

The Centre of Excellence for Airbus A320 and Boeing 737 maintenance

Number 1 in Romania, AEROSTAR is the main independent MRO supplier for commercial aircraft in this geographical area, with a business volume in this field about five times bigger than all the MRO bases in the area.

Aerostar provides base and heavy maintenance for commercial aircraft in AIRBUS 320 family, Boeing 737, as well as for aircraft components.

The dedicated Centre of Excellence supplies routine and complex checks, including structural modifications for these aircraft types, for a large number of customers residing mainly in the geographical area of competitiveness for the company.

The same as in the field of aviation manufacturing, AEROSTAR's MRO business is anchored on the market sector defined as a growth core, namely the Airbus 320 and Boeing 737 aircraft, this is the most competitive and highest competition, at the same time.

Starting from the Part-145 approval from the Romanian CivilAeronautical Authority (AACR), recognised by the European Aviation Safety Agency (EASA), AEROSTAR's MRO base has developed its position on the market by getting an extended range of approvals from civil aviation authorities in several EU and non-EU countries.

Defence Systems, the perspective of the tradition and new challenges

**The market position held by AEROSTAR in the field of systems for defence
In the category of aviation and ground systems is a reference for the position
as a first rank supplier to the Romanian Ministry of National Defence.**

Aerostar achieves the continuity of the mission and general objectives set when the company was established while the objectives set for such business were updated in relation with the current market requirements.

While acting to maintain the MRO capabilities for military aircraft in the traditional portfolio, the platforms, systems and equipments in the category MiG-21, L-39 and IAK-52, AEROSTAR acts synergically as to the business infrastructure in the purpose to set up maintenance and logistic support capabilities for the new systems in the inventory of the Romanian army.

Also, Aerostar has built a significant position in the field of IFF radar systems and specialized systems for communications, control and data & information transfer, with various applications.

QUALITY, A COMPETITIVE ADVANTAGE

With reference to Quality, the key performance indicators implemented in AEROSTAR's processes reflect the way in which we deliver quality products for our Customers, on time and on a competitive basis.

In 2016, Aerostar maintained the certifications and approvals obtained either from the certification bodies, from the customers, or other regulatory authorities.

As to quality, surveillance audits were performed in Aerostar both by the Romanian Civil Aeronautical Authority in order to maintain the Part 21/G and Part 145 approvals, as well as by AEROQ to maintain the ISO 9001 certification.

The surveillance audit made by DQS for the Quality Management System, based on the standard AS 9100 specific for the production of civil aviation parts, as well as the renewed certification of the Quality Management System in accordance with AQAP 2110, reconfirmed the compliance with the conditions, as expected by Aerostar customers.

We provide a cleaner environment

The coordinates of the environment management activity are given by the two control surveys from Garda de Mediu (Environment Guard), a survey from Apele Române (Romanian Waters Authority), as well as by the validation audit in regard to the number of greenhouse effect gas certificates corresponding to the year 2015.

The greenhouse effect gas certificates were handed-in and compliance with the applicable legislation was thus ensured.

In 2016 the auditing team from DQS also performed the recertification audit for the Environment Management System, resulting in the renewed certification.

At the same time, the review procedure was initiated for the integrated environment system and for the water management approval following the new investments in the tartaric sulphuric anodization line and in the water based painting line.

Also in this time period, the monitoring checks for water, air and noise were made on the entire Aerostar site in accordance with the requirements of the integrated environment approval.

The sustainable development of Aerostar's activities also comprises activities to reduce the impact on the environment. From this point of view Aerostar pursues to observe the applicable environment legislation and the improvement of the environment performance.

Aerostar has complied with the environment legislation as well as with the requirements of the integrated environment approval, of the water management approval, and also of the greenhouse effect gas approval.

So, there was no sanction as to the environment in 2016.

Also, Aerostar maintained its certification for the environment management system in accordance with SR EN ISO 14001.

Aerostar succeeded to reduce the emissions of volatile organic compounds and this process will continue throughout the transition to using water based paints.

With a view to comply with the European REACH regulation, the year 2016 also marked the commissioning of an antocorrosive treatment for aluminium using substances free of hexavalent chrome.

This process to adopt ecological technologies will continue in 2017.

THE DIGITAL TRANSFORMATION, INNOVATION & INVESTMENTS FOR SUSTAINABLE GROWTH

The investment in the digital transformation means reinventing of the economic processes.

AEROSTAR policies in the field of investments provide the sustainable development and support responsibly the operational excellence.

AEROSTAR management considers that the digital transformation is part of that type of business decisions meant to secure the effectiveness, efficiency and transparency of the processes in order to make correct diagnostics and then, optimize the flow of activities, the processes and the roles allocated.

For the company, the digital transformation means also more effective data flows, once they are redesigned and secured.

In the context of the rapid changes in the economic environment, the digital transformation has a decisive role to increase the profitability of the companies, to maintain the competitiveness and the competitive advantage, as well as the mid and long term business sustainability.

The investments made by AEROSTAR in 2016, from company sources, were in amount of 19,5 million lei.

The integration of the productivity growth objectives, reduction of the environment footprint and certainly, increasing the production capacity, can take as an example the commissioning of a major investment- the tartaric sulphuric anodization line, considered as a reference for the industry.

This is an ecologic technology which sets Aerostar's position on the business growing trend in accordance with the most modern requirements for the elimination of hexavalent chrome from the aviation production, in accordance with the REACH regulation for registration, evaluation, authorization and restriction of chemical substances.

The commissioning of the automatic painting line for parts and subassemblies using water based paints is not only about a high productivity technology but also reduces the

impact on the environment, the volatile organic compounds are approximately five times lower than in case of the oil based painting technology.

The phases of the investment were performed successfully, including the processes qualification and approval, the commissioning and start-up of the series production.

Also, the new assembly capacities for structural subassemblies of medium complexity were commissioned, the same as the new deburring installation based on vibrations.

The purchasing and commissioning of CNC machine-tools continued, including in the area of measurement and control equipment for production.

The perspective in which the investments were made is to accomplish the operational excellence objectives set, and to provide the mid and long term sustainability.

AEROSTAR, a major employer in the aeronautical industry

Recognizing the importance- for the employee, for the employer and to the same extent, for the local community- to provide the stability of the workforce, AEROSTAR has currently 85% of the individual labour contracts made on indefinite durations, avoiding to use excessively temporary labour.

The work practice is in accordance to AEROSTAR policies for the work performed in the organization, including subcontracted work, and such policies include:

- recruiting, employment, integration and promotion of the employees
- contracting, suspending and termination of the individual labour contract
- procedures related to work and technological discipline, settlement of complaints
- formation and training, and development of employees' competences
- health, safety and hygiene at the work place
- work time and resting time
- salaries and other financial rights
- recognition of union organizations where the employees are affiliated and participation of the representative union to collective negotiations (collective labour contract at company level)
- social dialogue, a voluntary process in which the social partners inform each other, consult and negotiate agreements on the areas of mutual interest.

As on 31.12.2016 AEROSTAR had an effective number of 1878 employees, of whom 183 in management positions; the number of employees increased with 86 by the end of 2016, compared to 31.12.2015.

With reference to the background and skills, the figures are the following:

employees, university degree:	535, of which:
– doctorate graduates	11
– doctorate studies in process	6
– master studies graduates	137
employees, post high school studies:	8
high school employees:	640
employees, vocational studies:	619
employees, on job training qualifications:	58
employees, gymnasium background:	18

The data hereabove do not include the personnel attracted by the temporary labour agent and used employed in AEROSTAR's production process.

The average union membership was 78,67% for 12 months 2016.

Development and Professional Training

AEROSTAR practice provides to both women and men in the company, without discrimination, to be well informed and have access to economic and social opportunities.

For over 15 years, AEROSTAR has in place an annual professional training plan, based on which over half of the employees are trained in specific areas, the company providing a periodical training programme, internal or external, for each employee.

AEROSTAR has established partnerships with five technical colleges in Bacau related to joint activities for the formation of workers and technicians specializing in areas of interest for the company, such as aviation structural mechanics, aircraft mechanics, electromechanics for aircraft equipment and instruments, NC machine tool operators, operators for grinding, adjusting, electromechanics, electric operators, chemist operators/galvanizers, etc; also, partnerships were set up with six technical universities across Romania, for the practical training of the students in the aim to cover the company needs for qualified personnel.

AEROSTAR has permanent preoccupations to provide for its employees:

- work conditions conforming with the legislation and applicable regulations
- observance of the provisions in the collective labour contract at company level
- decent salaries in accordance with the system of salaries and the principles set in the collective labour contract such as equal salary for equal complexity work, the proper employee at the proper place, increase the motivation of the employees, remuneration of the competence and performance, etc.;
- balance between work time and resting time (weekly rest, holidays) having the possibility to combine work and family responsibilities, professional life and personal life;
- maternity protection regarding to the allocation of pregnant women to work, or in post natality or breast feeding condition, in accordance with the collective labour agreement and legal provisions applicable;
- observe local or religious traditions (winter and easter holidays), winter vacation and free days for first and second Easter day.

As on 31.12.2016, the following framework perspective data was registered in connection with the work duration for the employees:

- average duration in the company was 14 years;
- average age was 46 years;

- employees in temporary employment (by temporary labour agent) in number of 286 people.

The number of retired people, employed, was 202, specifically 156 in Aerostar and 46 by Airpro, which is a total of 202 retired and re-employed people, who will have to be replaced gradually by new employees.

Health and Safety

AEROSTAR is certified in accordance with the occupational health and safety standard SR OHSAS 18001: 2008 by the authorized body AEROQ Bucharest.

In 2016 the annual negotiation of the collective labour contract was made to set the salaries grids of the employees for the eperiod April 2016- March 2017;

Actions were performed for the professional development of the employees, their inclusion in professional training programmes and application of a yearly evaluation of the individual performance.

Aerostar provides non-discrimination in recruiting and at the work place, optimal conditions regarding occupational health and safety for all the employees. Periodical training is also made with reference to setting the mode of intervention in case of emergency situations.

Internal effective partnerships were set, to contribute to improve the flexibility within the company.

During 2016 expenses were made for:

- professional training programmes in amount of 1.032.646,14 lei;
- various expenses for health and safety in amount of 2.465.813 lei, of which 450.445 lei specific expenses dedicated to maintenance programmes of the work equipment and repairs of buildings.

The investment programmes comprise significant allocations for the improvement of the work conditions, increase the thermal comfort at work, enhance the parking spaces for the company employees.

An integrated fire detection, alert and warning system was also implemented. This interconnects the alert units in the main production spaces and floors and informs the private security and guarding service in case of fire.

SUSTAINABLE UTILIZATION OF RESOURCES

AEROSTAR's competitiveness is based on consistent improvement programmes and on the integrated character of the systems and practices in the company as a whole.

The continuous improvement programme introduced measures to improve how the resources are used and increase the efficiency of the operational costs and increased effectiveness in the utilization of energy, water and materials.

In Aerostar, energetic efficiency programmes are under way, and they contribute to the reduction of the energy demand in the production processes, as well as to better work comfort.

In connection to this, the programme was finalized in 2016 to replace the old technological steam producing equipment with modern equipment of increased efficiency, which provide a higher efficiency in the fuel utilization.

The security for electricity supply was increased when finalizing the internal interconnecting system for the average voltage electric grids.

The thermal rehabilitation of the buildings in Aerostar, their outer cover with insulating materials, reduced the amount of resources used to have work done in good conditions. For example, the thermal energy required to provide work comfort conditions diminished in 2016 with about 7% compared to the year 2015.

The water efficiency programme continued in 2016, the industrial water consumption is provided from company sources, using water from drilled wells while drinking water is provided from the municipal water network. The demand for drinking water diminished with about 5% compared to 2015 following the rehabilitation and modernization of the water networks systems.

The objectives of the energetic programmes comprise action items to lead to the sustainable utilization of all the resources required for production.

TANGIBLE ASSETS

AEROSTAR's production facilities and capacities are located at the site in Bacau, where is the registered headoffice of the company, 9 Condorilor St, Bacau 600302, Romania.

The company owns a total land area of 45,33 hectares, with access to the European Highway E85.

AEROSTAR has direct access to the runway of the "George Enescu" airport of Bacau.

At the registered headoffice there are all types of facilities required for the proper performance of the production activities in accordance with the company's object of activity.

The production facilities include hangars, industrial hangars, test benches, as well as facilities for administrative and social activities. The company also holds office areas allocated for technical and economical activities.

All these facilities are properly maintained.

The effective built area is approximately 13,47 hectares.

All the buildings and special facilities are in the company's ownership.

The degree of amortization, on the categories- constructions and equipment -, such categories having a significant contribution in the immobilized assets (84%), is presented as:

Fixed Assets Category	Gross Value (lei)	Amortized value (lei)	Amortization Degree (%)
Constructions and real estate investments	59.317.892	8.544.209	14%
Technological Eqpt and transport vehicles	107.125.029	35.615.650	33%

During 2016 there were no problems related to the ownership on the tangible assets of the company.

READY FOR THE CHALLENGES OF THE FUTURE

AEROSTAR has implemented a growth strategy having the objective to provide the sustainable development of the company.

Reconfirmed year by year, the growth strategy in work has changed Aerostar in a pole of sustainable development in the aeronautical field, which brings satisfaction for all the involved parties: Customers, Employees, Shareholders.

The solid operational performance, the optimization and improvement programmes performed provide a strong basis for further growth in the future.

The budget approved by the shareholders for the year 2017 provides an amount of 320 million lei for the turnover and a gross profit higher than 32 million lei.

We will continue the competitiveness growth actions, based on an increasing productivity and cost efficiency of the production flows, with modern technologies and increased maturity in the capitalization of the market opportunities.

The strategy adopted by the company preserves and develops the main scope of activity, so that the aeronautical production is higher than 85 % of the turnover.

Also, the strategic objectives envisage the growing footprint of the company, on the export market in special, so that export is more than 80% of the turnover.

The development of the company agility in the context of the global market is a permanent challenge which rely on the inflow of talents and experience gained in vast restructuring processes and rearticulation of the business model.

AEROSTAR's competitive advantage will be maintained and improved: quality, capabilities, advanced equipment and technologies, reactivity to opportunities, adherence to improvement programmes.

The competitiveness increase will continue by integrated investments implemented to modernize and extend the production capacities and establish a partnership of trust with the customers in order to improve the agility at reduced production time and minimal risks when production grows.

From among the challenges one should not ignore the profound changes generated by the new stage of the industrial revolution. The digital transformation of the company is under way.

CORPORATE GOVERNANCE

As a company listed at Bucharest Stock Exchange, AEROSTAR S.A. pursues the compliance with the Code of Corporate Governance of Bucharest Stock Exchange adopted on 11 September 2015.

At the same time, the corporate governance system is compliant with the provisions of the Constitutive Deed of the company and observes the provisions of the laws 31/1990 and 297/2004 with the subsequent modifications and updates, the Regulation no 6/2009 of the Financial Supervisory Authority.

AEROSTAR's Code of Conduct and Business Ethics

AEROSTAR states and supports the company principles and values in an honest and fair way, with integrity, and consistently pursues the observance of the highest ethics and business standards and has volunteered to adopt for several years now AEROSTAR'S Code of Business Conduct and Ethics. This code is posted on the company webpage www.aerostar.ro and is part of the labour contract provisions.

To the extent in which the Code requires a higher standard than required by commercial practice or by the applicable laws, regulations or provisions, we adhere to such higher standards. The Code is mandatory for the employees and is adopted in all aspects regarding the employees, as well as in relation to investors, customers, suppliers, representatives of the local community, other business partners.

The Board of Directors provides special attention to observing the corporate governance principles with a view to ensure:

- obtain performance in conditions of sustainable development of the company
- accuracy and transparency in the decision-making process of the company
- respect of the rights and fair treatment of the shareholders by protecting and practical implementation of their prerogatives
- transparency and access to information by periodic release of the relevant financial and operational information .

Details on the conformance with the principles and recommendations of the Corporate Governance Code of Bucharest Stock Exchange are presented in the declaration "Comply or Explain", which is integral part of this report.

The corporate governance structures

- Shareholders – General Meetings of Shareholders
- Board of Directors
- Executive Management

The shareholders exercise their rights in the General Meeting of Shareholders ("GMS" or "General Meeting"), which is the highest decision making body of AEROSTAR S.A.

The company's shares are indivisible and provide equal rights to the holders, each share giving the right to one vote in the General Meeting of Shareholders.

The General Meetings are convened by the Board of Directors at least 30 days before the set date.

The General Meetings may be ordinary and extraordinary. The Ordinary General Meeting is held at least once a year, in maximum 4 months after financial year's end while the Extraordinary General Meeting is held whenever necessary.

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular media (national newspaper, reports by FSA and BSE) and in the special section "Investors Relations" opened on company's website, easily identifiable and accessible.

AEROSTAR S.A. does its best efforts in compliance with the legal requirements in the field, to facilitate the participation of the shareholders in the General Meetings, as well as for the full exercise of their rights. The shareholders can participate and vote in the General Meeting, but also have the possibility to vote by proxy or by correspondence.

The General Meetings of Shareholders are presided by the President of the Board of Directors, thus allowing an open and effective dialogue between Directors and shareholders.

Each share of the company held by a shareholder on the "record date" gives the right to receive dividends for the previous financial year, in the amount and terms set by the General Meeting of Shareholders.

The competencies for approval of the General Meetings of Shareholders, the conditions for organizing and validations of the meetings are set out in the Constitutive Deed of the Company, according to the applicable legal and regulatory framework.

The General Meetings of Shareholders took place with full compliance of Law Legii 31/1990 regarding companies, law 297/2004 regarding the capital market and applicable regulations issued by ASF, as well as any applicable provision.

The general meetings of shareholders took place on 8 February, 21 April, 5 July and 15 December. They were convened and were performed in accordance with the legal and statutory provisions.

During the last three years, the company distributed dividends to the shareholders and consolidated a dividend policy which provides satisfaction to the shareholders as well as resources for the development of the company.

The company did not acquired its own shares and did not issue bonds or securities during the year 2016.

DDuring 2016 the dividends were paid through Depozitarul Central and the designated payment agent- CEC Bank S.A. as follows:

- Dividends related to the financial year 2015 for which the payment timeframe is 21.09.2016 to 20.09.2019
- Dividends related to the financial year 2014 for which the payment timeframe is 23.10.2015 to 22.10.2018
- Dividends related to the financial year 2013 for which the payment timeframe is 15.02.2016 to 23.10.2017
- Dividends related to the financial year 2012 for which the payment timeframe is 15.02 2016 to 31.12.2016

In accordance with the applicable legal provisions, the payment request for the dividends approved by the general meeting of shareholders ceases to produce effect after the expiry of a three years time period since the “payment date” for the dividends for each year.

RISK MANAGAMENT

AEROSTAR is exposed to a variety of risks and uncertainties which may affect its financial performances. The business lines followed by Aerostar, the operational results or the financial situation of the company, could be affected by the materialization of the risks presented as follows.

Aerostar pursues to secure the mid and long term sustainability and also to reduce the uncertainty associated to its strategic and financial objectives.

The risk management processes provide the identification, analysis, evaluation and administration of the risks in order to minimize their effects down to an agreed level.

Still, there may be risks and uncertainties further to the ones presented as follows, which are not currently known, or which are considered insignificant but which may affect in the future the business lines followed by Aerostar.

Operational Risk

It is the risk to register losses or not to achieve the estimated profits, caused by:

- use of inadequate processes, systems or human resources, or which did not conduct their function properly,
- external events and actions: degradation of the global economic conditions, natural catastrophies or other events which may affect Aerostar's assets.

Assimilated to the operational risk is the **Legal Risk**, defined as the risk of loss due to penalties, fines and sanctions for which Aerostar is liable in case of failure to apply or inadequate application of the dispositions, of the legal or contractual regulations, or in case the contractual rights and obligations are not properly set for Aerostar and/or its business partner.

The monitoring and the elimination of the effects of the legal risk is implemented by means of a permanent updating system about the legislative changes, as well as through a system for the review, advise and approval of the terms and conditions included in the commercial agreements.

Aerostar allocates and will continue to allocate investment expenses and other operational expenses in order to prevent and manage the operational risk.

In addition, Aerostar seeks to have available adequate capital, by setting provisions for risks and related expenses, company funds, to cover its risks of exposure.

Also, in order to minimize the operational risk, Aerostar annually renews the liability insurance contract with prime insurance-reinsurance companies in connection with its

main business lines (aviation products manufacturing and maintenance of commercial aircraft).

The **Credit Risk** is the risk of AEROSTAR bearing a financial loss as a result of the failure to meet the contractual business obligations by a customer, mainly determined by cash, cash equivalents (bank deposits) and commercial receivables.

The cash and cash equivalents are placed solely in first rank banking institutions and are considered to have a high solvency degree.

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are required (advance payments, letters of bank guarantee, confirmed letters of credit).

AEROSTAR has no significant exposure towards a single partner and does not register a significant concentration of the turnover on a single geographic area.

A presentation of the quantitative information regarding AEROSTAR exposure to the credit risk is detailed in Note 9 (Financial Instruments) of the Financial Statements.

The **Liquidity Risk** is the risk for AEROSTAR to encounter difficulties in fulfilling its debt-related obligations as they become due.

For the administration of the liquidity risk, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital undertakings.

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line (used as overdraft) granted by banks.

During the reporting period, AEROSTAR did not use the contracted credit line in amount of 2.500.000 USD, all the activities being financed from company's own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices.

The market risk includes the price risk, currency risk and interest rate risk.

AEROSTAR is mainly exposed to the price risk determined by the fluctuations of the price of raw materials and materials used in the production processes.

The management of this risk is made by:

- diversification of the range of suppliers, which provides increased negotiation levers in case of price increase for the materials of certain suppliers.

- Long term contracts, with fixed price clauses.

AEROSTAR is exposed to currency risk as 72% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

So, the company is exposed to the risk of the exchange rate fluctuations, affecting both the net revenues and the financial position, as they are both expressed in LEI.

An analysis of AEROSTAR's sensitivity to the currency fluctuations is detailed in Note 9 (Financial Instruments) of the Financial Statements.

During the reporting period AEROSTAR S.A. did not incur any financial loss.

As far as the interest rate risk is concerned, due to the fact that AEROSTAR S.A. did not use the contracted Credit Line during the reporting period, the cash revenues and flows are independent from the interest rate variation on the banking market.

INTERNAL CONTROL SYSTEM

The internal control system in AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

ACCOUNTS CONTROL

In Aerostar there is a dedicated department responsible with accounts control. This department provides the inventory of all the elements related to assets, debts and company capitals in the company records.

Throughout 2016, the inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were submitted for the approval of the Board of Directors and registered in the company's accounting records.

No significant deviations were found compared to the records.

BUDGETARY CONTROL

The budgetary control is performed by the persons in charge with the budget.

From the budgets perspective, the company is organised as follows:

- profit centers
- cost centers

There are 19 budgets set in the company which are based on activity programmes, corresponding to the functions of the company.

The budgetary control provides:

- Compliance with the values provided for each budgetary indicator;
- Basis for possible corrective actions.

Quarterly, both the profit centers and the cost centers report to the executive management on the budgetary execution and on the necessary, due, effective and legal character of the expenses made by the company.

CONTROLLING

Controlling was implemented and developed as a higher phase of the budgetary control.

Controlling provides compliance with the mission statement and the strategic objectives of the company. Also, it provides compliance with the planned treasury cash flows,

while making the periodic review of the necessity, opportunity and legality of the amounts received and paid by the company.

INTERNAL AUDIT

AEROSTAR has its internal auditing activity organized according to law, as distinct compartment in the organisational structure, in accordance with the organizational chart.

The internal audit is directly subordinated to the Board of Directors and is an independent and objective activity for enforcement and consultance, designated to evaluate and improve the company's operations.

The company management pursues to ensure that the established internal control function operates efficiently, effectively and sufficiently, in order to mitigate and eliminate the identified risks.

The internal audit activity is structured in:

- effectiveness audit
- management audit
- operational audit
- compliance audit
- financial audit

The internal auditing activity is conducted based on the annual activity programme approved by the Board of Directors.

The internal audit reports are periodically submitted for the attention of the Board of Directors meetings.

President of the Board of Directors & General Director
Grigore FILIP

ANNEX

A commitment for good corporate governance practices

Compliance with the Corporate Governance Code of Bucharest Stock Exchange 2017

Code Provision	Comply	Not comply or partially comply	Reason for non- compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the BoD members are non-executive. The Board of Directors does not comprise an independent member, being voted in this structure by the General Meeting of Shareholders.
A.5	x		
A.6	x		
A.7	x		
A.8	x		
A.9	x		In 2016 a number of 12 meetings took place, of which: <ul style="list-style-type: none"> - All BoD members were present in 6 meetings; - In two meetings there were 3 members present, the other two attended by telecon; - In a meeting there were 2 members present, the other three attended by telecon; - In two meetings there were 4 members, the fifth attending by telecon; - In a meeting there were 4 members, the fifth being absent.
B.1		x	Currently, the auditing is provided by an internal auditor who is a chartered financial auditor, reporting directly to the BoD.
B.2		x	There is no independent Director.
B.3		x	This activity is performed currently by the President of the Board of Directors.
B.4		x	This activity is performed currently by the President of the Board of Directors.
B.5		x	This evaluation is currently performed by the external auditor and by the internal auditing dept.
B.6		x	This function is performed currently by the President and vicepresident of the Board of Directors.

RAPORTUL ADMINISTRATORILOR
aferent exercitiului financiar 2016

B.7		x	This function is provided by the Board of Directors. The internal auditing reports are presented in the BoD meetings, being submitted for review and approval thereof.
B.8		x	This function is provided by the Board of Directors.
B.9	x		
B.10	x		
B.11	x		
B.12		x	The internal auditing reporting is made directly to the BoD.
C.1	x		All the GMS resolutions related to the remuneration of the BoD members were released. Currently there is a distinct section in the BoD Regulations.
D.1	x		
D.1.1	x		
D.1.2		x	Such information in this section are available on request, but are not published on company website.
D.1.3	x		
D.1.4	x		
D.1.5	x		
D.1.6	x		
D.1.7	x		
D.2	x		
D.3	x		
D.4	x		
D.5	x		
D.6	x		
D.7	x		
D.8	x		
D.9	x		
D.10	x		

INDEPENDENT AUDITOR'S REPORT

BENEFICIARY:

- S.C. AEROSTAR S.A.

HEAD OFFICE:

- Bacau, 9 Condorilor Street,

MANAGEMENT:

- GENERAL DIRECTOR - GRIGORE FILIP
- FINANCE-ACCOUNTING DIRECTOR - DORU DAMASCHIN

STATUTORY AUDITOR:

- S.C. H.M. AUDIT CONTAB S.R.L.
- Authorization No. 1019 / 2010

REGISTERED HEAD OFFICE:

- Bacau, Ion Luca Caragiale Street, No. 1, bl. 1, sc. D, ap. 12

PLACE OF BUSINESS:

- Bacau, Pasajul Revolutiei Street, No. 3

MANAGEMENT:

- Financial Auditor - Ec. MONICA HUSANU

CONTRACT no 129 / 15.12.2015

INDEPENDENT AUDITOR'S REPORT

REGARDING THE INDIVIDUAL FINANCIAL STATEMENTS ON 31.12.2016

1. Introduction:

We have audited the individual annual financial statements prepared by S.C. AEROSTAR S.A. („The Company”) as on 31.12.2016, in accordance with the International Financial Reporting Standards adopted by the European Union, which comprise: the individual Statement of the Financial Position, the individual Statement of Profit or Loss, Other Elements of the Global Result, the individual Statement of Company Capital Modifications, the individual Statement of Treasury Cash Flows, Notes to the Individual Financial Statements. Also attached are the following documents: the Report of the Board of Directors, the Declaration of the Company Management in accordance with the provisions of art. 30 of the Accounting Law No. 82/1991 and the Regulation no. 1/2006 issued by CNVM, currently the Financial Supervisory Authority („ASF”), the Proposal for the Distribution of the Net Profit Achieved in the Financial Year 2016, comprising the information determined in accordance with the IFRS provisions.

The above-mentioned financial statements refer to:

- Total company capitals 213.908.224 lei;
- Net turnover..... 356.219.105 lei;
- Total net profit..... 56.471.595 lei.

2. In our opinion, the attached individual financial statements of the Company are prepared, under all the significant aspects, and present the financial position of the Company as on 31 December 2016, as well as its financial performance, treasury cash flows, for the year ended on this date, compliant with the requirements of the Romanian accounting standards, specifically the Accounting Law no. 82/1991 (republished), MPF Order no. 2844/2016 for the approval of the accounting regulations compliant with the International Financial Reporting Standards applicable to the companies whose securities are admitted to trading on a regular market, MFP order no. 166/2017 dated 25 January 2017 regarding the main aspects related to the preparation and submitting of the annual financial statements and of the annual accounting reports of the economic agents to the territorial units of the Public Finance Ministry, as well as for the modification and the completion of certain accounting regulations and Regulation no. 1/2006 issued by CNVM, presently known as the Financial Supervisory Authority („ASF”).

3. Basis of Opinion

We conducted the audit in accordance with the International Auditing Standards, adopted by the Romanian Chamber of Financial Auditors (“ISA”). According to these standards, our responsibility is further described in the Auditor’s Responsibilities section in connection with the auditing of the financial statements from our report. We are independent from the Company according to the Code of Ethics of Professional Accountants (“IESBA Code”) issued by the Board for ethics standards for accountants, together with the ethics requirements relevant for the auditing of the financial statements in Romania; we accomplished the other responsibilities regarding ethics in accordance with these requirements and with the IESBA code. We consider that the audit evidence which we have obtained is sufficient and adequate to constitute the basis of our audit opinion.

4. Continuity of activity

The auditor did not identify any events, conditions or aspects which indicate the existence of a material uncertainty which could question in a significant way the Company’s capacity to continue its activity according to the accounting principle of “Continuity of activity”.

The responsibilities of the management and of those accountable for the individual annual financial statements

5. The management is responsible with the preparation and fair presentation of the individual annual financial statements according to the requirements of Romanian accounting regulations i.e. Accounting Law No. 82/1991 (republished), MFP Order no. 2844/2016 for the approval of the accounting regulations compliant with the International Financial Reporting Standards applicable to the companies whose securities are admitted for trading on a regular market and MFP Order no.166/2017 of 25 January 2017 regarding the main aspects of related to the preparation and submitting the annual financial statements and of the annual accounting reports of the economic agents to the territorial units of the Public Finance Ministry, as well as for the modification and completion of certain accounting regulations. This responsibility includes: the design, implementation and maintaining a proper internal control relevant for the preparation and adequate presentation of the individual annual financial statements, to be free of significant misrepresentations, due to fraud or error, the selection and application of adequate accounting policies, making reasonable accounting estimations for the given conditions.

6. With reference to the preparation of the individual annual financial statements, the management is responsible for the evaluation of the company’s capacity to continue the activity based on the principle of business continuity, presenting, as applicable,

aspects related to business continuity and to the adequacy in using the accounting principle of business continuity .

7. The persons in charge with corporate governance have the responsibility to supervise the financial reporting process of the company.

Auditor's responsibilities for auditing the individual annual financial statements

8. Our objectives consist in obtaining a reasonable insurance on the extent in which the individual annual financial statements, as a whole, do not have significant misrepresentations caused either by fraud or error, as well to issue an auditor's report which includes our opinion. The reasonable insurance is a higher level of insurance, but it is not a guaranty that an audit conducted in accordance with the ISAs regulations will always detect a significant misrepresentation, if there is any. The misrepresentations may be caused either by fraud or error and are considered significant if one can reasonably assume that, individually or cumulated, they will influence the economic decisions of the users, made on the basis of these individual annual financial statements.

As part of an audit in accordance with the Auditing Standards issued by the Romanian Chamber of Auditors and with the International Auditing Standards, the auditor exercises professional judgment and maintains professional skepticism throughout the auditing process. Also, the auditor:

- shall identify and evaluate the significant misrepresentation risks as to the individual annual financial statements, caused either by fraud or error, designs and executes auditing procedures as a response to such risks and obtains sufficient auditing evidence, adequate to provide a basis for the opinion. The risk of failure to detect a significant misrepresentation due to fraud is higher than the risk of failure to detect a significant misrepresentation due to error, as fraud can suppose secret understandings, fake data, intentional omissions, false statements and avoiding internal control;
- shall understand the internal control relevant for the audit, in order to design auditing procedures adequate for the circumstances, but not in the purpose to express an opinion as to the effectiveness of the internal control of the company
- shall evaluate the adequacy of the accounting policies used and the reasonable character of the accounting estimations and of the presentations disclosed by the management;
- expresses a conclusion on the adequacy in the utilization by the management of the accounting of the continuity of activity and determines, based on the

obtained auditing evidence, if there is a significant uncertainty regarding events or conditions which may generate significant doubts as to the Company's capacity to continue its activity. Our conclusions are based on the auditing evidence obtained until the date of the auditor's report.

- shall communicate to the persons in charge with corporate governance, among other aspects, the planned area and the auditing schedule, as well as after auditing, including any deficiencies of the internal control, identified during the audit.

Other aspects

9. This report is addressed exclusively to the company's shareholders as a whole. Our audit was performed in order to be able to report to the company's shareholders those aspects which must be reported in a financial auditing report, and in no other purpose. To the extent permitted by law, we do not accept and do not assume responsibility for our audit, for this report or for our opinion except solely towards the company and its shareholders as a whole.

10. The individual annual financial statements attached are not meant to present the financial position, the result of the operations and a set of annual explanatory financial notes in accordance with the regulations and accounting principles accepted in countries and jurisdictions other than Romania. Therefore, the individual annual financial statements attached are not prepared for the use of the persons who do not know the accounting and legal regulations of Romania i.e. the Accounting Law no. 82/1991 (republished), MFP Order no. 2844/2016 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable in companies whose shares are admitted for trading on a regular market, and the Order of the Ministry of Public Finance no. 166/2017 of 25 January 2017 regarding the main aspects related to the preparation and submission for approval of the annual financial statements and of the annual accounting reports of the economic agents to the territorial units of the Minister of the Public Finance.

Report on the conformance of the Report of the Board of Directors with the individual annual financial statements on 31.12.2016

11. The Directors are responsible with the preparation and presentation of the Report of the Board of Directors in accordance with the requirements of MFP Order no. 2844/2016 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable to

the companies whose shares are admitted for trading on a regular market, Annex 1, chapter 3 and to the requirements of the Financial Supervisory Authority (“ASF”), free of significant misrepresentations, and for the internal control which the management considers necessary to provide for a Report of the Board of Directors free of significant misrepresentations, due to fraud or error. The Report of the Board of Directors attached is not part of the individual annual financial statements. Our opinion on the individual annual financial statements does not cover the Report of the Board of Directors.

12. With reference to our audit regarding the individual annual financial statements, we read the attached Report of the Board of Directors and we found out as follows:

- a) we did not identify information in the Report of the Board of Directors which is not consistent, in all the significant aspects, with the information presented in the attached individual annual financial statements;
- b) the Report of the Board of Directors above includes, in all significant aspects, the information required by the legal accounting regulations regarding the individual annual financial statements – MFP Order 2844/2016.
- c) based on our knowledge and understanding, as obtained during the auditing of the individual annual financial statements, for the financial year ended 31.12.2016, with reference to S.C. AEROSTAR S.A., and to its environment, we did not identify misleading information to be included in the Report of the Board of Directors.

S.C. H.M. AUDIT CONTAB S.R.L.

Authorization CAFR 1019/2010

By Monica Husanu

Financial auditor chartered with the Romanian Chamber of Financial Auditors under no. 2401/2008

Bacau, 16.03.2017

**INDIVIDUAL FINANCIAL STATEMENTS
ON 31 DECEMBER 2016**

PREPARED IN ACCORDANCE WITH THE

**INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

ADOPTED BY THE EUROPEAN UNION

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S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Immobilized assets			
Tangible immobilizations	4;3	146.007	142,278
Intangible immobilizations	5;3	1.689	2,006
Real estate immobilizations	4;3	6.499	6,248
Financial immobilizations	6;3	202	212
Total immobilized assets		154.397	150,744
Circulating assets			
Inventories	8;3	50.272	43,562
Commercial receivables and other receivables	9;10	42.749	57,194
Cash and cash equivalents	12;3	163.153	101,299
Total circulating assets		256.174	202,055
Receivables related to tax on deferred profit	7;3	0	6,546
Expenses in advance		521	434
Total Assets		411.092	359,779
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Share capital	13	48.729	48.729
Current Result		56.472	52.268
Result carried forward	13;3	56.331	57.382
Other reserves	14;3	67.833	34.773
Debts regarding the tax on deferred profit recognized on account of company capitals	7	(6.362)	9.884
Distribution of profit for legal reserve		(9.095)	(21.517)
Total company capitals		213.908	181.519
Long-term debts			
Investment grants	20;3	15.001	16.875
Deferred income	11	33	0
Debts on deferred profit tax	7	3.804	0
Total long-term debts		18.838	16.875
Long-term provisions	17;3	71.448	70.086
Current debts			
Commercial debts	11	37.472	34.497
Debt with tax on current profit	11	2.215	1.970
Other current debts	11	14.414	14.222
Total current debts		54.101	50.689
Short-term provisions	17;3	52.797	40.610
Total provisions		124.245	110.696
Total debts		72.939	67.564
Total company capitals, debts and provisions		411.092	359.779

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBRIE 2016
(all amounts are in thousand lei, if unless specified otherwise)

	Note	December 31, 2016	December 31, 2015
Revenues from sales	14	356.219	329.764
Other revenues	14	3.654	1.697
Revenues related to inventories of products and production in progress	14	3.817	7.710
Revenues from production of immobilizations	14	1.603	854
Total Revenues from Operations		365.293	340.025
Expenses			
Expenses with materials	15	(126.222)	(120.553)
Expenses with employee benefits	15	(99.488)	(89.049)
Expenses with amortization of immobilizations	15	(16.042)	(12.477)
Influence of adjustments on current assets		(592)	(7.428)
Influence of adjustments on provisions	15	(13.549)	(16,238)
Expenses related to third party services	15	(40.957)	(32.672)
Other expenses	15	(3.835)	(3.042)
Total Expenses for Operations		(300.685)	(281.459)
Profit from Operations		64.608	58.566
Financial Revenues	16	7.514	11.817
Financial Expenses	16	(6.257)	(10.829)
Financial Profit		1.257	988
Profit before tax		65.865	59.554
Tax on current profit and deferred	7	(9.393)	(7.286)
Net Profit of the financial year		56.472	52.268

General Director,
Grigore Filip

Finance Director,
Doru Damaschin

S.C. AEROSTAR S.A. BACAU
OTHER ELEMENTS OF THE GLOBAL RESULT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Net profit of the financial year	56.472	52.268
Deferred income tax recognised on the account of company capitals according to O.M.F.P. 2844/2016	(10.131)	-
Result carried forward arising from tranzition to IFRS	(1.161)	-
<u>Other earnings</u>	<u>-</u>	<u>4</u>
<u>Other elements of global result</u>	<u>(11.292)</u>	<u>4</u>
<u>Total Global Result of financial year</u>	<u>45.180</u>	<u>52.272</u>

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL FINANCIAL STATEMENTS OF COMPANY CAPITALS MODIFICATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

	Share Capital	Reserves	Other elements of company capital	Result carried forward	Result of year	Total company capitals
Global result						
A. Balance on January 1, 2016	48.729	34.773	9.884	57.382	30.751	181.519
Profit of the year					56.472	56.472
Other elements of global result						
Tax on deferred profit recognized on account of company capitals		-	(16.246)	110	-	(16.137)
Result carried forward from the adoption of IFRS				(1.161)		(1.161)
						-
Distribution of profit for year 2015 to allocations decided by shareholders in GMS in April 2016 (NOTE 13)				30.751	(30.751)	
Distribution of profit for legal reserves in gross amount		15.100		-	(9.095)	6.006
Total global result of the year		15.100	(16.246)	29.700	16.626	45.180
Transactions with shareholders, directly recognized in company capitals						
	-	-	-	-	-	-
Statutory reserves distributed from the profit of year 2016		17.960		(17.960)		-
Dividends to pay for year 2015				(12.791)		(12.791)
Transactions with shareholders, directly recognized in company capitals		17.960		(30.751)		(12.791)
B. Balance on December, 31 2016	48.729	67.833	(6.362)	56.331	47.377	213.908
C. Modifications of company capital (NOTE 13)	0	33.060	(16.246)	(1.051)	16.627	32.389

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A.
STATEMENT OF TREASURY CASH FLOWS (direct method)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2016	December 31, 2015
TREASURY CASH FLOWS FROM OPERATIONS			
received from customers	9	387.310	322.843
taxes and excises recovered from State Budget		7.166	7.998
payments to suppliers and employees		(245.231)	(227.976)
payment of taxes, contributions and dues to State Budget		(48.121)	(42.643)
payment of profit tax		(10.089)	(11.505)
NET CASH FROM OPERATIONS		91.035	48.717
TREASURY CASH FLOWS FROM INVESTMENT ACTIVITIES			
collected from non-reimbursable funds	20	4.671	5.090
interest collected from loans granted		6	13
interest collected from bank deposits		478	1.216
collected dividends		231	154
collected from sales of tangible immobilizations		31	0
instalments collected from loans granted		4	303
payments for purchase of tangible and intangible immobilizations		(22.651)	(34.151)
NET CASH USED IN INVESTMENT ACTIVITIES		(17.230)	(27.375)
TREASURY CASH FLOWS FROM FINANCING ACTIVITIES			
recovered dividends		88	0
paid dividends		(12.437)	(12.897)
NET CASH USED IN FINANCING ACTIVITIES		(12.349)	(12.897)
Net increase of cash and cash equivalents		61.456	8.445
Cash and cash equivalents at beginning of period		101.299	92.427
Effect of foreign currency variation on cash and cash equivalents		398	427
Cash and cash equivalents at end of period	12	163.153	101.299

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

NOTE 1- GENERAL INFORMATION

AEROSTAR was established in 1953 and operates in accordance with the Romanian laws.

S.C. AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, 9, Condorilor Street, Code 600302.

The main field of activity of AEROSTAR is production.

The main object of activity of the company is "Manufacture of aircraft and spaceships" - code 3030.

The company was registered as a shareholding company at the Trade Register of Bacau (under number J04/1137/1991), with the current name S.C. "AEROSTAR S.A." and the individual identification code 950531.

The record of its shares and shareholders is kept, as provided by law, by S.C. Depozitarul Central S.A. Bucuresti.

The amount of the dividends proposed to be distributed as before the authorization of the financial statements is (unrecognized as distribution towards the owners during the period) is 13.704.970 lei, adequate to a gross dividend per action of 0,09 lei.

During the exercise of 2016, there were not recorded subscriptions of new actions and neither participation certificates, convertible bonds, warranties, options or similar rights.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

NOTE 2 - FINANCIAL REPORTING BASES – APPLICATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The individual financial statements were prepared by the company in accordance with the International Financial Reporting Standards adopted by the European Union. These financial statements were authorized for release by the Board of Directors on the date of 03.2016.

2.1 Evaluation basis used

The financial statements were prepared based on the historic cost.

2.2 Currency for operations and presentation

The company's accounting records are kept in lei. The company considers the Romanian currency (Leu) as the currency for operations in accordance with the definition in IAS 21 "The Effects of Changes in Foreign Exchange Rates". The financial statements are presented in thousands lei, rounded to the closest thousand lei.

2.3 Use of estimates and professional judgment

The preparation and presentation of the individual financial statements in accordance with IFRS requires the use of estimates, judgment and assumptions affecting the implementation of the accounting policies as well as the reported value of the assets, liabilities, revenues and expenditures. The actual results may differ from the estimates. Such estimates and reasoning are made based on the historic experience as well as on a series of factors considered adequate and reasonable.

The reported accounting values of the assets, the debts that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company management. Such estimates, as well as the reasoning and assumptions behind them are reviewed on a regular basis and the result thereof is recognized in the time period when the estimate was reviewed.

2.4 Sources of uncertainty in estimations and the management of significant risks

In the risk management processes the company pursues to secure its mid and long-term sustainability and reduce the uncertainties associated to its strategic objectives, under strict compliance with the law.

The risk management processes taking place at various company levels ensure the identification, analysis, evaluation and management of all risks with a view to mitigate their effects down to an agreed level.

2.4.1 Risks currently managed by the company:

Operational risk

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

The operational risk is the risk to incur losses or the failure to obtain the profits at the budgeted level, a risk that is determined by internal factors (inadequate performance of certain activities, manpower related factors or the existence of inadequate technological processes), or by external factors (economic conditions, changes in the business environment, law modifications etc.).

The legal risk is assimilated to the operational risk, being defined as the risk to incur losses due to penalties, fines or sanctions to which the company may be charged following failure to apply or improper application of the legal provisions.

The company has allocated and is currently allocating resources in order to prevent and adequately manage the operational risk. The company is intended to provide as well, through the provisioning for related risks and charges, of own funds, for hedging purposes to which it is exposed.

The company also annually renews an insurance contract of civil liability related to the major business lines.

Market risk

The market risk is the risk that the fair value or the future cash flows of a financial instrument fluctuate due to the modifications of the market prices.

The market risk comprises the price risk, the currency risk and the interest rate risk.

The price risk is determined by the possibility to incur a loss or the failure to obtain the expected profits as a result of the variations in the market prices, especially in the case of commercial agreements.

To avoid or mitigate the price risk is made by diversifying the portfolio of suppliers and/or conclusion of long-term contracts with fixed price clause.

AEROSTAR S.A. is exposed to the currency exchange risk as 77% of the company turnover is reported to USD and EUR while a significant portion of the operating expenses relates to the currency for operations (LEI).

Thus the company is exposed to the risk that the currency variations could affect both its net revenues and its financial position, as they are expressed in LEI.

An analysis of AEROSTAR S.A. sensitivity to the currency exchange variations is detailed in Note 9 (Financial Instruments) to the Financial Statements.

During the reported period AEROSTAR S.A. did not record financial losses.

As for the interest rate risk, due to the fact that AEROSTAR S.A. did not use the contracted Credit Line during the reported time period, the revenues and cash flow are independent of the variation of the interest rate risk on the banking market.

Credit risk

The credit risk is the risk that AEROSTAR incurs a financial loss as a result of a customer's failure to comply with the commercial contract obligations.

The credit risk is evaluated and managed for each business partner based on the ratings reviews including the country risk for the country where the customer operates.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

In certain cases, specific instruments for risk mitigation are requested (down payments, letters of credit, confirmed export letters of credit).

AEROSTAR holds no significant exposure toward a single partner and no significant concentration of the turnover on a single geographical area.

A detailed presentation of the quantitative information regarding AEROSTAR exposure to the credit risk is presented in Note 9 (Financial Instruments) to the Financial Statements.

Liquidity risk

The liquidity risk is the risk AEROSTAR may encounter difficulties to fulfill the related obligations as they become due.

To evaluate the liquidity risk, the treasury flows from operation, investments and financing are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the expected level of net changes to liquidities. These reviews provide a base for the financing decisions and capital liabilities.

In order to mitigate the liquidity risk, AEROSTAR maintains annually a cash flow reserve as a Credit Line (usable as an account overdraft) granted by the banks.

In the reported period AEROSTAR did not use the contracted Credit Line of 2,500,000 USD, all Company activities being funded from company generated sources.

2.5 Adequacy of capitals

The company's policy is focused on maintaining a solid capital basis in order to support the continuous development of the company and accomplish its strategic objectives.

The company will continue to act firmly so as to ensure the sustainability of its investments and business growth.

The strategy adopted develops the main object of activity of AEROSTAR, so that the aeronautical field represents 93% of the turnover. The general objective is the annual growth of the company turnover. The specific objectives which sustain the general objective comprise the continued organic development of the company: the development of the centers of excellence by continuing the modernizations, investments and continuous improvement programs.

The equity entirely covers the financing needs of production and realization of investment volume. Through its politic of dividends, the company develops its equity as the sales and investment volume are increasing.

During the financial exercise of 2016 the company has not used a loan capital and neither a capital injection by the shareholders.

2.6 Presentation of information in the financial statements

The financial statements are presented in accordance with the requirements of IAS 1 "Presentation of Financial Statements". The company has opted for a presentation by nature and liquidity in the statement of the financial position and a presentation of the revenues and expenditures by their

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

nature in the profit or loss statement, considering that these presentation methods provide relevant information for the position of the company.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and, therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, 39 Aerogarii Boulevard.

The consolidated financial statements for the financial year 2015 were submitted to ANAF under registration number 99813314/26.08.2016. The financial statements copies were consolidated in order to obtain from the headquarter of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2016.

2.7 Reporting on segments

The company has a sole segment of operations in accordance with IFRS 8 and no distinct financial information is available for various components of the entity. The information regarding the sales by categories of products and markets are presented in detail in the Report of the Board of Directors.

2.8 Standards and interpretations in force

2.8.1 Standards and interpretations in force in the current time period

The following standards issued by the Committee for International Accounting Standards and adopted by the European Union are in force in the current time period:

- Amendments to the International Accounting Standard IAS 1 *Presentation of Financial Statements*, applied as of January 01st, 2016;
- Modification of IAS 34 *Interim Financial Reporting* and of IFRS 7 *Financial Instruments: Disclosures*, modified in accordance with the amendments to IAS in force as of January 1st, 2016;
- IAS 16 *Property, Plant and Equipment*– modifications in force for periods as of or after January 1st, 2016;
- Amendments to IAS 38 *Intangible Assets* (applicable to annual periods as of or after January 1st, 2016);
- Amendments to IAS 41, *Agriculture*; IAS 17 *Leases*, IAS 23 *Borrowing Costs*, IAS 40 *Investment Property*, in force for periods as of January 1st, 2016;
- Modifications to IFRS 11 *Joint Arrangements* and IFRS 9 *Financial Instruments* in force for periods as of or after January 1st, 2016;
- Modifications of IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, in force for periods as of or after January 1st, 2016.

The company considers that these modifications are irrelevant for its financial statements and their adoption has not lead to any change of the company's accounting policies.

2.8.2 New standards and interpretations

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless stated otherwise, all amounts are expressed in thousand lei)

Standards (Modifications to Standards) and interpretations adopted by the Committee for International Accounting Standards and the European Union, but not entered in force.

- Adoption of IFRS 9 Financial Instruments (in force from January 1st 2018) together with the modifications of international accounting standards, in accordance with IFRS 9:
 - IAS 1 Presentation of Financial Statements ;
 - IAS 2 Inventories ;
 - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
 - IAS 10 Events after the Reporting Period;
 - IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
 - IAS 21 *The Effects of Changes in Foreign Exchange Rates*;
 - IAS 23 *Borrowing Costs*;
 - IAS 28 *Investments in Associates and Joint Ventures*;
 - IAS 32 *Financial Instruments Presentation*;
 - IAS 33 *Earnings per Share*;
 - IAS 36 *Impairment of Assets*;
 - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;
 - IAS 39 *Financial Instruments: Recognition and Measurement*;
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*;
 - IFRS 2 *Share-based Payment*;
 - IFRS 3 *Business Combinations*;
 - IFRS 4 *Insurance Contracts*;
 - IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*;
 - IFRS 7 *Financial Instruments: Disclosure*;
 - IFRS 13 *Fair Value Measurement*;
- Adoption of IFRS 15 *Revenue from Contracts with Customers*, which is applied starting with January 1st 2018, together with the following modification of standards:
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards*;
 - IFRS 3 *Business Combinations*;
 - IFRS 4 *Insurance Contracts*;
 - IAS 1 *Presentation of Financial Statements*;
 - IAS 2 *Inventories*;
 - IAS 12 *Income Taxes*;
 - IAS 16 *Property, Plant and Equipment*;
 - IAS 32 *Financial Instruments: Presentation*;
 - IAS 34 *Interim Financial Reporting*;
 - IAS 36 *Impairment of Assets*;
 - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;
 - IAS 38 *Intangible Assets*;
 - IAS 39 *Financial Instruments: Recognition and Measurement*;
 - IAS 40 *Investment Property*.

The company evaluates the potential effects of the amendments to the International Financial Reporting Standards and, in accordance with the initial estimates, their adoption will have no significant impact on the financial statements of the company.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 3 – ACCOUNTING POLICIES

The accounting policies represent the specific principles, bases, conventions, rules and practices applied in the preparation and presentation of the financial statements.

The company management has established the accounting policies for the operations performed, as described in the accounting policy manual.

These policies were prepared taking into consideration the specific features of the company activity and were approved by the Board of Directors of the company.

The accounting policies were prepared in compliance with the requirements of the International Financial Reporting Standards as approved by the European Union.

The accounting policies were developed in order to assure the provision through the financial statements, of some information which shall be *intelligible*, *relevant* for users' needs in taking decisions, *credible* in the sense of faithfully representing the assets, debts, financial position and profit, or the company loss, shall not contain significant errors, shall not be biased, shall be prudent, complete under all significant aspects, *comparable* so the users can compare the company's financial statements over time, to identify the tendencies in the financial position and its performances and to compare the financial statements with the ones from the other companies to evaluate the financial position and the performance.

Modifications in the accounting policies

The modification of the accounting policies is only permitted if requested by IFRS or if it results in more relevant or more reliable information with reference to the company operations.

The company modifies an accounting policy only if such modification:

- Is required by an IFRS or
- Results in financial statements that provide reliable and more relevant information with reference to the effects of the transactions, of other events or conditions over the financial performance or cash flows of the entity.

How the modifications are applied in the accounting policies:

The entity takes into account a modification in the accounting policy that results from the initial implementation of an IFRS in conformance with the specific transitory provisions, if any, and when the entity modifies an accounting policy at the first time application of an IFRS that does not include specific transitory provisions.

The presentation of the information:

When the initial application of an IFRS has an effect over the current or anterior period of time, the company presents, in explicative notes the following:

- the title of IFRS;
- the nature of accounting policy modification;

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

- when it is the case, the fact that the modification is made as an effect of the transitory dispositions and a description of these transitory provisions;
 - for the current period and for each period previously presented, the sum of adjustments for each affected element from the situation of the financial position, to the extent possible
- When a voluntary modification of the accounting policy has an effect over the current or previously period, the company presents in the explicative notes:
- the nature of the modification of accounting policy;
 - the motives for which the appliance of the new accounting policy offers reliable information and more relevant ones;
 - for the current period and for each period previously presented, the sum of the adjustments for each affected element from the financial position, to the extent possible

General accounting policies

The general accounting policies which are the basis of the record into accounts of the operations, transactions, the evaluation of the elements presented in the annual financial statements as well as in the preparation of the financial statements are:

- The principle of continuity. The company continues its operations normally, without entering into liquidation or without reducing significantly its activity.
- The principle of consistency of methods. The evaluation methods and the accounting policies are applied consistently from one financial year to another.
- The principle of prudence, according to which the assets and revenues must not be overrated, while the liabilities and expenses must not be underrated.

The individual statement of the global result can only consider the profit obtained as on the date of the financial statements.

The financial statements reveal all the debts arising during the current financial year or of a previous financial year, even if they become apparent only between the date of the balance sheet and the date when the statement was prepared.

To this end, the possible provisions shall also be accounted, as well as the debts resulted from the contractual provisions. This is accounted in the balance sheet or in the explanatory notes according with the nature of such debt.

All the depreciations are accounted, no matter if the result of the period is profit or loss. The registration of the adjustments for depreciation or loss of value is made on the expenses account, regardless of their impact on the statement of the global result.

- The principle of independence

The revenues and expenses of the financial year are registered irrespective of the date when the revenues are earned or when the expenses are paid.

- The principle of accrual accounting

The company prepares the financial statements based on accrual accounting, except for the information on cash flows.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
(unless specified otherwise, all amounts are stated in thousand lei)

- The principle of separate evaluation of assets and liabilities elements, according to which the components of the assets and liabilities must be evaluated separately.
- The principle of non-compensation
The assets and liabilities, the revenues and expenses, respectively, are not compensated, except for the cases when the compensation is requested or allowed by a standard or by an interpretation thereof.
- The principle of prevalence of economic aspects over legal aspects, according to which when presenting the values in the balance sheet and in the profit and loss account, the economic basis of the reported transaction or operation is considered, not only the legal form thereof.

Materiality and Aggregation

Each significant class of similar elements is separately represented in the financial statements. The elements of different nature or functions are presented separately, except for the case when these are insignificant.

The information is significant if its omission or misleading presentation can influence the economical decisions made by the users based on the financial statements.

To determine which information is significant, there are being established the following materiality thresholds, depending on the nature of the elements:

Element which establishes the material threshold	Method of calculation	Value (%)
Non-current assets	Analysed asset/Total Immobilized assets	0,5%
Current assets	Analysed asset/Total current assets	0,5%
Debts	Analysed debts/Total debts	0,25%
Operating benefits	Analysed income/ Total operating income	0,25%
Financial income	Analysed income/Total financial revenues	0,25%
Operating expenses:		
- expenditure on material stocks	Analysed expense/Total stock expense	0,25%
- expenditure on staff	Analysed expense /Total expenditure on staff	0,1%
- depreciation expense	Analysed expense /Total depreciation expense	0,5%
-other expenses	Analysed expense /Total other expenses	0,25%
Financial expenses	Analysed expense /Total financial expenses	0,25%

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016
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Accounting policies on estimates and errors

Estimates

The preparation and presentation of the yearly and interim individual financial statements, in accordance with the IFRS suppose the use of estimates, judgements and assumptions affecting the application of the accounting policies as well as the reported value of assets, debts, revenues and expenses. Such estimates and judgments are made based on the historic experience, as well as on a series of factors considered adequate and reasonable. The reported accounting values of the assets and liabilities which cannot be determined or obtained from other sources are based on such estimates considered adequate by the company management.

The estimates, as well as the judgements and assumptions behind them are reviewed on a regular basis, and the result thereof is recognized during the time period when such estimate was reviewed.

Any modification of the accounting estimates will be recognized prospectively by including it in the result:

- Of the time period when the modification occurs, if it affects only the respective time period; or
- Of the period when the modification occurs and of the subsequent periods, if the modification also affects such periods.

The company uses estimates in order to determine:

- uncertain customers and adjustments for the depreciation of the related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of tangible immobilizations, for restructuring, for warranties granted to customers, for obligations towards manpower and other obligations;
- the adjustments for the depreciation of tangible and intangible immobilizations;

At the end of each reporting period, the company must estimate whether there are any signs of depreciation. If any such signs are identified, the recoverable value of the asset is estimated in order to determine the extent of depreciation (if any). The recoverable value is the maximum between the fair value minus the sale expenses and the value during operation. When establishing the value in operation, the management estimates a future cash flow reduced to the current value, using a discount rate which reflects the current market value of the money value in time and the specific risks of the assets for which the cash flow estimates have not been adjusted.

- the lifetimes of the tangible and intangible immobilized assets;

The company reviews the estimated lifetime of the immobilized tangible and intangible assets at least at the end of each financial year, in order to establish the degree of adequacy.

- the stocks of raw materials and materials requiring the creation of adjustments for depreciation;
- deferred taxes.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
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Presentation of information

Insofar as possible, the company will present the nature and value of a modification to an accounting estimate which has an effect in the current/subsequent period(s).

Errors

Errors can arise regarding the recognition, evaluation, presentation or description of the items in the financial statements.

The financial statements are not compliant with the IFRS standards if they contain either significant or insignificant errors made intentionally in order to obtain a certain presentation of the financial position of the financial performance or of the treasury cash flows of an entity.

The company shall retroactively correct the significant errors of the previous period from the first set of financial statements whose publication has been approved after our discovery, through:

- restating the comparative amounts for the previously presented period in which the error has occurred, or
- if the error appeared before the previous presented period, restating the opening balances of assets, debts and capital shares for the previous presented period.

The company shall present the following information:

- the nature of the error for the previous period;
- ~in so far as possible, for each of the previously presented period, the value of the *correction*
- ~ for each row item affected from the financial statement;
- ~ for the basic result and diluted per share
- the amount of the correction at the beginning of the first period, previously presented;
- if the retreatment backwards is impossible for a specific previous period, the circumstances which lead to the existence of such circumstance and a description of how and when such error was corrected.

Accounting policy on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the intangible immobilizations when:

- The cost of the asset can be assessed in a reliably manner:

The tangible immobilizations are tangible assets which:

- are held to be used to produce or supply goods and services to be rented to third parties or to be used for administrative purposes;
- are expected to be used over several periods of time.

The following are not capitalized: repairs and maintenance and general administration expenses
The specific recognition criteria for subsequent expenditures of the nature of the work performed at the property, plant and equipment from the construction area:

- The lifespan of the work performed shall be at least equal with the expected remaining useful life of the building in question.

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- The expense cost shall be over 25% from the book value of the building.

The spare parts and service equipment are generally accounted for like stocks and recognized on expenses when they are consumed.

If the spare parts and the service equipment can be used only in relation with an item of property, plant and equipment, they are accounted for as property, plant and equipment, where it is possible to establish the initial purchase value (at the placing in service) of the part being replaced.

In order to decide if the recognition is made separately, each case in particular is being analysed on separate components using the professional judgement.

The company management has set an asset capitalization threshold of 2,500 lei. All purchases below this amount shall be considered expenses of the time period.

Exceptions: The computers are considered tangible immobilizations amortizable regardless of their entry value, and they shall be amortized throughout the useful lifetime established by the reception board. Also, the tooling and jigs are accounted as stocks and recognized as expenses of the period when they are consumed, regardless of their entry value, taking into account that they usually have a useful lifetime of less than a year, as well as their degree of specialization (they are intended to be used for a particular type of product/service).

Derecognition

The accounting value of a tangible immobilization element is derecognized:

- upon assignment
- when no more future economic benefits are expected from its use or disposal.

The revenue or loss resulted from de-recognition of a tangible immobilization is included in the profit or loss when the immobilization is derecognized.

Evaluation at recognition

The costs at which a tangible immobilization is accounted comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions;
- costs which can be attributed directly to bringing the assets to the location and condition needed to operate as desired by the company management;
- The initial estimate of the costs to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 "Provisions, contingent liabilities and contingent assets" apply.

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IAS 2 "Inventories" is applicable to determine the costs to produce the tangible immobilizations under company's own administration.

The cost of a tangible immobilization held by the company based on a leasing agreement is determined in accordance with IAS 17 "Leases".

Assessment after recognition

The company has adopted the cost-based model as accounting policy. After the recognition as an asset, the tangible immobilizations are accounted for at its cost minus the aggregate amortization and any aggregate loss from depreciation.

Reclassification in investment property and immobilized assets held for sale

When the use of a tangible immobilization is modified from a tangible asset used in the production of goods or in the supply of services, or used in administrative purposes, into a tangible immobilization used to be rented, this is reclassified into an investment property, as per IAS 40. When the conditions are met for the classification of an asset as held for sale, such asset is reclassified in accordance with IFRS 5.

Amortization of tangible immobilizations

The amortization is recognized in the profit and loss account using the linear method for the useful lifetime estimated for each tangible immobilization or component thereof, if applicable.

The amortizable value is allocated in a systematic manner throughout the useful lifetime of the asset.

The amortization methods, the useful lifetimes and the residual values are reviewed at least at the end of each financial year and adjusted accordingly. The adjustment of the accounting estimates is made in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors".

The amortization of an asset begins when the asset is available for use (i.e. when it is in the suitable location and condition to be functional as desired by the management) and ends when the asset is reclassified into another category, or on the date when the asset is derecognized.

The revaluation surplus included in the retained earnings resulting from using fair value as deemed cost at the date of transition to IFRS, is capitalized through the transfer in the retained earning representing a surplus realised from revaluation reserves during the use of the assets.

The amortisation does not cease when the asset is not in use.

The land and buildings are separable assets and their accounts are kept separately, even when they are acquired jointly.

Usually the land has unlimited lifetime and therefore it is not amortized.

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For each reporting period, the company presents, in the explanatory notes the gross accounting value of the fully amortized tangible assets which are still in operation.

Depreciation

To determine whether a tangible immobilization element is depreciated, the company applies IAS 36 "Impairment of assets".

At the end of each reporting period the company estimates whether there are any indications of assets depreciation.

If such indications are identified, the company estimates the recoverable value of the asset.

INTANGIBLE IMMOBILIZATIONS

Recognition

The company makes use of professional judgment in the recognition of an intangible immobilization in order to decide if the most important component is the tangible or the intangible one.

Criteria for recognition of intangible immobilizations:

- the asset can be identifiable
- the company has control over the asset
- future economic benefits are associated to the asset
- the cost (value) of the asset is measurable in a reliable and trustworthy manner.

Derecognition

An intangible immobilization is de-recognized upon disposal or when no future economic benefits are estimated to occur from its use or disposal.

Evaluation at recognition

All intangible immobilizations which comply with the definition and recognition criteria are evaluated at their initial cost.

The cost is determined differently, depending on how the asset was obtained.

In case of purchase, the cost comprises:

- Its purchasing price, including import customs taxes and non-reimbursable purchase taxes, after deducting discounts and commercial deductions.
- Any other costs directly attributable to the preparation of that asset for use.

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In case of intangible immobilizations internally generated such execution steps are clearly separated into:

- Research phase. The research costs are treated as expenses of the time period
- Development phase. The development costs are recognized as intangible asset, provided the following conditions are demonstrated:
 - Technical feasibility to complete the asset, so that it is available for use or sale;
 - Availability of adequate resources – technical, financial, human to complete the development;
 - Intention to complete and use or sell the intangible asset;
 - Capacity to use or sell the asset;
 - The manner in which the asset will generate future economic benefits;
 - Capacity to assess the related costs.

If the company cannot distinguish between the research and development phase of an internal project to set up an intangible immobilization, the company treats the project-related costs as if incurred exclusively in the research phase.

Items not capitalized by the company:

- internally generated trademarks
- publication titles
- lists of licenses (except as provided in IFRS 3)
- other similar elements.

Evaluation after recognition

The company has adopted as accounting policy the cost-based model, which means that the intangible immobilizations are evaluated at their net accounting value equal with their cost less the aggregate amortization and any loss registered from depreciation, corresponding to those assets.

The subsequent expenses are capitalized only when they increase the value of the future economic benefits incorporated in the asset they are intended for. All the other expenses, including the expenses for the commercial fund and internally generated trademarks are recognized in the profit and loss account when they are incurred.

Amortization of intangible immobilizations

The company evaluates if the useful lifetime of an intangible immobilization is definite or indefinite.

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An intangible immobilization is deemed by the company to have an indefinite useful lifetime when, based on the review of all relevant factors, there is no predictable limit of the period for which the asset is expected to generate net cash inputs.

The amortization of an intangible immobilization starts when such asset is available for use and ends when the asset is reclassified into another category or on the date when the asset is de-recognized. The factors relevant for determining the useful lifetime are provided in IAS 38 "Intangible assets".

The intangible immobilizations with a limited useful lifetime are amortized by the company using the linear method, while the expense with the amortization is recognized in the profit or loss, except when it is included in the accounting value of another asset.

The intangible immobilizations with an indefinite lifetime are not submitted to amortization.

The useful lifetime of an intangible immobilization arising from contractual rights or from other legal rights must not exceed the validity period of the contractual rights or the other legal rights. The amortization methods, the useful lifetimes and the residual values are revised at the end of each financial year and adjusted accordingly.

The residual value of an intangible immobilization with a limited useful lifetime is evaluated as zero, except when:

- There is a commitment from a third party to purchase the immobilization at the end of its useful lifetime;
- There is an active lifetime for the immobilization and the residual value can be determined depending on the market likely to be available at the end of the useful lifetime of the immobilization.

Depreciation

In accordance with IAS 36, the intangible immobilizations with an indefinite lifetime must be tested yearly as to their depreciation, by comparing their recoverable value with their accounting value. The testing shall be executed whenever there are indications that an intangible immobilization with an indefinite lifetime might be depreciated.

INVESTMENT PROPERTY

Recognition

An investment property is that property (land or a building – or a part thereof, or both) held (by the owner or lodger based on a financial leasing agreement) for renting purposes or for increasing the capital value or both, rather than for:

- use in production or for the supply of goods and services or in administrative purposes;
- sale in the normal course of activity.

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An investment property must be recognized as an asset only and only when:

- it is possible that the future economic benefits related to the investment property are generated towards the company;
- the cost of the investment property can be assessed in a reliable manner.

Derecognition

The investment property must be de-recognized upon assignment or when finally withdrawn from use and no more future economic benefits are likely to arise from such disposal.

The disposal of an investment property can be made by sale or by contracting a financial lease. To determine the date when the investment property was disposed of, the criteria of IAS 18 "Revenues" or IAS 17 "Leases" are applied.

Any earnings or losses generated by the write-off or assignment of an investment property must be recognized in the profit or loss at the time of withdrawal from use or assignment.

Classification

The category of investment property comprises:

- land held with a view to increase the capital value on long term;
- land held for an indefinite future use;
- a building owned by the company and rented based on an operational lease;
- property to be set up or refurbished for future use as an investment property.

Certain properties may include a part held for renting or with a view to increasing the capital value, and another part held for use in the production of goods, supply of services and for administrative purposes.

If these two parts can be sold separately (or rented separately), then they must have separate accounts – one as an investment property and the other as a tangible immobilization.

If the parts cannot be sold or rented separately, then the property must be treated only as investment property if an insignificant part thereof is held for use in goods production or in the supply of services or for administrative purposes.

In this case the professional reasoning is used for the appropriate decision.

When performing auxiliary services for the tenants of a real estate property, and if such services are an insignificant part of the entire contract, such property will be classified as real estate investment.

If such services are a significant component of the entire contract, the property will not be classified as a real estate investment.

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Evaluation upon recognition

An investment property must be assessed initially on cost, including any other expenses directly attributable. If the payment for an investment property is postponed, then its cost will be its price equivalent in cash. The difference between this amount and the total payments is recognized during the crediting period as expense with an interest.

Evaluation after recognition

After the initial recognition, the company has opted for the cost-based model for all its investment property in accordance with the dispositions of IAS 16 for this model.

The transfers into and from the investment property category are made if and only if there is a change of their use.

The transfers between categories do not change the accounting value of the transferred investment property, nor do they change the cost of that property in terms of evaluation of presentation of the information.

Amortization

The investment properties are amortized in accordance with the provisions set forth in IAS 16 "Property, Plant and Equipment".

ASSETS PURCHASED BASED ON LEASES

The leasing agreements by which the company substantially assumes the risks and benefits related to the ownership title are classified as financial leases.

At the time of the initial recognition, the asset subject to the lease is evaluated at the lesser of the fair value and the current value of the minimum lease payments.

Subsequently to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

The other leases are classified as operational leases.

FINANCIAL IMMOBILIZATIONS

The financial immobilizations account:

- Shares held in the affiliated companies, financial assets classified as investments retained till due date.
- Other immobilized securities.
- Long-term loans granted, as well as their related interest. This category comprises the amounts given to third parties based on contracts for which interest is charged in accordance with the applicable law.

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- Other immobilized receivables, as well as their related interests. This category comprises the warranties, deposits and bails deposited at third parties, the receivables related to financial leases.

Evaluation upon recognition

The financial immobilizations recognized as assets are evaluated at the purchase cost or at the value established in their acquisition agreement.

Evaluation after recognition

The financial immobilizations are presented in the statement of financial position at their purchasing value minus possible loss recognized from depreciation.

Accounting policies on inventories

The inventories are assets:

- held for sale during the course of the regular activity
- in production for future sale
- represented by materials and other consumables to be used in the production processes or for the supply of services.

The inventories are evaluated at the lesser of the cost and the net achievable value.

The net achievable value represents the sale price estimated for the inventories minus all estimated costs to complete and the costs necessary for sale.

The cost of the inventories comprises: the acquisition costs, the conversion costs as well as other costs incurred in order to bring the inventories in the condition and at the location where they currently are.

The acquisition costs of the inventories comprise the purchasing price, the import customs taxes and other taxes (except the taxes the entity can recover at a later time from the fiscal authorities), shipment costs, handling costs and other costs directly attributable to the acquisition of finished goods, materials and services.

The conversion costs include the direct labor costs, other direct production-related expenses, as well as the systematic allocation of indirect production expenses, fixed and variable overhead.

The allocation of overhead expenses on each product is based on the volume of labor used to make that product. The allocation of the fixed overhead on the costs is based on a normal production capacity, expressed in direct labor hours.

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The calculation of such inventories which are not normally fungible and of the resulting goods or services is determined by the specific identification of their individual costs.

Upon release from the account of the inventories, and such fungible assets, are evaluated and accounted by applying the Average Weighted Cost method.

Borrowing Cost

The borrowing costs are recognized as financial expenses according to the contractual provisions during the period of time when such borrowing costs are due, or which actually occur and are not directly attributable to the acquisition.

The borrowing costs which are directly attributable to the acquisition, construction, or to the production of an asset with a long manufacturing cycle are included in the cost of that asset.

The production cost of long-manufacturing cycle assets includes only those borrowing costs connected with the production period.

The inventories category comprises:

- raw materials participating directly in the manufacture of products and found on the completed finished product in total or in part, either in their original form or transformed;
- consumables (auxiliary materials, fuels, packaging materials, spare parts and other consumables), participating or contributing to the manufacturing or in the operational process, typically not identifiable in the finished product;
- materials such as inventory objects;
- products, such as:
 - blanks/semifinished products
 - finished products;
 - scraps, recoverable materials and waste;
 - merchandise;
 - packing, including reusable packaging material, purchased or manufactured, intended to be used on the sold products, and which can be kept temporarily by third parties and returned as established in the agreements;
 - production in progress.
 - goods in custody, for further processing or in consignment at third parties.

Distinct accounts are provided for purchased inventories, for which the risks and benefits have been transferred, but are still in the purchasing process.

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The accounts of inventories are kept both in terms of quantity and value, by using the permanent inventory method.

Under these conditions, the accounts contain a record of all the entry and exit operations, thus allowing an accurate real time determination of the existing inventories, both in terms of quantity and value.

Periodically, the company management approves the level of normal technological losses on a regular basis.

Evaluation upon recognition

The accounts of entries of inventories are based on the date of the transfer of risks and benefits.

Holding in any way of any material goods or the execution of any financial operations without recording them in the accounts is prohibited.

In terms of inventories, all entries of material goods in the company are submitted to the incoming reception by the reception board while the registration thereof is carried out in the stores areas.

The records in the stores are kept by the storekeeper in charge with the account.

The material goods received for processing, in custody or in consignment are received and registered distinctly as entries in the accounts.

In the accounts, the value of such goods is registered off the balance sheet.

In case of time gaps between the purchase and the incoming inspection of the goods which are in the company property, the following procedure is observed:

- the goods arrived without invoice are recorded as inflows in the inventory, both at the store and in the accounts, based on the receiving inspection and the accompanying documents.
- the goods arrived, and without receiving inspection are recorded as inventory inflows.

In case of time gaps between the sale and the delivery of the goods, the goods are recorded as outflows from the company, being no longer considered company property, and the following procedure is observed:

- the goods sold and not delivered are distinctly recorded in the company accounts, while in the company accounts they are registered as off-balance sheet, in the account 8039 – Other values off balance-sheet;
- the goods delivered but not invoiced yet are recorded as outflows from the company inventory, both at the store and in the accounts, based on the documents confirming the outflow from the inventory.
- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

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Evaluation after recognition

The inventories are evaluated at their purchase cost or production cost, as applicable. Every quarter value adjustments are made for the circulating assets, based on the findings of the Inventory committees and/or unit managers, with a view to presenting the assets at cost value or net achievable value, whichever is less.

In SC AEROSTAR SA, the depreciated goods are deemed to be the goods older than the storage period established by internal decision of the Board of Directors.

Accounting policies on the company liabilities

The company liabilities are recorded in the accounts as third-party accounts. The bookkeeping of the suppliers and other liabilities are kept on categories, as well as on each natural or legal person.

The tax on profit/revenue to pay is recognized as a debt up to the unpaid amount.

All excises and special funds included in prices or tariffs are recorded in the corresponding debt bookkeeping, without transit through the revenue and expenditure accounts.

The operations that cannot be recorded distinctly in the related accounts and which require further clarifications are recorded in a distinct account 473 (Settlements from operations under clarification)

Debts with settlement in currency

The debts in foreign currency are recorded in the accounts both in lei, and in foreign currency.

Monthly evaluation

At the end of each month the debts in foreign currency are evaluated at the exchange rate on the currency market on the last banking day of that month, as notified by the National Bank of Romania. The variations in the exchange rate are recognized in the accounts as revenues or expenditure from the exchange rate differences, as applicable.

At the end of each month, the debts expressed in lei that are settled depending on a currency exchange rate are evaluated at the exchange rate on the currency market on the last banking day of that month, as notified by the National Bank of Romania.

The variations of the exchange rate are recognized in the accounts as financial revenues or expenses, as applicable.

The differences in the exchange rate arising at the time of clearing the debts in foreign currency at exchange rates differing from the ones used for recording such debts initially, during that month or from the ones recorded in the accounts must be recognized in the same month when they arise, as revenues or expenses from changes in the exchange rate.

The differences in value arising at the time of clearing debts in lei, at an exchange rate differing from the exchange rate used for recording such debts initially, or during that month, or from the ones

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recorded in the accounts must be recognized in the same month when they arise, as other financial revenues or expenses.

Short-term debts

A debt shall be classified as short term debt, named also as current debt when:

- it is expected to be settled in the normal course of the exploitation cycle of the company, or
- it is chargeable within 12 months from the balance sheet date.

All the other debts shall be classified as long term debts.

Long-term liabilities

The debts that are due within a period exceeding 12 months are long-term debts.

They will also be considered long-term debts bearing interest even if they are due within 12 months from the date of the financial statements, if:

- a) the initial deadline was longer than 12 months; and
- b) there is an agreement for refinancing or rescheduling the installments, concluded before the date of the financial statements.

The long-term liabilities comprise:

- Long- and mid-term bank loans,
- Commercial and similar debts, as well as the interests related thereto.

Certificates for greenhouse effect gas emissions

The company acknowledges the deficit of certificates for greenhouse effect gas emissions in the financial statements based on the net debt method. In accordance with this method, only the debts expected to arise from exceeding the assigned quota of certificates are recognized.

The company estimates its own yearly volumes of emissions at the end of each reporting period and recognizes the total additional debts estimated for the forecasted excess volume of greenhouse effect gas emissions at the fair value of the additional units to be purchased or the sanctions to be incurred in accordance with the national legislation. The net additional debt is recognized in the profit or loss based on the production unit method.

If the company estimates to use less than the assigned quota of certificates for greenhouse effect gas emissions, any potential revenue from the sale of unused certificates is recognized only upon the actual sale thereof.

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Accounting policies on Receivables

Such receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services supplied in the normal course of activity;
- commercial effects to receive, as instruments from third parties;
- amounts owed by the employees or affiliated companies;
- advances given to the suppliers of immobilizations, goods and services;
- receivables related to manpower and state budget

The receivables are registered based on accrual accounting in accordance with law or subject to the agreements in place.

The receivables account provides the record of company receivables in relation to customers, manpower, social security, state budget, shareholders and various payers.

The customer accounts are kept on categories (internal customers for services and products, as well as external customers for services and customers) and on each natural and legal person.

Any debts resulting from treasury advances not settled, from distributions of work outfits, as well as the debts from material damages, fines and penalties established by Court orders and other receivables related to personnel are recorded as other receivables related to manpower.

The operations that cannot be recorded distinctly in the related accounts and requiring further clarifications are recorded temporarily in a distinct account (account 473). The amounts recorded in this account are clarified within three months from the date when they are found.

Receivables cleared in foreign currency or in Lei, depending on the currency exchange rate

The receivables and debts in foreign currency resulted as an effect of the company transactions are recorded in the bookkeeping both in Lei, and in foreign currency.

The transactions in foreign currency are recorded initially at the exchange rate notified by the National Bank of Romania, on the date of performing the operation.

At the end of each month, the receivables in foreign currency are evaluated at the exchange rate on the currency market on the last banking day of that month, as notified by the National Bank of Romania. The exchange rate differences are recognized in the accounts as revenues or expenses from exchange rate differences, as applicable.

At the end of each month, the receivables expressed in lei, which are cleared depending on the exchange rate of a certain currency are evaluated at the exchange rate of the currency market, as notified by the National Bank of Romania for the last banking day of the month. In this case, the differences that arise are recognized in the accounts as financial revenues or expenses, as applicable.

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The differences in the exchange rate that arise at the time of settlement of the receivables in foreign currency at exchange rates differing from the ones used for those initially recorded in the bookkeeping must be recognized in the same month when they arise, as revenues or expenses from differences in the exchange rate.

The receivables with prescribed past due dates are deducted from the accounts only after all legal steps have been made for their settlement.

The accounting of uncertain receivables is kept directly in the account 4118 – Uncertain customers or customers in dispute at law.

In the yearly financial statements the receivables are evaluated and presented at the value likely to be received.

Whenever it is estimated that a receivable is not to be fully received, adjustments for depreciation are recorded at the level of the amount which can no longer be recovered.

The evaluation in the financial statements of the receivables expressed in foreign currency and of the receivables to be cleared in lei against the exchange rate of a certain currency notified by the National Bank of Romania, as valid on the date when the financial year ends.

Accounting policies of the currency, cash equivalents and their presentation in cash-flow statements

Cash comprises cash on hand and at banks;

Cash equivalents shall include:

- Short-term bank deposits, which are known amounts of cash and which are subject to an insignificant risk of changes in value.
- Check book, commercial effects received from clients and filed in bank for cash-in at due date.
- Collateral deposits set up at third parties;

Cash flows represent the cash in- and out-flows and cash equivalent, classified on operating activities, investment and financing.

Count room and cash equivalents and their movement, as a result of receipts and payments realised, shall be highlighted in lei and foreign currency.

Operations on the receipts and payments in foreign currency are registered in accounting at the foreign exchange spot rate communicated by the National Bank of Romania, valid on the date of carrying out the operations, with the exception of the buying and selling of foreign currency which shall be registered in the accounts at the time of settlement of the operation and at the rate exchange negotiated with the commercial bank under a contract of sale-purchase currency.

At the end of each reporting period the cash and cash equivalents expressed in foreign currency shall be reassessed at the foreign exchange rates communicated by the National Bank of Romania and valid from the last banking day of the month in question, the favourable or unfavourable course differences recorded being recognised in accounts as revenues from favourable exchange rates, or as expenses from unfavourable exchange rates differences.

Cash flows shall be reported by using the direct method through which the major classes of gross class receipts and gross cash payments arising from investing and financing activities.

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The cash flows arising from taxes on income are classified as cash flows from operating activities.

Cash flows arising from interest and dividends are classified as cash flows from investment activities.

Cash flows arising from interest and dividends paid are classified as cash flows and financing activities.

The effect of changes in foreign exchange rates on cash and cash equivalents is presented in treasury cash flows which is separated from the cash flows arising from the exploitation activities, of investments and financing for cash reconciliation purpose and cash equivalents at the beginning and at the end of the reporting period.

Transactions which do not require the use of cash or the cash equivalents are included in treasury cash flows statement, but the relevant information regarding this transactions will be presented in another part of financial statements.

Accounting policies on the recognition of expenses

All expenses are recognized in the statement of the global result of the company when it is possible to evaluate in a reliable manner a reduction of the future economic benefits connected to a decrease of an asset or to a debt increase. As a result, the recognition of the expenses takes place at the same time as the recognition of the debt increase and the decrease of the assets.

The company's expenses are the amounts paid or payable for:

- Consumptions of inventories;
- work performed and services supplied for the benefit of the company;
- expenses for employee benefits;
- execution of legal or contractual obligations;
- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

The accounts of the expenses is kept by types of expenses, as follows:

- operational expenses;
- financial expenses;
- extraordinary expenses, including only losses from calamities and other extraordinary events.

The operational expenses comprise:

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- expenses with raw materials and consumables, the purchase costs of materials which are not inventories, the counter value of used utilities, the cost of sold goods;

- expenses with manpower– employee benefits (salaries, insurance and social security and other manpower-related expenses in charge of the company: expenses with training, meal tickets and social expenses);

- expenses with: services executed by third parties, insurance premiums, rents, protocol, advertising and publicity, transportation of goods and personnel, reassignments of personnel, bank services, mail and telecommunications, etc.;

- other operational expenses: losses from receivables and various debtors, fines and penalties, etc.

Employee Benefits

The employee benefits are various counter-services granted by the company in exchange for the service performed by the employees.

During its normal course of activity, the company pays the Romanian state, on behalf of its employees, the contributions due for pensions, health insurance and unemployment. The expenses with these payments are recorded in the profit or loss during the same period of time when the related salary expenses were made.

All the company's employees are members of the Romanian state pension plan.

In AEROSTAR SA the following categories of employee benefits are recognized:

- short-term benefits such as salaries and contributions to social security, paid yearly vacation and paid medical leave and bonuses (if paid within 12 months from the end of the period), meal tickets and other benefits provided in the collective agreement for persons employed.
- post-employment benefit, for example retirement related benefits
- benefits for termination of the labour agreement

Benefits for termination of the labour agreement

Benefits for termination of the labor agreement se negotiated periodically, as provided in the collective labor agreement.

The financial expenses are:

- expenses related to financial investments disposed of;
- unfavorable changes in the exchange rates;
- interest-related expenses;
- other financial expenses.

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The financial expenses comprise the expense with the interest related to loans, the loss from recognized depreciation related to financial assets.

All the borrowing costs not directly attributable to the purchase, construction or the production of assets with long manufacturing cycles are recognized in the profit or loss account, by using the actual interest method.

In the preparation of the financial statements, the transactions in other currencies than the currency of the company operations are recognized at the exchange rates on the dates of the corresponding transactions.

At the end of each reporting period, the elements expressed in foreign currencies are converted into the exchange rates applicable on that day.

The revenues or losses from changes in the exchange rates are reported on a net basis.

The synthetic expenses accounts are developed on the structure of analytical accounts, according to the accounting regulations in force (the general plan of accounts) and depending on the company's own needs, subject to the management approval.

The expenses of the financial year also comprise the provisions, amortizations and adjustments for the depreciation or the loss of value, the expenses with tax on the current and deferred profit and other taxes, calculated according to the law, which are kept distinctly, according to their nature.

Accounting policies on the recognition of revenues

The revenues are recognized in the statement of the global result of the company when it is possible to evaluate in a reliable manner an increase of the future economic benefits related to an asset increase or a debt decrease. Consequently, the revenues are recognized at the same time as the recognition of the asset increase or debt decrease.

The revenues also include both the amounts received or to be received as such and the revenues from any other source.

The revenues are classified as follows:

Revenues from operations;

Financial revenues;

Extraordinary revenues

Revenues are recognized based on accrual accounting.

The synthetic revenue accounts are developed on the structure of the analytical accounts, according to the accounting regulations in force (the general plan of accounts) and depending on the company's own needs, subject to the management approval.

The revenues are evaluated at the fair value of the counter value received or likely to be received. The sales revenues are decreased in case of returns, discounts and other similar discounts.

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Operating income include:

- revenue from sales (of goods, of services, of goods, of waste products);
- revenue related to the cost of stocks of products;
- revenue from the production of fixed assets;
- revenue from the redeployment of adjustments of the assets in question from the reduction or replays of covering
- other operating income.

Sales of goods

The revenues from the sale of goods are recognized when all of the following conditions are met:

- the company has transferred to the buyer the risks and benefits related to the ownership title for the goods;
- the company keeps neither the continued managerial involvement down to the level usually associated to the ownership title, nor the effective control over the goods sold;
- the value of the revenue can be accurately evaluated;
- the economic benefits related to the transaction are likely to be directed to the entity;
- the costs incurred or to be incurred in relation to the transaction can be measured precisely.

In particular, the revenues obtained from the sales of goods are recognized when the goods are delivered and the legal title is transferred.

Supply of services

The revenues from the supply of services are recognized in the profit or loss account proportionally with the status of execution of the transactions, as on the report date. The execution status is assessed in relation to the review of the work carried out. In case the result cannot be estimated, the revenues are recognized down to the level of the recoverable costs.

Revenues from rent

The revenues from rent related to the investment property are recognized in the profit or loss account in a linear way throughout the rental agreement.

The financial revenues comprise revenues from interest and revenues from dividends.

The revenues from interest are recognized in the profit and loss account based on accrual accounting, using the actual interest method. The revenue from interest generated by a financial asset is recognized when the company is likely to obtain economic benefits and when such revenue can be measured precisely.

The revenues from dividends generated by investments are recognized when the shareholder's right to receive the payment is established (provided that the economic benefits are likely to be directed towards the Group and the value of the revenues can be measured precisely). The company records the revenues from dividends at their gross value which includes the tax on dividends (when applicable), which is recognized as current expense with the profit tax.

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Accounting policies regarding trade and financial discounts

Trade reductions are:

- a) off price reductions - received for quality defects and are practiced over the sale price
- b) discounts –received in case of the agreed volume of superior sales if the buyer has a preferential status, and
- c) rebates –calculated price discount over the effectuated transactions as a whole with the same third party, during the specified period.

Financial discount under the form of discount of settlement for the debts to be paid off before the normal term of the exigibility.

Recognition:

Commercial recognition granted by the supplier and entered on the purchase invoice adjusted in the sense of reducing the acquisition cost of the goods.

Commercial discounts received after the invoice corrects the stock cost to which they refer, if these are in management any longer. If the stocks for which the ulterior discounts were received are no longer in management, these shall be highlighted in accounting (cont 609 "Trade discounts received"), on account of the accounts of third parties.

Commercial discounts granted at a later stage of invoice, no matter the period to which it refers, it is highlighted in accounting (cont 709 "Trade discounts granted), on account of the accounts of third parties.

Accounting policies on provisions

Provisions

The provisions are recognized when the company has a current obligation (legal or implied) as a result of a past event, it is likely that the company is requested to pay such obligation and a precise estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the countervalue needed to settle the actual obligation at the end of the reporting period, taking into account the risks and uncertainties around this obligation.

Provisions are accounted on types, depending on the nature of the function, the purpose thereof or the scope they were set up for.

Warranty Accounting

The company sets up the warranty provision when the product or service covered by the warranty is sold.

The value of the provision is based on historical or contractual information about the warranty granted and is estimated by weighing all possible results against the probability of each to occur.

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Provisions for risks and expenses

When risks and expenses are identified which the events occurred or in progress make them probable, and whose object is precisely determined, but uncertain as to their occurrence, the company covers such risks by setting up provisions.

The provisions for risks and expenses are set up for elements such as:

- litigations, fines, penalties, compensations, damages and other uncertain debts.
- other actual obligations, whether legal or implicit.

Provisions for decommissioning of tangible immobilizations

Upon the initial recognition of a tangible immobilization, an estimate is made for the value of the disassembly costs, the costs for the item removal and restore the site where it was located, as a consequence of using the item for a certain period of time.

Provisions for the benefits of the employees

Are recognised in case of bonuses (the financial year-end bonuses, the production year-end, of performance etc.) granted in accordance with the applied Collective Agreement, if and only if:

- the entity has a legal obligation and implied to make this kind of payments as a result of past events, and
- a reliable estimate of the obligation can be realised.

The provisions are reviewed at the end of each reporting period and are adjusted in order to reflect the best current estimation.

Accounting politics regarding debts and contingent assets

According to IAS 37, the company does not recognise assets and contingent debts, they are highlighted in accounts which are off-balance sheet.

A contingent asset is a possible asset, is a result of a past event and whose existence will be confirmed only by the apparition or the absence of one or many uncertain next events, which are not totally under the control of the entity.

A contingent debt represents:

a possible obligation resulted from past events and whose existence will be confirmed only by the apparition or the absence of one or several uncertain next events, which are not totally under the control of the entity; or

a present obligation which appeared as a result of some past events, but which is not recognised as it is unlikely for settling of such obligation to have outflows of resources necessary, incorporating economical benefits, or the obligation value cannot be assessed in a sufficiently reliable manner.

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Accounting policies on profit taxation

The profit taxation expenses represent the aggregate amount of taxes to be paid currently, as well as the deferred taxes.

Current tax

The currently payable tax is based on the taxable profit made throughout the year. The accounting profit differs from the profit reported in the annual statement on the profit tax because of the elements of revenues or expenses which are taxable or deductible in certain years, as well as the elements which are never taxable or deductible.

The company's obligation in terms of current taxes is calculated by means of the tax rates adopted at the end of the reporting period.

Deferred tax

The deferred tax is recognized based on the temporary differences between the accounting value of the goods and of the debts from the related financial statements and the taxation bases used for calculating the taxable profit. The deferred tax debts are recognized in general for all the temporary taxable differences.

The asset regarding the deferred tax is recognized in general for all the temporary deductible differences up to the time when such taxable revenues, to which deductibility was applied, can be used.

The accounting value of the assets, to which the deferred tax is applied, is reviewed at the end of each reporting period and limited to the point from where it is no longer expected to have enough taxable profits to allow the total or partial recovery of the assets.

The assets and the debts related to the deferred taxes are measured at the level of the taxes proposed to be applied during the period of time established for recovery of the debt or to make the asset, based on the level of taxes (and fiscal laws) already in force or about to enter in force by the end of the reporting period. The measurement of the deferred tax debts and assets mirrors the tax-related consequences likely to result from the way in which the company anticipates, at the end of the reporting period, to recover or settle up the accounting value of its assets and debts.

Both the current tax and the deferred tax are recognized in the profit and loss account, except when they refer to elements recognized directly in the company's own capital, when the current tax and deferred tax are also recognized directly in the company's own capital.

Accounting politics on the distribution of the profit

The profit or the loss shall be established cumulatively from the beginning of the financial year.

The final result of the financial year shall be established at its closure and represents the final account of the profit and the loss determined like the difference between the incomes and charges for the year.

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Profit distribution on the destinations shall be accounted for, after the approval of the annual financial statements.

Reserve

At the end of the reporting period, shall constitute legal reserves on behalf of the profit of the period, only on the basis of the applicable legal provisions.

The accounting profit which remained undistributed shall be taken over at the beginning of the following financial year that for which shall be drawn up the annual financial statements in the retained earnings, where they are to be assigned on the other destinations determined by the General Meeting of Shareholders, in compliance with the legal provisions.

The closing of the accounts "Profit or Loss" and "Reserve" shall be performed in the following financial year that for which shall be made out the annual financial statements.

Profit distributions on the other destinations

The highlighting in accounting of the distribution on destinations of the accounting profit, with the exception of the legal reserve, shall be performed in the following financial year, according to the General Meeting of Shareholders.

The profit can be assigned for:

- cover the accounting loss carried over;
- dividends distribution;
- other statutory reserves.

The covering of the accounting loss

The carried over accounting loss shall be covered from the financial year profit and the one carried over, from reserves, capital bonus and share capital, according to the resolution of the general meeting of the shareholders.

In case of correcting the errors which generate the carried over accounting loss, this shall be covered before carrying out any of the profit distributions.

In the situation in which the development expenditure is not entirely amortised, no profit distribution shall be made, only if the amount of the distributable reserves and of the carried out profit is at least equal to the one of the undepreciated development expenditure.

Accounting policies on establishing the result per share

The company provides information on the result per basic share. Such result per basic share is calculated by dividing the profit or loss attributable to the holders of ordinary shares of the company at the weighted average of the ordinary shares circulating during that period of time.

Accounting policies on subsidies and other non-reimbursable funds

The category of subsidies distinctly comprises:

- government subsidies;
- non-reimbursable loans of a subsidy nature;

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- other amounts received at subsidies.

Recognition

The subsidies are recognized at their approved value.

The subsidies received as non-monetary assets are recognized at fair value.

Government subsidies

The government subsidies are initially recognized as deferred value at the fair value when there is a reasonable assurance that such revenue is obtained and the company will comply with the terms associated to the subsidy.

The subsidies compensating the company for the expenses made are recognized in the profit and loss account in a systematic manner, during the same timeperiod when the expenses are recognized.

The subsidies compensating the company for the cost of an asset are recognized in the profit and loss account in a systematic manner throughout the lifetime of the asset.

Subsidies for investments

The subsidies for assets, including the non-monetary subsidies at fair value are accounted as subsidies for investments and are recognized in the balance sheet as deferred revenue.

The deferred revenue is accounted in the profit and loss account at the same time when the expenses with the amortizations or with the write-off or disposal of the assets are accounted.

The return of a subsidy related to an asset is registered by decreasing the balance of the deferred revenue with the reimbursable amount.

Subsidies related to revenues

The revenues-related subsidies are recognized in a systematic manner as revenues of the time periods corresponding to the related expenses, which such subsidies are about to compensate.

In case during a time period subsidies are received on the account of expenses which were not made yet, the subsidies received do not represent revenues of the respective current period. These are recognized in the accounts as advance revenues and are resumed in the profit and loss account while such expenses are being made in their compensation.

The return of a subsidy related to revenues is made by reducing the deferred revenues.

If the reimbursed amount exceeds the deferred revenue or if there is no such revenue, the surplus, i.e. the reimbursed integral value, is recognized immediately as an expense.

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Accounting policies for Related Parties

A transaction with the related parties represent a transfer of resources, services or obligations between the reporting company and a related party, whether a price is levied or not.

The identification criteria of the Company related parties are according to IAS 24 "Related Parties Disclosure".

Disclosure of information

Relations between the Company and its related parties will be presented whether there have been transactions between them or not.

The company shall present the name of the mother-company which shall draw up consolidated financial statements available for public use.

If the Company has had transactions with the related parties along the period included by the financial statements, these will present the nature of the relation with the related parties, as well as the information regarding those transactions.

The presentation of the information will at least include:

- the value of the transactions
- the value of the due balances, including the commitments;
- provisions on questionable receivables on due balances;
- the recognized expense in due period regarding the non-recoverable or questionable receivables owed to related parties.

The presentations of information will be separately established for each of the next categories:

- the mother-company;
- affiliates;
- fellow subsidiaries ;
- fellow subsidiaries in which the entity is an associate;
- members of key management personnel of the entity or of a parent of the entity and
- other affiliated parts.

Accounting policies for production of goods and services

The organising of the collecting accounts of AEROSTAR is based on the applicable legal provisions and the procedures and working instructions manual specific of management accounts, adapted to the specific of the company's activity.

Plan of accounts

AEROSTAR uses, for accounts management, accounts from class 9 of the general Accounts Plan contained in the accounting regulations consistent of the OMFP 1286/01.10.2012, developed into analytical accounts.

The object of accounts management consists of:

- collecting of direct charges, indirect and auxiliary after their nature,
- the distribution of indirect cost,
- the settlement of direct and indirect costs

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The main purpose of accounts management is:

- establishment of the unfinished production
- establishment of the result on production orders or other services for each organisational structure

According to the accounting regulations, the following elements which are admitted as expenses for the period in which they were made are not included in the cost of the goods, works, or executed services:

- a) material losses, manufacture or other production costs which are registered over the normal limits admitted
- b) general administration expenses

The calculation method used in AEROSTAR S.A Bacau is the method on orders.

This method is indicated for individual and series production. The object of evidence and of cost calculation within this method consists of the order launched for a certain quantity (batch) of products.

The product expenses shall be collected directly on each order (those with a direct character) or by allocation (the indirect ones).

The effective cost per product unit shall be calculated at the completion of the order by dividing the collected production costs on the associated order for the quantity of the manufactured products within the command in question.

The launching of the orders shall be made at the sale price or at the planned price, as applicable.

In case of orders related to export sales the price shall be expressed in lei by changing the currency at the budgeted exchange rate.

STAGES OF ESTABLISHING THE COSTS ON ORDERS

Establishment of the provisional calculation of costs on orders;

Collection of direct expenses on orders;

Collection of indirect expenses;

Allocation of indirect expenses and the settlement of the costs for the auxiliary activities related orders;

Settlement of the costs for the direct orders on indirect expenses;

Allocation of the indirect expenses related to the main activity;

Settlement of the production cost and getting the production goods and subunitary one.

Determine the production in progress.

Accounting policies for events following after the reporting date

The events following the reporting period are those specific events, favourable or unfavourable, which occur between the end of the reporting period and the date to which the financial statements are authorised to be issued.

The company adjusts the values acknowledged in its financial statements to reflect the further events which lead to the adjustment of the financial statements after the reporting period, according to IAS 10 regulation.

Presentation of the information

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The Company presents the date to which the financial statements have been approved with a view to issuing, as well as who gave this approval.

If the Company receives beyond the reporting period information about the conditions which existed at the end of the reporting period, the Company updates the presented information which refers to this condition, in the context of the new information.

If the events which do not lead to the adjustment of the financial statements after the reporting period are significant, the Company presents the following information for each category for such events: the nature of the event and an estimation of the financial effect or a declaration according to which this kind of estimation cannot be made.

Accounting policies on financial instruments

A financial instrument is a contract generating simultaneously:

- a financial asset for an entity
- a financial debt or a company capital instrument for another entity.

The company will recognize an asset or a financial debt in its financial statements if and only if the company becomes part of the contractual provisions of the respective instrument.

A standard purchase or sale of financial assets will be recognized and derecognized, as applicable, using the accounting method on the date of concluding the transaction or on the date of its settlement.

All the financial assets and liabilities are recognized initially at fair value plus, in case of a financial asset or of a financial liability which is not assessed at fair value in its profit and loss account, the transaction costs directly assignable to the acquisition or to the issue of the asset or of the financial liability. The securities without transactions are evaluated at their historic cost, minus any possible adjustments for loss of value.

The company compensates a financial asset with a financial liability if and only if:

- it has the legal right to proceed as such

and

- it intends to settle it on a net basis

or

- to make the asset and to pay off the debt simultaneously.

A financial asset is depreciated when its accounting value is higher than its estimated recoverable value.

On the date of each balance sheet the company determines the existence of any depreciation indications.

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The accounting value of the asset must be reduced down to the level of the estimated recoverable value and the loss will be included in the profit and loss account for the respective time period.

The loss from depreciation is the difference between the accounting value and the updated value of the estimated future cash flows.

In the application of its accounting policies, the company issues procedures, instructions and work dispositions.

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NOTE 4 - TANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	Land	Constructions	Technical equipment and transport vehicles	Other tangible immobilizations	Tangible immobilizations in progress	Real estate investments	Total
<u>On 1 January 2015</u>	28.346	47.439	92.775	399	1.956	7.365	178.280
entries	-	4.043	14.541	405	18.896	581	38.466
<i>institutionalized subsidies transfer</i>	-	-	3	-	-	-	3
exits	-	(110)	(194)	-	(19.570)	-	(19.874)
<u>On 31 December 2016</u>	28.346	51.372	107.125	804	1.282	7.946	196.875

<u>Amortization</u>	Land	Construction s	Technical equipment and transport vehicles	Other tangible immobilizatio ns	Tangible immobilizations in progress	Real estate investments	Total
<u>On 1 January 2016</u>	-	5.121	23.393	125	-	1.117	29.756
entries	-	2.069	12.355	86	-	330	14.840
exits	-	(98)	(129)	-	-	-	(227)
<u>On 31 december 2016</u>	-	7.092	35.619	211	-	1.447	44.369

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NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS on 31 December 2016

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Land	28.346	-	-	28.346
2. Constructions	51.372	7.092	-	44.280
3. Technical equipment and transport vehicles	107.125	35.619	-	71.506
4. Other tangible immobilizations	804	211	-	593
5. Real estate investments	7.946	1.447	-	6.499
6. Tangible immobilizations in progress	1.282	-	-	1.282
Total (1+2+3+4+5+6)	196.875	44.369	-	152.506

The tangible immobilizations are grouped by the company in the following classes of assets of the same nature and similar uses:

- Land;
- Constructions;
- Technical equipment (plant, machinery, installations);
- Means of transport;
- Other tangible immobilizations;
- Real estate investments.

When determining the gross accounting value of the tangible immobilizations, the company used the historical cost method.

Imobilizările corporale sunt amortizate de către societate utilizând metoda liniară, după cum urmează:

The tangible immobilizations are amortized by the company using the linear method throughout the estimated useful life, as follows:

- constructions 30-50 years
- technological equipment 4-25 years
- means of transport 4-18 years
- other tangible immobilizations 2-18 years
- real estate investments 25-50 years

The useful lifetimes are established by committees of specialists from the company.

The fiscal operational durations of the tangible immobilizations are stipulated by the fiscal legislation on assets.

The useful lifetimes of the tangible immobilizations were revised at the end of the financial year 2015.

The company did not purchase assets from business combinations, nor did it classify assets for future sale.

As on the date of transition to IFRS, the company estimated and included in the cost of tangible immobilizations the estimated costs for dismantling and relocating the assets, as well as costs for site restoration at the end of the useful lifetime. These costs were reflected in the set-up of a provision, which is recorded in the profit and loss account throughout the lifetime of the tangible immobilizations, by inclusion in the amortization expense.

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The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's board of specialists designated to review yearly any changes to the estimates analyzed at the end of the financial year 2016 if the initial estimates of the dismantling costs were adequate.

The amortization expenses are recognized in the profit and loss account by using the linear method of calculation.

The amortization of an asset begins when the asset is available for use (i.e. when the asset is in the location and condition necessary to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

The amortization does not end when the asset is not in use.

The land and buildings are separable assets, and their accounts are kept separately, even when they are acquired together.

The land has an unlimited useful lifetime and, therefore, is not submitted to amortization.

In accordance with the provisions of IAS 36-Depreciation of assets, the company proceeded to the identification of any signs of asset depreciation, using internal sources.

Din analiza surselor s-a constatat ca:

- the economic performance of the assets is good, compared to the forecasted performance, all the immobilizations in operation bring benefits to the company
- in 2016 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

To conclude, the tangible immobilizations in the balance sheet account on 31.12.2016 are not depreciated, and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations which were still in operation on 31 December 2016 is 1.662 thousand lei.

As on 31.12.2016 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

a) Increases in gross values of the tangible immobilizations, achieved by:	<u>38.469</u>
• acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings	19.570
• capitalization of expenses related to investments in progress, financed entirely by AEROSTAR	18.896
• immobilization found after inventory	3
 b) Decreases in gross values of tangible immobilizations, achieved by:	 <u>19.874</u>
• completion of investments in progress	19.570
• derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use.	304

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NOTE 5 – INTANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On 1 January 2016	-	3.418	366	3.784
Inputs	283	361	241	885
Outputs	(283)	(12)	-	(295)
On 31 December 2016	-	3.767	607	4.374

<u>Amortization</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On January 1, 2016	-	1.660	118	1.778
Inputs	283	784	135	1.202
Outputs	(283)	(12)	-	(295)
On 31 December 2016	-	2.432	253	2.685

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2016

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Development expenses	283	283	-	-
2. Licenses	3.767	2.432	-	1.335
3. Other intangible immobilizations	607	253	-	354
Total (1+2+3)	4.657	2.968	-	1.689

The category of intangible immobilizations includes the following classes of assets of similar nature and use:

- Development expenses
- Licenses
- Other intangible immobilizations

The IT programmes are registered in other intangible immobilizations.

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The estimated useful lifetimes of intangible immobilizations are established in years.
The useful lifetimes are established by committees of specialists from the company.

The fiscal durations of operation of the intangible immobilizations are stipulated by the fiscal legislation on assets.

The expenses with amortization are recognized in the profit or loss account using the linear method of calculation.

The intangible immobilizations in the balance sheet account as on 31.12.2016 are not depreciated and no adjustments were made for the depreciation thereof.

When determining the gross accounting value of the intangible immobilizations, the company uses the historical cost method.

The value of the completely amortized software licenses on December 31, 2016 and which are still in use is 742 mii lei.

All the intangible immobilizations recorded in the balance sheet account as on December 31 are the property of AEROSTAR.

a) Increases in gross values of intangible immobilizations were obtained by:	<u>885</u>
• Capitalization of the development expenses fully financed by Aerostar - qualification of special processes	283
• Acquisition of software licenses and developing MRP II informatical application	361
• development of informatical system of AEROPROD production management	241

In 2016 no internally generated licenses were registered, nor acquired by business combinations.

b) Decreases in gross values of intangible immobilizations were obtained by:	<u>295</u>
• settlement and amortization of the tasks in the development programme, made and finalized in the analyzed period	283
• derecognition of certain intangible immobilizations as the company no longer expects future benefits from their use	12

In 2016 no assets were classified as held for sale in accordance with IFRS 5.

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NOTE 6- FINANCIAL IMMOBILIZATIONS

	Shares held by affiliated entities	Other immobilized securities	Long-term loans	Total
On January 1, 2016	14	92	106	212
Increases/Decreases	-	-	(10)	(10)
On December 31, 2016	14	92	96*)	202

*) The company registers in financial immobilizations the remaining balance (96 thousand lei) from the loans granted by AEROSTAR to an employee, with due date in over 12 months, for which AEROSTAR charges interest.

The details on the entity's investments in other companies as on 31.12.2016 are the following:

Subsidiary name/ Registered headquarter	Main activity	No. of shares	Voting rights (%)	Value of shares held by Aerostar (thousand lei)	Financial information for the last financial year (2014) with approved financial statements of the subsidiaries		
					Registered capital of the company	Reserve	Net profit
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- activities of contracting manpower on a temporary basis	100	100%	10	10	55	50
SC Foar SRL Bacau Str. Condorilor nr.9	- rental and leasing with other machinery, eqpt and tangible goods	408	51%	4	8	1.739	355
SC Aerostar Transporturi Feroviare S.A Bacau **) Str. Condorilor nr.9	- manufacturing of hoisting and handling equipment	9150	45,75%	92	200	38	3
TOTAL				106	218	1.832	408

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The contribution of AEROSTAR in these companies is recorded depending on cost.

In 2016, the company recorded no modifications i.e. no increases/decreases as to the stake-holding percentage, maintaining the same influence as in 2015.

All companies in which AEROSTAR holds shares are registered in Romania.

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NOTE 7- TAX ON PROFIT

The profit tax corresponding to the reported time period comprises the current tax and the deferred tax. The profit tax is recognized in the statement of the profit or loss, or directly in the company capitals if the tax relates to the capital items.

Current tax on profit

The current tax is the tax payable in relation to the profit achieved in the current period, as determined based on the applicable fiscal regulations at the reporting date. The profit tax rate applicable on 31.12.2016 was 16% (the same rate that applied for the financial year 2015).

**31 decembrie
2016**

Gross accounting profit
Expenses with current tax on profit

65.865
10.334

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues	372.80 7	Fiscal revenues	332.252	-40.555
Accounting expenses	306.94 2	Fiscal expenses	247.767	-59.175
Gross accounting profit	65.865	Fiscal profit	84.485	+18.620
Tax (16%)	10.538	Fiscal tax (16%)	13.518	+2.980
Tax reductions	-		3,184	+3.184
Tax on final profit	10.538		10.334	-204
Actual average tax rate, calculated on gross accounting profit	16%			
Accounting revenues	15.69%			

The main factors which affected the rate of taxation were:

- Non-taxable revenues from the recovery of non-deductible expenses (where the revenues from resuming certain provisions for guaranties and of other provisions represented a significant part);
- Fiscal facilities representing the tax exemption on profit corresponding to the investments made in accordance with Art.22 of the Fiscal Code;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization; losses from receivables a.o.)

The deferred tax is determined for the temporary differences arising between the fiscal basis of calculation for the tax on assets and liabilities and their accounting value. The deferred tax is

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calculated using the tax rates expected to apply to the temporary differences when they are resumed, under the law applicable at the reporting date.

The company estimated and recorded liabilities from deferred tax related to the immobilized assets and reserves and recognized receivables regarding the deferred tax related to the provision for guaranties granted to customers, other provisions for risks and expenses, as well as to adjustments for depreciation of customer receivables.

Through the clarifications of the provisions of the M.F.P. no.2844/2016 Order corroborated with IAS 12 Income Taxes, in the exercise of 2016 we reformulated the accounting articles regarding the **recording** of deferred taxes. Through these **records**, the value of share capitals with the deferred tax asset has diminished in the amount of 11.292 thousand lei, which were registered in debts.

The structure of deffered tax recorded at 31.12.2016 is:

Deffered liability on deffered tax	Amount (thousand lei)
1. Debts on deffered tax generated by differences between the basis of accounting (bigger) and fiscal ones (smaller) of the immobilized assets	4.870
2. Debts on deffered tax related to legal legal reserve	1.559
3. Debts on deffered tax related to reserves from the fiscal facility	5.902
4. Debts on deffered tax related to the reported result representing a surplus realised from revaluation reserves	59
Total debts on deffered tax	12.390
Deffered tax asset	
Deffered tax asset related to adjustment for clients depreciation in 2010.	38
Creante privind impozitul amanat aferente provizioanelor pentru riscuri si cheltuieli constituite in anul 2010 Deffered tax asset related to provisions for risks and expenses established in 2010	1.062
Deffered tax asset related to provisions for guarantees granted to customers established in 2014-2016.	7.486
Total deffered tax asset	8.586

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NOTE 8- INVENTORIES	31.12.2016	31.12.2015
Raw materials	11.139	10.981
Consumables	23.270	17.458
Other materials	14	19
Packings	48	0
Finished Products	2	6
Products in process	11.918	11.564
Goods	20.063	19.912
Adjustments for depreciation of inventories	3	4
Raw materials	(16.185)	(16.382)
TOTAL	50.272	43.562

The inventories are evaluated at cost value or net achievable value, whichever is lower.
The net achievable value is the estimated sale price of inventories minus all estimated costs of completion and the necessary costs for sale.

The cost of the inventories includes: purchase costs, conversion costs as well as other costs incurred to bring the inventories in their current condition and in the present location.
At the release from accounts, the inventories are evaluated and recorded in the accounting system by applying the Average Weighted Cost method.

The value adjustments are made on a regular basis, based on the findings of the inventory committees and/or managers of the facility, in order to present the assets at the lower value between cost and net achievable value.

The Company considers as depreciated those goods which are older than the storage period established by internal decision of the Board of Directors.
During the reported period, the following adjustments for stock depreciation were made:

The total value of the inventories recognized as expense during the reported time period is 107.222 thousand lei

The company has no pledge set on inventories.

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NOTE 9- FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial debt or a company capital instrument for another entity.

The financial assets and debts are recognized when AEROSTAR SA becomes part of the contractual provisions of the instrument.

On the reporting date AEROSTAR S.A. does not hold:

- financial instruments kept for making transactions (including derived instruments)
- financial instruments kept till due date
- financial instruments available for sale

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:

- commercial debts
- commercial effects to pay

On the reporting date AEROSTAR does not have financial debts concerning financial leasing, overdrafts and long-term bank loans.

The main types of risks generated by the financial instruments held, to which AEROSTAR S.A is exposed are:

- a) credit risk
- b) liquidity risk,
- c) currency risk,
- d) interest rate risk.

a) Credit risk

The credit risk is the risk that one of the parties involved in a financial instrument generates a financial loss for the other party as a result of the failure to meet a contractual obligation, related mainly to cash, cash equivalents and commercial receivables.

The cash and cash equivalents are placed only at first-rank bank institutions considered to have a high solvency rate.

The commercial credit risk is evaluated and managed for each business partner based on their credit rating review, including the country risk for the country where the customer operates.

Based on the credit rating analysis, the customers are assigned a maximum commercial credit level (as value and duration), and the credit rating re-evaluations and credit limits granted are monitored and reviewed on a regular basis.

In certain cases, specific instruments will be requested for credit risk mitigation (down payments, letters of bank guarantee for customers with good payment records, confirmed letters of credit for export).

AEROSTAR has no significant exposure toward a single partner and records no significant concentration of receivables on a single geographical area.

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Exposure to credit risk

The accounting value of the financial assets, net of the depreciation adjustments, represents the maximum exposure to the credit risk.

The maximum exposure to the credit risk on the reporting date was:

	31.12.2016	31.12.2015
Cash and cash equivalents	163.153	101.299
Commercial receivables net of depreciation adjustments	38.789	47.879
Commercial effects received	71	28
Immobilized receivables (customer-guaranties)	0	439
Loans granted with interest	97	107
Total	202.110	149.752

The maximum exposure to the credit risk on geographical areas for commercial receivables net of the depreciation adjustments is:

:

	31.12.2016	31.12.2015
Domestic market	2.115	2.385
Euro zone countries	15.164	19.589
Great Britain	13.769	10.523
Other European countries	1.695	4.824
Other regions	6.046	10.558
Total	38.789	47.879

Depreciation adjustments

The timeframe structure of gross commercial receivables on the reporting date:

	Gross value 31.12.2016	Adjustments for depreciation 31.12.2016	Gross value 31.12.2015	Adjustments for depreciation 31.12.2015
In due time	37.854	-	47.141	-
Past due, total of which:	1.959	1.024	992	254
0-30 days	727	-	630	-
31-60 days	106	-	12	-
61-90 days	15	-	-	-
91-120 days	87	-	96	-
Over 120 days	786	786	4	4
Over 1 year	238	238	250	250
Total	39.813	1.024	48.133	254

The table below shows the motion in the adjustments for depreciation of the commercial receivables throughout the year:

	31.12.2016	31.12.2015
Balance on January, 1	254	620
Adjustments set for depreciation	4.264	34
Adjustments for depreciations resumed as revenues	(3.494)	(400)
Balance on December, 31	1.024	254

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Based on historical data for non-payment, AEROSTAR considers that, except the above, no recognition of depreciation adjustments is necessary for the commercial receivables which are past due.

On 31.12.2016, 97% of the commercial receivable in balance are related to customers with good payment records.

b) Liquidity risk

The liquidity risk is the risk that AEROSTAR encounters difficulties to meet the obligations associated to the financial debts which are settled by cash delivery.

AEROSTAR policy regarding this risk is to maintain an optimum level of liquidity so as to pay for the liabilities, as they become due.

To evaluate the liquidity risk, the treasury cash flows from operations, from investments and from financing operations are monitored and reviewed weekly, monthly, quarterly and yearly in order to determine the estimated level of net liquidity modifications.

Also, the specific liquidity indicators are analyzed monthly (general liquidity, immediate liquidity and rate of general solvency) against the budgeted levels.

Besides, in order to reduce the liquidity risk, AEROSTAR maintains annually a liquidity reserve as a Credit Line (usable as an overdraft) granted by banks to a maximum limit of 2,500 thousand USD.

The time intervals used to analyze the contractual due dates of the financial debts, with a view to highlighting the placement of cash flows in due time, are shown in the table below:

	Financial debts		Accounting value	Contractual cash flows	0-30 days	31-60 days
31.12. 2016	Datorii comerciale	25.133	(25.133)	(19.014)	(4.429)	(1.690)
	Efecte comerciale de platit	5	(5)	(5)	-	-
31.12. 2015	Datorii comerciale	22.215	(22.215)	(17.801)	(3.968)	(446)
	Efecte comerciale de platit	38	(38)	(38)	-	-

The cash flows included in the analyses of the due dates are not expected to take place sooner or at significantly different values.

On the reporting date AEROSTAR has in its records no financial debts related to financial leasing, bank account overdraft and long-term bank accounts.

On 31.12.2016 AEROSTAR has in its records no overdue financial debts.

c) Foreign currency risk

The foreign currency risk is the risk that the fair value or future treasury cash flows of a financial instrument fluctuate because of the changes in the currency exchange rates.

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Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 77% of its turnover recorded in 2015 related to USD and EUR, while a significant part of the operating expenses relates to LEI. Thus, AEROSTAR is exposed to the risk of being affected by the exchange rate fluctuations both in its net revenues and in its financial position, as they are stated in Lei.

The table below shows the exposure to foreign currency risk, based on the financial-accounting values denominated in foreign currency:

31.12.2016	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalent	544	1386	9
Commercial receivables	1.850	6.570	-
Commercial debts	(884)	(2.001)	(44)
Net exposure in original currency	1.510	5.955	(35)

Sensitivity analysis

Taking into consideration the net exposure calculated in the above table it can be considered that AEROSTAR is exposed mainly to the foreign exchange risk generated by the variation of the foreign exchange rate USD/RON and EUR/RON.

Taking into consideration the statistics from the last 2 years it is observed a corresponding volatility relatively high for the foreign exchange pair USD/RON (9% from the year 2015 and 2% from 2016) and relatively low for the EUR/RON (1% from year 2015 and 0,70% from 2016).

This way it can be taken into consideration a reasonably possible variation at the end of the reporting period of:

- 6% for the foreign exchange pair USD/RON
- and
- 1% for the foreign exchange pair EUR/RON.

The following tabel details the effect of resonably possible variations of the exchange rates over the financial year of AEROSTAR.

31.12.2016	THOUSAND EUR	THOUSAND USD
Total net exposure in the currency of origin	1,510	5,955
Average exchange rates	4.54	4.30
Total net exposure in functional currency	6,857	25,626
Possible reasonable variation of exchange rate	+/- 1%	+/- 6%
Effect of variation in profit and loss account	+/- 2.373 thousand LEI	

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d) Interest rate risk

For the reporting period AEROSTAR has contracted a Credit Facility of 5,000 thousand USD, intended for financing the company's operations, which includes:

- 1) A cash sub-limit in the amount of 2,500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) A non-cash sub-limit in the amount of 2,500 thousand USD, usable to guarantee for the contractual commercial obligations by issuing letters of bank guarantee and import letters of credit.

The interest is applicable only for the overdraft utilized, within the sub-limit of 2,500 thousand USD.

As during the reporting period AEROSTAR did not use the cash sub-limit of 2.500 thousand USD, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 31.12.2016, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 3.016 MII USD (equivalent to 12.979 thousand LEI).

On 31.12.2016 no mortgages are set on the property assets owned by AEROSTAR.

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NOTE 10- COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

RECEIVABLES	Balance on December 31, 2016	Balance on January 01, 2016
Commercial receivables	40.823	50.085
Domestic customers	2.115	2.385
Foreign customers	36.674	46.686
Uncertain customers ¹⁾	1.024	254
Adjustments for depreciation of customer receivables	(1.024)	(254)
Suppliers-debtors	1.486	855
Customers – invoices to draw up	477	131
Effects to receive from the customers	71	28
Immobilized receivables	-	439
Other receivables, of which:	1.926	13.216
• Receivables related to manpower and assimilated accounts, of which:	16	28
- <i>salary advance payments granted to employees</i>		
• Receivables related to social security budget and state budget, of which:	1.317	1.470
- <i>excises to recover related to fuel consumption</i>	339 792	- 841
• Amounts to receive, of subsidy type	-	4.671
• Receivables from deferred profit tax	-	6.546
• Interest to receive from bank deposits		
• Other receivables	17	70
	576	431
TOTAL	42.749	63.740

¹⁾ Uncertain customers are recorded in a distinctive mode in the company accounts. To cover the risk of non-recovery of the amounts representing uncertain receivables, the company recorded adjustments for depreciation of uncertain customers at the integral value thereof. When determining the recoverability of a commercial receivable, we took into account the changes occurred in the customer's credit rating from the time when the credit was granted till the time of reporting.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of December 2016.

The favorable and unfavorable differences between the market exchange rate used for accounts of the receivables in foreign currency and the market exchange rate communicated by the National Bank of Romania for the end of December 2016 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

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NOTE 11 – STATEMENT OF LIABILITIES

Short-term debts

	Balance on December 31, 2016	Balance on January 01, 2016
DEBTS		
Advance payments received on customers account	10.327	10.434
Domestic customers-creditors	8.096	3.847
Foreign customers-creditors	2.231	6.587
Suppliers	27.140	24.025
Domestic suppliers	11.143	8.115
Foreign suppliers	12.735	11.484
Suppliers-invoices not arrived	1.892	1.802
Suppliers of immobilizations	1.370	2.624
Commercial effects to pay	5	38
Debt with current profit tax	2.215	1.970
Other current debts, of which	14.414	14.222
• Debts related to manpower and assimilated accounts	1.892	1.884
• Debts related to social security budget and state budget, of which:	10.951	11.186
○ VAT payable	6.543	6.967
○ social insurance	2.960	2.850
• Other debts, of which:		
-dividends:	1.571	1.152
○ from 2015	1.201	694
○ from 2014	591	-
○ from 2013	488	571
	122	123
TOTAL	54.101	50.689

The advance payments received on customers' account, amounting to 10.327 thousand lei are for aircraft maintenance and repair work, with long settlement in 2017 and 2018.

For the accounted debts no mortgages were set.

At the end of December 2015 the company made undertakings as bank guarantee letters in amount of 3.016.000 USD issued in favor of the business partners in accordance with the contractual requirements.

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NOTE LA SITUATIILE FINANCIARE INDIVIDUALE
PENTRU EXERCITIUL FINANCIAR INCHEIAT LA 31 DECEMBRIE 2016
(toate sumele sunt exprimate in mii lei, daca nu se specifica altfel)

The exchange rate differences, favorable or unfavorable, between the market exchange rate at which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for the end of December 2015, were registered in the corresponding account – revenues or expenses – from the exchange rate differences, as applicable.

The dividends in balance as on December 31, 2016, in amount of 1.309 thousand lei represent:

- 591 thousand lei- the amount to be transferred by AEROSTAR for the payment of dividends corresponding to **year 2015** for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).
- 488 thousand lei – the amount remaining to be transferred by AEROSTAR for the payment of the dividends corresponding to **year 2014** for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).
- 122 thousand lei – the remaining amount to be transferred by AEROSTAR for the payment of the dividends corresponding to **year 2013** for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).

On the date of February 8, 2016, AEROSTAR informed the shareholders of the company in a release, the judgment of the Administration Council for an extension of the payment deadline of the dividends relating to financial year 2014 initially established for the date of 23.04.2016, until the date of 31.12.2016 and the fact that the payment of the dividends unearned relating to the financial year 2013 will be made, also, through the Central Depository.

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NOTE 12- CASH AND CASH FLOW EQUIVALENTS

At the end of the reporting period the cash and cash equivalents were:

	31.12.2016	31.12.2015
Cash	38.137	19.353
Bank deposits	124.992	81.888
Cheques to cash	3	37
Collateral deposits	21	21
Cash and cash equivalents in treasury cash flow statements	163.153	101.299

The cash comprises the available current amount in the cash account and at banks;

The cash equivalents comprise:

- short-terms bank deposits
- cheques deposited in banks to collect
- collateral deposits set up in accordance with the legal requirements with the Local Customs Department in Bacau with a view to securing the payment of current customs obligations (customs taxes and VAT).

The treasury balance is influenced by the advance payments and payments received from the customers.

There are no restrictions on the liquidity accounts in the banks.

The value of the credit facilities not used as on 31.12.2016 and available for future operations is 10.758 MII LEI thousand LEI (2,500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 10% of the aggregate value of the treasury cash flows.

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NOTE LA SITUATIILE FINANCIARE INDIVIDUALE
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NOTE 13- COMPANY CAPITALS

The net increase of the company capitals from 01.01.2016-31.12.2016, was 32.389 thousand lei, on the basis of :

INCREASE

- on the basis of the net realised in 2016 56.472 thousand lei
- total increase** **56.472** thousand lei

and

DECREASE

- on the basis of the recognition of the deferred tax and other elements of the global result according to the provisions IAS 12 (11.292) thousand lei
- on the basis of the allocation in the form of dividends of the net profit in 2015 (12.791) thousand lei
- total decrease** **(24.083)** thousand lei

NET INCREASE year 2016: **32.389** thousand lei

The modifications of the main elements of the company capitals incurred in 2016 compared with 2015 are as follows:

- **The share capital has remained unchanged:**

At December 31, 2016, the share capital of SC AEROSTAR SA Bacau is 48.728.784 lei, divided in 152.277.450 actions with a nominal value of 0,32 lei.

The structure of the shareholding at the date of 31.12.2016 is as follows:

SHAREHOLDER	NO. OF SHARES	HOLDING PERCENTAGE %
SC IAROM SA BUCURESTI	108.568.180	71,2963
SIF MOLDOVA BACAU	22.748.564	14,9389
OTHER SHAREHOLDERS, Of which	20.960.706	13,7648
<i>Natural persons</i>	<i>14.461.960</i>	<i>9,4971</i>
<i>Legal persons</i>	<i>6.498.746</i>	<i>4,2677</i>
TOTAL	152.277.450	100,0

- **The reserves increased with 33.060 thousand lei on the account of:**
 - the distribution of the reinvested profit of the year 2016 in reserves, consisting in gross amount of 9.095 thousand lei
 - the distribution for statutory reserves of the amount of 17.960 thousand lei from the profit relating to the financial year of 2015
 - the restatement of the deferred income tax directly recognised in the company capitals, with the amount of 6.005 thousand lei
- **The deferred income tax decreased with the amount of 16.246 thousand lei** on the account of the restatement, in basis on IAS 12 and the provisions of the Order M.F.P. 2844/2016, of the recognised deferred tax in other elements of the global results.

AEROSTAR S.A. BACAU
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The restatement was made in order to better reflection of the deferred tax (claims or debts) relating to: legal reserves, reserves from tax breaks, adjustments for the depreciation of clients and provisions.

- **The result carried forward:**

- **increased with:**

- **110 thousand lei** on the account of the deferred profit tax recognised on the account of the company capitals
 - **30.751 thousand lei** representing the profit to be distributed relating to the financial year of 2015, taken over the reported result until its distribution on the destinations approved by the shareholders at the ordinary general meeting from April 21, 2016

- **and diminished** with the profit of the financial year 2015, distributed as:

- at statutory reserves for the working capital in the amount of 17.960 thousand lei
 - for dividends in the amount of 12.791 thousand lei

30.751 thousand lei

and with the reducing of the result carried forward arising from IFRS application in the amount of **1.161 thousand lei**

The total decrease of the result carried forward on the year 2016 is 1.051 thousand lei.

The structure of the result account balance carried forward at December 31, 2016, in the amount of 56.331 thousand lei is:

- 42.645 thousand lei - result carried forward obtained from the use, on the date of transition to IFRS, of the fair value as presumed cost
 - 13.686 thousand lei - result carried forward, representing a surplus obtained from reevaluation reserves as the tangible and intangible immobilizations are amortized

- **The net result of the financial year 2016 (profit)** was 56.472 thousand lei, of which a gross amount of 9.094 thousand lei was distributed to reserves, as reinvested profit.

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NOTE 14- REVENUES

	31.12. 2016	31.12.2015
Revenues from sales, of which:	356.219	329.764
Revenues from sale of products	182.597	169.930
Revenues from services supplied	167.188	156.211
Revenues from selling goods	3.765	2.980
Revenues from renting	1.921	1.969
Commercial discounts granted	-	(2.828)
Revenues from other activities	749	1.502
Revenues related to investors of finished products and production in progress	3.817	7.710
Other revenues from operations	3.654	1.697
Revenues from the production of immobilizations	1.603	854
Total revenues from Operations	365.293	340.025

NOTE 15- EXPENSES

	31.12.2016	31.12.2015
Expenses with employee benefits, from which:	99.488	89.049
Wages and salaries	82.256	73.505
Expenses with social security	17.232	15.544
Expenses with raw materials and materials	103.651	98.859
Power supply, water and gas	8.349	9.162
Other material expenses	14.221	12.523
Expenses with external services, of which:	40.957	32.672
Transportation costs	3.545	2.770
Repairs	19.416	14.962
Expenses with renting	766	1.026
Other expenses with services supplied by third parties	7.250	5.602
Amortizations	16.042	12.477
Increase/decrease of adjustments referring provisions	13.549	16.238
Increase/decrease of adjustments for depreciation of inventories	592	7.428
Other operational expenses	3.835	3.042
Total Expenses with Operations	300.685	281.459

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NOTE 15 - EXPENSES - CONTINUED
THE AVERAGE NUMBER OF EMPLOYEES

	31.12.2016	31.12.2015
The average number of employees, of which:	1.958	1.866
- executive directors	7	7
- employees with higher studies	531	497
- workers	1.293	1.228
- other categories	127	134

NOTE 16- FINANCIAL RESULT

	31.12.2016	31.12.2015
Revenues from currency exchange variations	6.891	10.366
Revenues from interest	392	1.297
Revenues from shares held in subsidiaries	231	154
Expenses from currency exchange variations	(6.257)	(10.829)
Financial Profit	1.257	988

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NOTA 17-PROVIZIONS

	31 December 2015	Increases/ Set provisions	Reductions/ Provisions resumed	31 December 2016
Total provisions	110.696	21.470	22.813	109.323
Provisions for guarantees granted to customers	38.413	20.148	17.143	41.418
Other provisions for risks and expenses	51.590	21.162	12.117	60.635
Provisions for litigations	709	21	30	700
Provisions for the employee benefits	3.831	5.215	3.676	5.370
Provisions for decommissioning of tangible immobilizations	16.153	0	31	16.122
of which:				
Long-term provisions	70.086	6.772	5.410	71.448
Provisions for guarantees granted to customers	6.294	5.301	3.666	7.929
Other provisions for risks and expenses	47.639	1.471	1.713	47.397
Provisions for decommissioning of tangible immobilizations	16.153	0	31	16.122
Short-term provisions	40.610	39.774	25.587	52.797
Provisions for guarantees granted to customers	32.119	14.847	13.477	33.489
Other provisions for risks and expenses	3.951	19.691	10.404	13.238
Provisions for litigations	709	21	30	700
Provisions for employee benefits	3.831	5.215	3.676	5.370

The categories of provisions in balance on 31.12.2016, are:

1. Provisions set up for guarantees granted to customers, as provided in the agreements concluded with the customers;
2. Provisions for risks and expenses, intended for covering potential obligations to company customers, in accordance with the specific clauses of the agreements concluded with them;
3. Other provisions for risks and expenses set up for potential obligations to third parties and for obligations derived from contracts for considerations;
4. Provision for covering expenses related to the company obligations to AJOFM (Manpower Occupancy Agency), as per Gov. Ord. 95/2002;
5. Provision for decommissioning of tangible immobilizations, included in the cost thereof, the value of which was estimated using an update rate of 5%;
6. Provisions for benefits granted to employees as per the clauses of the applicable Collective Labour Agreement;
7. Provisions for litigations, set up for any indemnities owed to the company's ex-employees;

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net increase from exchange rate differences in amount of 828 thousand lei.

The company registers contingent debts related to granted letters of bank guarantee in a total amount 10.192 thousand lei.

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NOTE 18- TRANSACTIONS WITH AFFILIATED PARTIES

Acquisitions of goods and services	year 2016	year 2015
S.C Airpro Consult SRL Bacau	9.182	7.732
S.C Foar SRL Bacau	566	855
TOTAL	9.748	8.587

Sales of goods and services	year 2016	year 2015
S.C Airpro Consult SRL Bacau	24	21
S.C Foar SRL Bacau	4	4
TOTAL	28	25

Debts	Balance at 31.12.2016	Balance at 31.12.2015
S.C Airpro Consult SRL Bacau	979	790
S.C Foar SRL Bacau	34	51
TOTAL	1.013	841

Dividends collected by Aerostar	year 2016	year 2015
S.C. Airpro Consult SRL Bacau	50	42
S.C Foar SRL Bacau	181	112
TOTAL	231	154

The transactions with the affiliated parties in 2016 consisted in:

- Services provided by SC AIRPRO CONSULT SRL Bacau to SC AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by SC FOAR SRL Bacau to SC AEROSTAR SA Bacau
- Services provided by SC AEROSTAR SA Bacau to SC AIRPRO CONSULT SRL Bacau and SC FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected by SC AEROSTAR SA Bacau from SC AIRPRO CONSULT SRL Bacau, a company in which AEROSTAR holds the entire joint stock and from SC FOAR SRL Bacau (NOTE 6).

There were no transactions with the company S.C.Aerostar Transporturi Feroviare SA Bacau.

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NOTE 19 - PROFIT PER SHARE

The profit per basic share was calculated based on the profit which can be distributed to the ordinary shareholders and on the number of ordinary shares:

The diluted result per share is equal to the result per basic share, as the company did not register any potential ordinary shares.

IN LEI	<u>31.12.2016</u>	<u>31.12.2015</u>
Profit distributable to ordinary shareholders	56.471.595	52.268.445
Number of ordinary shares	152.277.450	152.277.450
Profit per share	<u>0,371</u>	<u>0,343</u>

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NOTE 20- SUBSIDIES

Subsidies related to assets

The method of presentation of the asset-related subsidies in the financial statements recognizes the subsidy as deferred revenue recognized systematically in the profit or loss throughout the useful lifetime of the asset.

	31.12.2016	31.12.2015
Balance on January, 1	16.828	9.831
Subsidies related to assets	-	8.459
Subsidies registered as revenues related to calculated amortization	(1.856)	(1.462)
Balance on December, 31	14.972	16.828

The balance of 14.972 thousand Lei represents subsidies related to investments in immobilized assets, to be registered under revenues corresponding to the calculated amortization.

The subsidies related to the immobilized assets were received for the implementation of 3 investment projects under 3 non-reimbursable financing agreements:

1. Contract no. 210304/22.04.2010: "Extension of the manufacturing and assembly capacities for aerostructures for civil aviation", performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5,468 thousand Lei;
2. Contract no. 229226/14.06.2012: "Set-up of a new manufacturing capacity for diversifying production and export growth", performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand Lei;
3. Contract no. 5IM/013/24.03.2015: "Consolidation and sustainable development of the mechanical processing and painting sectors by high performance investments", performed between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8,299 thousand Lei;

All investment projects in immobilized assets were implemented and finalized in accordance with the contractual provisions assumed.

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NOTE 21 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

Aerostar registers in off-balance sheet accounts, the rights, liabilities and goods which cannot be integrated in the company assets and liabilities, i.e.:

	December 31, 2016	December 31, 2015
• Liabilities:		
○ guaranties granted to customers as letters of bank guarantee	10.192	5.310
○ guarantees received from suppliers – as letters of bank guarantee	433	7.754
• Goods		
○ Inventories such as materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	22.348	18.855
○ material values received in custody	1.796	1.796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	1.151	1.155
○ material values received for processing/repairs	616	265
○ other goods off-balance sheet	169	169
• Other values off-balance sheet		
○ commitments on the covering of some future obligations to A.JO.F.M. under O.U.G. 95/2002	6.635	7.025
○ debtors cleared from assets, yet still monitored	349	353
○ material guarantees	186	163

Aerostar has no commitments regarding the pension and the affiliated or partner entities.

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NOTE 22 – REMUNERATION OF THE DIRECTORS

In the ordinary general meeting of 5 July 2016, the shareholders of AEROSTAR approved forming of the Board of Directors formed by 5 (five) physical persons having the quality of the administrators, whose mandate is valid starting with the date of July 11, 2016 until July 10, 2020.

Starting with the date of 11.07.2016, the mandate of member in the Board of Directors of Mister Nijnic Marin-Ilie has been legally terminated.

As on December 31, 2016, the members of the Board of Directors of S.C. AEROSTAR S.A. are:

Item	Surname and first name	Position
1.	FILIP GRIGORE	President of the Board of Directors
2.	DAMASCHIN DORU	Vice-president of the Board of Directors
3.	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors
4.	LIVIU-CLAUDIU DOROS	Member of the Board of Directors
5.	VIRNA DANIEL	Member of the Board of Directors

In 2016, AEROSTAR did not grant advance payments or credits to the members of the Board of Directors, neither did it undertake any liabilities on their account as a guarantee of any type.

The pay of the Directors is approved by the General Meeting of the Shareholders.

The shareholders of the company have decided in the Ordinary General Assembly form July 5, 2016 the following:

- the fixation for each chosen member of the Board of Directors of a monthly remuneration, fixed, gross of 4.500 lei, for the financial year of 2016, starting with July 2016.
- the approval as a maximum level of supplementary remunerations for the members of the Board of Directors who also have executive attributions of a monthly amount, fixed, gross, of not more than 10 (ten) or (including) the remuneration of 4.500 lei, individually applied, after each case
- the empowering of the Board of Directors for their negotiation within the limit of the ceiling approved.

The amount of compensations accorded to the members of the Board of Directors in the financial year 2016, by virtue of their responsibilities, was 270 thousand lei.

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vice-president of the Board of Directors and Financial Director of S.C AEROSTAR S.A., hereby undertake responsibility for the preparation of the individual financial statements as on 31.12.2016, and we confirm hereby that:

- a) All the accounting policies used to draw up the individual financial statements as on 31.12.2016 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.**
- b) The individual financial statements as on 31.12.2016 provide a fair image and compliant with the reality of the related assets, liabilities, financial position, of the global result and the other information related to the activity carried out.**
- c) The Report of the Board of Directors for the financial year 2016 comprises an accurate review of the development and performance of S.C. AEROSTAR S.A., as well as a description of the main risks and uncertainties specific to the activity performed.**
- d) S.C. AEROSTAR S.A. BACAU performs its activity in conditions of continuity.**

**President of the Board of Directors and General Director,
GRIGORE FILIP**

**Vice-president of the Board of Directors and Financial Director,
DORU DAMASCHIN**