

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*

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## 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*

<b>The key aspects of the audit</b>	<b>The approach of the audit regarding to the key aspects of the audit</b>
<p><b>1. The existence and evaluation of the inventories</b></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><b>Performed tests:</b></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><b>2. Commercial Receivables</b></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><b>Tests performed:</b></p> <p>Our audit procedures have included, but were not limited to these, among others:</p> <ul style="list-style-type: none"> <li>- The evaluation of the control’s effectiveness regarding the monitoring of the recoverability of the receivables;</li> <li>- 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;</li> <li>- 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;</li> <li>- 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</li> </ul>

	<p>have not confirmed the balances at the end of the financial year.</p> <ul style="list-style-type: none"> <li>- 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.</li> </ul>
<p><b>3. Provisions and contingent debts</b></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><b>Tests performed:</b></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, 30.03.2017