

ANNUAL REPORT 2017



TRANSFORMATION CONTINUES

AEROSTAR S.A. Bacău

REPORT OF THE BOARD OF DIRECTORS

AEROSTAR S.A. Bacău

Identification Data

Date of report: 31.12.2017

Name of the company: **AEROSTAR S.A. Bacău**

The registered head office: Strada Condorilor nr. 9, Bacau, România

Telephone number: 0234 575070

Individual Identification Number: RO 950531

Trade number in Bacau Trade Register: J04/1137/1991

Code LEI: 315700G9KRN3B7XDBB73

Subscribed and paid-in registered capital: 48.728.784 lei

Number of shares issued: 152.277.450

Nominal value: 0,32 lei / share

The regulated market on which the real estate issued are traded:

Bucharest Stock Exchange ('ARS' indicator) – Standard Category

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Chapter 1

ABOUT AEROSTAR, IN GENERAL

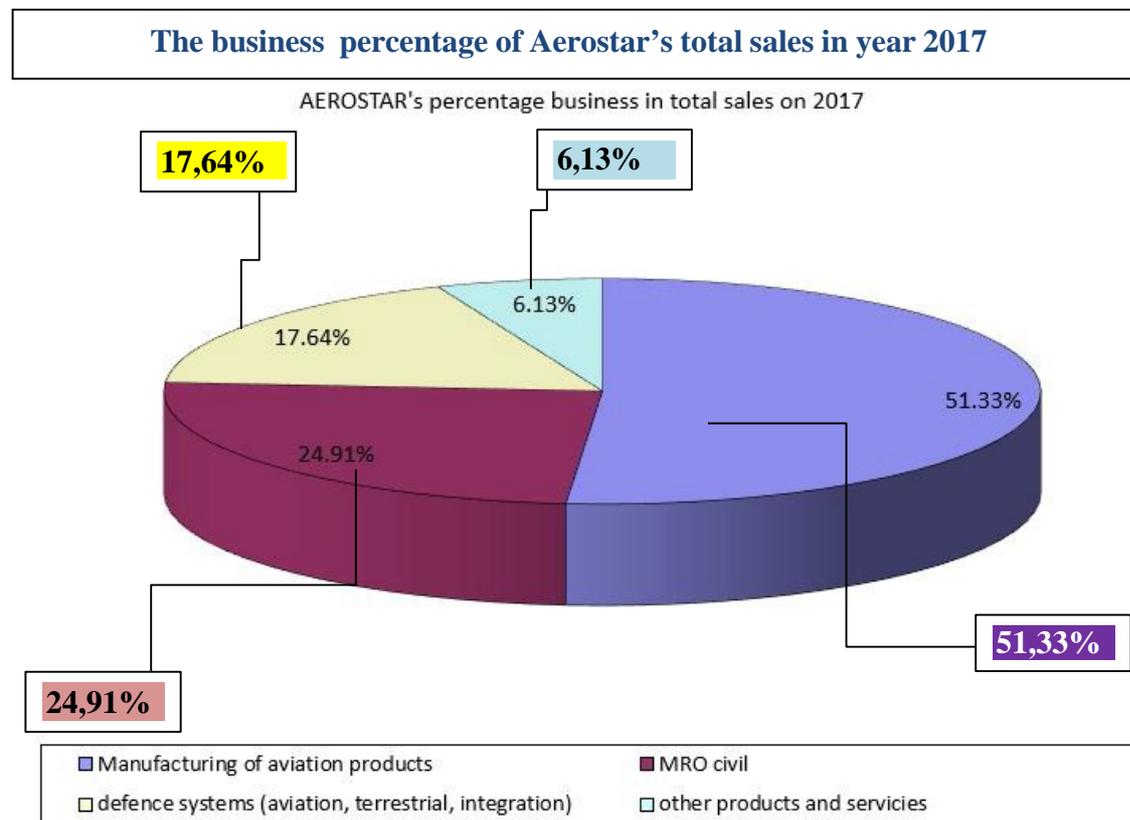
AEROSTAR was established in 1953 and acts in accordance with the Romanian law. It was registered in year 1991 as a shareholding company at the Bacau 3333Trade Register under trade number J04/1137/1991 with the current name ‘AEROSTAR’ S.A., having the individual identification number 950531.

The registered headoffice is located on Condorilor Street, no. 9, Bacau, postcode 600302 and recently there has been registered a secondary site, secondary place of business in Iasi.

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

The main business lines of AEROSTAR are:

- **Manufacturing of aviation products**
- **Commercial aircraft maintenance**
- **Aero, terrestrial and naval defense systems**



In the date of 29 September 2017, AEROSTAR has received a new registration certificate containing the unique identification code at a European level:

EUID:ROONRC.J04/1137/1991.

A private company, publicly listed at the Bucharest Stock Exchange, the evidence of the shares and shareholders is kept, under the law, at the Depozitarul Central S.A.

To realise its objective of activity, the resources of the company are used in a synergic manner through a unitary management of the processes and business relations of the company.

AEROSTAR has maintained its positioning as number 1 in Romania for its scope of activity.

- **Number 1 in aviation manufacturing;**
- **Number 1 in civil aircraft maintenance.**

- AEROSTAR is a significant supplier for the solutions in the field the aero, terrestrial and naval defence systems

AEROSTAR is regional leader in these market domains.

AEROSTAR's footprint in the global aeronautical manufacturing programmes is significant, creating itself from a centre of development in the aeronautical and defence industry.

SIGNIFICANT FACTS

- **In 2017 the investments realized by AEROSTAR from its own sources were of 23.447 thousand LEI.
Total investments realised by AEROSTAR, from its own funds and from attracted ones, overcome 50 million Euro from its privatisation.**
- **AEROSTAR has founded the future Civil MRO Centre in Iasi – the first development outside the main headoffice. At this secondary headoffice, AEROSTAR will perform activities in the field of civil aircraft maintenance.**
- **In 2017, 245 young employees have found a job in AEROSTAR, the medium age in company being of 45 years.**
- **AEROSTAR was designated the manufacturer of the year by the SAFRAN Landing Systems (MessierDBugattiDDowty) with the occasion of the yearly meeting ‘Quality Day’, organized with the manufacturers highlighted for the performance in the quality and on-time delivery field, as well as for the innovation capacity and to sustain the Safran activities.**
- **AEROSTAR has received the Airbus prize for partnership in the field of part and components manufacturing with the occasion of the Airbus Group Detail Parts Suppliers Conference for the performance realized, highlighting Airbus’ appreciation for AEROSTAR’s successful support in Airbus programs.**
 - **In October 2017 the Memorandum of agreement between AEROSTAR and Raytheon International Defence Systems, a first step of long collaboration in the equipment and components field related to the air defence multilevel integrated system – the equipping program of the Romanian army with Patriot systems.**

Year 2017 in key figures

The export sales has increased. The objective is to increase the export sales to 80% from the turnover.

	UM	31.12.2017	31.12.2016
Registered capital	thousand lei	48.729	48.729
Turnover	thousand lei i	340.172	356.219
• Export sales	thousand lei	258.390	255.274
The effective number of personnel, from which:	no.	2.100	2.164
- own employees	no.	1.953	1.878
- employees attracted through temporary labour agent	no.	147	286
EBITDA*	thousand lei	82.669	96.047
EBIT**	thousand lei	58.787	65.865
Profit net	thousand lei	53.170	56.472
Cash - flow	thousand lei	163.886	163.153

* Earnings before interest, tax, depreciation & amortization

**Earnings before interest and tax

General liquidity	-	7,03	4,74
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Expenses for investments from company sources	thousand lei	23.447	19.498
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FINANCIAL PERFORMANCE (thousand lei)	31.12.2017	31.12.2016
• Total revenues	359.925	372.807
• Total expenses	301.138	306.942
• Gross Profit	58.787	65.865

FINANCIAL POSITION (thousand lei)	31.12.2017	31.12.2016
• Imobilized Assets (net value)	153.686	154.397
• Circulating assets	278.451	256.174
• Registered capital	48.729	48.729
• Company capitals	252.967	213.908
• Total Debts	54.472	72.939

The exchange rate of the main foreign currencies in which the AEROSTAR business was performed:

	UM	2017	2016
Average exchange rate EURO/12 months	lei/euro	4,5677	4,4907
Average exchange rate USD/12 months	lei/USD	4,0542	4,0585
Average exchange rate GBP/12 months	lei/GBP	5,2144	5,5016

Inflation	%	3,32	0,99
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AEROSTAR S.A. prepares and releases the financial statements in accordance with the international financial reporting standards (IFRS).

EVENTS OF 2017

- **In the general ordinary general meeting from 20 April 2017, the shareholders of the company AEROSTAR have approved the repartition of the amount of 13.704.970,0 lei from the profit of the year 2016 for dividends, which corresponds to a 0,09 lei gross dividend per share.**

The payment of the dividends was made starting with the date of 20.09.2017. In the balance payment at the date of 31.12.2017 the remaining amount of 557 thousand lei which were not presented at the counters of the CEC Bank S.A. payment agent (the payment agent designated by AEROSTAR).

- **In the date of 7 September 2017 AEROSTAR has signed with the Iasi County Council the concession contract for an initial period of 49 years for a surface of 16.000 mp situated in the perimeter of Iasi International Aeroport with the purpose of building a new production capacity for maintenance activities and maintenance civil aircraft;**

In the date of 15 January 2018, the Trade Register Office from Bacau has issued the resolution no. 469/12.01.2018 regarding the admission of registration request of the second headquarter as it was formulated.

- **In the date of 18 October the Memorandum of Agreement was signed between the Minister of Economy, through S.C. Aerostar S.A., and the american company Raytheon International Defence Systems, regarding the collaboration in the equipments and components related to the airline defence multilevel integrated system**

By this document it was realised the equipping program of the army with Patriot systems, while the technology transfer and technical assistance are foreseen, necessary for the upgrading and retooling of the existent equipments, as well as the assurance of the technical support for the Patriot systems.

Chapter 2

,WE SET OFF THE FOUNDATIONS FOR THE FOLLOWING DECADES' – THE TRANSFORMATION CONTINUES

- The letter of the President – General Director

I am addressing to all the parties interested in AEROSTAR's business, in relation with the company results of year 2017.

These results reflect an advanced positioning on the strategic directions of growth and development provided in the Mission of the company.

The continuity and consistency of the changes for the upgrade of the business lines in the field of aviation products manufacturing and of civil aircraft maintenance have imposed the successful business model which brings satisfaction towards all the relevant interested parties: customers, employees, investors.

Aerostar has accomplished the provisions established through the budgeted approved in the Ordinary General Meeting and has made important progresses in regards to the market repositioning of the company in parallel with a good management business, realising a significant program in the investment field.

In year 2017, Aerostar sales were in the amount of 340 million lei, the gross profit in the amount of 59 million lei. Investments of almost 23,5 million lei were made, with 20% more than the year 2016.

In the same year, we have established the first significant foundation outside the main business headoffice. We will build the future Aircraft Maintenance Centre in Iasi, which will be in addition to the Excellence Centre from Bacau, from the Part 145 authorized services field for civil aircraft maintenance.

In year 2018 and in the following years we will continue the investigations according to the budgeted approved on the three main fields from the strategy of development.

Grigore FILIP

**PRESIDENT OF THE BOARD OF DIRECTORS –
GENERAL DIRECTOR**

VISION

AEROSTAR is a market and people-oriented company.

We consistently action for a long-lasting and sustainable development of the company, at higher and higher performance levels, in conditions of profitability and responsibility.

The synergy of our competences and expertise for the civil and military market contributes to the AEROSTAR consolidation as a company for the future.

Our objective is to create VALUE and to be COMPETITIVE and to obtain a long-term SUCCESS.

We focus to improve performance and on the continuous improvement.

We encourage the personal development of our employees in the spirit of integrity, innovation and initiative.

Chapter 3

A HISTORY OF 65 YEARS

A JOURNEY INTO THE PAST, PRESENT AND FUTURE

In 2018, Aerostar marks the 65 years anniversary from its establishment.

AEROSTAR S.A. Bacau is the successor of Uzina de Reparatii Avioane-URA (Aircraft Repair Plant) (UM 03767) established through HCM 1165 dated 17 April 1953, Bucharest.

The successive names held were URA-1953, Intreprinderea de Reparatii Avioane-IRAv (Aircraft Repair Enterprise)-1970, Intreprinderea de Avioane-IAv (Aircraft Enterprise)- 1978 and since 1991 was registered as a shareholding company with fully state-owned capital, under the current name - AEROSTAR S.A.

Since the year 2000 it is a fully private company, with the shares traded at Bucharest Stock Exchange, since 1998, with the ARS indicator.

The Mission statement set-up at the establishment of URA (Aircraft Repair Plant), the forerunner of today's AEROSTAR, was maintained and updated in the conditions generated by Romania's accession to NATO and European Union, and in the present, in order to secure the development of the company business, Aerostar's mission focuses on three lines of business, all in aeronautics and defence:

- Maintain the supplier status in the field of aviation and ground defence systems mainly for the Romanian Ministry of National Defence.
- Consolidation of AEROSTAR's position as supplier of parts, aerostructures, subassemblies and equipment for the commercial and general aviation, in such a way as to become a major subcontractor for the globalized aviation industry
- Consolidation of AEROSTAR's activities as a prime supplier of maintenance for civil aircraft and for conversion / upgrade of civil aircraft.



The 65 years anniversary from the establishment of the company is a journey in history, as well as it is a journey in present which foreshadows the future.

As a powerful industrial base in the field of aviation and defence, Aerostar holds a valuable know-how in all its activity fields, developed based on knowledge accumulations, abilities and exceptional ingenuity of its specialists.

The mark of the company Aerostar S.A. is internationally registered and has an international reputation. The market, the customers and partners are recognizing the value associated to this name and to this industrial culture.

AEROSTAR S.A. was established in the year 1953 having the initial purpose of repair and maintenance for military aircrafts from the Romanian Air Forces.

From its establishment to present, the company had a continuous development both in aeronautic field and in the military equipment, as well as in the products designed for civil markets.

The period 1960-1970 represented the extension of the capabilities in the domain of the reparation and maintenance of military aircraft but also the initiation of the products of terrestrial defence systems. Until 1990 the company has been the only manufacturer of liquefied petroleum gas cylinders.

1970-1980's is highlighted by realizing the prototype of the first Romanian IAR-93 fighter, the establishment of the IAK-52 light trainer aircraft factory, an airplane type manufactured by AEROSTAR in over 1900 exemplars. The Hydropneumatics and Land gears equipment factory was established also in this stage/phase, with the purpose of their manufacturing for all the aircraft types manufactured in Romania.

The engine and aviation reduction gears factory and the radio and electronic equipment factory were established during the 1980-1990's.

After 1990, the name of AEROSTAR is related to the upgrading programs of the military, aerial and terrestrial platforms: MIG-21 Lancer fighter planes, the upgrading of the technological demonstrator MiG-29 Sniper, the upgrading of the friend-enemy identification system at a national level, as well as the maintenance and radar systems upgrading programs or of the C-130 airplanes upgrading, all the compatible and interoperational NATO programs.

AEROSTAR exemplifies a competitive business model, adaptation to market's request and of growth and development.

Chapter 4**‘AEROSTAR’ SHARES (ARS)**

The main characteristics of the real estate values issued: 152.277.450 shares, nominative, ordinary, of equal value, paid integrally, issued in dematerialized form and highlighted by registration in the Register of Shareholders.

This is managed by the S.C. Depozitarul Central S.A. Bucuresti.

The issuer AEROSTAR S.A. Bacau is registered with the following data:

Individual Identification Number 950531, ISIN ROAEROACNOR5 code, ARS stock exchange symbol, the issued shares being all in the standard category.

‘ARS’ shares

	year 2017	year 2016	year 2015
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Company capitals (lei)	252.967.021	213.908.224	181.518.081
Price at the end of the year (lei)	4,70	3,27	2,72
Stock exchange capitalization ¹ (lei)	715.704.015	497.947.262	414.194.664
Maximum price (lei)	4,78	3,27	3,25
Minimum price (lei)	3,25	2,24	1,67
Result per share (lei)	0,349	0,371	0,343
Dividend per share ² (lei/share)	0,094	0,090	0,084
The performance of the dividend ¹	2,0%	2,8%	3,0%
Distribution rate of the profit ³	27,0%	24,3%	24,5%

¹ Calculated based on the closure price of the share in the last transaction day from the year in question

² The dividend per share related to year 2017 will be submitted to AGAO approval from 19 April 2018

³ Calculated based on the net profit attributable to the shareholders of Aerostar

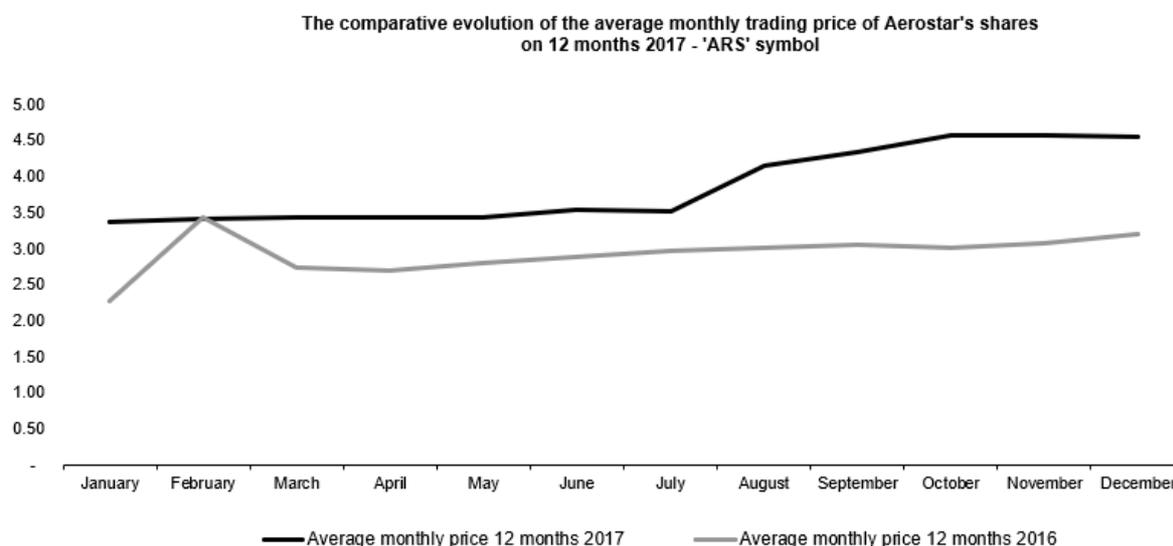
MBR indicator⁴ (market to book ratio)	2,8	2,3	2,2
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PER report⁵ (coeficient de capitalizare bursiera)	12,67	9,53	7,93
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⁴ Calculated as a report between the market value and the accounting value (stock exchange capitalization/company capitals)

⁵ Calculated as a report between the market value and the result (gain) per share.

The price transaction of a AEROSTAR share oscillated in 2017 between a minimum level of 3,25 lei and a maximum level of 4,78 lei.



The evolution of the price of the shares on the Bucharest stock exchange in the year 2017



Main shareholders

The main shareholders are IAROM S.A. Bucharest and SIF MOLDOVA S.A. A large number of shareholders are added, natural and legal persons, under the materiality threshold for the purposes of the regulations issued by the Authority of Financial Supervision and the Bucharest Stock Exchange.

The most recent information regarding the structure of the ownership have been published at the Depozitarul Central for the date of 31 December 2017 and have been presented in the following table:

Shareholder	Number of shares	Holding percentage (% from the registered capital)
S.C. IAROM S.A. Bucuresti	108.568.180	71,2963
SIF MOLDOVA Bacău	22.919.887	15,0514
Natural persons	14.162.600	9,3005
Legal persons	6.626.783	4,3518
Total	152.277.450	100,0

The total number of the shareholders of Aerostar was of 6635, with no stake over 5% from the natural and legal persons – other that IAROM and SIF.

In year 2017, no subscriptions if new shares have been recorded and neither participation warranties, convertible obligations, options or similar rights.

Relation with the Shareholders and the Capital Market

Aerostar follows the work related to the ARS shares' evolution at the Bucharest Stock Exchange with no interference with the operations performed.

In the relation with the shareholders, AEROSTAR took into account, also in year 2017, to protect and assure the rights of the shareholders, respectively:

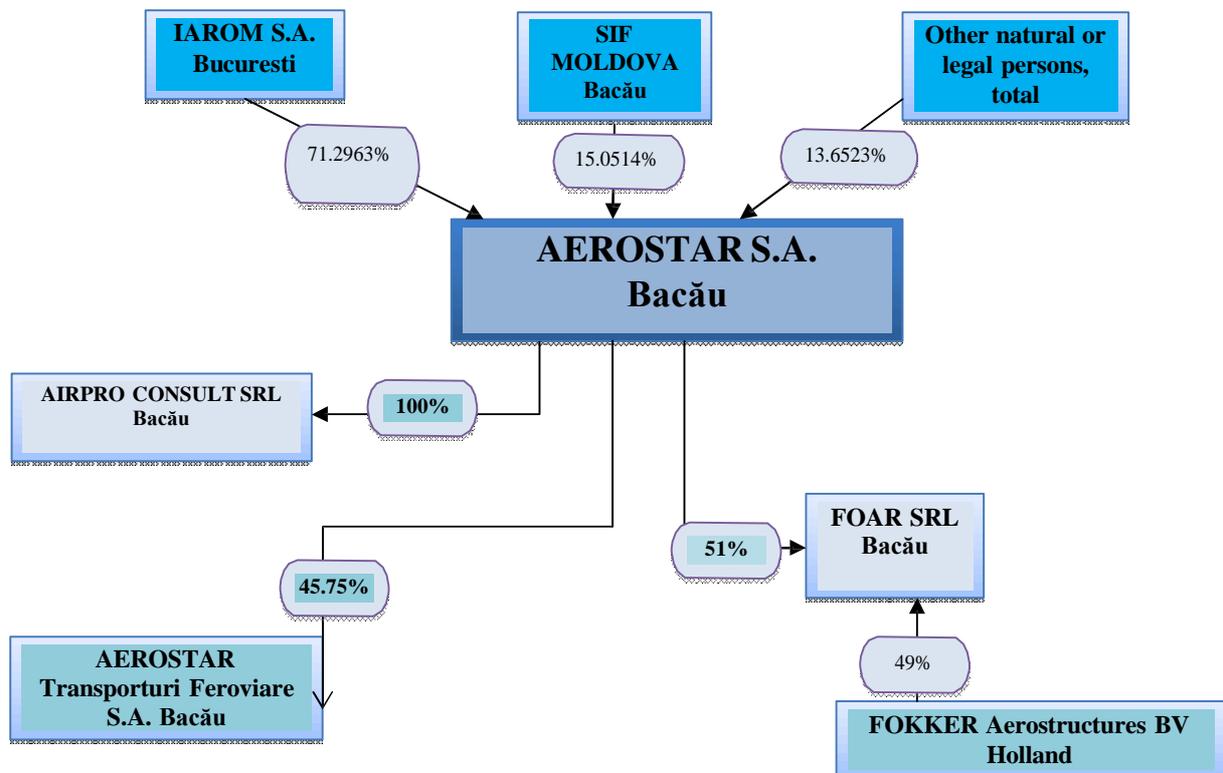
- to participate to the Ordinary General Meetings directly or by representation – by providing them special proxy, vote by correspondence, other useful information.
- to have a fair treatment, no matter the holdings
- to receive dividends proportional with the holdings of each shareholders

In the relation with the capital market, AEROSTAR has fulfilled, also in 2017, all the reporting obligations which went from the legal provisions by publishing the continuous and periodical reports in the electronic system of the Authority for the Financial Supervision and of the Stock Exchange, in the internet page of the company and by press release.

According to the provisions of the Corporate Governance Code, the continuous and periodical reports were simultaneously disseminated, both in Romanian and English language.

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro. Also, annual reports, as well as 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.

Aerostar's relation with the parent-company and with the companies in which it has capital ownership



During 2017 there was no merger or significant reorganization, neither of AEROSTAR nor of the companies controlled by AEROSTAR.

As on 31.12.2017, AEROSTAR's participations in other companies are as follows:

Name of the subsidiary/related company	Basic activity	No. of shares	Voting rights	Value of the holding (thousand lei)	Financial information for the last financial year (2016) for which have been approved the financial statements of the related companies			
					Sales	Company capitals	Net profit	
SC Airpro Consult SRL	code CAEN 7820	100	100%	10	8.530	163	96	
SC Foar SRL	Code CAEN 7739	408	51%	4	471	1.927	180	
SC Aerostar Transporturi Feroviare S.A.	code CAEN 2822	9150	45,75%	92	-	272	1	
				Total	106	9.001	2.372	278

The transactions with the affiliated parties consists of:

- Supplying by AIRPRO CONSULT SRL Bacau by AEROSTAR SA Bacau of services with temporary contracting for manpower.
- Supplying by FOAR SRL Bacau by AEROSTAR SA Bacau with renting and leasing machinery.
- Supplying by AEROSTAR SA Bacau to AIRPRO CONSULT SRL Bacau and by FOAR SRL Bacau services of renting spaces and provision of utilities.
- Dividends collected by AEROSTAR SA Bacau from AIRPRO CONSULT SRL Bacau and from FOAR SRL Bacau.

In 2017, no transactions with the company Aerostar Feroviary Transport

The contributions of AEROSTAR in these companies are registered on cots. During 2017, the company had no records of modifications in increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2016.

Chapter 5

AEROSTAR MANAGEMENT**THE BOARD OF DIRECTORS**

The Board of Directors of AEROSTAR was chosen for a period of four years (from 11.07.2016 until 10.07.2020) during the Ordinary General Meeting of the Shareholders from 5 July 2016 and has the following composition:

Name and surname	Function	Profession
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
DOROS LIVIU-CLAUDIU	Member of the Board of Directors	Economist
VÎRNĂ DANIEL	Member of the Board of Directors	Legal advisor

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Act.

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.

Business management

AEROSTAR is managed in a single system, with the delegation of the commercial company's management to the General Director, Mr. Grigore FILIP and the Financial Director, Mr. Doru DAMASCHIN.

Grigore Filip, General Director:

Aerostar business proves successfully the power of the change processes consistently managed with professionalism and having constantly in mind the vision of a growth and development future.

Doru Damaschin, Financial Director:

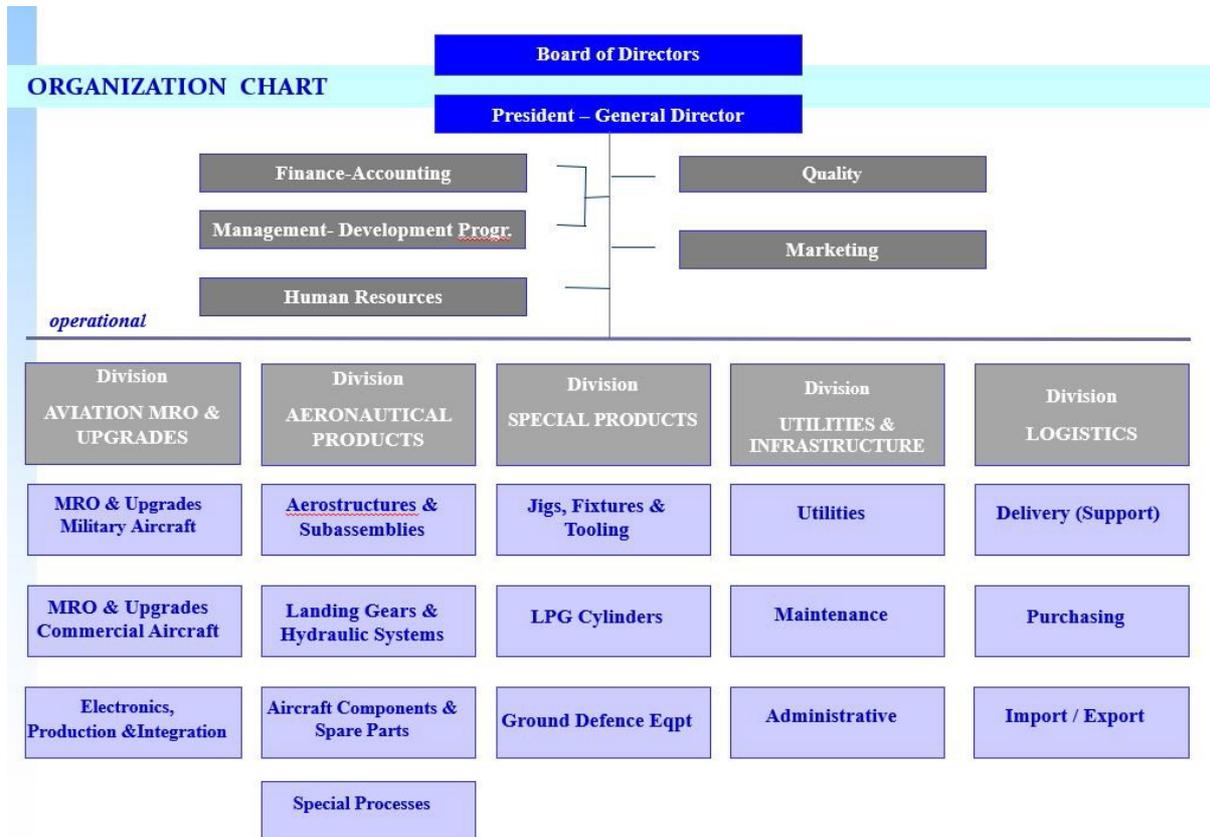
I consider the digital transformation of the processes as being one of the most modern method to increase economical efficiency, mainly by reducing the operational costs.

The members of the executive management of the company in 2017 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 <i>* from 1.01.2018, runs the Defence Systems Division</i>
ACOSTOAIIE CLAUDIU	Director, Special Products Division <i>* from 1.01.2018 runs the Ground Defence Platforms Section and GSE</i>
VLAD GABRIEL REMUS	Director, Logistics Division
BRANCHE CATALIN	Director, Utilities & Infrastructure Division

With a division type organisation structure, based on management centres in the area of operations, auxiliary activities and in the area of functional activities, Aerostar performs its scope of activity through an integrated utilization of the common resources of the organisation.

Organization of the operational structure during 2017:



During 2017 organizational and administrative actions were held with the purpose to implement the new organisation which entered in function at the beginning of the year 2018. The new organizational structure maintains the organizational principles and utilisation of the resources in a uniform, competitive and integrated manner.

The members of the executive management of the company on 1 January 2018:

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 Defence Systems Division
VELESCU IOAN-DAN	Director Civil Aviation MRO Division
VLAD GABRIEL REMUS	Director Logistics Division
BRANCHE CATALIN	Director Utilities & Infrastructure Division

Aerostar has operated organisational changes starting with 1 January 2018 with the purpose of mobilisation and to better use the resources, to better exploit the market opportunities and to respond better to the requests of the customers.

This reorganisation preserves intact the industrial and personnel capabilities overall, assuring the development conditions of the business and the realisation of the complex programs with an increased competitiveness.

The Special Products Division went through a restructuring process, the currently SDVs manufacturing programs and respectively Terrestrial Defence Systems, creating one organizational structure under the name of 'Terrestrial Defence Division and GSE within the new division 'Defence Systems Division'.

Therefore, the old 'Aviation Maintenance and upgrading Division' is now the **Defence Systems Division** and it is exclusively focused on military programs, being composed of: Aircraft and Military Engines Repairs and Upgrading Section, Terrestrial Defensive Platforms and GSE Section, The Projection

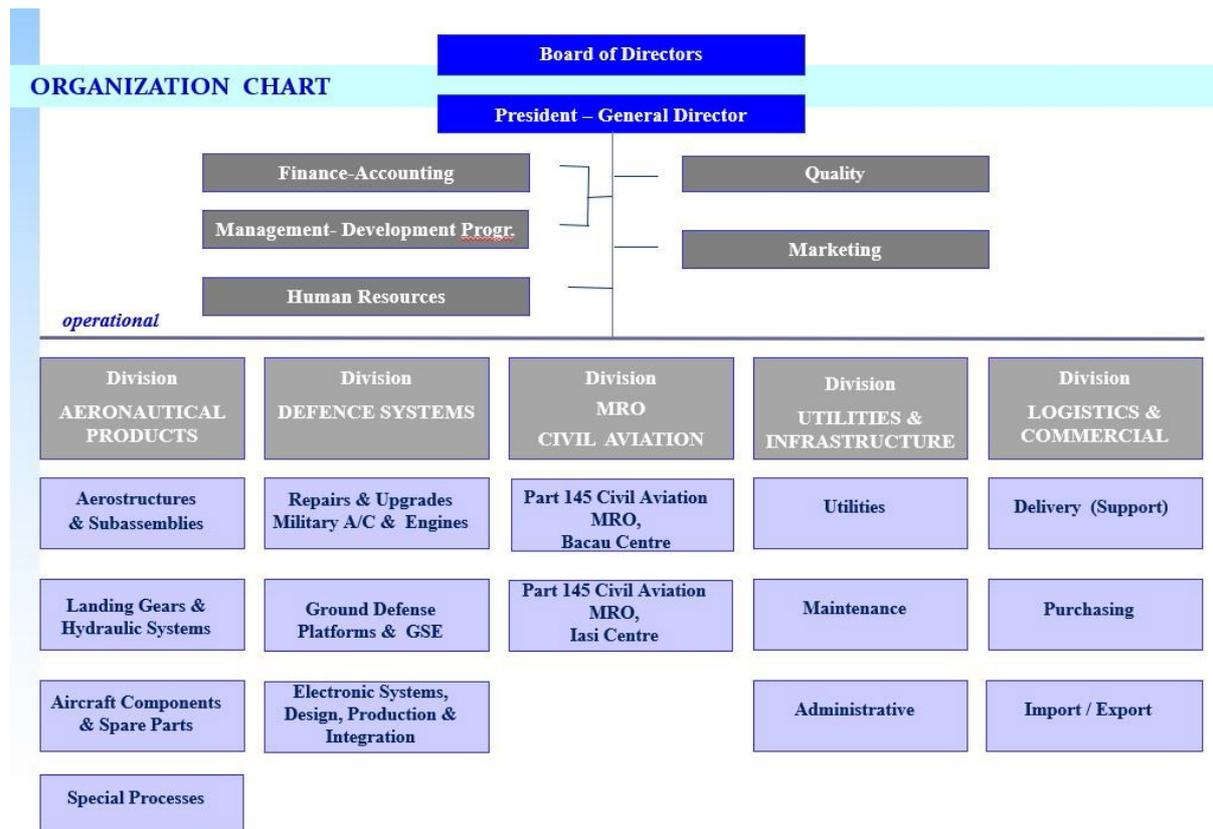
Program, Electronic Systems Production and Integration, as well as other new programs, in development.

The **MRO Civil Aviation Division** was established since 1 January 2018 and it contains the maintenance units related to MRO Civil Aviation Organization Part 145 authorized, MRO Civil Aviation Centre Part 145 from Bacau and the future MRO Civil Aviation Centre from Iasi.

The management of this division is assured by the director of the Part-145 Organization which fulfils this responsibility since 2003.

Through the school unit which functions here, the professional training necessary to the maintenance capacity from Iasi is assured (maintenance engineers and mechanics).

De la 1 ianuarie 2018, noua structură de organizare este: From 1 January 2018, the new organizational structure is:



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

Chapter 6

AEROSTAR MARKET IS PART OF THE GLOBAL MARKETS

AEROSTAR actions on a global market, strongly competitive, in which the dynamic of the dominant players – the big companies which register the final products – are following in a consistent manner the major objective of business increase.

The business in aviation and defence field are tightly related to the global flows from the mondial economy. On a global scale the raising trend and the strong demand has a significant impact over the stability of the projections regarding the future.

Boeing and Airbus projections are foreseeing that in the next 20 years the request will rise to almost 40.000 new airplanes of large size. Every year, in Asia, over 100 million people fly for the first time with the airplane. If the traffic is increasing, the airplane request follows the same pattern.

The stability and quality of the resources are critical for the supply chain, of large complexity and global geographical extend, as they are in this industry. The costs have risen, the carburants are with aproximatelt 20% more expensive than in the previous year. The costs of the manpower have also increased.

While the dynamic of the growth is dominant, instability factors, geopolitical turbulances, new types of phenomens and crises have been continuously manifested at a global scale.

The studies show that over 90% from the economical and business activities are dependent by the informatical devices. Their fiability and security are essential for the economical and social life, especially for the functioning of markets.

In the defence industry, the synergies with the aviation industries , security and cyber safetiness are assuring efficacy, as well as the fulfilment of the requests for interoperability and efficiency of the costs.

The protectionist and the populist origin evolutions determine the migration of the capital flows to the targets perceived that they can mark strategic positions, from which results a diversity of associative phenomenons.

The effects of the Brexit are also into focus.

The challenges of the current evolutions are imposing systematic abordations and procedural integrators in the management business risks.

Chapter 7

OPERATIONAL PERFORMANCE

Synergy of the business operations

The current market profit of AEROSTAR is characterised by advanced capabilities and new programs, which have successfully replaced most of the old, traditional programs.

AEROSTAR capitalizează cu succes investițiile de peste 50 milioane de Euro realizate de la privatizarea societății din anul 2000. AEROSTAR successfully capitalizes over 50 million Euro from the company's privatization in the year 2000.

The investments in capabilities, equipments and advanced technologies, in infrastructure capacities, as well as in organization and planning assures Aerostar's participation in the global flows from the aviation and defence global industry.

With a high degree of vertical integration of the value supplied, Aerostar is a competitive and significant supplier in the global programs.

The evolution of the supply chains of the big companies in OEM category, with which Aerostar is in a partnership relation, are the ones that indicate the following path to maintain competitiveness and to increase the value which Aerostar is attributing on a medium and long term.

The operational performance, confirmed through performance indicators of large recognition, is sustained by an intensive management, based on the budgets and projects management and on a participatory management, which highlights in an integrated manner the available operations and resources in their assembly.

93% from the production of the year 2017 is in aeronautical field, which confirms the concentration on the adopted business pattern.

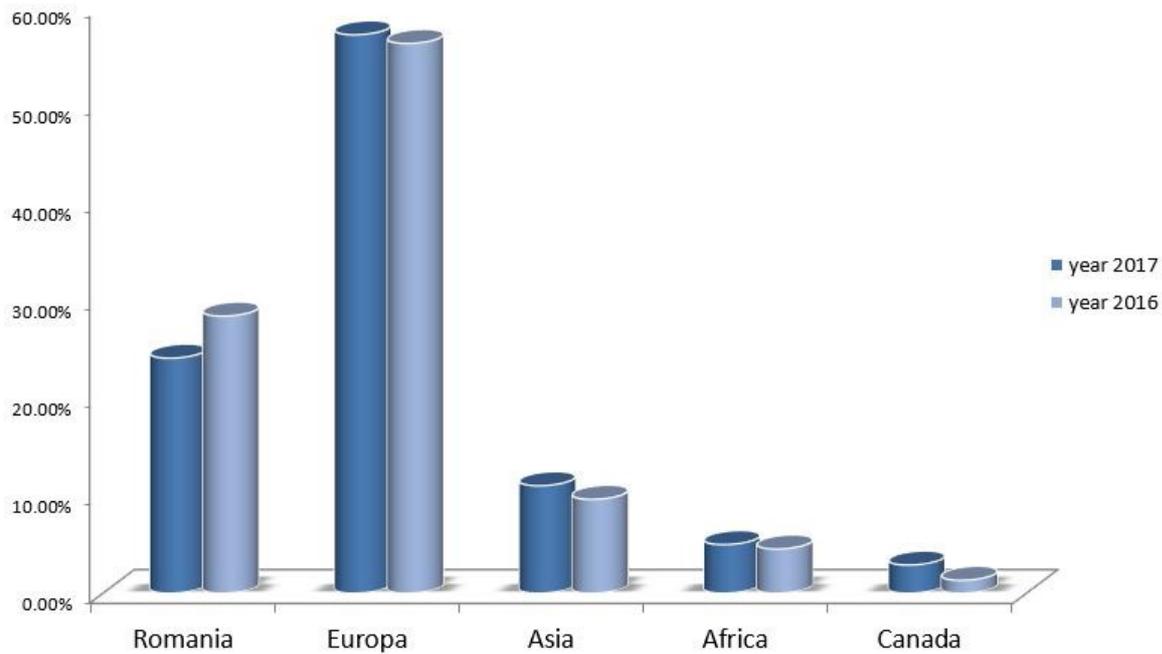
Commercial aspects in the business of 2017

AEROSTAR operates its commercial business and transactions on its own behalf, as well as the operations to obtain licences and authorisations for the ongoing activities.

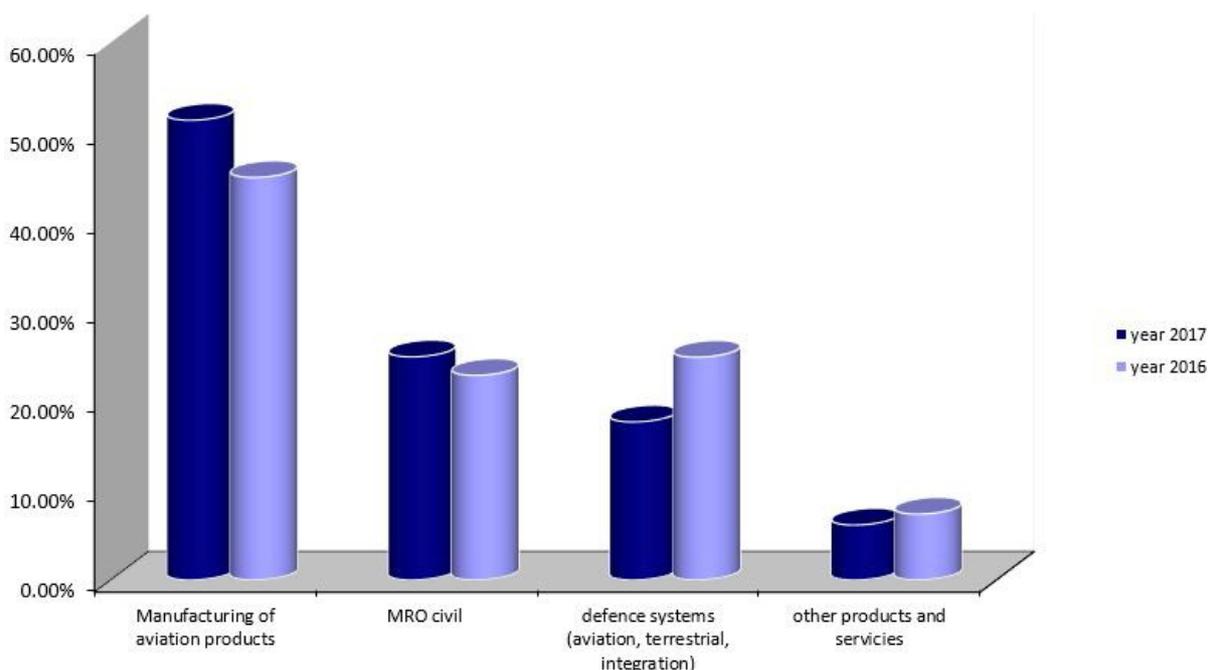
In 2017 AEROSTAR has maintained and developed a solid business line, new programs which represent the majority of the volume of sales realised while the percentage of products sales and services in the defence field sale has decreased.

In year 2017 AEROSTAR had sales in the amount of 340.173 thousand lei, from which 258.390 thousand lei were export sales, up from the previous year, with a large customer diversity, in a big number of different production programs.

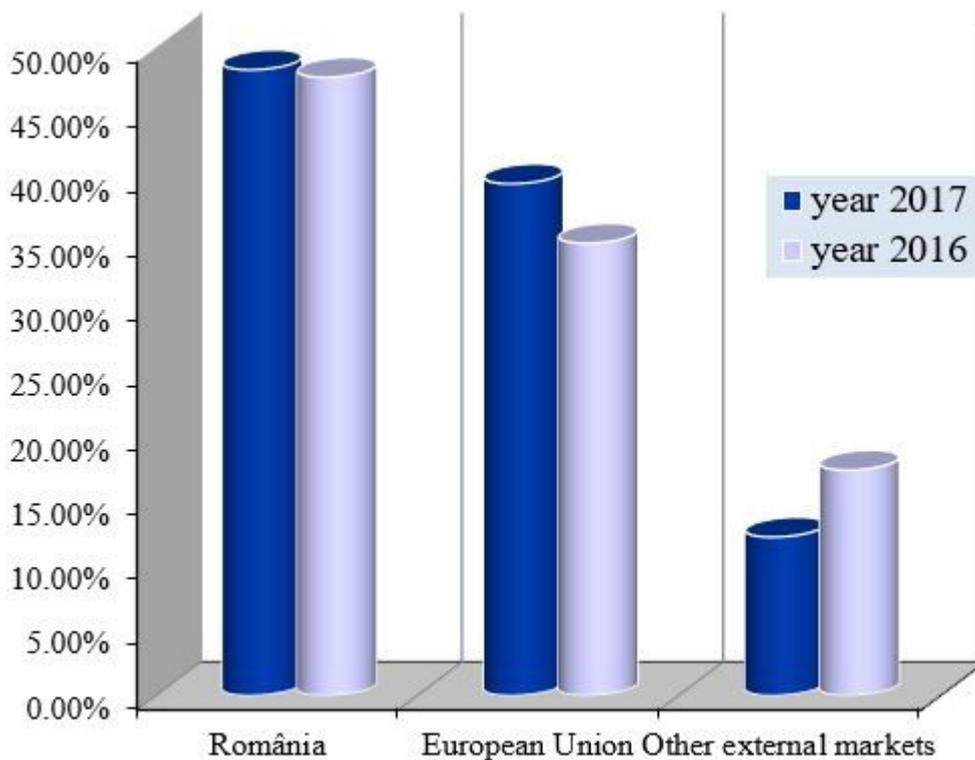
Aerostar sales are realised on a global market of large geographical extent both in the civil and defence field.



Comparative evolution of the sales on products and services confirm the marked tendencies:



Increases of the goods and services volumes, purchased from the Romanian market continues compared to 2016.



Remus VLAD, Logistic Director

In the field of import and export transactions, AEROSTAR is an operator with a status of Authorised Economical Agent for customs, security and safetiness simplifications, authorised by the Romanian Customs Authority.

The parent-company is registered by the Minister of External Business – Exposure Control Department for operating import and export actions with the military products.

AEROSTAR fully complies with the regulations applicable at a national and international level, concerning commercialisation, delivery and, of course, concerning the production of all the goods and services from its supplier profile.

AEROSTAR BUSINESS
BETWEEN REQUIREMENTS AND EXPECTATIONS OF THE
CUSTOMERS

Alexandru Filip, Quality Director

In Aerostar, customer orientation is defintory in all the activitations performed.

We have maintained our focus to on-time delivery of products and contracted servicies to our customers, simultaneously with diminishing the complaints for the products and servicies under warraty. The results obtained as well as our customers' evaluations motivates us to continue the changing and upgrading process.

In 2017, Aerostar S.A. has maintained all the certifications of the management system in accordance with SR EN ISO 9001, AS/EN 9100, AQAP 2110 si SR EN ISO 14001. In this year, modifications in the manangement system have been implemented, as well as changes in the preparation for the transition which will take place in 2018 to the new version of standards.

The guidelines are the legal standing approach, promoting the risk-based reflection, the digital transformation of the processes, the implication and awareness of the employees.

In 2017, Aerostar has also maintained the authorizations relevant to the field or activity. It is to be mentioned that the authorisation field of the civil aircraft maintenance organisation has been extended also with Airbus A320 NEO aircrafts family.

The qualifications of the special processes with our customers have been maintained in 2017 and even extended. The tranzition to the special processes with a low impact on the environment has been continued, mentioning here the process of the Zn/Ni coverage and processes of pickling without hexavalent chromium.

Also on the environmental line, in 2017 the Authoriation Integrated by the Environment has been reviewed and the result of the environmental inspections has revealed compliance with all the legal requests.

INVESTMENTS

In year 2017, the level of the investments realised in Aerostar was of 23,4 million lei. In their framework, we distinguish multiple types of investments differentiated according to detination, the financing source being its own internal source.

From a destination point of view, the investments have been differentiated in: replacement investments, development investments, retrofitting investments, destined to replace the old fixed capital or to upgrade the production equipments.

A special attention to investments has been determined on the following factors: integration of the objectives of productivity increase, decreasing the action of technological processes over the environment and increasing the production capacity.

Doru Damaschin, Financial Director

AEROSTAR management considers that the digital transformation is a part of those business decisions which are ment to secure efficacy, efficiency and transparency of the processes, to perform diagnosis, in order to optimize activity flows, processes and roles.

The digital transformation is one of the main strategic development priorities of the company. The paradox is that although the technology is in the center of digital transformation, it is not in fact about technology.

It is about changing the organizatrional culture, of our way of thinking, acting and working. It is more complex than a simple introduction of some technological means in organizatonal processes.

The main core which sustain the digital transformation are the new business models and technology.

To succesfully achieve digital transformation, the company monitors four indicators:

- Revenue growth;
- Cost reduction;
- Processes simplification;
- Operational efficiency.

The company will become more focused on the data, the digital transformation process being implemented in the whole organisation, with the integration and implication of human resource.

There have been purchased and put into function last generation machine-tools numerically controlled, softwares for compatible projection with these machineries and measure and control equipments adequate to production.

The positive effects of the investments were followed to be realised not only by increasing their volume but also by assuring a proper structure on source and objectives, considering that the investments to increase productivity – those in technical equipments and modern technologies – have the most powerful drive effects.

Therefore, besides the assets mentioned, necessary to the realisation of assumed production contracts, there have also been implemented new, modern manufacturing processes, such as:

1. TFSAA-sulphuric anodizing in thin layer processes which will cover the customers' request of replacement of the chromic anodizing used in the manufacturing process of some aviation components. This coating process does not contain hexavalent-chromium (a very polluting chemical element), the coating layer (3-7 microns) assuring a good support for the parts' painting.
2. Chemical milling – will allow the replacement of the mechanical processes of processing depth for the aviation parts with complex areas and difficult accesibility, assuring a roughness comparative with the one obtained in the mechanical processes.

Direct effects, assumed, on the investments described are: growth, diversification and quality of the Aerostar offer, reduction of pollution and energetical consumption, upgrading production equipments, improvement of work conditions through work and effect, improvement of the living conditions of Aerostar's personnel.

Not least, through IT department, Aerostar focused on promoting the 'industrialisation 4.0' concept and on the integration of other domains which constitute the digital transformation subject. In Aerostar, the change has implied the majority of the company's sectors. To ensure the coherence of the changes and the cohesion of the new system, there has been implemented a strategy which declines a plan regarding to each sector involved and to avoid antagonistic effects. The digital transformation of the company will have a decesive role in increasing its profitability, in maintaining competitiveness in relation with other business partners and not least, assuring medium and long-term business sustainabilty.

AEROSTAR business in civil aviation domain

AEROSTAR, no. 1 in Romania in aviation products manufacturing

In the field of parts manufacturing, subassemblies and aviation components, all the manufacturing programs are new, from the category of global scale, volume, medium and long-term.

In the supply chains of aeronautical products, Aerostar's position is ,Tier 2' type, level 2 supplier, which concerns the manufacturing of aerostructure parts and subassemblies. Aerostar realises a significant volume of small parts and subassemblies made from Aluminium of over six million unities, annual, which qualifies a vast diversity of typo-dimensions, manufacturing technologies and delivery modes.

Aerostar is ,Tier 1' type supplier, level 1 supplier in subassemblies, equipments and hydraulic systems manufacturing

In some manufacturing programs of aeronautical products, AEROSTAR is a unique source.

Serban IOSIPESCU, Director Aeronautical Products Division

The objective to increase the competitiveness is sustained by investments integrally implemented for the upgrading and production capacities extension, improvement actions of agility on reduced production times and minimum risks at production increase.

The partnership with our customers will continue to be the key of future development, which means the continuation the modernisation of the aviation products manufacturing sector, continuation of the investments in the purchasing of CNC and new equipments. The objective is to increase the manufacturing capacity but also to assimilate new products from the aerostructures and aviation hydraulic field.

The increase of the manufacturing volume as sub-supplier of parts, aerostructures and equipments for civil aviation in modern technologies specific to metals processing: aluminium, titan,steels etc., has at its base the partnership with customers.

Equally important are the firm actions of improvement of the resources use in their assembly and the on-going major initiatives in regards to the improvement and growth of process efficiency, reduction of the environment impact.

A pillar of the competitive advantage is the **Special Processes Centre** and the implementation of the most modern practices and standards related to environment protection. At the same time, the developments of this capability has a synergic impact over the business lines of the company, as a whole.

Civil Aviation MRO Centre of Excellence for Airbus 320 and Boeing 737 Maintenance Under The Sign Of Growth

Number 1 in Romania, AEROSTAR is the main independent leader of maintenance services for commercial aircrafts from this area, having a significant footprint as business volume in MRO field.

Aerostar provides the maintenance work, basic and complex, for commercial airplanes from AIRBUS 320, Boeing 737, as well as for parts.

The dedicated Centre of Excellence executes current maintenance and complex verifications, including structural modifications at these type of airplanes for an large number of customers, especially in the competitive geographic area for the company.

As in the field of aviation manufacturing, Aerostar business from the field of maintenance commercial aircrafts are anchored in the sector market, defined as the center of growth, the airplanes Airbus 320 and Boeing 737; this is the most competitive field.

Starting with Part-145 authorization issued by Autoritatea Aeronautica Civila Romana (AACR), recognised by the European Aeronautical Authority (EASA), the maintained base Aerostar has developed its market position by obtaining a large variety of authorisations from the civil aviation authorities from many countries in the UE and outside of it.

Dan-Ioan VELESCU, Director Civil Aviation MRO Division

The objectives of growth aims the extension of work package of maintenance for civil aviation by the diversification of the work offer to Boeing 737 and to the airplanes from Airbus 320 family.

The experience gained in this field is the base of development for the future Part 145 civil aviation maintenance centre from Iasi.

Obtaining the authorisation from the American aeronautical authority FAA increases the market potential, allowing Aerostar to compete for works from customers of which airplanes are under FAA jurisdiction.

During 2017 Aerostar has contracted its first heavy maintenance at a A320 NEO airplane, a premier at an European level.

The technicians and engineers' preparation for the future MRO civil centre from Iasi is realised through co-ordination with the training from Bacau Centre.

Defence Systems, a historical commitment, present and for the future

Ovidiu BUHAI, Director Defence Systems Division

Market positioning held by Aerostar in the field of defence systems from aero, terrestrial and naval category, are reported in the first place to first tier supplier for Ministerul Apararii from Romania.

Over the years, Aerostar has consolidated a significant position in programs of systems and equipments supply – manufacturing, maintenance and upgrading, integrations and logistic support for diverse categories of force and applications, as well as on the external market

Aerostar actions in a synergic manner in terms of business' infrastructure with the purpose to create maintenance capabilities and logistic support for the new systems from Romanian army.

Aerostar build a significant position in the field of primary and secondary radar systems, of the IFF identification systems and of the communication systems, control and re-transmission of data and information, to which is added at its experience in advanced systems from the launching systems and artillery, without ignoring the programs of successive upgrading from the military aviation field.

The objective of business growth in this domain is based on experience capitalization and expertise gained in major programs from the field of repair and upgrading aircraft and military gears, in programs of manufacturing and upgrading from the category of the integrated system of artillery of the Romanian army, as well as in the field of relising more programs in communication and identification field, of the primary and secondary radar systems.

The assurance key of the value is the partnership with last generation technology suppliers, the capitalization of the creating capacity and of innovation of the company by realising a significant contribution in major programs accumulated in decades of activity in manufacturing and maintenance for the launching systems and of radar systems for the Romanian Army.

The experience gained in the successful upgrading from the aviation field, of artillery and communications, as well as the programs of integrated logistic support, the experience of the international partnerships, are a good qualification to supply services demanded by new systems to be purchased and to assure the success for our customers, also in the future.

Aerostar develops its own footprint on the market in the domain of the Ground Sustain Equipment for the aeronautical industry. The increase of complexity and supplying range takes into consideration to highlight an existent capability and to use inclusively in the new programs to be implemented in Romania.

AEROSTAR EMPLOYEES

Aerostar employees are recruited from the local labor market.

At the date of 31 December 2017 in AEROSTAR had 2.100 employees from which 147 employees made available by AIRPRO CONSULT S.R.L., which actions on the market as a temporary work agent.

In this period Aerostar has continued its policy for selection and employment of personal replacement and has actioned for realization of training processes for the new employees at a level of the requests of the posts made available by the natural leaving of former employees.

AEROSTAR realises the training in specializations and competences which are not assured on the labor market in another manner.

Dan Popa, Human Resources Director

Aerostar's management is preoccupied how to assure the Increase with no risks related to human resource.

The politic established at the management level is clear:
Business increase means to 'grow' people with expertise.

Expertise securization, maintaining and upgrading capacity of know-how of the company is the challenge with which we are confronting.

Expertise motivation is a major theme.

At the date of 31 December 2017, a percentage of 76% from Aerostar's company were union members.

On 22 March 2017, the negotiations for a new Collective Agreement were set off, available from 01 April 2017 to 31 March 2019.

AEROSTAR has the certification for the Management System of health and cupational security in accordance with SR OHSAS 18001: 2008 standard by the certification organism Bucharest AEROQ authorised.

Actions on Labour market

In order to attract young students of the preuniversity and university, AEROSTAR has partnered five technical colleges from bacau and six universities in country through which have established the terms of a long-lasting collaboration, intended to help the professional orientation and training of the youngsters to the domains of interest for AEROSTAR.

During 2017, they have performed speciality practice in AEROSTAR a number of over 50 school children and 75 students.

Preoccupation to attract new people, well prepared and motivated to work in a competitive way, in a top field of the industry, will continue in the following period.

Optimisations continue. Use of the long-lasting resource

In the continuous improvement program there have been inserted measures to improve the use of the resources and utilities in their assembly, as well as operational costs efficiency, by increasing the efficacy of use of energy, water and materials.

Cătălin Branche,
Director Infrastructure and Utilities Division

In Aerostar, there are on-going programs of energetic efficiency which have conducted and are conducting the reduction of energy request for the production processes, as well as for comfort increas at work.

In year 2017 the measures to improve the use of resources have continued, as well as the increase of energy use efficiency, potable and industrial water, thermal energy and IT infrastructure.

In the direction of securing the electric energy has continued the process of upgrading through set up of a project to realise automatical interconnection of company's supply on medium tension.

The program of envelope of AEROSTAR's buildings has continued, in 2017 exceeding to a 95% realibitated buildings with very good results relating cu the thermic confort as well as by decreasing the thermic energy requirements.

On the part of thermic agent supply, a second upgrading stage has been completed, by mounting the second thermic module and reabiliting in proportion of 30% of the supply networks with thermic agent.

The program of efficient use of the potable, industrial and reusable water has been continued. The industrial water requirements is completly assured from its own sources by operation of the bored wells and the industrial water supply has been improved by completing the rehabilitation of the supplying networks and stations.

In the IT infrastructure domain, in year 2017 there have been implemented measures for upgrading servers from the informatical system, from a hardware and software point of view, as well as the implementation of a new solution concerning the work authentication in the internet network and intranet of the company.

Chapter 8

WE ARE CONTINUOUSLY IMPROVING AEROSTAR'S SUCCESS MODEL

About AEROSTAR business sustainability

Statement about non-financial aspects reporting

Regulatory framework established by AEROSTAR for the reporting of non-financial aspects, respectively non IFRS information, regards the development strategy for 2017-2018 period which is updating annually, as well as the effective way of achieving the reporting of these aspects, provided in Aerostar document: *The organization's background and Aerostar stakeholders*.

These are based on elements of risk management thinking, built on Aerostar understanding as an organization and the context in which operates, as well as on understanding the necessities and expectations of the stakeholders to achieve the organization's expected results.

The purpose is to establish the general framework for the treatment of risks to the extent that the risks are understood as uncertainties to meet the requirements / expectations of stakeholders, as a result of some factors that arise from the context in which the organization operates.

Ever since its first annual report drafted when Aerostar was listed on Bucharest Stock Exchange and the first financial statements reported in 1997, Aerostar has informed the stakeholders about non-financial aspects, which has been considered that can contribute to the understanding of the company's business line and the way of organizing and developing the company's business.

In the current Report on Business Sustainability, Aerostar takes into account the Minister of Finance Order no. 470/2018 from January 11, on the main aspects of the preparation and submission of annual financial statements and annual accounting reports, as well as the reporting requirements of the non-financial aspects, called non-IFRS information in international and our business partners practice.

The European Commission's Communication "Guideline concerning the Non-Financial Information Reporting" (non-financial reporting methodology - 2017 / C215 / 01), published in the Official Journal of the European Union, Series C, No 215 of July 5th, 2017.

Although it is not required to provide this non-financial data reporting, guided by business responsibility and the spirit of aviation and defence business, Aerostar is faithful to the best practices of the industry and in consonance with the practices of its business partners, Aerostar has been providing for many years explanations and data from this category of information.

The aspects identified as part of the external context of AEROSTAR organization are: political, economic, social, technical, legal and environmental.

The aspects identified as part of AEROSTAR's internal context are: human resources, infrastructure, capabilities and authorizations from governance and organizational performance field.

The stakeholders are also defined with the requirements and expectations for each of them.

Relevant stakeholders that have been identified are: Customers, employees, investors, applicable technical regulatory authorities, certification organizations, suppliers, education units, trade unions, local community and State.

Business Model

AEROSTAR activates on market as an independent company.

The value of Aerostar on the market is created in the basic business, MANUFACTURE, in aviation and defence field, with the main business lines:

- manufacture of aeronautical products;
- civil aviation MRO;
- defence, aviation, terrestrial and naval systems.

The management has adopted an integrated business model, grounded in system-procedural approach and RISK thinking. Company management policy is focused on maintaining a solid capital base to sustain uninterrupted development and implicitly to achieve its strategic goals.

The development vision aims to a business model based on selective growth within a generally framework which admits that AEROSTAR success is determined by the Customers requirements and expectations, as well as by the developments in the aviation and defence industry. The specific synergies of these industries generate value for customers in terms of competitiveness.

The company's value in the company's flow of assets relies on a divisional organization, based on production management centres, auxiliary management centres and management centres from the functional activities field. Aerostar achieves its activity field using in an integrated way the common resources of the organization.

The business model followed is based on work and expertise and the achievement of operational performance through an efficient and highly professional management.

Operating continuously and on the basis of the company's mission, over the years, neither in 2017, there haven't been significant changes of the business model.

Policy and Diligence Process in the field of Quality and Environment

In terms of quality and environment, Aerostar has imposed some strategic objectives, endorsed by the Quality and Environmental Policy. These strategic objectives are:

- Meeting with customer requirements and complying with applicable legal and regulatory requirements;
- Full safety for Aerostar products and services users;
- Continuous improvement of the competitiveness of products and services;
- Increasing environmental performance;
- "Zero Defects" on the products and services within the warranty period.

In order to achieve these strategic objectives, Aerostar assumes to maintain a management system in conformity to SR EN ISO 9001, AS/EN 9100, AQAP 2110 and SR EN ISO 14001 standard requirements.

From the social responsibility and sustainable development points of view, Aerostar has established in terms of environment, the improvement of the performance in pollution prevention, in sustainable use of resources and in the field of climate change mitigation, following the guidelines of SR ISO 2600 standard.

Result of the applied policies

In 2017, Aerostar has maintained the management system certifications, thus, ensuring the framework of objectives achievement.

From the customers' requirements satisfaction point of view, Aerostar followed at operational level to achieve with the indicators regarding delivery deadlines and to decrease the percentage of claimed products and services, and, as a result, Aerostar succeeded to obtain positive assessments from the customers, also highlighted through distinctions.

In terms of products and services safety, in 2017 there were no events reported as a result of the Aerostar activity in relevant areas such as civil and military aircraft maintenance, manufacture of parts and subassemblies for civil aviation, manufacture of under pressure receptacles, and manufacture of electronic radio equipment.

In terms of environment, Aerostar has fully complied with the legal requirements. The confirmation of this fact is represented by both the missing penalties and the review of Environment Integrated License with validity until 2027.

In terms of pollution prevention, Aerostar has reduced the waste impact as a result of its own activity, maintaining a high percentage of recoverable waste. Also, in 2017 the volatile organic compounds emissions have decreased, continuing with the actions on the replacement of the solvent based paints with water-based paints.

In terms of using dangerous chemical substances, in Aerostar, the utilization is made according to the Safety Data Sheet. From the point of view of the utilization of substances containing hexavalent chromium, in 2017 the transfer of production from the anodizing line which uses chromic acid, on anodizing line which uses sulfuric and tartaric acid was successfully continued. For the other processes for which doesn't exist yet alternatives of qualified processes, the substances are purchased from the supplier chain of the importing or producing companies which have obtained authorization from the European Commission, following the positive analysis of ECHA.

In terms of Sustainable utilization of resources, in 2017, Aerostar has continued to decrease the quantity of water discharged into the sewer network, both in absolute value, and reported to the turnover level, as a result of the utilization of industrial water treatment and recirculation plant.

The main risks and their management

In terms of quality and environment, in Aerostar there is a unitary way of identifying, assessing and treating the risks of not accomplishing the targets, for all involved processes, from the supply to delivery. The risks and their mitigation actions are followed and reported. The risk checking is also done through internal audits which are performed throughout the organization. From the operational point of view, the environment aspects are verified also through operational inspections performed by the environmental protection inspectors.

At the whole company level, the main risks, both in terms of compliance and performance improvement, are connected to the carbon emissions and to the utilization of dangerous chemical substances. For both issues, there are established actions of mitigating the risks and improving the performance.

RISK MANAGMENT

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.

Internal Control Program's co-ordination

Aerostar entirely respects Romania's laws and regulations.

Aerostar respects all the politics, laws, regulations and procedures in the export control field issued by the competent authorities, respectively Ministerul Afacerilor Externe – Export Control Department.

The Internal Control Program defines the operational procedures and responsibilities which enforce compliance with the law in force, being an important instrument in the management preventive of the potential risks associated with the business of the company.

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 (payments in advance, 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 levels 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 18 (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.

About Human Rights

Aerostar shows zero tolerance on any kind of human rights violation and is committed to the development and consolidation of this desideratum in order to make sure that human rights are respected, both by its own business line and by its suppliers.

The non-interference on the right to work and freedom of labor, equal treatment, negotiations of working conditions, improvement of professional training, the right on health and safety at work, are just a few from the guarantor principles of respecting the human rights which are in the collective labor agreement of the company and a proof of the social dialogue between the management of the company and social partners.

All the participants on working process are alike involved in permanent vigilance of respecting all the commitments assumed together with the social partners and encouraged to bring to the attention of the management for all nonconformity or proposal of improving the working processes from the company.

To the internal prevention and protection service, joins the Health and safety committee (bipartite body), as well as responsible persons specially trained at the level of each department in the company which constantly watch on the safety and health at work for all the employees in the company.

The major investments from past years leaded to a significant improvement of the working conditions from the company, the currently standards in Aerostar being comparable with any other top company from the global aerospace industry.

Assuming its role as a promoter of human rights compliance, Aerostar, nowadays requires also to its suppliers to comply with the same standards.

Social and labor aspects

AEROSTAR has implemented the fundamental conventions of the international labor organization.

By the provisions of Collective Labor Agreement in force, within the company, the contracting parties comply with the “Constitution of Romania”, “Universal Declaration of Human Rights”, “Charter from Paris, for a new Europe”, as well as all the conventions and recommendations of the “International Labor Organization” acknowledged by the Romanian Government.

About equal treatment in terms of employment (related to age, sex, sexual orientation, religion, disability, ethnic origin and other aspects).

On the employment, Aerostar complies with the equal treatment concerning the age, sex, sexual orientation, religion, level of disability, ethnic origin and so on.

Thus, according to Collective Labor Agreement in force provisions:

- Hiring is done with complying with the fundamental rights of the citizen only on the skills and professional competence criteria, without any kind of direct or indirect discrimination;
- Within the working relationship from the company, it applies the equality of treatment principle towards all employees, being forbidden any form of direct or indirect discrimination toward an employee, which purpose is not granting, restraining or removing of the recognition of the use or exercise of the rights provided by labor regulations and Collective Labor Agreement, based on the following criteria: sex, sexual orientation, age, race, ethnicity, religion, politics, social origin, disability, family situation or responsibility, membership or union activity.
- On determining and giving the salary it is forbidden any form of discrimination based on sex, sexual orientation, genetic characteristics, age, national membership, race, color, ethnicity, politics, social origin, disability, family situation or responsibility, membership or union activity;
- Any employee which performs work within the interest of the company, benefits by the respect of his dignity and conscience, without any discrimination.

On the relationship with trade unions, respecting the trade union rights

As a voluntary process which includes negotiation, consultation and information among social partners in order to establish agreements of common interest, social dialogue based on trust, promptness, good faith and transparency is regulated in the Collective Labor Agreement. Thus, AEROSTAR admits the importance of the social dialogue institutions always respecting the right of the employees to join the trade unions organizations and to take advantage of the collective negotiations. To mention, in this regard, the level of trade unions organizations is 76%.

Employee consultation processes include trainings in all forms defined by law, Occupational Health and Safety Committee sessions, direct discussions with employees on specific subjects through: Internal Prevention and Protection Service, Occupational health and safety officials, Occupational health and safety committee members, work place managers as well as in occupational risk assessment processes.

About the Occupational Health and Safety

Health and safety at workplace is an important constituent of work practices consisting of promoting and maintaining high levels the psychical and mental shape, and social well-being of employees, preventing the health-related harm caused by conditions of labor, workers protection against health risks and adapting working conditions, to the extent of availability, to their physiological and psychological needs.

Starting with December 2014, AEROSTAR has certified the Occupational Health and Safety Management with the SR OHSAS 18001/2008 by the certification body AEROQ Bucharest.

Community relations, social and economic development of local communities

AEROSTAR S.A. constantly outlines an important position and role within the local community regarding the responsible professional training, in full compliance with the precise needs of the Bacau labor market.

Aerostar promotes the education of the young generation and the cultivation of the sporting spirit by financing the activities of the Aerostar Sports Club for a number of over 200 children. Over the years, some will become employees of company.

Aerostar supports through donations and sponsorships various associations, non-governmental organizations, foundations and activities for educational, cultural or religious purposes.

Educational Cultural association AEROSTAR Bacau

The Educational and Cultural Association AEROSTAR Bacau operates on the basis of Government Order no 26/2000.

Successor of the former AEROSTAR-PAS association, after closing the privatization process at AEROSTAR S.A., the association aims, among other things, to support and promote the interests and image of AEROSTAR S.A., to support social, cultural, artistic and sporting activities - carried out by the members of the association, their families as well as AEROSTAR employees or members of their families.

Fighting against Corruption and Bribery

Being part of the supply chain for global aerospace industry leaders, Aerostar has adopted business conduct standards and integrity principles that meet with the most demanding requirements coming from business partners, respective legal regulations applicable to the markets on which Aerostar currently operates.

The commitment of the Board of Directors, as well as of the entire executive management, is to lead the Aerostar business with integrity, honesty and transparency, complying with the laws and regulations applicable to the company, with zero tolerance for any form of corruption or bribery.

Conduct standards and integrity principles are found in the Aerostar Code of Conduct and Ethics. By including this code in the company's collective labor agreement, we have ensured that it is precisely known and respected not just by the company's management but by all our employees.

No employee of Aerostar has the right to engage in any corruption activity. No neither public nor private, neither active nor passive. No employee of Aerostar must never offer, try to offer, authorize or promise any kind of bribe, payment or other facilities to a civil servant or to any other person for the purpose of obtaining or retaining a business or other inappropriate advantage. Furthermore, no employee of Aerostar shall never demand or accept bribe or other benefits from a public official or any other person. It is also not allowed to hire someone else to do anything that is not ethical or legal to himself.

We are convinced that the commitment we undertake today in supporting these fundamental values will ensure the success of the company tomorrow.

AEROSTAR's PRINCIPLES & VALUES

We perform our business in accordance with the Romanian law, the European Union legislation and the most advanced international practice.

We are honest and correct in our actions and comply with high ethical and business conduct standards.

By our efficiency we contribute to the wealth and development of the society: shareholders, customers, of our employees and of our business partners, of the community we are part of.

The satisfaction of our customers is the cornerstone of our set of values.

Tangible Assets

AEROSTAR's production facilities and capacities are located at the site in Bacau, where is the registered head office 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 head office 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, 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.

On 31st of December 2017 Aerostar has in property tangible assets for the activity deployment in gross value of 211,776,000 lei, materialized in land areas, buildings, special constructions, installations, technological equipments, transport vehicles.

Tangible assets category	Gross accounting value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	28.433	N/A	N/A
Constructions	54.159	23%	30-50 ani
Real estate investments	8.810	21%	25-50 ani
Technical instalations, from which:	119.436	44%	
• Technological equipment	110.436	45%	4-25 ani
• Transport vehicles	4.500	45%	4-18 ani
Other tangible assets	938	38%	2-18 ani
TOTAL	211.776	X	X

During 2017 there were no problems concerning the right of property on tangible assets

Chapter 9

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.

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.

In accordance with the legal provisions applicable, the right to claim the dividends approved and unclaimed by the Ordinary General Meeting of the Shareholders are prescribed after the expiration of a period of three years calculated from the dividend's 'payment date' for each financial year individually.

During the year 2017 the company did not purchase own actions and has not issued obligations or other debt securities.

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 consultancy, 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.

AEROSTAR TARGETS FOR A SOLID FUTURE

AEROSTAR businesses fit into the global defence and aviation specific trends, a synergic correlation of business lines which enhances the capacity of action on market and the support of integrating power of some complex businesses.

AEROSTAR has acted consistently, intensively and transparently to follow growth opportunities and to provide access to new aviation and defence programs.

The growth potential targeted is in the business field, that have a technological tradition founded in AEROSTAR expertise fields, according to the **Company's**

Mission, and which have a medium and long-term continuity and development perspective.

AEROSTAR has launched several projects which take into consideration the replacement of some products and services from defence field with products and services from the nowadays generation of technologies in defence field.

These projects are very important for completing the transformation and retrofitting cycle started within the company after year 2000.

The recognition gained on the market is based on competitiveness criteria and the trend of economic efficiency indicators in terms of sales volume, operating profit, efficiency of using the human resources and the efficiency of engaged capital etc.

TRANSFORMATION CONTINUES!

The economic, social, geo-politic and capital factors and trends which operates globally, influence Aerostar's business.

Specific to the industry in which operates, Aerostar will use competitively the civil aviation technologies to develop solutions in the technologies required today in the defence area market.

Aerostar's capability offers, organized in a balanced way in relation to market's needs and demand, ensures the growth of company strength in the competitive environment; at the same time, the adhesion to the improvement programs and the reactivity to the opportunities will continue to ensure Aerostar positioning with an important competitive advantage and an agility degree significant to the company's success.

Aerostar implements a selective growth strategy which has as an objective the assurance of sustainable development of the company.

Confirmed every year, the growth strategy put in practice has transformed Aerostar into a sustainable development pole in aeronautics, which brings satisfaction to all involved parties: Clients, Employees, Investors.

<p>Solid operational performance, optimization and improvement programs provide a strong foundation for growth also in the future.</p>

We will continue to increase our competitiveness, based on a productivity growth and on a growing profitability of the production flows with modern technologies and an improved maturity regarding opportunities capitalization from the market.

We will intensify the modernization actions, we will continue the transformations.

Also, the strategic objectives foresee the increase of market impact, especially on the foreign market, thus the export to represent over 80% from the turnover.

Development of the company agility in global market context is a permanent challenge, and it can be based on the talent influx and the experience gained in the extensive restructuration and rearticulation of the business model.

The competitive advantage will be maintained and improved: quality, high level capabilities equipments and technologies, reactivity to opportunities, adhesion to improvement programs.

The competitiveness growth will continue through investments implemented in an integrated manner to modernize and to expand the production capacities and through establishing a trustworthy partnership with the customers in order to improve the agility at production reduced time, and minimal risks at production growth.

Among the challenges, we must not ignore the profound changes generated by the new stage of industrial revolution. The digital transformation of the company is an ongoing project.

On behalf of the Board of Directors,

Grigore Filip
President and General Director

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		During 2017 a number of 9 meetings took place, of which: <ul style="list-style-type: none"> - In 4 meetings all the BoD members were present; - In 3 meetings, 4 members were present, the fifth one has attended by teleconference; - In a meeting there were 2 members present, the other three attended by telecon; - In a meeting, 3 members were present, the other 2 have attended by teleconference; - In a meeting, 4 members were present, 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.
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		

AEROSTAR S.A. BACAU

**INDIVIDUAL FINANCIAL STATEMENTS
ON 31 DECEMBER 2017**

PREPARED IN ACCORDANCE WITH

**The Order of the Ministry of Public Finance for the approval of the Accounting Regulations
with the International Financial Reporting Standards**

AND THE REPORT OF THE INDEPENDENT AUDITOR

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S.C. AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 December 2017	31 December 2016
ASSETS			
Immobilized assets			
Tangible immobilizations	6	144.613	146.007
Intangible immobilizations	5	1.858	1.689
Real estate immobilizations	6	6.987	6.499
Financial immobilizations	7	228	202
Total Immobilized Assets		153.686	154.397
Circulating assets			
Inventories	10	67.925	50.272
Commercial receivables and other receivables	8;9	46.640	42.749
Cash and cash equivalents	11	163.886	163.153
Total circulating assets		278.451	256.174
Expenses in advance	31	491	521
Total assets		432.628	411.092
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	53.170	56.472
Result carried forward	12	57.524	56.331
Other reserves	12	110.843	67.833
Debts/Receivables regarding tax on deferred profit recognized on the account of company capitals	17	(7.961)	(6.362)
Distribution of profit for legal reserve	12	(9.338)	(9.095)
Total company capitals	12	252.967	213.908
In advance revenues			
Subsidies for investments	14	12.677	15.001
Revenues registered in advance	31	28	33
Total in advance revenues		12.705	15.034
Long-term debts			
Debts regarding deferred income tax	17	2.126	3.804
Other long-term debts	16	51	-
Total long-term debts		2.177	3.804
Long-term provisions			
	13	75.825	71.448
Current debts			
Commercial debts	15	29.515	37.472
Debt with current income tax	23	1.522	2.215
Other current debts	16	8.553	14.414
Total current debts		39.590	54.101
Short-term provisions			
	13	49.364	52.797
Total provisions		125.189	124.245
Total debts		41.767	57.905
Total company capitals, income in advance, debts and provisions		432.628	411.092
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 2017
(all amounts are in thousand lei, if unless specified otherwise)

	Notes	31 December 2017	31 December 2016
Revenues from sales	19	340.172	356.219
Other revenues	19	3.632	3.654
Revenues related to inventories of products and production in progress	19	10.420	3.817
Revenues from production of immobilizations	19	1.287	1.603
Total revenues from operations		355.511	365.293
Expenses			
Material expenses	20	(128.002)	(126.222)
Expenses with employee benefits	20	(108.629)	(99.488)
Expenses with amortization of immobilizations	20	(24.275)	(16.042)
Influence of adjustments on current assets	20	1.337	(592)
Influence of adjustments on provisions	20	(945)	(13.549)
Expenses related to third party services	20	(30.629)	(40.957)
Other expenses	20	(4.228)	(3.835)
Total Expenses for Operations		(295.371)	(300.685)
Profit from Operations		60.140	64.608
Financial incomes	21	4.413	7.514
Financial expenses	22	(5.766)	(6.257)
Financial loss/profit		(1.353)	1.257
Profit before tax		58.787	65.865
Tax on current and deferred profit	17;23	(5.617)	(9.393)
Net profit of the financial year		53.170	56.472

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

S.C. AEROSTAR S.A. BACAU
OTHER ELEMENTS OF THE GLOBAL RESULT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>
Net profit of the financial year	53.170	56.472
Deferred income tax recognised on the account of company capitals according to O.M.F.P. 2844/2016	(406)	(10.131)
Result carried forward arising from transition to IFRS	-	(1.161)
Other elements of global result	(406)	(11.292)
Total Global Result of financial year	52.764	45.180

**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 2017
(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on account on company capitals	Result carried forward	Result of the year	Total company capitals
Global result						
A. Balance account on 1 January 2017	48.729	67.833	(6.362)	56.331	47.377	213.908
The profit of the year					53.170	53.170
Other elements of the global result						
Deferred income tax recognized on the account of the company capitals			(1.599)	1.193	-	(406)
Distribution of profit for year 2016 to allocations decided by shareholders in AGA from April 2017 (NOTE 13)				47.377	(47.377)	-
Distribution of profit from 2017 for legal reserves in gross amount		9.338		-	(9.338)	-
Total global result of the year		9.338	(1.599)	48.570	(3.545)	52.764
Statutory reserves distributed from the profit of the year 2016		33.672		(33.672)		-
Dividends distributed to the shareholders from the profit of the year 2016				(13.705)		(13.705)
Transactions with shareholders, directly recognized on company capitals		33.672		(47.377)		(13.705)
B. Balance on 31 December 2017	48.729	110.843	(7.961)	57.524	43.832	252.967
C. Modifications of company capitals (NOTE 12)	0	43.010	(1.599)	1.193	(3.545)	39.059

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 2017
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2017	December 31, 2016
TREASURY CASH FLOWS FROM OPERATIONS			
received from customers		347.140	387.310
taxes and excises recovered from State Budget		5.824	7.166
payments to suppliers and employees		(250.453)	(245.231)
payment of taxes, contributions and dues to State Budget		(52.366)	(48.121)
payment of profit tax		(8.342)	(10.089)
NET CASH FROM OPERATIONS 27		41.803	91.035
TREASURY CASH FLOWS FROM INVESTMENT ACTIVITIES			
collected from non-reimbursable funds	14	0	4.671
interest collected from granted loans		6	6
interest collected from bank deposits		530	478
collected dividends from affiliated companies		189	231
collected from sales of tangible immobilizations		90	31
instalments collected from loans granted		4	4
payments for purchase of tangible and intangible immobilizations		(27.597)	(22.651)
NET CASH USED IN INVESTMENT ACTIVITIES 27		(26.778)	(17.230)
TREASURY CASH FLOWS FROM FINANCING ACTIVITIES			
paid dividends but unclaimed, recovered		73	88
gross dividends paid		(13.289)	(12.437)
NET CASH USED IN FINANCING ACTIVITIES 27		(13.216)	(12.349)
Net increase of the cash and of cash equivalents		1.809	61.456
Cash and cash equivalents at the beginning of the period		163.153	101.299
Effect of the exchange rate variation over the cash and cash equivalents 27		(1.076)	398
Cash and cash equivalents at the end of the period	11	163.886	163.153

**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 AT 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 1- LEGAL PRINCIPLES AND INFORMATION DATABASES

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. In accordance with the Decision of the Board of Directors no.2/14.12.2017 there has been approved the opening of a second headquarter without legal personality (work point) to Iasi, on Aeroportului Street, no. 25B.

The main field of activity of the company AEROSTAR is production.

The main object of activity 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 of S.C."AEROSTAR S.A." and having the individual registration code 950531, the identification code at an European level (EUID): ROONRC.J04/1137/1991.

The company is listed at the Bucharest Stock Exchange under ARS code and the evidence of the shares and shareholders is kept, under the law, by the S.C. Depozitarul Central S.A. Bucuresti.

The financial exercise corresponds to the calendar year.

During 2017, no subscriptions of new shares have been recorded, neither participation certificates, convertible obligations, warranties, options or similar rights.

REPORTING BASES

The individual financial statements were established by the Company in accordance with the International Financial Reporting Standards adopted by The European Union and with the provisions of Order of the Ministry of Public Finance no.2844/2016, for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards (IFRS) with the later amendments.

The financial statements were authorized for emission by the Board of Directors at the date of 15.03.2018.

Evaluation bases used

The financial statements were prepared based on the historic costs.

Currency for operation 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 thousand lei, rounded to the closest thousand lei.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)

Aspects related to the presentation of information in the financial statements

The financial statements are presented in accordance with the requirements of IAS 1 'Presentation of the financial statements'. The company opted for a presentation after nature and liquidity in the financial situation positioning and a presentation of the revenues and expenses according to their nature in the framework of profit or loss, considering that these presentation methods offer information which are relevant for the Company's situation.

From an accounting regulations point of view, the Company AEROSTAR S.A. is the subsidiary of the company IAROM S.A., therefore the mother company which straightens the financial statements of the group is S.C. IAROM S.A., having the identification code 1555301 and the headquarter in Bucharest, Aerogarii Boulevard, no.39. The consolidated financial statements of the financial year 2016 were submitted to A.N.A.F. under the registration number 123171305/25.08.2017. Copies of the consolidated financial statements can be obtained from the mother company's headquarter, IAROM S.A. The mother company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulation, for the financial year ended in 31.12.2017.

Segment Reporting

The company has one operating segment according to IFRS 8 and no distinct financial information for different components of the entity are available. Information regarding the sales per lines of business and market are presented in detail in the Report of the Board of Directors.

Capital Adequacy

The management policy is focused on maintaining a solid base of capital, with the purpose of sustaining the continuous improvement of the Company and reaching its strategic objectives. The Company will stand firm furthermore to assure the sustainability of the investments and the business increase.

The strategy adopted develops the main object of AEROSTAR's activity, therefore the percentage of the turnover in the aeronautical field to be in majority. The general objective is the annual increase of the turnover at the same time with the increase of the degree of clients' satisfaction. The specific objectives, which sustain the general objective, contain the on-going organic development of the company: development of the centres of excellence by continuing the modernisations, investments, the programs of continuous improvement and the development of the organizational culture.

The own company capitals entirely cover the necessary finance of production and of realization of the investment volume. Through its dividend policy, the Company develops its own company capitals with the increasing sales and investments volume.

During the financial exercise of 2017, no borrowed capital was used and no cash infusion from shareholders was produced.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 2- USE OF ESTIMATES, HYPHOTESSES AND ACCOUNTING JUDGEMENTS

Estimates

Preparation and presentation of the individual financial statements in accordance with IFRS implies the use of some estimations, judgements and hypotheses which affect the application of the accounting policy as well as the reported value of the assets, debts, revenues and expenses.

The estimations and judgements are realized based on the historical experience as well as one of the factors considered adequate and reasonable. The accounting estimations and judgements are continuously updated and take into consideration reasonable expectation regarding the possible future events. The reported accounting values of the assets, debts which cannot be determined or obtained from other sources are based on these estimations considered adequate by the company management.

The estimations, as well as the judgements and hypotheses which were based on, have been periodically reviewed and the result of these reviews is known in the period in which the estimation was reviewed.

Any modification of the accounting estimates will be prospectively recognized through its inclusion in the result of the:

- period in which the modification takes place, if this affects only the concerned period; or
- period in which the modification takes place and of the future periods, if the modification has effect over them.

The company uses estimates to determine the:

- uncertain clients and the adjustments for the depreciation of the receivables related to;
- value of the provisions for risks and expenses to build at the end of the period (month, quarter, year) for litigations, for depreciation of the tangible assets, for restructuring, for warranties accorded to the clients, for obligations towards the staff and other obligations;
- the adjustments for the depreciation of the tangible and intangible assets;

At the end of each reporting period, the company must estimate if there are any clues of depreciation. If this kind of clues are identified, the recoverable value of the asset is established in order to determine the magnitude of the depreciation (if any). The recoverable value is the maximum between the fair value minus selling expenses and the value in function. To establish the value in function, the company management estimates a future cash flow reduced at the present value using a discount rate which reflects the current market value overtime of the money and the risks specific to the assets for which the estimated cash flows were not adjusted.

- the lifespan of the tangible and intangible immobilized assets;

The company reviews the lifespan of the tangible and intangible immobilized assets at least at the end of each financial year, to establish the adequacy;

- stocks of the prime materials and materials which need the creation of adjustments for depreciation
- deferred taxes

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Presentation of information

The company, to the extent possible, will present the nature and the value of a modification of accounting estimation which has an effect in the current/next period.

Errors

- The errors can appear regarding to recognition, evaluation, presentation or description of the elements of the financial statements.
- The financial statements are not in accordance with the IFRS when they contain significant errors, or insignificant errors made intentionally to obtain a certain presentation of the financial position regarding the financial performance or of the cash flows of one entity.
- The company must correct retroactively the significant errors of the previous period in the first set of financial situations of which publication has been approved after their discovery, through:
- retreatment of the comparative values for the previously presented period in which the error appeared, or
 - if the error appeared before the first prior period presented, the retreatment of the opening balance of the assets, debts and own capitals for the prior period presented.

In case of an identified error, the Company must present the following information:

- the nature of the prior period's error;
- for each prior period presented, to the extent possible the value of the correction:
 - ~ for each row-item affected from the financial situation;
 - ~ for the base results and diluted per share.
- value of the correction at the beginning of the prior presented period;
- if the retroactive retreatment is impossible for a specific prior period, the circumstances which lead to the existence of that condition and a description of the mode in which and of the moment from which the error has been corrected.

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NOTE 3- ACCOUNTING AND EVALUATION PRINCIPLES

3.1 The adoption for the first time of new or reviewed standards:

The following standards issued by the Committee of International Accounting Standard and adopted by the European Union came into force in the current period:

- Modifications of the International Accounting Standard IAS 12 *Tax by profit*, which is applied starting with January 1st 2017. The essence of these modifications refers to the requests regarding the deferred tax claims related to the unrealised losses as well as the approach of some practical aspects related to future probable taxable incomes.
- Modifications of the IAS 7 *Statement of Cash Flows* – regarding the presentation initiative of the information related to the financial debts, the effect of currency variation, the supply of some reconciliation in case of the debts resulted from the financial activities. Is applied starting with January 1st 2017.
- Republishing of IAS 40 Investment propriety with later amendments.

The Company considers that these modifications did not influence its financial situations and their adoption did not lead to any modification of the accounting policies of the Company.

3.2 Standards (Modifications to Standards) and interpretations adopted by the Committee for the International Accounting Standard and by the European Union through Regulations issued but not in force:

- Adopting IFRS 9 *Financial instruments* (came into force from January 1st 2018) together with the modifications for the International Standard Reports, in accordance with IFRS 9:
The Standard is replacing IAS 39 *Financial Instruments* and is introducing new requests regarding classification, evaluation and presentation of the assets and financial debts.
- Adoption of IFRS 15 *Revenues from Contracts with Customers* which is replacing IAS 11, IAS 18 Standards and IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 Interpretations. IFRS 15 is applied starting with January 1st 2018, together with the modifications of International Accounting Standards, in accordance with IFRS 15.
- Amendments to IFRS 15 *Revenues from Contracts with Customers*, came into force starting with 01.01.2018

The standard establishes new model recognition of the incomes from the contracts with the clients in 5 steps. Also, the regulations will be applied for profit and loss recognition and evaluation from the non-financial asset sales. They include new classification requests and a more detailed presentation of the contracts with the clients, including execution obligations, modifications of the assets and debts balance accounts, reasonings used and estimations. The company will adopt the new standard for the accounting reports of the financial year 2018 without being necessary the retreatment of the financial situations of 2017, due to the following considerations:

- The impact of a new standard on the key figures of the Company is limited, because the incomes are already recognized at the moment of the delivery of the goods and/or services.
- Exception: incomes from services performed evaluated according to IAS 18, depending on the stage of completion of the contract, their amount in year 2017 being 477 thousand lei, incomes which were derecognized at the end of the financial year, in order to early apply IFRS 15.
- Adopting IFRS 16 *Lease accounting* (came into force from January 1st 2019) together with the modifications of the International Accounting Standards, in accordance with IFRS 16:

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- Amendments to IFRS 4 *Insurance contracts* which are applied starting with 01.01.2018.

The company evaluates the potential effects of the new Standards and amendments to the International Financial Reporting Standards and according to the initial estimations, provides that these will not have a significant impact over its financial situations.

3.3 Accounting policies and of evaluation

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 policies manual.

These policies were prepared taking into consideration the specific features of the company's 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 making 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 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:

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The entity takes into account a modification in the accounting policy that results from the initial implementation of an IFRS in accordance 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 previous period of time, the company presents, in explicative notes the following:

- the title of IFRS;
- the nature of the accounting policy modification;
- 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 reasons for which the application of the new accounting policy offers more reliable and relevant information;
- for the current period and for each period previously presented, the amount of the adjustments for each affected item from the financial position, to the extent possible.

General accounting policies

The general accounting policies which are the basis of 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.

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In the financial statements there are highlighted the predictable debts and the potential losses appeared during the current financial year or of a prior financial year, even if these become apparent only between the balance sheet date and its establishment.

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.

- 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 its misleading presentation can influence the economic decisions made by the users based on the financial statements.

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

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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 inventories of materials	Analysed expense/ Total inventory expense	0,25%
- Expenditure with manpower	Analysed expense / Total expenditure with manpower	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%

Accounting policy on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the intangible immobilizations when:

- It is probable the generation of future economical benefit related to the asset
- 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 subsequent expenditures are capitalized only when these are increasing the value of the future economic benefits incorporated in the asset in which they are destined.

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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.
- 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 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 derecognition 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;

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- 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.

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.

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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 earnings 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.

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. In the identification process of the depreciation clues, the Company takes into consideration internal and external sources.

External sources: the value of the market capitalization indicator of the Company in comparison with the value of own's capital;

Internal sources: Modifications over the grade of difficulty or of the use of the immobilizations.

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.

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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.

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:

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- 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.

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 relevant factors to determine the lifespan are: obsolescence from a technical point of view, the control period over the asset and other similar limits over the use of the asset, if the lifetime of the asset is the dependence of the useful lifetime of other assets of the Company.

The intangible assets with a determined lifetime are amortized by the company using the linear method and the expense with the amortization is recognized in profit or loss, except for the case in which the accountant value of another asset is included.

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.

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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.

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

- it is possible that 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.

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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.

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.

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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 after the same rules as in the tangible assets.

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.
- 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.

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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.

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.

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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/semi-finished 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.

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- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

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 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.

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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 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.

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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.

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.

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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 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.

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 doubtful accounts receivables shall be recorded separately in accounting in the account 4118 – Uncertain customers or customers in dispute at law when the deadline provided in the contract is overdue with more than 30 days or a dispute with the client has been registered.

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;

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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.

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 transaction will be presented in another part of financial statements.

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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 are 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:

- **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.;

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- **expenses with amortization**, expenses with value adjustments regarding the assets and the expenses with provisions

- **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 labor agreement

Benefits for termination of the labour agreement

Benefits for termination of the labor agreement are 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.

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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.

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.

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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.

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.

The financial discounts are under the form of reductions granted when the payment of the debts is made in advance of the normal chargeability term.

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 invoicing correct the stock cost to which they refer, if these are in management any longer. If the stocks for which the subsequent discounts were received are no longer in management, these shall be highlighted in accounts (account 609 "Trade discounts received"), on account of the third parties accounts.

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

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.

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The amount recognized as a provision is the best estimate of the counter value 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.

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.

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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 economic benefits, or the obligation value cannot be assessed in a sufficiently reliable manner.

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.

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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 profit distribution

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.

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 distribution 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;

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- 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;
- 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.

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

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".

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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 2844/12.12.2016 and other accounts developed by the Company together with the analytical accounts related.

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

The purpose of the accounts management is mainly the establishment of the result on production orders or other services and on each organizational structure.

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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.

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 sub unitary 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.

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Presentation of the information

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.

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

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 – TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers as a functional currency the Romanian LEU and in the financial statements they are presented in thousand LEI.

The currency transactions are recorded at the exchange rate of the functional currency at the date of the transaction.

At the end of the Financial Position Situation, the assets and financial debts denominated in currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid that day.

Currency	31.12.2017	31.12.2016
EUR (Euro)	4,6597	4,5411
USD (American Dollar)	3,8915	4,3033
GBP (British Pound)	5,2530	5,2961

The favourable and unfavourable exchange rates differences which result from the settlement of the assets and financial debts denominated in currency are recognized in the Profit or Loss Situation for the financial year in which they occur.

Considering that 76% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as it is expressed in the functional currency.

In the reporting period the currency net exposure resulted as difference between the financial assets receipts denominated in currency are presented as follows:

31.12.2017	MII EUR	MII USD	MII GBP
Proceeds from financial assets	10.226	44.989	0
Payments of financial liabilities	10.138	14.904	656
Currency net exposure	88	30.085	(656)

In year 2017 the medium appreciation of 10% of the USD/LEU currency exchange rate compared to the beginning of the year has determined the reporting of the financial loss from unfavourable differences of exchange rate the amount of 2.433 thousand LEI.

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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 ianuarie 2017	-	3.766	607	4.373
Inputs	89	892	589	1.570
Outputs	(89)	(56)	-	(145)
On 31 December 2017	-	4.602	1.196	5.798

<u>Amortization</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other Intangible immobilizations</u>	<u>Total</u>
La 1 ianuarie 2017	-	2.432	252	2.684
Inputs	89	746	566	1.401
Outputs	(89)	(56)	-	(145)
La 31 decembrie 2017	-	3.122	818	3.940

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2017

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Development expenses	89	89	-	0
2. Licenses	4.602	3.122	-	1.480
3. Other intangible immobilizations	1.196	-	-	378
Total (1+2+3)	5.887	4.029	-	1.858

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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.

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 31.12.2017 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 31 decembrie 2017 and which are still in use is 919 thousand LEI.

All the intangible immobilizations recorded in the balance sheet account as on 31 December 2017 are property of AEROSTAR.

Increases in gross values of intangible immobilizations were obtained by:	<u>1.570</u>
• capitalization of the development expenses fully financed by AEROSTAR	
• development of the IT management system of AEROPROD production	589
• purchasing of software licenses	892

In 2017 no internally general licenses enterings neither acquired through business combination.

In anul 2017 no assets were classified as held for sale in accordance with IFRS 5.

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NOTE 6 - TANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Lands</u>	<u>Constructions</u>	<u>Technical Equipment and transport vehicles</u>	<u>Other Tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
On 1 January 2017	28.346	51.372	107.125	805	1.282	7.946	196.876
entries	-	2.676	12.572	132	21.967	1.063	38.410
transfer	87	112	-	-	(16.443)	(199)	(16.443)
recorded immobilizations plus inventory			19				19
exits		-	(280)	-	-	-	(280)
At 31 December 2017	28.433	54.160	119.436	937	6.806	8.810	218.582

<u>Amortization</u>	<u>Lands</u>	<u>Constructions</u>	<u>Technical Equipment and transport vehicles</u>	<u>Other Tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
On 1 January 2017	-	7.092	35.619	211	-	1.447	44.369
entries	-	5.164	17.192	142	-	376	22.874
exits		-	(261)				(261)
On 31 December 2017	-	12.256	52.550	353	-	1.823	66.982

NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS on 31 December 2017

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Lands	28.433	-	-	28.433
2. Constructions	54.160	12.256	-	51.906
3. Technical equipment and transport vehicles	119.436	52.550	-	68.886
4. Other tangible immobilizations	937	353	-	584
5. Real estate investments	8.810	1.823	-	6.987
6. Tangible immobilizations in progress	6.806	-	-	6.806
Total (1+2+3+4+5+6)	218.582	66.982	-	151.600

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.

Tangible immobilizations are amortized by the Company using the linear method, as it 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 formed by Company's specialists. The useful lifetimes of the tangible immobilizations were reviewed in September 2017.

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

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

The immobilized investments contain a number of 11 real estate – buildings and related lands which are rented to third parties based on lease contracts.

The values from lease incomes in 2017 was 1.884 thousand LEI (1.790 thousand LEI in year 2016).

In year 2017, AEROSTAR invested in updating the living spaces (classified in the immobilized investments) the amount of 1.063 thousand LEI.

At the date of transition to IFRS, the Company has estimated and included in the cost of the tangible immobilizations the costs estimated with their decommissioning at the end of a 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.

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 2017 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.

Information source

Market value (market capitalization) has registered a growth of 44% in 2017 in comparison with 2016.

The indicator which offers information regarding the interest from the investors in the company listed on the capital market is the market capitalization reported to own's capital (MBR).

For AEROSTAR the evolution of this indicator is presented as follows:

<u>MBR-Market indicator to book ratio</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
capitalizare bursiera / capitaluri proprii	2,8	2,3

Surse interne de informatii: Internal information sources

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company

- in year 2017 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.

The utilisation of the tangible immobilizations in 2017 was with 12 percents over the utilisation of intangible immobilizations, realised in 2016.

In concluzie, imobilarile corporale aflate in sold la 31.12.2017 nu sunt depreciate si nu s-au constatat indici de depreciere. In conclusion, the tangible immobilizations in the balance sheet on 31.12.2017 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 2017 este de 3.849 mii lei.

On 31.12.2017 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

In 2017, a building with the value of 112 thousand LEI and a land with a surface e of 1.227 mp with the value of 87 thpusand lei, were transferred from the *Investment property* cathegory to *Tangible immobilizations* cathegory.

Increases in gross values of the tangible immobilizations, achieved by:	<u>38.429</u>
• acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings	21.967
• transfer during the year of the investments in progress	16.443
• immobilization found after inventory	19
Decreases in gross values of tangible immobilizations, achieved by:	<u>16.723</u>
• the transfer of the investments in progress in tangible immobilizations	16.443
• derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use	280

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NOTE 7 - FINANCIAL IMMOBILIZATIONS

	Shares held by affiliated entities	Other immobilized securities	Long-term loans	Other immobilized receivables- supplier warranties	Total
On 1 January 2017	14	92	96	-	202
Increases/Decreases	-	-	(9)	35	26
On 31 December 2017	14	92	87*)	35	228

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

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The details on the entity's investments in other companies as on 31.12.2017 are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%)	Value of shares held by AEROST AR (thousan d LEI)	Financial information				
					Registered capital of the company	Reser ve	Net profit	Nominal value/share	Net asset/share
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- main activity according to CAEN 7820	100	100%	10	10	55	97	0,1	1,6
SC Foar SRL Bacau Str. Condorilor nr.9	- main activity according to code CAEN 7739	800	51%	4	8	1.739	180	0,01	2,4
SC Aerostar Transporturi Feroviare S.A Bacau Str. Condorilor nr.9	- main activity according to cod CAEN 2822	20.000	45,75%	92	200	38	1	0,013	0,010
TOTAL	x	x	x	106	218	1.832	278	x	x

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

In 2017, the company recorded no modifications i.e. no increases/decreases as to the stake-holding percentage, maintaining the same influence as in 2016.

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

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NOTE 8 - COMMERCIAL RECEIVABLES

	<u>31 December</u> <u>2017</u>	<u>01 January</u> <u>2017</u>
COMMERCIAL RECEIVABLES FROM WHICH:		
Customers	38.050	38.789
Domestic customers	4.470	2.115
Foreign customers	33.580	36.674
Uncertain customers	1.162	1.024
Adjustments for depreciation of customer receivables	(1.162)	(1.024)
Suppliers – debtors	6.371	1.486
Customers – invoices to draw up	-	477
Effects to receive from the customers	-	71
Other immobilized receivables with due date less than 12 months	132	-
Total of commercial receivables	44.553	40.823

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.

Debtors-suppliers have a discount limit in year 2018.

In the category of Other immobilized receivables, with a due date less than 12 months, are to be found the warranties of proper performance of some agreements signed with commercial partners.

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 2017.

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 2017 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

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NOTE 9 - OTHER RECEIVABLES

	<u>31 December 2017</u>	<u>01 January 2017</u>
Receivables related to manpower and assimilated accounts	30	16
Receivables related to the budget of social insurance, from which:	1.573	1.317
– TVA to be recovered	768	-
– non-exigible TVA	154	339
– excises to recover related to fuel consumption	504	792
Interest to receive from bank deposits	346	17
Diverse debtors	233	259
Adjustments for the depreciation of the receivables – diverse debtors	(113)	-
Other receivables	18	317
Total other receivables	2.087	1.926

To cover the risk of non-recovery of the amounts representing uncertain receivables – diverse debtors, the company recorded adjustments for depreciation of uncertain debtors in the amount of 113 thousand LEI.

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NOTE 10 - INVENTORIES

	<u>31.12.2017</u>	<u>31.12.2016</u>
From which:		
Raw materials	14.789	11.139
Consumables	25.444	23.270
Other materials	146	14
Semifinished products	-	48
Packings	34	2
Finished Products	17.796	11.918
Products in process	23.271	20.063
Goods	0.6	3
Adjustments for depreciation of inventories	— <u>(13.556)</u> —	— <u>(16.185)</u> —
TOTAL	— <u>67.925</u> —	— <u>50.272</u> —
The value of the inventories with no adjustments	— <u>81.481</u> —	— <u>66.457</u> —

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.

The total value of the inventories recognized as expense during the reported time period is 117.559 thousand LEI.

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S.C AEROSTAR S.A. holds inventories of Finished Products (for safety) at the levels agreed to by contracts with customers.

S.C. AEROSTAR S.A. has no pledge set on inventories.

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NOTE 11 - CASH AND CASH FLOW EQUIVALENTS

At the end of the reporting period the cash and cash equivalents were:

	31.12.2017	31.12.2016
Cash	6.546	38.137
Bank deposits	157.336	125.013
CECs and trade effects receivable	4	3
Cash and cash equivalents in treasury cash flow statements	163.886	163.153

The cash comprises the available current amount in the cash account and at banks;

The cash equivalents comprise:

- short-terms bank deposits
- cheques and trade effects (promissory notes) submitted at banks for collection.

The treasury balance is influenced by the payments received from the customers.

There are no restrictions on the liquidity accounts in the banks.

The value of the credit facilities, used under the form of an overdrawn, available for the future operating activity, is of 9.729 thousand LEI (2.500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 8% of the aggregate value of the treasury cash flows.

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NOTE 12 - COMPANY CAPITALS

The company capitals at the date of 31 December 2017 are of 252.967 thousand LEI.

The net increase of the company capitals in 2017 compared to 2016 was of 39.059 thousand LEI.

The modifications of the main elements of the company capitals incurred in year 2017 compared to 201 are as follows:

- **The share capital remained unchanged:**

On 31 December 2017, the share capital of SC AEROSTAR SA Bacau is 48.728.784 LEI, divided in 152.277.450 shares with a nominal value of 0,32 LEI.

The structure of the shareholding at the date of 31.12.2017 is as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>Holding percentage (% from the share capital)</u>
S.C. IAROM S.A. Bucuresti	108.568.180	71,2963
SIF MOLDOVA Bacau	22.919.887	15,0514
Natural persons	14.162.600	9,3005
Legal persons	6.626.783	4,3518
total	152.277.450	100,0

- **The reserves increased with 43.010 thousand lei on the account of:**

- the reinvested profit of the year 2017 in the amount of 9.3338 thousand LEI.
- the distribution of the amount of 33.673 thousand LEI from the profit relating to the financial year 2016.

- **Other capital elements have increased with the amount of 1.599 thousand LEI on the account of the deferred income tax recognized in company capitals.**

- **The result carried forward:**

- **increased with:**

- 1.193 thousand LEI on the account of the deferred profit tax recognised on the account of the company capitals
- 47.377 thousand LEI representing the profit to be distributed relating to the financial year of 2016

- **and diminished** with the profit of the financial year 2016, distributed as:

- at reserves in the amount of 33.672 thousand LEI
- for dividends in the amount of 13.705 thousand LEI

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The result of the balance account carried forward on 31 December is of 57.524 thousand LEI, compound from:

- the result carried forward obtained from the use, on the date of transition to IFRS, of the fair value as presumed cost = 40.886 thousand LEI

- result carried forward, representing a surplus obtained from re-evaluation reserves, capitalized as the tangible and intangible immobilizations are amortized = 20.313 thousand LEI

- **The result of the period was of 53.170 thousand LEI.**

During the period the amount of 56.715 thousand LEI was distributed, representing the reinvested profit of 2016.

The amount of 3.545 thousand LEI which influenced the company capitals at the date of 31.12.2017 represents the arithmetical difference from which the result of the period (53.170 thousand lei) and the repartitions of the period (56.715 thousand LEI).

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NOTE 13- PROVISIONS

	31 December 2016	Increases/ Set provisions	Reductions/ Provisions resumed	31 December 2017
Total provisions	124.245	27.406	26.462	125.189
Provisions for warranties granted to customers	41.418	14.478	15.392	40.504
Provisions for decommissioning tangible immobilizations	16.122	0	6	16.116
Provisions for the employee benefits	5.370	6.234	5.850	5.754
Provisions for litigations	700	5.110	0	5.810
Other provisions	60.635	1.584	5.214	57.005
- from which:				
Long-term provisions	71.448	10.423	6.046	75.825
Provisions for guarantees granted to customers	7.929	4.257	5.273	6.913
Provisions for decommissioning tangible immobilizations	16.122	0	6	16.116
Provisions for litigations	0	5.110	0	5.110
Other provisions	47.397	1.056	767	47.686
Short-term provisions	52.797	16.983	20.416	49.364
Provisions for guarantees granted to customers	33.489	10.221	10.119	33.591
Provisions for employee benefits	5.370	6.234	5.850	5.754
Provisions for litigations	700	0	0	700
Other provisions	13.238	528	4.447	9.319

Provisions set up for guarantees granted to customers

Provisions set up for guarantees granted to customers are made to cover the non-compliances of the products sold and the services performed, in accordance with the contractual provisions.

Provisions for decommissioning the tangible immobilizations

Provision for decommissioning of tangible immobilizations are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 5%;

Provisions for benefits granted to employees

The provisions for benefits granted to employees are formed for the clauses granted according to the clauses of the applicable Collective Labor Agreement (clauses for the end of the financial year, the end of the year of production, performance).

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Provisions for litigations

Provisions for litigations are set up for any indemnities owed to the company's ex-employees. The provisions are reanalyzed at the end of each reporting period and are updated in order to reflect the best estimation of the probable payments.

Other provisions

In other provisions category are to be found the provisions made for:

- the coverage of the risks specific to aviation industry;
- the coverage of the potential customers of the Company, according to the specific clauses from the contracts concluded with them;
- coverage of the potential obligations towards third parties and for obligations derived from contracts for valuable consideration;
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., in O.U.G. 95/2002 base.

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net decrease from exchange rate differences in amount of 834 thousand LEI.

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NOTE 14 – SUBSIDIES

Subsidies related to assets

AEROSTAR recognizes as deferred revenue the assets-related subsidiaries.

	31.12.2017	31.12.2016
Balance on January, 1	14.972	16.828
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization	(2.323)	(1.856)
Balance on December, 31	12.649	14.972

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.

The balance of 12.649 thousand LEI represents the subsidies related to investments in immobilized assets which are to be recorded at the incomes while the costs of the calculated amortization are registered, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2.824 mii lei
2. contract no. 229226/14.06.2012: 3.349 mii lei
3. contract no. 5IM/013/24.03.2015: 6.476 mii lei

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NOTE 15 – COMMERCIAL DEBTS

	<u>31 December 2017</u>	<u>01 January 2017</u>
Advance payments received on customers account	4.896	10.327
Domestic customers-creditors	3.985	8.096
Foreign customers-creditors	911	2.231
Suppliers	24.580	27.140
Domestic suppliers	9.269	11.143
Foreign suppliers	11.540	12.735
Suppliers-invoices not arrived	1.803	1.892
Suppliers of immobilizations	1.968	1.370
Commercial effects to pay	39	5
Debt with current profit tax	29.515	37.472

The advance payments received from the foreign customers are for works of airplane maintenance and reparation, with settlement in year 2018.

For the highlighted debts no mortgages were established.

At the end of December 2017 the Company has made commitments under letters of bank guarantee for the amount of 4.608.000 USD issued in favor to the business partners according to the contractual requirements.

The favorable or unfavorable exchange rate differences 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 2017, were registered in the corresponding account – revenues or expenses – from the exchange rate differences, as applicable.

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NOTE 16 – OTHER DEBTS

	<u>31 December</u> <u>2017</u>	<u>01 January</u> <u>2017</u>
Other current debts, of which:	8.553	14.414
• <i>Debts related to manpower and assimilated accounts</i>	2.242	1.892
• <i>Debts related to social security budget and state budget, of which:</i>	4.503	10.951
– VAT payable	1.451	6.543
– social insurance	2.016	2.960
• <i>Other debts, of which:</i>	1.808	1.571
– dividends, of which:	1.492	1.309
- from 2016	557	-
- from 2015	508	591
- from 2014	427	488
Other long-term debts	51	-

The dividends in balance account on 31 December 2017, with the amount of 1.492 thousand LEI, represent amounts remained to be distributed to the shareholders from the dividends of the years:

- 2014, the amount of 427 thousand LEI;
- 2015, the amount of 508 thousand LEI;
- 2016, the amount of 557 thousand LEI;

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NOTE 17 – THE DEFERRED TAX

The **deferred tax** is determined for the temporary differences which occur between tax base of the assets and debts and their accounting basis. The deferred income is calculated by the income tax of 16% applicable to the temporary differences at their resumption.

The Company has estimated and registered debts regarding the deferred income related to immobilized assets (which results from differences between carrying amount and fiscal values, the different useful lifespan, and so on) and of the reserves and recognised receivables regarding the deferred income related to the stocks which have supported adjustments for depreciation, provisions for warranties accorded to the customers, provisions for benefits granted to the employees and other provisions.

The structure of deferred income tax registered at 31.12.2017 is:

Debts on deferred tax

1. Debts related to deferred tax generated by the differences between accounting bases (greater than) and the fiscal ones (lower than) of the immobilized assets	3.674
2. Debts related to the deferred tax concerning legal reserves	1.559
3. Debts on deferred tax related to reserves from the fiscal facility	7.396
4. Debts on deferred tax related to the reported result representing a surplus realised from revaluation reserves	61
Total debts on deferred tax	12.690

Deferred tax asset

1. Deferred tax asset related to adjustment for clients' depreciation in 2010.	994
2. Receivables on deferred tax related to the provisions for warranties granted to customers, established between 2014-2017	6.480
3. Receivables on deferred tax related to the provisions for the benefits of the employees	921
4. Receivables on deferred tax related to stocks	2.169
Total receivables on deferred tax	10.564

The Company has not recognised receivables regarding deferred tax related to other provisions for the risks specific to the aviation industry due to the fact that in the case of these provisions there is an incertitude regarding the fiscal deductibility of the expenses which may occur from the settlement of the future periods. Therefore, the differences between the tax base and the accounting base would be null.

The Company has registered on 31 December 2017 a debt regarding the deferred income tax in the amount of 2.126 thousand LEI (12.690 thousand LEI – 10.564 thousand LEI).

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NOTE 18 - 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 (bank deposit) and commercial receivables.

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

In some cases, specific instruments of commercial credit risk decrease (receipts in advance, letters of payment bank security, confirmed export credentials).

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

Exposure to credit risk

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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:

	31.12.2017	31.12.2016
Cash and cash equivalents	163.886	163.153
Commercial receivables net of depreciation adjustments	37.602	38.789
Commercial effects received	0	71
Creante imobilizate Immobilized receivables (warranties submitted to third parties)	168	0
Loans granted with interest	87	97
Total	201.743	202.110

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

	31.12.2017	31.12.2016
Domestic market	4.470	2.115
Euro zone countries	19.029	15.164
Great Britain	9.308	13.769
Other European countries	1.147	1.695
Other regions	3.648	6.046
Total	37.602	38.789

Depreciation adjustments

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

	Gross value	Adjustments	Gross value	Adjustments
	31.12.2017	for	31.12.2016	for
		depreciation		depreciation
		31.12.2017		31.12.2016
In due time	37.547		37.854	
Past due, total of which:	1.217	1.162	1.959	1.024
1-30 days	13	13	727	0
31-60 days	817	772	106	0
61-90 days	99	89	15	0
91-120 days	98	98	87	0
Over 120 days	189	189	786	786
Over 1 year	1	1	238	238
Total	38.764	1.162	39.813	1.024

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

	31.12.2017	31.12.2016
Balance on January, 1	1.024	254
Adjustments set for depreciation	6.040	4.264
Adjustments for depreciations resumed as revenues	(5.902)	(3.494)
Balance on December, 31	1.162	1.024

On 31.12.2017, 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 analysed 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 analyse 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:

	Accounting value	Contractual cash flows	0-30 zile	31-60 zile	peste 60 zile
31.12.2017					
Commercial debts	22.776	(22.776)	(14.836)	(5.793)	(2.147)
Commercial effects to be paid	39	(39)	(39)	0	0
31.12.2016					
Commercial debts	25.133	(25.133)	(19.014)	(4.429)	(1.690)
Commercial effects to be paid	5	(5)	(5)	-	-

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

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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 31.12.2017 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.

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 76% 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:

31.12.2017	MII EUR	MII USD	MII GBP
Cash and cash equivalent	1.257	1.800	20
Commercial receivables	1.592	6.607	0
Commercial debts	(1.129)	(1.591)	(109)
Net exposure in original currency	1.720	6.816	(89)

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 evolution of USD/LEU exchange rate from 2015, 2016, and 2017, a highly volatility of 10% can be observed. Thus, a possible reasonable variation of 10% can be observed at the end of the financial year.

The following table details the effect of reasonably possible variations of the exchange rates over the financial year of AEROSTAR.

31.12.2017	
Total net exposure in the currency of origin (thousand USD)	6.816
USD/LEU exchange rates	3.89
Net exposure in functional currency	26.514
Possible reasonable variation of exchange rate	+/- 10%
Effect of variation in profit and loss account	+/- 2.651 thousand LEI

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d) Interest rate risk

For the reporting period AEROSTAR has contracted a multi-product Credit Facility of 7.000 thousand USD, destined to financing the Company's operations, which includes:

- 1) Product A: in the amount of 2.500 thousand USD, usable as overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in the amount of 7.000 thousand USD (with the condition that the sum of the use from Product A and Product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility by issuing warranties instruments to ensure the commercial contractual obligations by issuing bank warranties letters and import credentials.

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

As during the reporting period AEROSTAR did not use Product A, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 31.12.2017, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 4.608 MII USD (equivalent to 17.932 thousand LEI).

On 31.12.2017 no mortgages are set on the property assets owned by AEROSTAR.

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NOTE 19 - REVENUES

	31 decembrie 2017	31 decembrie 2016
Revenues from sales, of which:	340.172	356.219
Revenues from sale of products	187.880	182.597
Revenues from services supplied	145.632	167.188
Revenues from selling goods	4.086	3.765
Revenues from renting	2.024	1.921
Commercial discounts granted	(2)	-
Revenues from other activities	552	749
Revenues related to investors of finished products and production in progress	10.420	3.817
Other revenues from operations	3.632	3.654
Revenues from the production of immobilizations	1.287	1.603
Total revenues from Operations	355.511	365.293

To early apply the IFRS 15 *Revenue from contracts with Customers*, the Company has derecognized at the end of the financial year, the revenues from evaluated services rendered according to IAS 18, depending on the execution stage of the contract, their amount in 2017 being of 477 thousand LEI.

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NOTE 20 - EXPENSES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Expenses with employee benefits, from which:	108.629	99.488
Wages and salaries	83.419	78.261
Expenses with benefits in kind and expenses with ticket meals granted to employees	6.254	3.995
Expenses with social security	18.956	17.232
Expenses with raw materials and materials	106.717	103.651
Power supply, water and gas	8.314	8.349
Other material expenses, of which:	12.971	14.221
Expenses with non-stored materials	2.130	3.571
Expenses with goods	3.878	2.972
Expenses with packages	245	-
Expenses with other materials	6.718	7.678
Expenses with external services, from which:	30.629	40.957
Repairs	12.227	19.416
Transport costs	3.290	3.545
Commission and honors	3.272	6.391
Movements, deployments	1.069	1.466
Renting expenses	770	766
Other expenses with services supplied by third parties	7.810	7.250
Amortizations	24.275	16.042
Increase/decrease of adjustments referring provisions	945	13.549
Increase/decrease of adjustments for depreciation of inventories	(1.337)	592
Other operational expenses	4.228	3.835
Total Expenses with Operations	295.371	300.685

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NOTE 21- FINANCIAL REVENUES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Revenues from exchange differences	3.334	6.891
Interest incomes	890	392
Revenues from shares detained to related parties	189	231
Total financial revenues	4.413	7.514

The Company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result. Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented in *Note 18 Financial instruments*.

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NOTE 22- FINANCIAL EXPENSES

	31 December 2017	31 December 2016
Expenses from exchange rate differences	5.766	6.257
Total financial expenses	5.766	6.257

The company registers in the financial expenses category only expenses from unfavorable exchange rates differences, unregistering expenses regarding financial investments disposed, with the interests or other financial expenses.

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NOTE 23 - TAX ON PROFIT

Tax on profit

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.

The profit tax corresponding to the reported time period comprises the current tax and the deferred tax.

The profit tax rate applicable on 31.12.2017 was 16% (the same rate that applied for the financial year 2016).

31 December 2017

Gross accounting profit	58.787
Expenses with current tax on profit	7.650

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	357.667	Fiscal revenues	304.612	-53.055
Accounting expenses*	299.275	Fiscal expenses	236.855	-62.420
Restated Gross accounting profit*	58.392	Fiscal profit	67.757	+9.365
Accounting tax (16%)	9.343	Fiscal tax (16%)	10.841	+1.498
Tax reductions	-	Tax reductions	3.191	+3.191
Tax on final profit	9.343	Tax on final profit	7.650	-1.693
The applicable legal rate	16,00%	The legal rate applicable	16,00%	
The effective medium rate, calculated on restated accounting gross profit		13,10%		

* The revenues and expenses are the ones obtained after the deduction from the total revenues and the total expenses of the revenues and expenses related to activities subject to the specific tax.

The main factors which have affected the effective tax rate:

- the non-taxable revenues from the recovery of some non-deductible expenses (from which 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 and so on).

The company has registered on 31 December 2017 a debt regarding the current income tax in the amount of 1.522 thousand LEI related to fourth quarter of 2017.

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The specific tax of activities

Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public alimentation activities. The specific tax related to 2017 was in the amount of 52 thousand LEI.

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NOTE 24 - 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>31.12.2017</u>	<u>31.12.2016</u>
Profit distributable to ordinary shareholders	53.169.633	56.471.595
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
Profit per share	<u>0,349</u>	<u>0,371</u>

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NOTE 25- THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is of 1.834 for year 2017 and 1.719 for year 2016. To these is added a medium number of personnel attracted through temporary employment business and used in the production process of AEROSTAR.

The total personnel employed in the activity of company AEROSTAR was:

	<u>year 2017</u>	<u>year 2016</u>
total personnel	2.031	1.958

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NOTE - 26 TRANSACTIONS WITH AFFILIATED PARTIES

<u>Acquisitions of goods and services</u>	<u>year 2017</u>	<u>year 2016</u>
S.C Airpro Consult SRL Bacau	9.252	9.182
S.C Foar SRL Bacau	<u>571</u>	<u>566</u>
TOTAL	<u>9.823</u>	<u>9.748</u>

<u>Sales of goods and services</u>	<u>year 2017</u>	<u>year 2016</u>
S.C Airpro Consult SRL Bacau	16	24
S.C Foar SRL Bacau	<u>4</u>	<u>4</u>
TOTAL	<u>20</u>	<u>28</u>

Debts	Balance at 31.12.2017	Balance at 01.01.2017
S.C Airpro Consult SRL Bacau	765	979
S.C Foar SRL Bacau	<u>33</u>	<u>34</u>
TOTAL	<u>798</u>	<u>1.013</u>

<u>Dividends collected by Aerostar</u>	<u>year 2017</u>	<u>year 2016</u>
S.C. Airpro Consult SRL Bacau	<u>97</u>	<u>50</u>
S.C Foar SRL Bacau	<u>92</u>	<u>181</u>
TOTAL	<u>189</u>	<u>231</u>

The transactions with the affiliated parties in 2017 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 Bacau from SC AIRPRO CONSULT SRL Bacau and from SC FOAR SRL Bacau (NOTE 7).

In the period January – December 2017 there were no transactions made with the company Aerostar Transporturi Feroviare SA Bacau, its activity being suspended from year 2016.

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NOTE 27 – INFORMATION ON CASH FLOW

The method used in the Cash Flow Situation is the direct method.

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment and financing, thus highlighting the mode in which AEROSTAR generates and uses the cash and cash equivalents.

In the context of Cash Flows Situation:

- the cash flows are the receipts and cash payments and cash equivalents;
- the cash contains the money availability from banks and register.
- the cash flows contain the deposits formed in banks and CEC-s and order tickets deposited on banks to be collected.

The cash flows provided from the transactions performed in currency are registered in the functional currency by applying over the value in the exchange currency between the functional currency (LEU) and the currency from the date of the cash flow (date of making payments and receipts).

The gains and losses which come from the exchange rate variation are not cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent flows detained or due in foreign currency is reported in the cash flows situation, but separately from the cash flows provided from operations, investments and financings, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operations activities are the main cash-generating activities of AEROSTAR. Thus, in year 2017 the receipts from customers were 347.140 thousand LEI, from which 29.940 thousand LEI represent the receipts in advance from the customers, and the payment to the suppliers and employees were the amount of 250.453 thousand LEI.

The activity of operating has generated a net cash of 41.803 thousand LEI used for:

- the increase of the operating activity by purchasing tangible and intangible assets in the amount of 27.597 thousand LEI;
- the payment of the dividends rightful to the shareholders in the amount of 13.289 thousand LEI.

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NOTE 28 – 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.:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
• Liabilities:		
○ guaranties granted to customers as letters of bank guarantee	11.809	10.192
○ guarantees received from suppliers – as letters of bank guarantee	43.311	433
• Goods		
○ Inventories such as materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	25.026	22.348
○ material values received in custody	1.799	1.796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	4.151	1.151
○ material values received for processing/repairs	1.016	616
○ other goods off-balance sheet	178	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	6.215	6.635
○ debtors cleared from assets, yet still monitored	579	349
○ material guarantees	185	186
• Greenhouse Gas Emission Certificate	498.322	262.595

At the date of 31 December 2017, AEROSTAR owned 13099 greenhouse gas emission certificates (in 2016: 11363 certificates).

From the 13099 certificates which the Company owns in 2017, 3076 greenhouse gas emission certificates from 2017 will be reimbursed until the end of April 2018.

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The market value from the last day of transaction in year 2017 of a GES certificate was of 8,18 Euro (in 2016: 5,09 Euro).

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NOTE 29 – REMUNERATION OF THE DIRECTORS

The Board of Directors of AEROSTAR was formed on a period of four years (from the date of 11.07.2016 to 10.07.2020) in the General Meeting of the Shareholders from 5 July 2016 and shall be composed of:

	Surname and first name	Position	Profession
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vice-president 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	Lawyer

In 2017, the Company 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 from 14 December 2017, the following remunerations for the members of the Board of Directors:

- a net remuneration of the members for the financial year 2018 of 4.500 LEI;
- at a maximum level, additional remunerations for the executive members of the Board of Directors, of not more than 10 (ten) or (including) the net remuneration;
- the empowering of the Board of Directors for their negotiation on additional remuneration, with the executive members, within the limit of the ceiling approved by the Ordinary General Assembly.

The amount of the gross remunerations accorded to the members of the Board of Directors in the financial year 2017, by virtue of their responsibilities, was 270 thousand lei.

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NOTE 30 - RISK MANAGEMENT

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).

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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 18 (Financial Instruments) of the Financial Statements.

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.

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:

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- 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 76% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

Thus, 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 18 (Financial Instruments) of the Financial Statements.

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.

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NOTE 31- EXPENSES AND INCOMES IN ADVANCE

	<u>31 December</u> <u>2017</u>	<u>01 January</u> <u>2017</u>
Expenses registered in advance	491	521
Incomes registered in advance	28	33

The expenses effectuated and incomes realized in the current period, but which concern the periods or the next financial exercises, are recorded distinctively in accountability, at expenses registered in advance or incomes registered in advance, where appropriate.

In **advance expenses** category, the Company has registered the amounts related to the periods or to the next financial years, representing: subscriptions, assurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which shall be allocated on expenses, according to the due.

In the **advance incomes** category, the Company has registered incomes related to the periods or of the future financial years for the following elements of financial immobilizations.

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NOTE 32- EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, AEROSTAR S.A. has acknowledged the shareholders through a release, the fact that, in accordance with The Agreement of the Administration Council no. 2 from 14.12.2017, a second headquarter has been approved, without legal personality (work point) in Iasi, on Aeroportului Street, no. 25B, having into consideration the lease agreement no. 25074/07.09.2017, regarding the concession of a surface of 16.000 mp land at the premises of the Iasi International Airport and the additional act no. 1 from 08.01.2018 to this.

The price of the concession is of 515 thousand euro. The annual fee is of 10.500 euro monthly payable at the BNR course from the payable day.

In the date of 15 January 2018, The Office of the Trade Register Bacau has issued the Resolution no. 469/12.01.2018 regarding the admission of the registration request of the secondary headquarter as it was formulated.

The authorization procedures and the building of a hangar for maintenance civil aircraft will begin in the following period.

In the date of 15 February 2018, AEROSTAR S.A. has made public the preliminary proposal of the Board of Directors of distributing the profit realized in year 2017 on the following destinations:

	31 December 2017
	(LEI)
Net profit preliminary realized	53.169.633
○ Distribution to the legal reserve of the profit	9.337.716
○ Distribution to statutory reserve	29.517.837
○ Distribution as dividends (gross dividend per share: 0,094 LEI)	14.314.080

The preliminary proposal of the Board of Directors of the distribution of the profit realized in year 2017 will be forwarded to approval to the Ordinary General Meeting from the date of 19 April 2018.

Significant modifications were made to the tax legislation.

AEROSTAR S.A. has not identified events after the reporting date which may have an impact over the financial situations related to the financial year ended at 31 December 2017.

These individual financial situations which contain: the situation of the financial position, the situation of the profit or loss, other elements of the global result, the situation of the company capitals' modifications, the situation of the cash flows and the explicative notes of the financial situations were approved by the Board of Directors at the date of 15 March 2018 and signed in its name by:

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

S.C. AEROSTAR S.A. BACAU
Condorilor Street no. 9

DISTRIBUTION *)
OF THE PROFIT REALISED IN 2017

The net profit of the financial year 2017:	53.169.632,90 lei
• Distributions to the legal reserve of the reinvested profit	9.337.715,64 lei
• Distributions to reserves	29.517.837,26 lei
• Distributions as dividends (gross dividend per share: 0,094 LEI)	14.314.080,00 lei

*) Approved in the General Meeting of Shareholders in 19 april 2018

CA PRESIDENT & GENERAL DIRECTOR
GRIGORE FILIP

CA VICEPRESIDENT & 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 31.12.2017, and we confirm hereby that:

- a) All the accounting policies used to draw up the individual financial statements as on 31.12.2017 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.
- b) The individual financial statements as on 31.12.2017 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 2017 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 for 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 Board of Directors and Financial Director,
DORU DAMASCHIN

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

Accounting Company, accounting expertise, financial audit and fiscal consultancy

CAFR Member, CECCAR and CCF

Head office: Loc. Bacau, Str. I.L.Caragiale, No. 1,1/D/12

Place of business: Loc. Bacau, Pasajul Revolutiei, No. 3

Bacau County

C.I.F.: 16175653 Ord. no. Com. Reg.: J04/334/2004

Account: RO83TREZ0615069XXX011808 Trezoreria Bacau

Account: RO76BRDE040SV44003180400 Bank: BRD – Bacovia

Telephone: 0744101545 Fax: 0334405346

E-mail: hmauditcontab@yahoo.com

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
31.12.2017

To S.C. AEROSTAR S.A. shareholders

Opinion:

1. We have audited the individual annual financial statements prepared by S.C. AEROSTAR S.A. („The Company”) as on 31.12.2017, with the registered head office in Bacau, Condorilor Street, no. 9, identified by the individual identification number no. RO950531 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: 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 the Financial Supervisory Authority („ASF”), the Proposal for the Distribution of the Net Profit Achieved in the financial year 2017, comprising the information determined in accordance with the IFRS provisions.
2. On 31.12.2017 the individual financial statements are identified as follows:
 - Total company capitals 252.967 thousand lei;
 - Net turnover..... 340.172 thousand lei;
 - Total net profit..... 53.170 thousand lei.
3. 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 2017, 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, with further modifications and completions, the Order of the Public Finance Ministry no. 470/2018 regarding aspects related to the preparation and submitting the annual financial

statements and the annual accounting reports of the economic operators to the territorial units of the Public Finance Ministry, as well as for the modification and completion of certain accounting regulations and Regulation no. 1/2006 regarding the issuers and the operations with securities, Law no. 297/2004 regarding the capital market, Law no. 24/2017 regarding issuers of financial instruments and market operations.

Basis of Opinion:

4. We conducted the audit in accordance with the International Auditing Standards, adopted by the Romanian Chamber of Financial Auditors (“ISA”), Regulation no. 537/2014 of the European Parliament and of the Council regarding the requests to the statutory audit of the public interest entities and of abrogation of 2005/909/CE Decision of the Council and Law no. 162/2017 regarding the audit of the annual financial statements and of the consolidated annual financial statements and by modifications of certain normative acts. 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, including Regulation and Law and we have fulfilled the ethical responsibilities, according to these requests and IESBA Code. We consider that the audit evidence which we have obtained are sufficient and adequate to constitute the basis of our audit opinion.

Continuity of activity

5. 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 key aspects of the audit

6. The audit key aspects are those aspects which, in the base of our professional judgement, had the highest importance for the audit of the financial statements of the current period. These aspects were approached in the context of the

financial statements overall and to form our opinion towards these, and we do not offer a separate opinion regarding these key aspects.

For each aspect below, we have presented in that context a description of the mode in which our audit has approached the aspect in question.

Inventories

The key aspects of the audit	The approach of the audit regarding to the key aspects of the audit
<p>1. The existence and evaluation of the inventories</p> <p>In accordance with the information presented in note 10 ‘Inventories’, the total inventories presented in the individual financial situations are in the amount of 67.925 thousand lei and they represent a significant percentage from the total assets of the company, their evaluation implying a high level of judgement of the management. These inventories consisted mainly of raw material, consumables, finished products and in progress.</p> <p>The evaluation of the inventories is made, mainly, at the lowest value between cost and net realizable value.</p> <p>The evaluation at cost includes different components such as production or purchasing cost, including trade discounts received as well as other costs in order to bring them in the place and state in which they are found at a certain point.</p> <p>When exit the management of the inventories, these are evaluated and highlighted in accounting by applying the</p>	<p>Performed tests:</p> <p>Our audit procedures for testing the existence of inventories were mainly, but not limited to them, in the participation to the inventory during the year, including, the reconciliation of the numbers obtained by the auditor with the ones of the representatives of the company, the identification of some possible physical/moral depreciated inventories.</p> <p>In order to validate the evaluation of the purchasing/production costs of the inventories, we have performed detail tests regarding to the evaluation in report with the IAS 2 ‘Inventories’ requirements.</p> <p>We have verified the correctness of the estimations regarding to net realizable value in report to the sale price and we verified if there have been inventories which were sold with a negative margin through the recent sales invoices from 2017.</p>

<p>Weighted Average Cost method.</p> <p>In regards to the finished products, the net realizable value is estimated in report with the sale price, including the commercial discounts granted.</p> <p>The adjustments for the depreciation of the inventories at the end of the financial year are 13.556 thousand lei.</p>	
<p>2. Commercial Receivables</p> <p>As it is presented in Note 8 – ‘Commercial Receivables’ at 31.12.2017, the net commercial receivables amount at 44.553 thousand lei (40.823 thousand lei – 2016).</p> <p>The recovery of commercial receivables and the level of value adjustments for uncertain debts are considered to be a significant risk due to the global nature of these balances in the financial statements, as well as the importance of collection of cash, with reference to the management of the working capital of the company.</p> <p>Then accounting policies referring to recoverability of commercial receivables are presented in note 3 ‘Accounting policies regarding company receivables’.</p>	<p>Tests performed:</p> <p>Our audit procedures have included, but were not limited to these, among others:</p> <ul style="list-style-type: none"> - The evaluation of the control’s effectiveness regarding the monitoring of the recoverability of the receivables; - The evaluation of the management’s estimates regarding the value adjustments performed in report with the level, the age of the receivables and of the degree of collecting; the verification of the consistency in the application of the accounting policies referring to the adjustment of the receivables; - The evaluation of the recoverability of the outstanding receivables referring to the historical levels of the expenses with the uncertain receivables and the risk profile of the partners; - The testing of these balances, based on a sample, for which we have requested direct confirmation on 31.12.2017, as well as the verification of the transactions from 2018 with the clients who

	<p>have not confirmed the balances at the end of the financial year.</p> <ul style="list-style-type: none"> - The examination of the coherence of the decisions regarding the pursuit to recover the commercial receivables and of the incomes achieved, through discussions with the management in order to justify these decisions and to obtain the audit evidence necessary to support the management's justification.
<p>3. Provisions and contingent debts</p> <p>The key aspect of the audit in this matter refers to the adequate application of the IAS 37 'Provisions and contingent debts'. In Note 13 are presented total provisions in the amount of 125.189 thousand lei for the year 2017 (year 2016 – 124.245 thousand lei). An important proportion from the provisions presented concerns the provisions for the warranties granted to customers 40.504 thousand lei and other provisions specific to the object of activity 57.005 thousand lei. The estimation of a provision implies significant professional judgements and hypotheses on behalf of the management regarding the possible results of the events and the quantification of potential obligations, where and if it is the case.</p>	<p>Tests performed:</p> <p>I have reviewed the hypotheses and estimations of the Company regarding the establishment of the provisions, including the obligations recognised or the contingent obligations presented in the individual financial statements. We have evaluated the probability of a negative result of the statements in fact and the certainty of the related estimations related to the obligation in question.</p>

Other information – Report of the Board of Directors

7. The administrators are responsible for the establishment and presentation of other information. Such other information comprise the Report of the Board of Directors -which also includes the Non-Financial Declaration, in accordance with MFP Order no. 2844/2016 for the approval of the accounting Regulations compliant with the International Financial Reporting Standards, applicable to the commercial companies whose securities are admitted to transactiona on a regular market, Appendix 1, Chapter 3 and of the requirements of the Financial Supervisory Authority (‘ASF’), report which must not contain significant misrepresentations. The administrators are responsible, also, for such internal control which allows the preparation of the report of the board of directors which shall not contain significant misrepresentations, caused by fraud or error. The report of the Board of Directors presented in the appendix is not part of the individual annual financial statements.

Our opinion in regards to the financial statements does not cover such other information and, except when explicitly mentioned in our report, we do not express any conclusion of assurance concerning it.

In regards to our audit concerning the individual annual financial statements for the financial year ended at 31.12.2017, our responsibility is to read the such other information and, in doing this, to appreciate if such other information is significantly inconsistent with the financial statements, or with the knowledges which we have obtained during the audit, or if they seem to be significantly misrepresented.

On the exclusive basis of the work which must be performed during the audit of the financial statements, in our opinion:

- a) The information presented in the Report of the Board of Directors for the financial year for which the financial statements were prepared are in accordance, in all the significant aspects, with the financial statements;
- b) The report of the Board of Directors identified above includes, in all the significant aspects, the information requested by the legal accounting regulations concerning the individual annual financial situations – MFP Order 2844/2016;
- c) In addition, on the basis of our knowledge and understandings regarding the Company and its environment, as obtained during the audit of the individual annual financial statements, for the financial year ended on 31.12.2017, concerning S.C. AEROSTAR S.A., we did not identify

information included in the Report of the Board of Directors which is misrepresented.

The responsibilities of the management and of the persons responsible with the governance for the individual annual financial statements

8. The company management is responsible for the establishment and the fair presentation of the individual annual financial statements in accordance with the requirements of the accounting rules from Romania which is the Law of Accounting 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 to the commercial companies whose securities are admitted to transaction on a regular market and with later amendments, and the Order of the Minister of Public Finances no. 470/2018 concerning the main aspects related to the preparation and deposit of the annual financial statements and of the annual accounting reports of the economic operators to the territorial units of the Minister of Public Finances, as well as for the modification and completion of some accounting regulations. This responsibility includes: the design, implementation and maintaining of an internal control relevant for the adequate preparation and presentation of the individual annual financial statements which shall not contain significant misrepresentations, due to fraud or error, selection and application of the adequate accounting policies, elaboration of certain accounting estimations reasonable in the given circumstances.
9. In the preparation of the individual annual financial statements, the management is responsible for the evaluation of the Company's capacity to continue the activity in the basis of the principle of activity's continuity, presenting, where necessary, aspects related to the continuity of activity and adequacy to use the accounting principle and continued activity.
10. The persons responsible with the governance are responsible for the supervision of the financial reporting process of the Company.

Audit's responsibilities for the audit of the individual annual financial statements

11. Our objectives shall consist of obtaining a reasonable assurance concerning the measure in which the individual annual financial situations, as an assembly, are free of significant misrepresentations, caused by fraud or error,

as well as in the issue of a report of the audit which includes our opinion. The reasonable assurance represents a high level of assurance, but it is not a warranty of the fact that an audit performed in accordance with the ISA will always detect a significant misrepresentation, if this exists. The misrepresentations can be caused either by fraud or error and are considered to be significant if it can be expected, on a reasonable basis, that these, individually or together, will influence the economic decisions of the users, made on the basis of these individual annual financial statements.

12. As part of an audit in accordance with the Audit Standards issued by the Romanian Audit Chamber and of the International Standards of Audit, we perform professional judgement and we maintain professional scepticism during the audit. Also, we:

- identify and evaluate the significant misrepresentation risks of the individual annual financial statements, caused either by fraud or error, design and execute auditing procedures as a response to the respective risks and we obtain sufficient auditing evidence, adequate to provide a basis for our opinion. The risk of failure to detect a significant misrepresentation caused by fraud is higher than the risk of failure to detect a significant misrepresentation caused by error, as fraud can suppose secret understandings, false data, intentional omissions, false declarations and avoiding internal control;
- we understand the internal control relevant for the audit, in order to design audit procedures adequate to the circumstances, but without having the purpose to express an opinion on the effectiveness of the internal control of the Company;
- we evaluate the adequacy of the accounting policies used and the reasonable character of the accounting estimations and of the presentations disclosed by the management;
- we express a conclusion on the adequacy in the utilization by the management of the accounting of the continuity of activity and we determine, based on the auditing evidence obtained, if a significant uncertainty exists, in regards to the 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. Nevertheless, future events or conditions can determine the Company to stop operating its activity in the basis of the principle of activity's continuity.
- We evaluate the presentation, structure and contents of the financial statements, including the information presentations and the extent in which the

financial statements reflect the transactions and underlying events in a way to result into a fair presentation.

- We communicate to the persons in charge with corporate governance, among other aspects, the planned area and the auditing schedule, as well as the main findings of the audit, including any significant deficiencies of the internal control, identified during the audit.
- also, we provide to the persons responsible with the governance a declaration concerning our conformity with the ethical requests in regards to the independence and we communicate all the relations and other aspects which can be considered, in a reasonable way, that may affect our independence and, where applicable, the corresponding safety measures.

Other aspects

13. 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 the law, we assume our responsibility only to the Company and its shareholders, as a whole, for our audit, for this report or for the opinion formed.
14. 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 to trading on a regular market, with additional modifications and completions, and the Order of the Ministry of Public Finance no. 470/2018 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 concerning other laws and regulations

15. We were named by the annual Ordinary General Meeting to audit the financial situations of S.C. AEROSTAR S.A. for the financial years 2008-2012, as PFA Husanu Monica, and for the financial years 2015-2017 as legal person – S.C. H.M. AUDIT CONTAB SRL. The total continued period of our agreement was on a period of 10 years, covering the financial years ended on 31.12.2008 until 31.12.2017.

We confirm that:

- Our audit opinion is in accordance with the additional report presented to the Audit Committee of the Company, which we have issued in the same date in which we issued this report. Also, while performing our audit, we have maintained our independence towards the audited entity.
- We have not supplied forbidden non-audit services to the Company, mentioned in Article 5, paragraph (1) from UE Regulation no. 537/2014.

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

CAFR Authorization 1019/2010

By Monica Husanu

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

Bacau, 30.03.2018