

AEROSTAR S.A.

**QUATERLY REPORT
ON 30.09.2018**

According to Appendix 13 from Regulation no. 5/2018

Issued by the Financial Supervisory Authority (ASF)

CONTENT

- **Report of the Board of Directors for 9 months 2018**
- **Financial Statements on September 30th 2018**

Identification data

Date of the report: 30.09.2018

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

Registered headquarter: 9 Condorilor St., Bacău, România

Telephone number/fax: +40234575070/ +40234572023

Individual Identification Number: RO 950531

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

LEI Code of identification: 315700G9KRN3B7XDBB73

Registered capital, subscribed and paid: 48.728.784 lei

Number of shares issued: 152.277.450

Nominal value: 0,32 lei / share

The regular market on which the securities/shares issued are traded:

Bucharest Stock Exchange (“ARS” indicator) – Standard Category

Report of the Board of Directors for 9 months 2018

Report on AEROSTAR's business

Introduction

The report of the Board of Directors for the 9 months of 2018 of AEROSTAR S.A. Bacau is prepared in accordance with Regulation no. 5, 2018 regarding the issuers of financial instruments and market operations, issued by the Financial Supervisory Authority on 10 May 2018 and entered into force on 11 June 2018.

According to this regulation, the report must present the analysis of the present economic-financial situation of AEROSTAR, in comparison with the similar period of the previous year; an analysis of the activity, of the events, transactions and economical changes which significantly affect the income from the basic activity, as well as the changes which affect the equity, the company's administration and the significant transactions.

This report contains the economic-financial indicators provided in Appendix no. 13, letter A, the important events, the financial position and performance of the company Aerostar for 9 months 2018, as provided in Appendix 13, letter B.

The financial statements prepared on September 30th 2018 are not accompanied by the review report of the independent financial auditor of the company AEROSTAR.

The financial statements prepared on September 30th 2018 were audited by the internal auditor of the company.

MAIN ELEMENTS FOR THE ASSESSMENT OF THE COMPANY'S ACTIVITY ON 9 MONTHS 2018

In the first nine months of 2018, AEROSTAR's activity was performed in conditions of continuity and predictability, fulfilling the economic-financial objectives established in the budget provided for this period.

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

AEROSTAR continued the processes of consolidation regarding its position in the aeronautical and defence market, in the three main business lines:

- Manufacturing of aviation products
- Maintenance of commercial aircraft
- Defence systems

Economic-financial indicators

Description	Calculation method	Result
1. Current liquidity indicator*	Current assets/ Current liabilities	7,17
2. Indebtedness indicator**	Borrowed capital/ Own equity x 100	0
3. Rotation speed of the customers debits***	Average customers balance/ Turnover x 270	52
4. Rotation speed of the non-current assets****	Turnover/ Non-current assets	1,50

Notes:

*Offers the warranty of covering the current liabilities from current assets. The recommended value accepted is approximately 2.

** Expresses the effectiveness of the credit risk management, indicating the potential financial problems, liquidity, with influences in honouring the commitments.

*** Expresses the effectiveness of the company in collecting its receivables, i.e. the number of days until the debtors pay their liabilities to the company.

**** Expresses the effectiveness of the non-current assets management, by examining the turnover generated by a certain quantity of non-current assets.

Analysis of the company's activity

AEROSTAR was established in 1953 and operates in accordance with the Romanian Law. Its 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, the opening of a secondary headquarter was approved, without legal personality (place of business) in Iasi, on Aeroportului Street, no. 25B.

Aerostar's main field of the activity is production.

Main object of activity is "manufacture of aircraft and spaceships" – CAEN 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 AEROSTAR S.A. and having the individual registration code 950531, the identification code at European level (EUID): ROONRC.J04/1137/1991.

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

During January 2018 - September 2018, no new shares or participation bonds, convertible obligations, options or similar rights were registered.

From an accounting regulations point of view, the company AEROSTAR S.A. is the subsidiary of the company IAROM S.A., therefore the parent company which consolidates the financial statements of the group is IAROM S.A., having the identification code 1555301 and the registered headquarter in Bucharest, Aerogarii Boulevard, no. 39.

The consolidated financial statements of the financial year 2017 were submitted to A.N.A.F. under the registration number 150489860/ 22.08.2018. Copies of the consolidated financial statements can be obtained from the headquarter of the parent company, IAROM S.A.

The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended in 31.12.2018.

The company has one operating segment according to IFRS 8 and no distinct financial information is reported for different components of the entity.

Information regarding the sales on the markets are presented in detail in the Report of the Board of Directors.

The management policy is focused on maintaining a solid base of capitals, with the purpose of sustaining the continuous of the company and reaching its strategic objectives.

The company will take firm actions furthermore to assure the sustainability of the investments and the business increase.

The strategy adopted develops the main object of AEROSTAR's activity so that the majority of the turnover is in the aeronautical field. The general objective is the annual increase of the turnover and to simultaneously increase the customers' satisfaction. The specific objectives, which sustain the general objective, comprise the ongoing 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 company capitals entirely cover the necessary funding for the production and for realization of the investments. Through its dividend policy, the Company develops its own company capitals in parallel to the increase of the sales and of the investments.

During January – September 2018, no borrowed capital was used and no cash infusion from the shareholders was made.

The Business Model

AEROSTAR operates on the market as an independent company.

The value proposed by Aerostar on the market is created in the core business, from PRODUCTION, in the aviation and defence field.

The management has adopted an integrated model of business, based on the systemic and process-based approach and on RISK.

The value created by the company in the value chain of the economy is supported by a divisional type organization, based on accounts management centres in the area of production, auxiliary activities and functional activities. Aerostar performs its object of activity using in an integrated way the common resources of the organization.

Starting with January 2018, AEROSTAR has operated organizational changes with the purpose of better mobilisation and use of the resources, to better exploit the market opportunities and to respond better to the requirements of the customers.

The new organizational structure operates according to the objectives established.

SIGNIFICANT ASPECTS, IMPORTANT EVENTS AND THEIR IMPACT ON THE FINANCIAL POSITION OF THE COMPANY AND ITS SUBSIDIARIES

Synthesis of the main economic-financial data for 9 months 2018, compared to 9 months 2017

	MU	30.09.2018	30.09.2017
Registered capital	thousand lei	48.729	48.729
Turnover	thousand lei	238.159	223.799
- Export sales	thousand lei	180.790	182.962
The effective number of employees, from which:	no.	1.999	2.100
- Own employees	no.	1.868	1.947
- Employees attracted through temporary labour agent	no.	131	153
Net profit	thousand lei	59.820	26.984
Cash - flow	thousand lei	143.516	130.405

	30.09.2018	30.09.2017
General liquidity	7,17	6,07

During the first 9 months of 2018 no events or other factors affected the liquidity of AEROSTAR.

The volume of the investments performed on 9 months 2018 has doubled in comparison with the similar period of 2017:

	30.09.2018	30.09.2017
Expenses for investments from company sources (thousand lei)	23.595	11.745

AEROSTAR SHARES(‘ARS’)

The main characteristics of the shares issued:

152.277.450 shares, nominative, ordinary, of equal value, paid integrally, issued in dematerialized form and recorded in the Register of Shareholders.

This is managed by Depozitarul Central S.A. Bucharest.

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.

Evolution of ‘ARS’ shares

	30.09.2018	30.09.2017	30.09.2016
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Equity (lei)	295.343.358	227.019.817	217.060.598
Price at the end of the period ¹ (lei)	5,20	4,27	3,09
Stock exchange capitalization ¹ (lei)	791.842.740	650.224.712	470.537.321
Maximum price ¹ (lei)	5,36	4.55	3.22
Minimum price ¹ (lei)	4,65	3.25	2.24
Result per share (lei)	0,393	0,177	0,317

1) Source: Monthly newsletter issued by the Bucharest Stock Exchange

MBR Indicator (market to book ratio)	2,68	2,86	2,17
Stock exchange capitalization / equity)			

Worth to note is significant increase of the stock exchange capitalization and of the interest for the company's shares.

AEROSTAR follows the activity related to the evolution of the AEROSTAR shares on the Bucharest Stock Exchange without interfering in its operations with this activity.

Events from the category of the current reports:

- On 16 January 2018 AEROSTAR S.A. communicated to the shareholders the opening of a secondary headquarter with no legal personality (place of business) in Iasi, on Aeroportului Street, no. 25B as in 15 January 2018 the Trade Register of Bacau issued the Resolution no. 469/12.01.2018 regarding the admission of the registration application for a secondary place of business.
- Aerostar communicated to the shareholders the signing of a service contract, in the date of 24.05.2018, with the scope of the works of authorization, design, construction of an aircraft MRO hangar and the technical annex, instalations, urban improvements and fencing of the working point opened in Iasi. The duration of this contract is 18 months and its total value is 5.600.000 Euro, without VAT. The financing of this acquisition is assured from own sources.

Anniversary events

The 65th anniversary since the establishment of the company highlighted the importance of the company for the development of the local community, of the aviation and defence industry and for Romania and hosted many activities and events.

- On 16 April 2018, the members of the County Council voted the granting of the title of an Honorary Citizen of Bacau county to Mihai Nicolae TONCEA, President – General Director IAROM S.A., the majoritary shareholder of the company.
- On 17 April 2018 AEROSTAR celebrated 65 years from its establishment. Aerostar is a representative company for the Romanian and European aviation and defence industry and marked its 65th anniversary through a series of events. Most of them were organized and financed by the Cultural-Educational Association Aerostar Bacau.
- On 26 April 2018, the President of Romania, Mr. Klaus Werner JOHANNIS visited AEROSTAR. The management of the company presented a part of the production and maintenance centers from the civil aviation field, as well as the perspectives of the synergic development of the businesses from the civil aviation and defence industry, the existent potential and the advantages which AEROSTAR has presented in order to realize competitive national solutions relating to the future programs of the Romanian Army.
- On 11 May 2018, a delegation led by the Ministry of National Defence, Mr. Mihai FIFOR, accompanied by Mr. Hans Klemm, USA Ambassador and other government, parliamentary and local officials visited Aerostar. The management of the company presented the capabilities from the production and maintenance centres from the civil aviation field, as well as the perspectives of the synergic development of the businesses from the civil aviation and defence industry, the existent potential and the advantages which AEROSTAR is presenting in order to realize competitive national solutions related to the future programs of the Romanian Army.

Aerostar paid the dividends due to shareholders related to the year 2017

Starting with 20.09.2018 the shareholders were paid the dividends distributed from the profit realised in the financial year in 2017.

The coordinates of the dividends' payment owed to the shareholders, distributed from the profit of the year 2017 were communicated to the shareholders of the company, through a press release published on August 20th 2018, namely:

- a) the gross dividend per share is 0,094 lei, amount from which the tax on dividends is retained, in the quotas provided by the legislation into force at the payment date; the costs related to the payment shall be deducted from the amount of the net dividend;
- b) the "ex date" was established for the date of 30.08.2018 according to the decision of the Ordinary General Meeting of the shareholders from 19.04.2018;
- c) the shareholders entitled to receive the dividends distributed from the net profit realised from the financial year 2017 are the ones registered at the consolidated register of the shareholders in the date of 31.08.2018. – The registration date approved by the Ordinary General Meeting of the Shareholders from 19.04.2018;
- d) the dividends distributed from the profit realised in the financial year 2017 were paid to the shareholders starting with 20.09.2018 – The payment date approved by the Ordinary General Meeting of the Shareholders from 19.04.2018;

The payment of the dividends is performed through Depozitarul Central by respecting the legal provisions applicable (art. 86, paragraph 5 from Law 24/2017 and art. 177 from the ASF Regulation no. 5/2018), as it was detailed in the press release from August 20th 2018, and which can be found on the company's website www.aerostar.ro, at the section Investors Relation.

The shareholders are reminded that any data modifications in the register of the shareholders (modifications of name, address, heritage etc) shall be performed only by Depozitarul Central SA –with its headoffice in Bucharest, Sector 2, B-dul Carol I, no. 34-36, et. 3, 8 and 9, tel. 021.408.58.60, 021.408.58.66, 021.408.58.19 – at the shareholder's/entitled person's application.

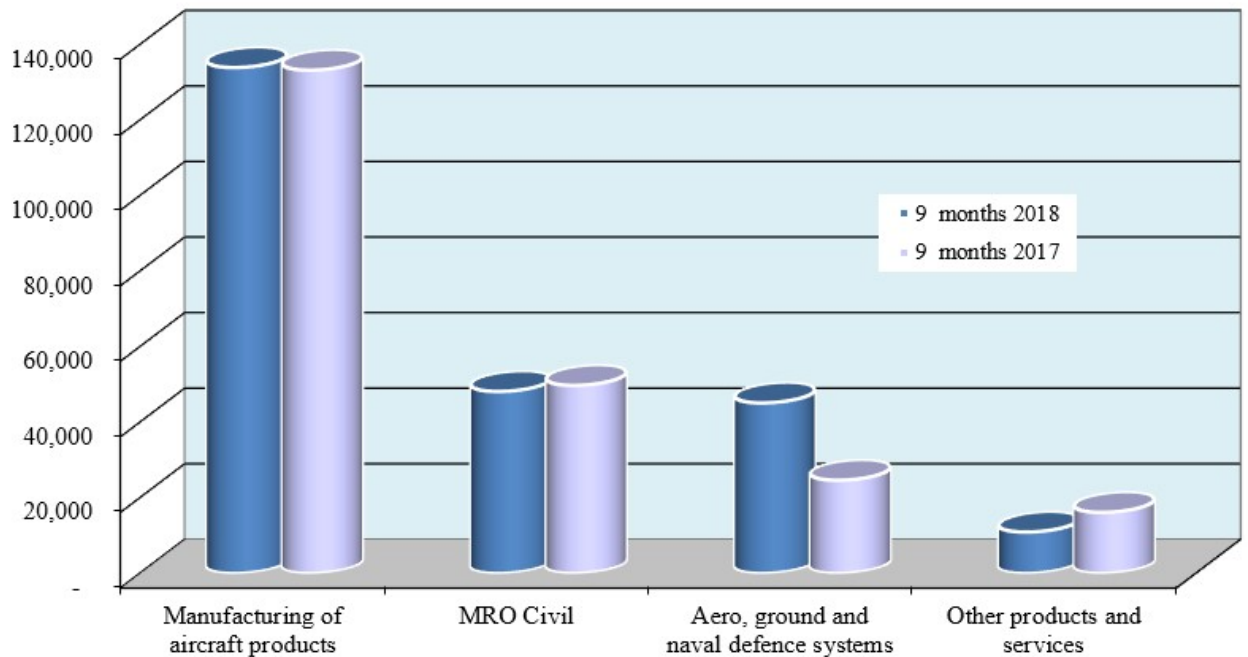
Any additional information regarding the dividends's procedure can be requested at:
-Depozitarul Central: e-mail: dividende@depozitarulcentral.ro
-AEROSTAR S.A.: tel. 0234.575.070 ext. 1445 or 1647, fax 0234/572023, e-mail: aerostar@aerostar.ro

AEROSTAR S.A. did not identify any events subsequent to the reporting date which would have an impact on the financial statements for 9 months 2018.

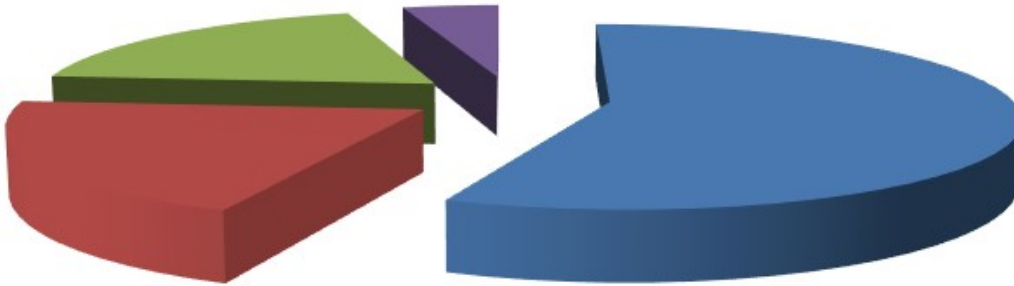
AEROSTAR market and business development

During January – September 2018, AEROSTAR had sales in the amount of 238.159 thousand lei, from which 180.790 thousand lei, approximately 76%, were export sales, with a high diversity of customers, in a large number of different production programs.

Comparative evolution of the sales on the main business markets:

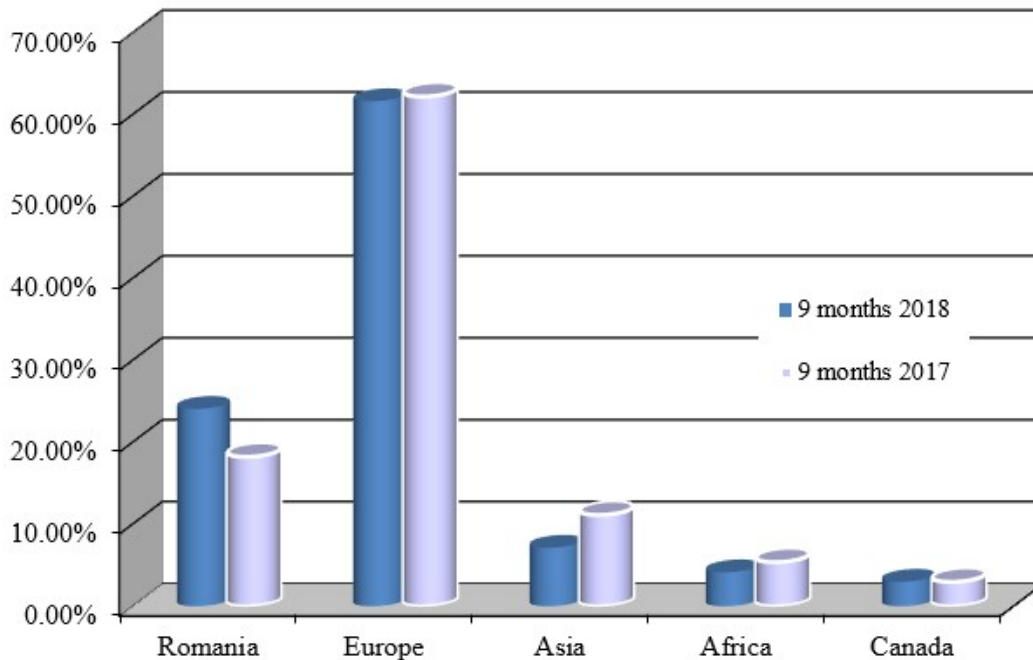


Sales on the main markets for 9 months 2018



■ Manufacturing of aviation products	56,23%
■ MRO	20,22%
■ Aero, ground and naval defence systems	18,95%
■ Other products and services	4,59%

Aerostar’s sales footprint is significant, on a global market of large geographical extent both in the civil and defence field.



Investments for sustainable development

Investments in equipment and infrastructure

The expenses for the investments program on the first 9 months of the year are 23.595 thousand lei from which the amount spent for intangible immobilization is 395.842 lei.

On 24 May 2018, Aerostar signed a contract for services for authorization, design and building of the MRO civil aviation hangar and technical annex, installations, urban improvements and fencing of the area for the working point opened in Iasi.

At this secondary headquarter, Aerostar will perform activities of civil aviation MRO for Boeing 737 and Airbus 320.

The contract was signed for a period of 18 months and the total value is 5.600.000 Euro without VAT.

The financing of this investment is made from the company's own sources.

Aspects related to the Quality and Environmental Management System

During the nine six months of 2018, Aerostar has maintained the certifications and approvals obtained either from the certification bodies, or from customers and other regulatory authorities.

As regards quality, surveillance audits were carried out both by the Romanian Civil Aeronautical Authority for the continued Part 21G and Part 145 approvals, by AEROQ for the Recertification Audits of the Quality Management System according to the requirements of SR EN ISO 9001 Standard from 2015, according to the AQAP 2110 requirements from 2016, as well as according to the requirements of AS 9100 Standard Rev. D from 2016.

As regards the environment, two control inspections were made from the Environment Guard Authority and one from the National Administration “Apele Romane”. Also, the validation audit for the number of Greenhouse Gas Emissions certificates relating to the year 2017, certificates which were handed over by assuring the conformity with the legislation in force, as well as the recertification audit for the Environment Management in accordance with SR EN ISO 14001 from 2015.

Furthermore, in the first 9 months of 2018, the monitoring of water, air and noise was performed in the entire company site, according to the regulations required by the Integrated Environment Authorization and currently the process of obtaining a new household authorization for water administration is in progress for *Baza Izvoare*.

Aspects related to the employees of the company

On 30.09.2018 it was an effective number of 1.999 employees, from which 1868 own employees and 131 employees – personnel temporary employed through the temporary work agent.

A number of 179 employees from company's own personnel are in management positions.

Other indicators at the date of 30.09.2018:

- the average employment years in AEROSTAR is 17 years;
- the average age of the employees in AEROSTAR and AIRPRO CONSULT is 46 years;

Description of the relations between the manager and the employees as well as of the conflictual elements which may characterize these relations

The average union membership in the company for 9 months 2018 was 74,08%.

In the first 9 months of 2018, AEROSTAR preoccupations materialized and a number of 146 young students from technical high schools “Anghel Saligny”, “N.V. Karpen”, “Dumitru Mangeron” and from Technologic highschool “Petru Rares” from Bacau, as well as 53 students from “Vasile Alecsandri” University from Bacau, Polytechnics University from Bucharest, University “Transilvania” from Brasov, Technical University “Gh. Asachi” Iasi, Military Technical Academy Bucharest and “Coventry” U.K. performed practice in the company.

In the first 9 months of 2018 professional training courses for the employees of the company were organized, targeting mainly the training in the areas of interest for the production activities:

- 40 courses (training programs) with external suppliers with a number of 425 attendants;
- 172 continuous professional training programs/internal approval.

A number of 8 internship programs were performed for young graduates with university technical studies, employees of the company.

Furthermore, an apprenticeship program for aircraft mechanics is ongoing, in which 12 apprentices are included.

The costs related to this period from the annual professional training budget was of: 724 thousand lei.

” Open Doors Day”

– In April 2018, on the occasion of the 65 years anniversary from the establishment of AEROSTAR S.A., two “Open Doors Day” events were organized, one dedicated to the highschool and college students from Bacau and the other one for the employees and their families, where 1.205 visitors participated.

RISK MANAGEMENT

AEROSTAR is exposed to many risks and uncertainties which can affect its financial performance. The business lines performed by AEROSTAR, the operational results or the financial situation, may be affected by the materialization of the risk presented further.

AEROSTAR pursues to secure the average and long-term sustainability and the reduction of the uncertainty associated with its strategic and financial objectives.

Carrying out the risk management processes provides the identification, analysis, evaluation and management of risks in order to minimize their effects down to an agreed level.

The reconfiguration of the Management System and of the Quality Management System in Aerostar in accordance with the latest editions of the standards SREN ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, SR EN ISO 14002 of 2016 place a special emphasis on the risk management.

The recertification obtained after the external audit for each of these certifications and authorizations confirms the preoccupation and good practice established in Aerostar for the risk management.

The operational risk is monitored through the intensive Management System implemented at all management levels and this process is sustained by the software applications used and implemented in the digitalization program.

The **Legal Risk** is associated to the operational risk.

Monitoring and elimination of the legal risk's effects is realised through a permanent information system regarding the legislative modifications, as well as by organizing an analysis, endorsement and approval system for 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.

We appreciate that currently there is a very low level of the operational risk in Aerostar.

In addition, AEROSTAR aims, by setting provisions for risks and related expenses, to have its own funding available to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with 1st rank insurance-reinsurance companies, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for commercial aircraft).

Credit Risk

The financial flows and the situation of the amounts collected and amounts paid for each partner are permanently monitored and controlled, maintaining a real connection with them, as a result we appreciate that this risk is very low.

The cash and cash equivalents are placed only in 1st tier bank institutions, considered as having a high solvency.

The credit risk, including the risk of the country in which the customer operates in its activity, is managed on each business partner. When necessary, specific instruments of credit risk mitigation are requested (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 geographical area.

However, there is a significant exposure towards the global market of Airbus programs, a high percentage from the company's products being incorporated in Airbus aircraft.

Liquidity Risk. In this period this risk is practically inexistent.

To manage the liquidity risk, the cash flows are monitored and analysed 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 expenditures.

As regards the management of the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500.000 USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities of the Company being financed from its own sources.

AEROSTAR is exposed mainly to the **price risk** determined by the fluctuations of the raw material and of the materials used in the manufacturing products.

The management of this risk is realised through:

- diversification of the suppliers' portfolio, which offers increased negotiation leverage with suppliers when the prices increase for the raw materials.
- long-term agreements, with provision of fixed price.

AEROSTAR is exposed to the exchange rate risk because 76% of the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in LEI.

Thus, AEROSTAR is exposed to the risk that the exchange rate variations shall affect both its net incomes as well as its financial position, as they are expressed in LEI.

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

Description of the main risks and uncertainties for the next 3 months of 2018

For the following 3 months AEROSTAR does not foresee other significant risks than as managed in the current period and presented further:

Operational risk: the risk to incur losses or the failure to meet the estimated profits.

Legal risk: the risk of loss, resulting from the fines, penalties and sanctions of which AEROSTAR can be charged in case of non-application or misapplication of dispositions, legal or contractual provisions.

Credit risk: the risk of AEROSTAR to incur a financial loss as a result of the failure to meet the contractual obligations by a customer.

However, additional risks and uncertainties can exist, currently unknown or considered insignificant, but which can affect in the future the business lines performed by AEROSTAR.

DATA RELATED TO THE AFFILIATED PARTIES

The companies where AEROSTAR has capital holdings operate in accordance with the Romanian law. At 30.09.2018 AEROSTAR has the following capital participations in other companies, with no modifications compared with the prior reporting period.

Name	Basic activity	Registered capital	Holdings Aerostar
Airpro Consult SRL	Contracting activities, on temporary basis, of manpower	10.000 lei	100%
Foar SRL	Renting and leasing activities with other machinery, equipment and tangible goods n.c.e.	8.000 lei	51%
Aerostar Transporturi Feroviare S.A.*	Manufacturing of lifting and handling equipment	200.000 lei	45,75%

The affiliated companies do not prepare quarterly financial reports, the latest financial statements prepared and approved being for the year 2017.

Subsidiary	Basic activity	No. of shares	Voting rights	Contribution held (thousand lei)	Financial information for the last financial year (2017) for which the financial statements of the affiliated companies were approved (thousand lei)		
					Sales	Own Equity	Net profit
Airpro Consult SRL	CAEN 7820 code	100	100,00%	10	9.138	171	106
Foar SRL	CAEN 7739 code	408	51,00%	4	479	1.966	219
Aerostar Transporturi Feroviare S.A.*	cod CAEN 2822	9.150	45,75%	92	-	273	1
Total				106	9.617	2.410	326

*The activity of the Aerostar Transporturi Feroviare SA Bacău is suspended since the year 2016.

The transactions between AEROSTAR and the affiliated parties in the period 01.01.2018 – 30.09.2018, detailed in Note 26 to the Financial Statements consisted in:

TRANSACTIONS WITH AFFILIATED PARTIES

	9 months 2018	9 months 2017
Aquisition of goods and services		
Airpro Consult SRL Bacău	5.582	5.957
Foar SRL Bacău	395	369
Total	5.977	6.326
	9 months 2018	9 months 2017
SALES OF GOODS AND SERVICES		
Airpro Consult SRL Bacău	-	4
Foar SRL Bacău	1	2
Total	1	6
	Balance on	Balance on
	30.09.2018	30.09.2017
LIABILITIES		
Airpro Consult SRL Bacău	569	561
Foar SRL Bacău	72	88
Total	641	649

DIVIDENDS COLLECTED/TO COLLECT BY AEROSTAR	9 months 2018	9 months 2017
<i>Dividends collected by Aerostar</i>		
Airpro Consult SRL Bacău	90	97
Foar SRL Bacău	-	92
<i>Dividends to collect by Aerostar</i>		
Foar SRL Bacău	112	-
TOTAL	202	189

The transactions with the affiliated parties in the first 9 months of 2018 consisted in:

- Services provided by AIRPRO CONSULT SRL Bacau to AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by FOAR SRL Bacau to AEROSTAR SA Bacau
- Services provided by AEROSTAR SA Bacau to FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected/to be collected by AEROSTAR SA Bacau from AIRPRO CONSULT SRL Bacau and from FOAR SRL Bacau.

During 01.01.2018 – 30.09.2018 no transactions were held with the company Aerostar Transporturi Feroviare SA Bacău, their activity being suspended since 2016.

THE ECONOMIC-FINANCIAL SITUATION

Elements of the financial position

(thousand lei)	30.09.2018	31.12.2017
TOTAL ASSETS, of which:	472.665	443.192
Noncurrent assets	158.629	153.686
Current assets - total, of which:	302.587	278.451
- inventories	91.430	67.925
- trade receivables and other receivables	67.641	46.640
- cash and cash equivalent	143.516	163.886
Other assets elements	11.449	11.055
TOTAL EQUITY, ADVANCE INCOME, LIABILITIES AND PROVISIONS, of which:	472.665	443.192
Total liabilities	58.022	52.331
Total provisions	108.422	125.189
Subsidies for investments	10.854	12.677
Total equity, of which:	295.343	252.967
- share capital	48.729	48.729
- retained earnings	58.128	57.524
- reserves	163.376	110.843
- other capital items (deferred income tax recognized on equity)	(11.695)	(7.961)
- profit distributed as legal reserve	(23.015)	(9.338)
- result of the period (profit)	59.820	53.170

Income and Expense Items

(thousand lei)	30.09.2018	30.09.2017
TOTAL INCOME	273.767	257.249
Operating income, from which:	267.726	253.917
- Turnover	238.159	223.799
- Income related to the inventories of finished goods and production work in progress	26.190	27.034
Financial income	6.041	3.332
Total expenses	208.333	222.591
Operating expenses, from which:	(205.452)	(217.492)
- Material expenses	(92.076)	(92.483)
- Expenses with employees' benefits	(83.766)	(79.930)
- Expenses regarding amortization of assets	(18.708)	(17.587)
- Adjustments regarding current assets	(6.808)	(11.870)
- Adjustments regarding provisions	16.767	6.944
- Expenses regarding external services	(18.648)	(20.694)
- Other expenses	(2.213)	(1.872)
Financial Expenses	(2.881)	(5.099)
Operating profit	62.274	36.425
Financial Profit / Loss	3.160	(1.767)
PROFIT BEFORE TAX	65.434	34.658
TAX ON CURRENT AND DEFERRED PROFIT	(5.614)	(7.674)
NET PROFIT OF THE PERIOD	59.820	26.984

Aspects regarding the company capital and administration

There were no modifications which affect the equity and the administration of the company.

The company was not in the impossibility to respect its financial obligations during the period.

There are no modifications regarding the rights of the shareholders. There were no major transactions completed by the company with the persons with whom the company is operating in a concerted manner or in which these persons were involved during the relevant period.

On behalf of the Board of Directors,

Grigore FILIP

President – General Director

AEROSTAR S.A. BACAU
INDIVIDUAL FINANCIAL STATEMENTS
ON SEPTEMBER 30th 2018
UNAUDITED

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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	September 30 th , 2018	December 31 st , 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	150.384	144.613
Intangible assets	5	1.145	1.858
Investment property	6	6.880	6.987
Long-term financial assets	7	220	228
Total non-current assets		158.629	153.686
Current assets			
Inventories	10	91.430	67.925
Trade receivables and other receivables	8;9	67.641	46.640
Cash and cash equivalents	11	143.516	163.886
Total current assets		302.587	278.451
Receivables regarding deferred income tax	17	10.665	10.564
Prepaid expenses	31	784	491
Total assets		472.665	443.192
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	59.820	53.170
Result carried-forward	12	58.128	57.524
Other reserves	12	163.376	110.843
Deferred income tax recognized based on own equity	17	(11.695)	(7.961)
Distribution of profit for legal reserve	12	(23.015)	(9.338)
Total equity	12	295.343	252.967
Income in advance			
Subsidies for investments	14	10.854	12.677
Income registered in advance	31	24	28
Total deferred income		10.878	12.705
Long-term liabilities			
Liabilities regarding deferred income tax	17	15.768	12.690
Other long-term liabilities	16	34	51
Total long-term liabilities		15.802	12.741
Long-term provisions	13	74.418	75.825
Current liabilities			
Trade liabilities	15	29.689	29.515
Liability with current income tax	23	1.876	1.522
Other current liabilities	16	10.655	8.553
Total current liabilities		42.220	39.590
Short-term provisions	13	34.004	49.364
Total provisions		108.422	125.189
Total liabilities		58.022	52.331
Total equity, advance income, liabilities and provisions		472.665	443.192

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	September 30 th 2018	September 30 th 2017
Operating income			
Income from sales	19	238.159	223.799
Other income	19	1.955	2.328
Income related to the inventories of finished goods and of work in progress	19	26.190	27.034
Income from production of assets	19	1.422	756
Total operating income		267.726	253.917
Operating expenses			
Material expenses	20	(92.076)	(92.483)
Expenses with the benefits of the employees	20	(83.766)	(79.930)
Expenses regarding amortization of assets	20	(18.708)	(17.587)
Influence of adjustments regarding current assets	20	(6.808)	(11.870)
Influence of adjustments regarding provisions	20	16.767	6.944
Expenses regarding external services	20	(18.648)	(20.694)
Other expenses	20	(2.213)	(1.872)
Total operating expenses		(205.452)	(217.492)
Operating profit/loss		62.274	36.425
Financial income	21	6.041	3.332
Financial expenses	22	(2.881)	(5.099)
Financial profit/loss		3.160	(1.767)
Profit before tax		65.434	34.658
Tax on current and deferred profit	17;2 3	(5.614)	(7.674)
Net profit of the period		59.820	26.984

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF GLOBAL RESULT
ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	September 30th 2018	September 30th 2017
Net profit of the period	59.820	26.984
Deferred income tax recognized on equity	(3.130)	(167)
Other elements on the global result	(3.130)	(167)
Total global result of the period	56.690	26.817

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on January 1st 2018	48.729	110.843	(7.961)	57.524	43.832	252.967
The profit of the period					59.820	59.820
Other elements of global result						
Deferred income tax recognized on the account of equity			(3.734)	604	-	(3.130)
Distribution of the profit of 2017 on the destinations decided by the shareholders in OGMS from the April 19 th 2018 (Note 12)				43.832	(43.832)	-
Distribution of the profit of 9 months 2018 for the legal reserves in gross amount		23.015			(23.015)	-
Total global result relating to the period		23.015	(3.734)	44.436	(7.027)	56.690
Reserves distributed from the profit of 2017		29.518		(29.518)		-
Dividends related to 2017, paid to the shareholders (Note 32)				(14.314)		(14.314)
Transactions with the shareholders directly recognized in equity		29.518		(43.832)		(14.314)
B. Balance on September 30th 2018	48.729	163.376	(11.695)	58.128	36.805	295.343
C. Modifications on own equity (NOTE 12)	0	52.533	(3.734)	604	(7.027)	42.376

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF CASH FLOWS (direct method)
ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	September 30 th 2018	September 30 th 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
collected from customers		232.636	222.915
taxes and excises recovered from State Budget		3.671	4.277
payments to suppliers and employees		(178.665)	(181.615)
payment of taxes, contributions and dues to State Budget		(34.881)	(38.440)
payment of profit tax		(5.399)	(7.493)
NET CASH FROM OPERATING ACTIVITIES	27	17.362	(356)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
interest collected from bank deposits formed		2.139	369
dividends received from subsidiaries		90	189
collected from sales of property, plant and equipment		11	73
interest collected from loans granted		4	4
instalments collected from loans granted		3	3
payments for purchasing property, plant and equipment and intangible assets		(26.441)	(18.717)
NET CASH FROM INVESTMENT ACTIVITIES	27	(24.194)	(18.079)
CASH FLOWS FROM FINANCING ACTIVITIES			
dividends paid but unclaimed		0	29
gross dividends paid		(13.594)	(13.160)
NET CASH USED IN FINANCING ACTIVITIES	27	(13.594)	(13.131)
Net decrease of the cash and of cash equivalents		(20.426)	(31.566)
Cash and cash equivalents at the beginning of the period		163.886	163.153
Effect of the exchange rate variation over the cash and cash equivalents	27	56	(1.182)
Cash and cash equivalents at the end of the period	11	143.516	130.405

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

NOTA 1 – DESCRIPTION OF THE COMPANY

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

AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, no.9 Condorilor Street, Code 600302. According to the Decision of the Board of Directors no.2/14.12.2017, the establishment of a secondary place of business has been approved without legal personality (working place) in Iasi, on 25B Aeroportului Street.

The main activity field of AEROSTAR is production.

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

The company was registered as a shareholding company at the Bacau Trade Register (under number J04/1137/1991), with the current name S.C. “AEROSTAR S.A.” and the individual identification code 950531, the European Unique Identifier (EUID) code ROONRC J04/1137/1991.

The Company is listed on the Bucharest Stock Exchange under the ARS code, and the record of its shares and shareholders is kept, as provided by law, by S.C. Depozitarul Central S.A. Bucharest.

During January 2018 – September 2018, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and, therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, 39 Aerogarii Boulevard. The consolidated financial statements for the financial year 2017 were submitted to ANAF under registration number 150489860 / 22.08.2018. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2018.

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

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

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

The strategy adopted develops the main object of activity of AEROSTAR, so that the aeronautical field represents the major part of the turnover. The general objective is the annual growth of the company’s turnover while increasing customer satisfaction. The specific objectives which support the general objective comprise the continued organic development of the company: the development of the centres of excellence through further modernization, investments and continuous improvement programs and organizational culture development.

The company equity entirely covers the financing needs of production and achievement of the investment volume. Through its dividend policy, the company develops its equity based on sales and investment volume are increasing.

During the January 2018 – September 2018, the company did not use loan capital and neither equity contribution from the shareholders.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON SEPTEMBER 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 2 - ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1. Estimates

The preparation and presentation of the individual financial statements in accordance with IFRS requires the use of estimates, judgements and assumptions affecting the implementation of the accounting policies as well as the reported value of the assets, liabilities, revenues and expenses.

The estimates and judgements are made based on the historic experience as well as on a series of factors considered adequate and reasonable. The accounting estimates and judgements are continuously updated and are based on reasonable expectations with respect to future probable events. The reported accounting values of the assets, the liabilities that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company's management.

Such estimates, as well as the reasoning and assumptions behind them are reviewed on a regular basis and the result thereof is registered in the time period when the estimate was reviewed.

Any change in accounting estimates will be recognized prospectively by its inclusion in the result:

- of the period in which the change occurs if it affects only the respective time period; or
- of the period in which the change occurs and of the subsequent periods, if the change also affects such periods.

The Company uses estimates in order to determine:

- the uncertain customers and the adjustments for impairment of related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of property, plant and equipment, for restructuring, for collateral granted to customers, for obligations towards manpower and other obligations;
- the adjustments for impairment of property, plant and equipment and intangible assets. At the end of each reporting period, the company estimates whether there is any impairment. If such signs are identified, the recoverable amount of the asset is estimated to determine the extent of impairment (if any).
- the lifetimes of property, plant and equipment and intangible fixed assets. The company reviews the estimated periods of use of tangible and intangible fixed assets at least at the end of each financial year to determine the adequacy.
- the inventories of raw materials and materials requiring to set up adjustments for impairment.
- deferred taxes.

Presentation of information

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON SEPTEMBER 30th 2018
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2.2. Errors

Errors may arise in recognizing, evaluating, presenting or describing the items of the financial statements.

The company corrects retrospectively the significant errors of the previous period in the first set of financial statements whose publication was approved after discovering them, by:

- restatement of comparative amounts for the prior period in which the error occurred, or
- if the error occurred before the first prior period, by restatement of the opening balances of assets, liabilities and equity for the previous presented period.

In the event of an error being identified, the Company shall disclose the following information:

- the nature of the error for the prior period;
- the value of the adjustment for each of the previously presented period, to the possible extent:
 - for each item - row affected from the financial statement;
 - for the basic result and diluted per share.
- the amount of the correction at the beginning of the first prior period, previously presented;
- if retrospective reprocessing is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of how and when such error was corrected.

2.3. Changes in the accounting policies

The change 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 change:

- 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.

Applying changes in Accounting Policies:

- The entity takes into account a change in the accounting policy that results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, of that IFRS; and
- When the entity changes an accounting policy to the initial application of an IFRS that does not include specific transitory provisions.

Presentation of the information

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

- the title of IFRS;
- the nature of the accounting policy change;
- when it is the case, the fact that the change is made as an effect of the transitory dispositions and a description of these transitory provisions;
- for the current period and for each prior period, the amount of adjustments for each affected element from the situation of the financial position, to the extent possible.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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When it is impossible to determine the specific effects for one or more accounting prior periods, the Company will apply the new accounting policy of assets and liabilities for the first period for which retrospective application is possible, that may also be the current period.

When a voluntary change of the accounting policy has an effect over the current or prior period, the company presents in the explicative notes:

- the nature of the change 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 prior period, the amount of the adjustments for each affected item from the financial position, to the extent possible.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of financial statements

The individual financial statements of AEROSTAR SA are prepared in accordance with the provisions of:

- the International Financial Reporting Standards (IFRS) adopted by the European Union;
- Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;
- O.M.F.P. no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market.
- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards.
- O.M.F.P. no. 2.861/2009 for the approval of the Norms regarding the organization and execution of the inventories of elements such as assets, debts and own capital;
- O.M.F.P. no. 1.826/2003 on the approval of the Explanatory Memorandum regarding some measures of organization and management of the business accounting;
- O.M.F.P. no. 2.634 / 2015 regarding the financial accounting documents, including subsequent amendments and additions.

The accounting is kept in Romanian and in the national currency.

The accounting for transactions in foreign currency is carried out both in national currency and in foreign currency.

The financial year is the calendar year.

The financial statements are prepared and reported in thousand lei and all values are rounded to the nearest thousand lei. Due to rounding, the numbers presented do not always accurately reflect the totals provided, and the percentages do not accurately reflect absolute figures.

The financial statements are prepared based on historical cost.

The financial statements are presented in accordance with IAS 1 "*Presentation of Financial Statements*". The Company has opted for a presentation by nature and liquidity in the statement of financial position and a presentation of income and expenses by nature in the statement of profit or loss, considering that these methods offer information that is relevant to the Company's situation.

3.2. Applied Accounting Policies

Aerostar SA describes the accounting policies applied in each of the notes to the individual financial statements and avoids repeating the text of the standard, unless it is considered relevant to understanding the content of the note.

The most significant accounting policies are presented below:

- **Accounting Policies regarding property, plant and equipment**

The Company has chosen the cost-based model as accounting policy. After recognition as an asset, the **property, plant and equipment** are accounted at their cost less accumulated impairment and any accumulated impairment losses.

The depreciated amount is allocated systematically over the useful life of the asset and represents the cost of the asset less the residual value.

Taking into account the specific activity and the types of property, plant and equipment in the patrimony of the company, it was considered that the residual values of the property, plant and

AEROSTAR S.A. BACAU
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(unless specified otherwise, all amounts are stated in thousand lei)

equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be valued after deduction of dismantling, disassembly and sales expenses. The impairment methods and useful life are reviewed at least at the end of each financial year and are appropriately adjusted. The useful lifetimes are determined by the commission made up of company's specialists. Any changes are accounted prospectively.

Subsequent expenditures related to property, plant and equipment are added to the net value of the good, when:

- they have as result the improvement of the initial technical parameters;
- are the sources of future economic benefits materialized by cash-flows that are supplementary to those initially estimated; and
- may be reliably assessed.

The benefits are realized directly through the increase of revenues and indirectly through reducing maintenance and operating expenses.

All other repair and maintenance expenses performed to ensure the continued use of the property, plant and equipment are recognized in profit or loss when they are carried out. These are performed in order to keep the initial technical parameters.

The spare parts are generally accounted for as inventories and recognized as expense when consumed. If the spare parts and service equipment, with significant values, may only be used in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment if the initial acquisition cost (upon commissioning) of the replaced part can be determined.

To decide whether the recognition is done separately, on separate components, each case is analysed using professional reasoning.

The property, plant and equipment to be used in production or in administrative activities are presented in the situation of the financial position of cost, less any loss accumulated from impairment. Such assets are classified in the respective asset classes when they are completed and ready for use in the manner desired by the management, for the intended purpose.

The management of the company has set an amount for the capitalization of assets at 2.500 lei. All purchases below this amount will be considered as expenses of the period.

Exceptions: Computers are considered to be impaired property, plant and equipment, irrespective of the amount of inventory inflow and will depreciate over expected useful life set by the receiving department. Work tools and devices are also accounted for as inventories and recognized as expenses of the period when consumed, irrespective of their initial value, taking into account that they have a useful lifetime less than a year, as well as their degree of specialization (intended to be used for a particular type of product/ service).

In the case of internally generated **intangible assets**, the phases of the production are clearly separated, namely:

- *The research phase.* The research costs are treated as expenses of the period
- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:
 - the technical feasibility of completing the asset, so that it is available for use or sell;
 - the availability of adequate resources - financial, human, financial - to complete the development;
 - the intention to complete and use or sell the intangible asset;

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

- the ability to use or sell the asset;
- how the asset will generate future economic value;
- the ability to assess costs.

If the company cannot distinguish between the research phase and the development phase of an internal project to create an intangible asset, the company treats the costs of the project as being exclusively incurred during the research phase.

The company has chosen as accounting policy the cost model that requires that the intangible assets to be valued at their net asset value, equal to their cost, less the accumulated impairment and any impairment losses, for those assets.

An **investment property** is initially valued according to its cost, including any other directly attributable expenses. After the initial recognition, the company has opted for the cost model for all its investments property in accordance with the provisions of IAS 16 for that model.

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

The transfers between categories do not change the accounting value of transferred property and do not change the cost of that property for the purpose of evaluation or presenting the information.

The investment property is amortized according to the same rules as for the property, plant and equipment.

In the category of **long-term financial assets**, are highlighted:

- Shares held in affiliated companies;
- Other property, plant and equipment;
- Long-term loans as well as interest on them. In this category are included the amounts granted to third parties based on interest-rate contracts, according to the law;
- Other fixed liabilities as well as interests related to them. This category includes collateral, deposits and bills placed with third parties, receivables related to financial leasing contracts.

The long-term financial assets recognized as an asset are measured at the cost of acquisition or at the amount set in their acquisition contract.

The long-term financial assets are presented in the statement of the financial position at the incoming value, except any recognized impairment losses.

- **Accounting policies on inventory items**

The registration of inventories is made at the time of the transfer of risks and benefits.

The calculations of those inventories that are not usually fungible and of those goods or services, products are determined by specific identification of their individual costs.

At the inventory outflow and of those fungible assets, those are assessed and recorded in the accounting by applying the FIFO method.

Periodically, the management of the company assets approves the level of the normal technological losses.

The inventory is kept according to quantity and value, by applying the permanent inventory method.

The value adjustments are made for the current assets of the inventory, upon each reporting period, based on the age of inventories, of the resolutions given by the inventory commissions and/

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or by the managers in charge, for the presentation of assets at the lowest value between cost and net realizable value.

- **Accounting policies on company's liabilities**

Company's liabilities are highlighted in the accounting based on third parties accounts. Suppliers and other liabilities accounts are kept by category, as well as by each individual or legal entity.

Income tax to be paid is recognized as a liability within the limit of the unpaid amount.

The registration in the accounting of the excise duties and special funds included in prices or tariffs is made based on the corresponding liabilities accounts, without the transit through the income and expenses accounts.

Operations that cannot be separately recorded in the appropriate accounts and for which further clarification is required are recorded in a separate account 473 (Deposits from operations under clarification).

Foreign currency liabilities are recorded in the accounting both in RON as well as in foreign currency.

A liability is classified as a short-term liability, also called current liability when:

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

All other liabilities are classified as long-term liabilities.

Liabilities that are payable over a term longer than 12 months are long-term liabilities.

Also considered interest-bearing long-term liabilities are even when they are due within 12 months of the date of the financial statements, if:

a) the initial term was for a period longer than 12 months; and

b) there is a refinancing or rescheduling agreement that is concluded before the date of the financial statements.

- **Accounting policies on company's receivables**

Receivables include:

- trade receivables, which are amounts owed by customers for goods sold or services rendered in the normal course of the activity;
- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to manpower and state budget.

Receivables are accounted for under the accrual basis, according to the legal or contractual provisions.

Customer accounting is kept on categories (internal customers for services and products, as well as external customers for services and products) and on each natural or legal person.

Receivables settled in foreign currency or in RON according to the foreign exchange rate:

Receivables in foreign currencies, which are the result of the company's transactions, are recorded both in RON, as well as in foreign currency.

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

The deregistration of receivables with prescribed collection deadlines is performed only after all legal steps have been taken, for their settlement.

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The uncertain receivables are recorded separately in the account 4118 Uncertain customers when the payment term stipulated in the contract is overdue by more than 30 days or there is a dispute with the customer.

In the annual financial statements, receivables are valued and presented in the value which is likely to receive.

When a receivable from a customer has not been collected in full at the payment term stipulated in the contract, there are recorded impairment adjustments to the terms and percentages approved by the Board of Directors in the Accounting Policy Manual.

- **Accounting Policies for Revenue Recognition**

In the revenue-related category are included both the revenues received or to be received in own name, as well as gains from any source.

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on an accrual basis.

The revenue is measured at the fair value of the amount received or to be received. The sales revenue is diminished for returns, commercial rebates and other similar discounts.

Revenues from operations include:

- sales revenue (goods, services, commodities, residual products);
- revenues related to the cost of product inventories;
- revenues from the production of property, plant and equipment;
- revenues from changes in adjustments of assets respectively from impairments or reversals of provisions;
- other operating revenues.

Revenues from the sale of goods are recorded when all of the following conditions are met:

- the company has transferred to the buyer the risks and rewards of ownership of the goods;
- the company does not retain the continuous managerial involvement to the level usually associated with the ownership or the actual control over the sold goods;
- the amount of revenue can be accurately assessed;
- it is likely that the economic benefits associated with the transaction will be directed to the entity;
- the costs incurred or to be incurred in connection with the transaction can be precisely measured.

Specifically, the proceeds from the sale of goods are recognized when the goods are delivered and the legal title is transferred.

Revenues from rendering of services

The service contracts in the company's portfolio are usually contracts with execution at a specific time, which coincides with the delivery of goods subject to the rendering of services.

As a result, the revenues from the rendering of services are registered when the following conditions are met:

- the company had transferred to the customer the control over the services rendered;
- the amount of the revenue can be accurately measured;
- it is probable that the economic benefits associated with the transaction will be directed to the entity;

AEROSTAR S.A. BACAU
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If the result cannot be estimated, the revenue is recognized up to the recoverable amount.

The **rental revenues** from investment assets are recognized in the income statement on a straight-line basis over the period of the rental.

The **financial revenues** include interest revenue, foreign exchange revenue, dividend revenue and other financial revenue.

The **interest revenues** are recognized in the profit or loss account on the basis of accrual accounting using the effective interest method. The interest revenues generated by a financial asset are recognized when it is probable that the company will obtain an economic benefit and when that revenue can be measured accurately.

The **dividend revenues** generated by investments are recognized when the shareholder's right to receive payment has been determined. The company records dividend revenues at the gross amount that includes dividend tax (when it is the case), which is recognized as income tax expense.

- **Accounting policies for provisions**

Provisions are recognized when the company has a present obligation (legal or implicit) as a result of a past event, it is probable that the company will be required to settle the obligation and a reliable estimate of the amount of the obligation.

The value recognized as provision is the best estimation that can be made regarding the amount required to settle the current obligation at the end of the reporting period, taking into account the risks and uncertainties around the obligation.

The accounting for provisions is kept on the basis of the nature, the purpose or the object for which they were set up.

Provisions for collaterals

The company makes provisions for collaterals when the products or services covered by the collateral are sold.

The amount of the provision is based on historical or contractual information about the collateral granted and is estimated by the share of all possible results with the probability of the realization of each.

Provisions for Risk and Expense

When identifying risks and expenses that the events that occur or are occurring make them probable and whose object is determined with certainty but whose realization is uncertain, the company hedges these risks by making provisions.

The provisions for risks and expense are constituted for items such as litigations, fines, penalties, compensations, damages and other uncertainties.

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Provisions for the decommissioning of property, plant and equipment

When the initial recognition of a property, plant and equipment is estimated, the cost of dismantling, removing the item and restoring the site where it is located, as a consequential cost of using the item over a certain period of time.

These consequential costs are reflected by the set-up of a provision that is recorded in the profit or loss account statement during the lifetime of the property, plant and equipment, by including it in the impairment expense.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual review of the dismantling costs. The Committee of specialists from the company, appointed by decision, establishes, on a regular basis, whether the initial estimates of dismantling costs are appropriate.

Provisions for the benefits of the employees

Are recognised as employees' benefits, granted according to the applicable Collective Labour Agreement, only if:

- the entity has the legal and constructive obligation to make such payments as an outcome of past events; and
- a reliable estimate of the obligation can be achieved.

The provisions are reanalysed at the end of each reporting period, in order to present the most appropriate current estimation.

• **Accounting Policies on grants and other non-refundable funds**

The subsidies are distinctly reflected:

- government subsidies;
- non-refundable loans in the form of grants;
- other amounts received in the form of subsidies.

Grants are recognized at their approved value. Grants received as non-monetary assets are recognized at fair value.

Government grants are initially recorded as deferred revenue at fair value when there is reasonable assurance that it will be received and the Company will respect the conditions associated with the grant.

Grants that compensate the Company for the expenditures incurred are systematically recorded in the income statement, in the same periods in which expenses are recorded. Grants that compensate the company for the cost of an asset are recorded on a systematic basis in the profit or loss account over the entire lifetime of the asset.

Grants related to income are recorded on a systematic basis as revenues from the periods corresponding to the related expenditures that these grants are to compensate.

In case that, during a specific period, a grant is received for expenses that have not yet been incurred, the subsidies received do not represent income for that current period. They are recognized in the accounting as advance income and are resumed in the profit or loss account as the incurred expenses compensate the surplus.

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- **Accounting policies for the production of goods and services**

The accounting in Aerostar SA is based on the applicable legal provisions and the manual of procedures and work instructions specific to the management accounting, adapted to the specific activity of the Company.

The object of the management accounting consists of:

- collecting direct, indirect and ancillary costs by their nature;
- indirect costs allocation;
- direct and indirect costs deduction.

The purpose of the management accounting is principally to determine the result on production or services orders and on each organizational structure.

According to the accounting regulations, the following items are not included in the cost of goods, works and services that are recognized as expenses of the period in which occurred:

- a) losses of material, labour or other production costs related to the scrap and the under-activity costs;
- b) general administration expenses.

The calculation method used in Aerostar SA is the method based on orders.

This method is suitable for individual and serial production. The object of recording and calculate the cost within this method is the order launched for a certain quantity (batch) of products.

The production costs are collected directly on each order (those that are direct) or by allocation (the indirect ones).

The actual cost per unit of product are calculated upon completion of the order by dividing the production costs collected from the respective order to the quantity of products produced on the order.

The orders are launched at a planned price, as the case may be.

In the case of orders related to export sales the price is expressed in RON by converting the currency to the budgeted foreign exchange rate.

In applying the accounting policies, the Company issues procedures, instructions and work arrangements approved by the executive management.

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NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers the Romanian LEU as a functional currency and the financial statements 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 date of the Financial Position Statement, the assets and financial liabilities denominated in foreign currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid on that date:

Currency	30.09.2018
EUR (Euro)	4,6637
USD (American Dollar)	4,0210
GBP (British pound)	5,2481

The favourable and unfavourable exchange rates differences which result from the settlement of the assets and financial liabilities 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 net currency exposure resulted as difference between the receipts of the financial assets and the payment of the financial liabilities denominated in that currency are presented as following:

9 months 2018	thousand EUR	thousand USD	thousand GBP
Receipts from financial assets	10.528	34.413	0
Payments of financial liabilities	(8.814)	(11.829)	(372)
Net currency exposure	1.714	22.584	(372)

In the reporting period, the quarterly of the medium appreciation of the USD/LEU currency exchange (with -2,65% in the first quarter 2018 compared with the beginning of year 2018, with +2,90% in the second quarter of 2018 compared to the first quarter of 2018 and with +2,47% in the third quarter of 2018 compared to the second quarter of 2018) has determined the reporting of a financial profit from favourable differences of exchange rate the amount of 1.037 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	September 30 th 2018			January 1 st 2018		
	Gross values	Amortization/ Depreciation	Net accounting value	Gross values	Amortization/ Depreciation	Net accounting value
Capitalized development costs	125	(125)	0	89	(89)	0
Licence /Trade marks	4.824	(3.748)	1.076	4.602	(3.122)	1.480
Other intangible assets	1.344	(1.275)	69	1.196	(818)	378
Total	6.293	5.148	1.145	5.887	4.029	1.858

Net accounting value

	Balance on January 1 st 2018	Increase	Reclassification	Disposals	Amortization/ Depreciation during the period	Balance on September 30 th 2018
Capitalized development costs	0	125	0	0	(125)	0
Licence	1.480	248	0	0	(652)	1.076
Other intangible assets	378	148	0	0	(457)	69
Total	1.858	521	0	0	(1.234)	1.145

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

- Development expenses
- Licence
- Other intangible assets

The IT programmes are registered in other intangible assets.

The estimated useful lifetimes of intangible assets are established in years.

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

The fiscal durations of operation of the intangible assets 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 assets in the balance sheet account as on 30.09.2018 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software license on September 30th, 2018 and which are still in use is 1.835 thousand lei.

All the intangible assets recorded in the balance sheet as on September 30th, 2018 are property of AEROSTAR.

Increases in gross values of intangible assets were obtained by:	<u>521</u>
• capitalization of the development expenses fully financed by Aerostar	125
• development of the IT management system of production-AEROPROD	148
• purchasing of software licence	248

In the reporting period there was no entry of licences generated internally or acquired through business combinations.

In the reporting period there were no assets classified as held for sale in accordance with IFRS 5.

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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment on September 30th 2018 and January 1st 2018 shall include the following:

	September 30 th 2018			January 01 st 2018		
	Gross values	Amortization/ Depreciation	Net accounting value	Gross values	Amortization/ Depreciation	Net accounting value
Land	28.401	0	28.401	28.433	-	28.433
Constructions	54.791	15.736	39.055	54.160	12.256	41.904
Technological equipment and transport vehicles	144.894	65.833	79.061	119.436	52.550	66.886
Other equipment and office equipment	962	438	524	937	353	584
Investment property	9.083	2.203	6.880	8.810	1.823	6.987
Property, plant and equipment under construction	3.343	0	3.343	6.806	0	6.806
Total	241.474	84.210	157.264	218.582	66.982	151.600

Net accounting value

	Balance on 1 st January 2018	Increase	Reclassification	Disposal/Transfer	Amortization/ Depreciation	Balance on September 30 th 2018
Land	28.433	0	0	(32)	0	28.401
Constructions	41.904	7 / 628	0	0	(3.484)	39.055
Technological equipment and vehicles	66.886	25.735	0	(37)	(13.523)	79.061
Other equipment and office equipment	584	27	0	0	(87)	524
Investment property	6.987	273	0	0	(380)	6.880
Property, plant and equipment under construction	6.806	23.200	0	(26.663)	0	3.343
Total	151.600	49.870	0	(26.732)	(17.474)	157.264

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Property, Plant and Equipment are evaluated at their acquisition or production costs minus cumulative depreciation and the impairment losses.

These items are amortized by the Company using the linear method.

Amortization expenses are recognised in the profit and loss account.

The following useful lives are assumed:

- constructions	30-50 years
- technological equipment	4-25 years
- vehicles	4-18 years
- other property, plant and equipment	2-18 years
- investment property	25-50 years

The useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed in September 2018.

The fiscal useful lives of the Property, Plant and Equipment 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 investment property contains a number of 11 properties – buildings and related lands which are rented to third parties based on rental contracts.

The values from renting income registered in the reporting period was of 1.493 thousand lei (9 months 2017: 1.391 thousand lei).

At the date of transition to IFRS, the Company estimated and included in the cost of the Property, Plant and Equipment 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 Property, Plant and Equipment, by inclusion in the depreciation expense.

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 if 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 - Impairment of assets, the company proceeded to the identification of any signs of impairment of Property, Plant and Equipment, taking into consideration external and internal sources of information.

External source of information

Market value (market capitalization) of the company has registered a growth of 10% on September 30th 2018 in comparison with December 31th 2017.

The indicator which offers information regarding the interest from the investors in the companies listed on the capital market is the market capitalization reported to equity (MBR).

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The company AEROSTAR continues to register a very good value of the indicator obtained by the top-rated companies on the market and which represent interest from the investors.

<u>MBR-Market indicator to book ratio</u>	<u>30.09.2018</u>	<u>30.09.2017</u>
Stock exchange capitalization/ equity	2,7	2,8

Internal source of information:

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

-in the reporting period there were no negative modifications on the way the assets were used. The rotation of the immobilizations (turnover / non-current assets – indicator monitored monthly) was at the same level in comparison with the previous similar period (1,5 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 30.09.2018 are not depreciated and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized Property, Plant and Equipment which are still in operation on September 30th, 2018 is of 5.975 thousand LEI.

On 30.09.2018 no mortgages were set on tangible assets in the property of AEROSTAR S.A.

Increases in gross values of the Property, Plant and Equipment, achieved by:	<u>49.870</u>
acquisition of technical equipment, hardware, equipment for measuring and control, on site transport vehicles etc.	26.663
• investments performed on 9 months 2018	23.200
• immobilization as plus inventory	7
 Decreases in gross values of Property, Plant and Equipment, achieved by:	 <u>26.732</u>
• the transfer of the immobilizations in progress of execution in Property, Plant and Equipment following their placing in service	26.663
• derecognition of certain Property, Plant and Equipment, due to the fact that the company no longer expects future economic benefits from their use	37
• expropriation, for a public use cause, of a land surface of 452 square meter owned by AEROSTAR – to realize the objective of local interest investments, „Rehabilitation of the Aeroportului Street”.	32

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NOTE 7- LONG-TERM FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Long-term loans	Other fixed liabilities- supplier warranties	Total
On January 1st 2018	14	92	87	35	228
Increases/Decreases	-	-	(7)	(1)	(8)
On September 30th, 2018	14	92	80*	34	220

*) The company registers in long-term financial assets 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.

The details on the entity's investments in other companies as on 30.09.2018 are the following:

Subsidiary name/ Registered headquarter	CAEN Code	No. of shares/ shares issued	Voting rights (%)	Value of shares held by Aerostar (thousand lei)	Financial information related to 2017				
					Shared capital of the company	Reserve	Net profit	Nominal value/ share	Net asset/share
SC Airpro Consult SRL Bacau Condorilor Street, no .9	- main activity according to CAEN code 7820	100	100%	10	10	55	106	0,1	1,7
SC Foar SRL Bacau Condorilor Street, no .9	- main activity according to 7739 CAEN code	800	51%	4	8	1.739	219	0,01	2,5
SC Aerostar Transporturi Feroviare S.A Bacau Condorilor Street, no. 9	- main activity according to 2822 CAEN code	20.000	45,75%	92	200	38	1	0,01	0,013
TOTAL	x	x	x	106	218	1.832	326	x	x

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

In January – September interval of 2018, the company recorded no modifications i.e. no increases/decreases as to the stake-holding percentage, maintaining the same influence as in 2017.

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

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NOTE 8 - TRADE RECEIVABLES

	September 30th 2018	December 31 2017
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	54.245	38.050
Domestic customers	17.887	4.470
Foreign customers	36.358	33.580
Uncertain customers	1.025	1.162
Adjustments for impairment of receivables, customers	(515)	(1.162)
Suppliers – debtors/Advance debtors to suppliers	9.572	6.371
Customers – invoices to be issued	-	-
Bills of exchange receivable	34	-
Other fixed receivables with due date less than 12 months	117	132
Total trade receivables	64.478	44.553

In accordance with the provisions of the Manual of accounting policies, to cover the non-recovery risk of the amounts which represent uncertain trade receivables, the company has registered on September 30th 2018 adjustments for the impairment of the uncertain customers in amount of 515 thousand lei, from which:

- 510 thousand lei are related to the adjusted uncertain trade receivables in percentage of 50% (maturity exceeded is between 30-180 days);
- 5 thousand lei is related to the adjusted uncertain trade receivables in percentage of 100% (maturity exceeded with more than 180 days).

When determining the recoverability of a trade receivable, we took into account the changes occurred in the customer's credit rating from the time when the credit was granted till reporting date.

The advance payments to suppliers have a settlement limit in year 2018.

In the category of Other fixed receivables, with a due date less than 12 months, enter the performance bonds 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 September 30th, 2018.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for September 30th 2018, were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	September 30th, 2018	December 31st, 2017
Receivables relating to manpower and similar accounts	33	30
Receivables related to the budget of social security and the state budget, of which:	2.798	1.573
– VAT receivable	1.664	768
– VAT under settlement	127	154
– Excises receivable related to fuel consumption	491	504
Receivables from subsidiaries	112	-
Interest to receive from bank deposits	125	346
Sundry debtors	195	233
Adjustments for the depreciation of the receivables – sundry debtors	(111)	(113)
Other receivables	11	18
Total other receivables	3.163	2.087

To cover the risk of non-recovery of the amounts representing uncertain receivables – sundry debtors, the company recorded adjustments for depreciation of diverse debtors in the amount of 111 thousand LEI.

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NOTE 10 – INVENTORIES	September 30th 2018	December 31st 2017
of which:		
Raw materials	16.853	14.789
Consumables	29.668	25.444
Other materials	113	146
Semi-finished products	1.917	-
Packaging	40	34
Finished products	23.824	17.796
Products under execution	39.989	23.271
Goods	-	0.6
Adjustments for depreciation of inventories	(20.974)	(13.556)
TOTAL	91.430	67.925
Gross value of the inventories (unadjusted)	112.404	81.481

The inventories are assessed at the lowest value between the cost and the net realizable value.

The net realizable value is the estimated sale price for inventories minus all estimated costs for completion and the estimated costs required for the sale.

The cost of inventories includes: acquisition costs, conversion costs as well as other costs incurred to bring inventories to the state and in the place where they are currently found.

Adjustments are made on a periodic basis based on the findings of the inventory commissions and/or the managers of the organizational modules in order to present them at the lowest value between the cost and the net realizable value.

Within the Company, the goods which are considered to be depreciated are those that are older than the storage period established by internal decision of the Board of Directors.

The total value of inventories recognized as an expense during the period is 84.986 thousand lei.

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

AEROSTAR S.A. has no pledged inventories.

Starting with 01.01.2018, with the approval of the Board of Directors, it was decided to voluntarily change the accounting policy on the output inventory valuation, from the Weighted Average Cost to the FIFO method. The reasons for this change are:

- the new policy provides reliable and more relevant information on the effects of transactions on the financial position and financial performance of the Company;
- the change of the initial terms (characterized by significant inflation and the volatility of the exchange rate) since the application of the Weighted Average Cost method;
- better inventory record monitoring and traceability, by batches;
- better performance in operating the production and inventories management information systems.

From the data analysis, results the impossibility of accurately determining the effects of the change of this policy over the previous presented periods.

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NOTE 11 - CASH AND CASH FLOW EQUIVALENTS

At the end of the reporting period the cash and cash equivalents consisted in:

	30.09.2018	30.09.2017
Cash	14.215	2.815
Bank deposits	129.298	127.590
CECs and trade effects to receive	3	0
Cash and cash equivalents in the cash-flow statement	143.516	130.405

The cash contains the current available in cash and at the banks;

The cash equivalents comprise:

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

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

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

The value of Credit facilities, usable under the form of an overdraft, available for the future operating activity, is of 2.500 thousand USD (equivalent 10.053 thousand LEI).

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NOTE 12 - EQUITY

At the date of September 30th 2018, the equity of the company is of 295.343 thousand lei.
The net increase of company equity for 9 months 2018 in comparison with 2017 was 42.728.784 thousand lei.

The modifications of the main elements of the equity incurred in the reporting period of 2018 compared with 2017 are the following:

- **The share capital remained unchanged**

At the date of September 30th, 2018, the share capital of SC AEROSTAR SA Bacau is 48.728.784 LEI, divided in 152.277.450 shares with a nominal value of de 0,32 lei.

- **The reserves increased with 52.533 thousand lei on the account of:**

- distribution to reserves of the reinvested profit related to the first 9 months of 2018 in gross amount of 23.015 thousand lei
- distribution for reserves of the amount of 29.518 thousand lei from the profit related to the financial year 2017.

- **Other capital elements have increased with the amount of 3.734 thousand lei** on the account of the deferred income tax recognized in equity.

- **The result carried forward:**

- **increased with:**

- 604 thousand lei on the account of the deferred profit tax recognized on the account of the equity
- 43.832 thousand lei representing the profit to be distributed related to the financial year 2017, stated in the result carried forward until its distribution on the destinations approved by the shareholders in the ordinary general meeting from April 19th, 2018.

- **and decreased** with the profit of the financial year 2017, distributed as follows:

- For reserves in the amount of 29.518 thousand lei
- For dividends in the amount of 14.314 thousand lei

The balance of the result carried forward on September 30th 2018 is of 58.128 thousand lei, consisting in:

- the retained earnings obtained from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 37.815 thousand lei;
- the retained earnings representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets amortized = 20.313 thousand lei;

- **The result of the period was 59.820 thousand lei.**

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During the period the amount of 43.832 thousand LEI was registered representing the distributable profit from 2017.

The amount of 7.027 thousand lei which has influenced the equity on 30.09.2018 represent the arithmetical difference between the result of the period (59.820 thousand lei) and the distributions of the period (66.847 thousand lei).

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NOTE 13 - PROVISIONS

	December 31 st 2017	Increases/ Set provisions	Reductions /Provisions resumed	Differences from revaluation	September 30 th 2018
Total provisions	125.189	7.453	(24.926)	706	108.422
Provisions for warranties granted to customers	40.504	7.453	(8.878)	671	39.750
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for the employee benefits	5.754	0	(5.710)	0	44
Provisions for litigations	5.810	0	(700)	4	5.114
Other provisions	57.005	0	(9.637)	31	47.399
- of which:					
Long-term provisions	75.825	3.221	(4.667)	39	74.418
Provisions for guarantees granted to customers	6.913	3.221	(4.344)	0	5.790
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for litigations	5.110	0	0	4	5.114
Other provisions	47.686	0	(322)	35	47.399
Short-term provisions	49.364	4.232	(20.259)	667	34.004
Provisions for guarantees granted to customers	33.591	4.232	(4.534)	671	33.960
Provisions for employee benefits	5.754	0	(5.710)	0	44
Provisions for litigations	700	0	(700)	0	0
Other provisions	9.319	0	(9.315)	(4)	0

Provisions set up for guarantees granted to customers

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

Provisions for decommissioning the Property, Plant and Equipment

Provision for decommissioning of property, plant and equipment 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 set for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, the end of the year of production, performance bonus) and for yearly leave vacation not executed in the previous year.

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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 reanalysed 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 some expenses regarding the Company's obligations towards A.J.O.F.M., in O.U.G. 95/2002 base.

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NOTA 14 - SUBSIDIES

Subsidies related to assets

AEROSTAR recognizes as deferred revenue the assets-related subsidies.

	30.09.2018	30.09.2017
Balance on January 1st	12.649	14.972
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization		(1.707)
Balance on September 30th	10.827	13.265

The subsidies related to the non-current 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 on 30.09.2018 of 10.827 thousand lei represents the subsidies related to investments in non-current assets which are to be recorded on income while the costs of the calculated amortization are registered, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2.282 thousand lei
2. contract no. 229226/14.06.2012: 2.733 thousand lei
3. contract no. 5IM/013/24.03.2015: 5.812 thousand lei

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NOTE 15 - TRADE LIABILITIES

	September 30th 2018	December 31st 2017
Advance payments received on customers account	4.214	4.896
Domestic customers-creditors	67	3.985
Foreign customers-creditors	4.147	911
Supplier, of which:	25.475	24.580
Domestic suppliers	7.885	9.269
Foreign suppliers	15.081	11.540
Suppliers-invoices not arrived	558	1.803
Suppliers of assets	1.951	1.968
Commercial bills of exchange to be paid	-	39
Total trade liabilities	29.689	29.515

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

For the highlighted liabilities no mortgages were established.

At the end of June 2018, the company has commitments under letters of bank guarantee for the amount of 2.161 thousand USD issued in favour to the trade business partners according to the contractual requirements.

The favourable or unfavourable exchange rate differences between the market exchange rate to which are registered the liabilities in foreign currencies and the market exchange rate communicated by the National Bank of Romania for the September 30th 2018, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 – OTHER LIABILITIES

	September 30 th 2018	December 31 st 2017
Other current liabilities, of which:	10.655	8.553
• <i>Liabilities related to manpower and similar accounts</i>	<i>2.431</i>	<i>2.242</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>5.787</i>	<i>4.503</i>
– VAT payable	2.273	1.451
– social insurance	2.580	2.016
– assurance contribution for work	165	-
– tax on revenues of wages type	492	741
– contribution for unemployed people with disabilities	131	102
• <i>Other liabilities, of which:</i>	<i>2.437</i>	<i>1.808</i>
– dividends	2.192	1.492
– diverse creditors	136	204
 Other long-term liabilities	 34	 51

Dividends in balance on September 30th, 2018, with the amount of 2.192 thousand lei represent:

- 700 thousand lei, amount remained to be transferred by AEROSTAR for the payment of the dividends related to year 2017 to the shareholders who collect them at the desk of CEC Bank SA (payment agent designated by AEROSTAR).
- 557 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who collect them at the desk of CEC Bank SA payment agent (payment agent designated by AEROSTAR).
- 508 thousand LEI, amount to be paid by AEROSTAR for the dividends from 2015 to the shareholders who did not collect them at the desk of CEC Bank S.A. (the paying agent designated by AEROSTAR);
- 427 thousand LEI, amount to be paid by AEROSTAR for the dividends from 2014 to the shareholders who did not collect them at the desk of CEC Bank S.A. (the paying agent designated by AEROSTAR).

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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 liabilities and their accounting basis. The deferred income tax is calculated by the tax rate of 16% applicable to the temporary differences at their resumption.

The Company has estimated and registered liabilities regarding the deferred income tax related to non-current assets (which results from differences between accounting amount and fiscal values, the different useful lifespan, and so on) and of the reserves and recognised receivables regarding the deferred income tax related to the inventories 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 on September 30th, 2018 is:

Liabilities on deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (greater) and the fiscal ones (lower) of the non-current assets	3.070
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities from deferred tax related to reserves from the fiscal facility	11.078
4. Liabilities from deferred tax related to the result carried forward representing a surplus realised from revaluation reserves	61
Total liabilities from deferred tax	15.768

Receivables from deferred tax

1. Receivables from deferred tax related to other provisions established in 2010	942
2. Receivables from deferred tax related to provisions for warranties granted to customers established between 2014-2018	6.360
3. Receivables from deferred tax related to provisions for manpower benefits	7
4. Receivables from deferred tax related to the adjustments for depreciation of the inventories	3.356
Total receivables on deferred tax	10.665

The Company did not recognise receivables related to deferred tax related to other provisions for the aviation industry risks due to an uncertainty 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.

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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 liability or an equity instrument for another entity.

The financial assets and liabilities 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
- trade receivables
- trade bills of exchange received
- immobilized receivables (third parties guaranties)
- loans granted with interest

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade bills of exchange to pay

On the reporting date AEROSTAR does not have financial liabilities 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 deposits) and trade 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 mitigation (receipts in advance, letters of payment bank security, confirmed letters of credit).

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

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Exposure to credit risk

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

	30.09.2018	30.09.2017
Cash and cash equivalents	143.516	130.405
Net trade receivables of adjustments for depreciation	51.946	37.516
Trade bills of exchange received	34	71
Immobilized receivables	152	0
Loans granted with interest	80	90
Total	195.728	168.082

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

	30.09.2018	30.09.2017
Domestic market	17.887	4.403
Euro zone countries	15.918	17.530
Great Britain	13.075	12.144
Other European countries	732	0
Other regions	4.334	3.439
Total	51.946	37.516

Depreciation adjustments

The timeframe structure of gross trade receivables on the reporting date was:

	Gross value 30.09.2018	Adjustments for depreciation 30.09.2018	Gross value 30.09.2017	Adjustments for depreciation 30.09.2017
In term	51.408		36.630	
Outstanding, total	1.053	515	1.344	458
from which:				
1-30 days	0	0	0	0
31-60 days	40	0	141	141
61-90 days	229	94	98	98
91-120 days	57	23	909	23
Over 120 days	727	398	170	170
Over de 1 year	0	0	26	26
Total	52.461	515	37.974	458

The movement in the adjustments for the depreciation of the trade receivables during the year is presented in the following table:

	30.09.2018	30.09.2017
Balance on 1st January	1.162	1.024
Adjustments set for depreciation	758	5.067

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Adjustments for depreciations resumed as revenues	(1.405)	(5.633)
Balance on September 30th	515	458

At 30.09.2018, 99,00% from the balance of trade receivables are related to customers which have a good payment record.

b) Liquidity risk

The liquidity risk is the risk that AEROSTAR encounters difficulties to meet the obligations associated to the financial liabilities 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 liabilities, with a view to highlighting the placement of cash flows in due time, are shown in the table below:

	Financial liabilities	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
30.09.2018	Trade liabilities	24.054	(24.054)	(19.553)	(3.968)	(533)
	Trade effects	0	0	0	0	0
30.09.2017	Trade liabilities	24.593	(24.593)	(16.343)	(6.333)	(1.917)
	Trade effects	11	(11)	(11)	0	0

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

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

On 30.09.2018 AEROSTAR has no records of overdue financial liabilities.

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c) Foreign currency risk

The foreign currency risk is the risk that the fair value or future 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% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in LEI.

Therefore AEROSTAR is exposing to the risk that the variations of the foreign exchange rates shall affect both its net income as well as the financial statement as they are expressed in lei.

The net exposure to the foreign currency risks of the financial assets and liabilities is presented in the basis of the accounting values denominated in currency registered at the end of the reporting period:

30.09.2018	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalents	1.593	1.462	19
Trade receivables	1.258	7.012	0
Trade liabilities	(1.223)	(2.008)	(114)
Net exposure in original currency	1.628	6.466	(95)

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 the previous years (2015-2017) and the current period (9 months 2018), a highly volatility of (+/- 10%) can be observed. Thus, a possible reasonable variation of +/- 10% can be possible at the end of the reporting period.

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The effect of the possible reasonable variation of +/- 10% of the exchange rate USD/LEU over the financial result of AEROSTAR is calculated in the following table:

30.09.2018

Net exposure in the currency of origin (thousand USD)	6.466
USD/LEU exchange rates	4,02
Net exposure in functional currency (thousand LEI)	25.993
Possible reasonable variation of exchange rate	+/- 10%
Effect of variation on the financial result	+/- 2.599 thousand LEI

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 bond letters and import letters of credit.

The bank 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 30.09.2018, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 2.161 MII USD (equivalent to 8.689 thousand LEI).

On 30.09.2018 no mortgages are set on the property assets owned by AEROSTAR.

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NOTE 19 - OPERATING INCOME

	September 30th 2018	September 30th 2017
Revenues from sales, from which:	238.159	223.799
Revenues from product sales	140.129	143.090
Revenues from services supplied	93.666	75.653
Revenues from selling goods	2.442	3.200
Revenues from renting	1.610	1.495
Trade discounts granted	(14)	(2)
Revenues from other activities	326	363
Revenues related to inventories of finished products finished and production in progress	26.190	27.034
Other revenues from operations	1.955	2.328
Revenues from the production of assets	1.422	756
Income from operations	267.726	253.917

Starting with January 1st 2018 the company has adopted the new standard of IFRS 15 *Revenue from contracts with customers* for the accounting reports of the financial year 2018 without the restatement of the financial year 2017, due to the following considerations:

- The impact of the new standard over the key figures of the Company is limited due to the fact that the revenues are already recognized at the delivery of the goods and/or services;
- Exception: revenues from services performed evaluated according to IAS 18, depending on the stage of completion of the agreement, their value in 2017 being of 477 thousand LEI, revenues which were derecognized at the end of the financial year, for the purposes of early applying IFRS 15.

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NOTE 20 – OPERATING EXPENSES

	September 30th 2018	September 30th 2017
Expenses with employee benefits, from which:	83.766	79.930
Salaries and allowances	75.148	61.149
Expenses with benefits in kind and expenses with ticket meals granted to employees	5.039	5.037
Expenses with social security	3.579	13.744
Expenses with raw materials and materials	77.187	77.083
Power supply, water and gas	5.950	6.173
Other material expenses, of which:	8.939	9.227
Expenses with non-stored materials	1.141	1.526
Expenses with goods	2.130	2.643
Expenses with packages	493	97
Expenses with other materials	5.175	4.961
Expenses with external services, from which:	18.648	20.694
Repairs	5.961	7.895
Transport costs	2.157	2.527
Commission and fees	1.982	1.993
Travel expenses, deployments	749	807
Renting expenses	574	582
Other expenses with services supplied by third parties	5.720	5.304
Trade discounts received	(21)	(1)
Amortizations	18.708	17.587
Increase/decrease of adjustments regarding provisions	(16.767)	(6.944)
Increase/decrease of adjustments regarding depreciation on current assets	6.808	11.870
Other operational expenses	2.234	1.873
Total operational expenses	205.452	217.492

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NOTE 21 - FINANCIAL INCOME

	September 30th 2018	September 30th 2017
Income from exchange rate differences	3.918	2.537
Income from interest	1.922	606
Income from shares held in subsidiaries	201	189
Total financial income	6.041	3.332

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

	September 30th, 2018	September 30th 2017
Expenses from exchange rate differences	2.881	5.099
Total financial expenses	2.881	5.099

The company registers in the financial expenses category only expenses from unfavourable exchange rates differences, it does not register expenses regarding financial investments disposed, with the interest or other financial expenses.

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NOTE 23 - TAX ON PROFIT

Tax on profit

The tax on profit is recognized in the statement of the profit or loss.

The tax on profit is the tax to be paid relating to the profit realized in the current period determined in accordance with the fiscal regulations applicable at the reporting date.

The rate of the tax on profit applicable for 30.09.2018 was of 16% (the same rate was applied also for the financial year 2017).

September 30th 2018

Gross accounting profit	65.434
Expenses with current tax on profit	5.728

Reconciliation of accounting profit with fiscal profit				Differences
Accounting income*	271.593	Fiscal income	241.462	-30.131
Accounting expenses*	206.563	Fiscal expenses	181.523	-25.040
Restated gross accounting profit*	65.030	Fiscal profit	59.939	-5.091
Accounting tax (16%)	10.405	Fiscal tax (16%)	9.590	-815
		<i>Reductions of Taxes, from which:</i>	3.862	+3.862
Tax discounts	-	<ul style="list-style-type: none"> • related to the investments realised acc. to Art. 22 Fiscal code 	3.682	+3.682
		<ul style="list-style-type: none"> • sponsoring 	180	+180
Tax on final profit	10.405	Tax on final profit	5.728	-4.677
Applicable legal rate	16,00%	The legal rate applicable	16,00%	
The effective average rate, calculated on restated accounting gross profit		8,81%		

* *The income and expenses are 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 incomes obtained from the recovery of some non-deductible expenses, from which the highest percentage was that of the incomes from the resuming of certain provisions for the warranties and for other risks, in the amount of 25.544 thousand lei.
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art. 22 of the Fiscal Code, in the amount of 3.682 thousand lei and sponsorship in the amount of 180 thousand lei;
- 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 September 30th 2018 a liability regarding the current income tax in the amount of 1.876 thousand lei related to the third quarter of 2018.

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The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. became taxable for the restaurant and public alimentation activities. The specific tax related to the 9 months of 2018 was in the amount of 39 thousand lei.

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NOTE 24 - RESULT 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>30.09.2018</u>	<u>30.09.2017</u>
Profit distributable to ordinary shareholders	59.820.329	26.984.154
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
Profit per share	<u>0,393</u>	<u>0,177</u>

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.821 for the 9 months of 2018 and 1.828 for 9 months 2017.

There is an additional average number attracted through the temporary labour agent and used in the production process of AEROSTAR.

The total personnel employed in the activity of AEROSTAR was:

	9 months 2018	9 months 2017
total personnel	1.955	2.039

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NOTE 26 - TRANSACTIONS WITH AFFILIATED PARTIES

<u>Acquisitions of goods and services</u>	<u>9 months 2018</u>	<u>9 months 2017</u>
Airpro Consult SRL Bacău	5.582	5.957
Foar SRL Bacău	395	369
TOTAL	5.977	6.326
<u>Sale of goods and services</u>	<u>9 months 2018</u>	<u>9 months 2017</u>
Airpro Consult SRL Bacău	-	4
Foar SRL Bacău	1	2
TOTAL	1	6
<u>Liabilities</u>	<u>Balance on 30.09.2018</u>	<u>Balance on 30.09.2017</u>
Airpro Consult SRL Bacău	569	561
Foar SRL Bacău	72	88
TOTAL	641	649
<u>Dividends collected/to collect by Aerostar</u>	<u>9 months 2018</u>	<u>9 months 2017</u>
<i>Dividends collected by Aerostar</i>		
Airpro Consult SRL Bacău	90	97
Foar SRL Bacău	-	92
<i>Dividends to collect by Aerostar</i>		
Foar SRL Bacău	112	-
TOTAL	202	189

The transactions with the affiliated parties for 9 months of 2018 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/to collect by SC AEROSTAR SA from SC Airpro Consult SRL Bacău and from SC Foar SRL Bacău (NOTE 7).

In the period 01.01.2018 – 30.09.2018 no transactions were made with the company Aerostar Transporturi Feroviare SA Bacau, its activity being suspended from year 2016.

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NOTE 27 – INFORMATION REGARDING CASH FLOW

The method used in the presentation of Cash Flow Statement is the direct method.

The cash flows statement 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 Statement:

- the cash flows are the amounts received and cash payments and cash equivalents;
- the cash is the money availability from banks and register.
- the cash equivalents are the deposits in banks and cheques and order bills deposited in banks to be collected.

The cash flows provided from the transactions performed in foreign 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 treasury cash flows. Nevertheless, the effect of the exchange rate variation over the cash and cash equivalent held or due in foreign currency is reported in the cash flows statement, 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 operating activities are Aerostar's main cash-generating activities. Therefore, in the first nine months of 2018, the amounts received from the customers were 232.636 thousand LEI, from which 18.976 thousand LEI represent the amounts received in advance from the customers, and the payment to the suppliers and employees were in the amount of 178.665 thousand lei.

The operating activity generated a net cash of 17.362 thousand lei

To increase the operating capacity, through the acquisition of Property, Plant and Equipment, 26.441 thousand lei were used from own sources.

The value of the cash flows allocated on the 9 months of 2018 to increase the operating capacity represents 10% from the aggregate value of the cash used in the operating activities, investment and financing.

As for the financing activity, the amount of 13.594 thousand lei was paid, representing the dividends related to 2017 due to the shareholders.

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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.:

	September 30th 2018	December 31st 2017
• Committments :		
○ guaranties granted to customers as letters of bank guarantee	5.370	11.809
○ guarantees received from suppliers – as letters of bank guarantee	31.925	43.311
• Goods		
○ inventories of other materials released for use (tooling, jigs, verifiers, protection equipment, equipment of measuring and control, technical library etc.)	26.169	25.026
○ material values received in custody	1.826	1.799
○ Property, Plant and Equipment, intangible assets – obtained or purchased as result of the co-financed activity	4.151	4.151
○ material values received for processing/repairs	2.009	1.016
○ other goods off-balance sheet from third parties	178	178
• Other values off-balance sheet		
- commitments to cover some future obligations to A.J.O.F.M. under O.U.G. 95/2002 regarding the defence industry	5.892	6.215
- debtors cleared from assets, yet still monitored	579	579
- material guarantees	199	185
- Greenhouse Gas Emission Certificate	1.440	498

At the date of September 30th 2018, AEROSTAR owned a number of 14604 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate (28.09.2018) was of 21,15 Euro, according to the TDR Energy market journal (in December 2017: 8,18 Euro).

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NOTE 29 – REMUNERATION OF THE DIRECTORS

On the date of September 30th 2018, the structure of AEROSTAR’s Board of Directors remained unchanged compared to the one from December 31st 2017.

The Board of Directors of AEROSTAR S.A.:

	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	Legal Advisor

In the period January-September 2018, the Company AEROSTAR has not granted advanced payments or credits to the members of the Board of Directors and has not taken any commitments into their account with any type of guarantee title.

The allowances of the Directors are approved by the General Meeting of the Shareholders.

The shareholders of the company have decided in the Ordinary General Meeting from December 14th 2017, the following remunerations for the members of the Board of Directors:

- a net allowance of 4.500 lei for the Directors for the year 2018
- 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 allowance;
- the empowering of the Board of Directors to negotiate on additional remuneration, with the executive members, within the limit approved by the Ordinary General Meeting.

The amount of the gross allowances accorded to the members of the Board of Directors in the first 9 months of 2018, by virtue of their responsibilities, was of 346,14 thousand lei.

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NOTE 30 –RISK MANAGEMENT

AEROSTAR is exposed to many risks and uncertainties which can affect its financial performance. The business lines performed by AEROSTAR, the operational results or the financial statements, may be affected by the materialization of the risk presented further.

AEROSTAR pursues to secure the average and long-term sustainability and the reduction of uncertainty associated with its strategic and financial objectives.

Carrying out the risk management processes provides the identification, analysis, evaluation and management of risks in order to minimize their effects down to an agreed level.

However, additional risks and uncertainties can exist to the elements presented further, which are currently unknown or considered insignificant, but which may affect in the future the business lines performed by AEROSTAR.

Operational Risk

It is the risk of loss occurrence or of failure to make estimated profits determined by:

- performance of certain inadequate processes, systems and manpower which failed to comply with their function
- external events and actions: deterioration of global economic conditions, natural hazards or other events which can affect AEROSTAR's assets.

The legal risk is associated to the operational Risk, defined as the risk of loss, resulting the fines, penalties and sanctions of which AEROSTAR is punishable in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly established.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding legislative amendments, as well as by organizing an analysis, endorsement and approval system 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 aims, through the establishment of provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with companies of 1st rank insurance-reinsurance companies, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for 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, being determined mainly by the cash, cash equivalents (bank deposits) and trade receivables.

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Cash and cash equivalents are placed only in 1st rank bank institutions, considered as having a high solvency.

The credit risk, including the risk of the country in which the customer operates its activity, is managed on each business partner. When necessary, specific instruments of credit risk mitigation are requested (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 geographical area.

A presentation of the quantitative information regarding the exposure of AEROSTAR to the credit risk is presented in detail in Note 18 (Financial Instruments) to the Financial statements.

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

To manage the liquidity risk, the cash flows are monitored and analysed 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 expenditures.

In order to reduce the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500.000 USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities of the Company being financed from its own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial statement will fluctuate due to the modifications of the market price.

The market risk comprises the price risk, exchange rate risk and the risk of the interest's rate.

AEROSTAR is exposed mainly to the **price risk** determined by the fluctuations of the raw material and of the materials used in the manufacturing products.

The management of this risk is realised through:

- diversification of the suppliers' portfolio, which offers negotiation leverage when the prices of raw materials increases.
- long-term agreements, with provision of fixed price.

AEROSTAR is exposed to the exchange rate risk because 76% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

Thus, AEROSTAR is exposing to the risk that the exchange rate variations shall affect both its net incomes as well as its financial position, as they are expressed in lei.

An analysis of AEROSTAR's sensibility to the variations of the exchange rate is presented in detail in Note 18 (Financial Instruments) from the Financial Statements.

As far as the interest rate is concerned, due to the fact that AEROSTAR did not use the contracted Credit Line in the reported period, the incomes and cash flows are independent from the interest rate variation on the banking market.

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NOTE 31- EXPENSES AND ADVANCE INCOME

	September 30th 2018	December 31th 2017
Expenses registered in advance	784	491
Incomes registered in advance	24	28

The expenses made and incomes realized in the current period, but which concern the periods or the next financial exercises, are recorded distinctively in accounts, at expenses registered in advance or incomes registered in advance, as applicable.

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 maturity.

In the **advance income** category, the Company has registered incomes related to the periods or of the future financial years for the elements of the long-term financial assets.

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NOTE 32- IMPORTANT EVENT DURING THE REPORTING PERIOD

On August 20 2018, AEROSTAR informed the shareholders of the company, through a **press release**, the coordinates of the dividends' payment due to the shareholders, distributed from the profit of 2017, respectively:

- a) the gross dividend per share is 0,094 lei, amount from which the tax on dividends is retained at the source, in the rates provided by the legislation in force at the payment date; the costs related to the payment will be deducted from the value of the net dividend;
- b) the „ex date” was established for the date of 30.08.2018 according to GMS from 19.04.2018;
- c) the shareholders entitled to receive the dividends distributed from the net profit realised in the financial year 2017 are the ones registered in the consolidated register of the shareholders at the date of 31.08.2018 – Registration date (approved by the GMS from 19.04.2018);
- d) the dividends distributed from the profit realised from the financial year 2016, were paid starting with **20.09.2018 – The payment date (approved by the GMS from 19.04.2018)**.

The method of payment was presented in detail in the press release from August 20 2018.

AEROSTAR S.A has not identified events after the reporting date which may have an impact over the financial statements related to the 9 months of 2018.

The individual financial statements comprise: statement of the financial position, the statement of profit or loss, other elements of the global result, the statement of the equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors at the date of November 8th 2018 and signed on the behalf of:

President & General Director,
Grigore Filip

Vice President & Financial Director,
Doru Damaschin