

AEROSTAR S.A.



AEROSTAR S.A. QUARTERLY REPORT AT 30.09.2020



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REPORT OF THE BOARD OF DIRECTORS AT 30.09.2020

Introduction

The current Report of the Board of Directors is prepared in accordance with Art.65 of the Law no. 24/2017 and Regulation no. 5/2018 of the Financial Supervisory Authority (ASF) regarding the issuers of financial instruments and market operations, Annex 13 and Annex 12 respectively.

The scope of this report for the first nine months of the year 2020 is to inform the investors regarding the modifications in the company's position and performance which took place between January-September 2020 as well as regarding the predictable evolutions in the aviation and defence industry market which influence the company's business.

Also, the report comprises a description of the relevant aspects with reference to AEROSTAR's positioning in the situation of the Covid-19 pandemic.

AEROSTAR prepares the individual financial statements in accordance with the international financial reporting standards IFRS.

The individual financial statements at 30 September 2020 are audited by the company's internal auditor.

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

MESSAGE OF THE PRESIDENT & GENERAL DIRECTOR**With reference to AEROSTAR's positioning in the context of the Covid-19 pandemic**

In the timeframe of this year 2020, the downturn of the global economy got obvious and the drastic effects on the aviation industry are felt more and more.

The forecasts show that passengers air traffic at global level will not return to pre-COVID-19 levels before the year 2024, a year later than expected until now.

For AEROSTAR there are many challenges and our priorities in this timeperiod request from us the allocation of all our human and material resources to overcome both the sanitary crisis and the economic crisis.

The Board of Directors whose mandate was extended through the decisions of the ordinary GMS held on 9 July 2020, will continue the application of the strategy and required measures for the management of this difficult period, full of challenges.

We took firm actions and our option has been made to continue the activity in AEROSTAR, to protect our production capacity, maintaining the manpower and the qualifications and approvals held. We took actions to preserve the resources and capabilities of the company with a view to capitalize on them when the economy is relaunching. In this purpose we used company's own resources as well as the support solutions supplied by the Government of Romania.

At 1st September we marked the finalization of the investment for the new maintenance hangar for civil aircraft located in the area of the Iasi International airport and starting the activities for the first customers. It is our first development outside the company's site in Bacau.

We have continued the investments in order to generate no immediate losses and currently, in Iasi maintenance activities are carried out and production is sold on the market.

We have been communicating constantly and consistently with all the relevant interested parties- authorities, regular capital market institutions, shareholders, customers and employees in connection with the company's positioning in the context of the Covid-19 pandemic.

While the pandemic acts as a game changer on the market, our continuity plan is adjusted to secure the continuity and business development subject to maintaining the mission of the company and the objectives set.

Grigore FILIP
President & General Director

AEROSTAR'S PROFILE, GENERAL ELEMENTS

AEROSTAR's main field of activity is production.

The main object of activity of the company is "Manufacturing of aircraft and spaceships" – code CAEN 3030.

AEROSTAR is part of the national defence industry in accordance with Law no. 232/2016.

AEROSTAR's main business lines are:

- **manufacturing of aeronautical products**
- **MRO civil aviation**
- **defence systems, aero, ground and navy.**

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

Throughout this period, since 1953 to date and further on, AEROSTAR has operated in conditions of continuity.

The unique identification code at European level (EUID) is ROONRC.J04/1137/1991 and the LEI identification code as a legal entity is 315700G9KRN3B7XDDBB73.

KEY FIGURES

AEROSTAR prepares the individual financial statements in accordance with the international financial reporting standards (IFRS).

	MU	30.09.2020	30.09.2019
Registered Capital	thousand lei	48.729	48.729
Turnover	thousand lei	224.812	266.779
▪ export sales	thousand lei	160.792	224.739
	%	72%	84%
Actual headcount, of which:	no	1852	1.941
-own employees	no	1846	1826
-attracted through temporary labour agent	no	6	115
Net Profit	thousand lei	40.048	42.407
Cash Flow	thousand lei	204.970	178.254
General Liquidity	-	11,47	7,26
Investment Expenses from company funds	thousand lei	38.225	16.471

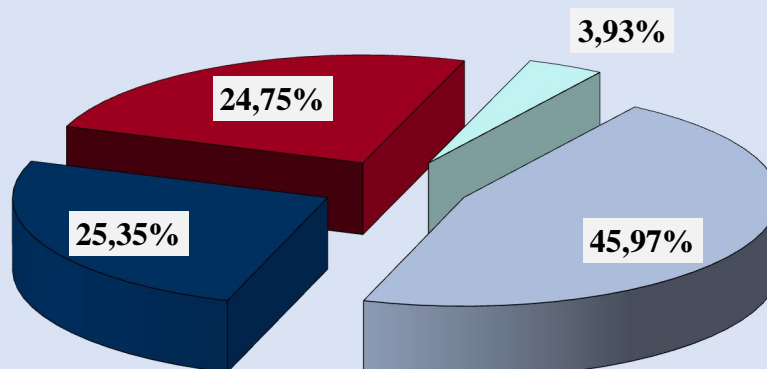
Economic- Financial Indicators at 30.09.2020	Result
Current Liquidity Indicator	11,47
Indebtness Rate	0
Rate of return trade receivables	55
Rate of return immobilized assets	1,19
General Solvency Rate	17,66
Rate of Financial Return	0,10
Net Profit Rate	17,81%
Net Treasury	34.700 thousand lei

The exchange rates of the national currency at the end of Q3 2020:

	MU	30.09.2020	30.09.2019
Average Exchange Rate EURO/9 months	lei/euro	4,8252	4,7377
Average Exchange Rate USD/9 months	lei/USD	4,2970	4,2143
Average Exchange Rate GBP/9 months	lei/GBP	5,4603	5,3665

Inflation	%	1,36	2,92
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Contribution of AEROSTAR's business lines in total sales



- Mfg aviation products
- Defence Systems (aviation, ground, integrations)
- MRO Civil Aviation
- Other Products & Services

“AEROSTAR” SHARES (ARS)

The shares of AEROSTAR S.A. Bacău are traded since 1998 on the regular market under the administration of the Bucharest Stock Exchange.

The main characteristics: 152.277.450 shares, which are nominative, ordinary, of equal value, fully paid, issued in dematerialized form de valoare egală, integral and their record is kept in the Shareholders' Registry. This is under the administration of Depozitarul Central S.A. Bucharest.

The issuer AEROSTAR S.A. Bacău is registered with the following data: single registration code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, all the shares issued being in the standard category.

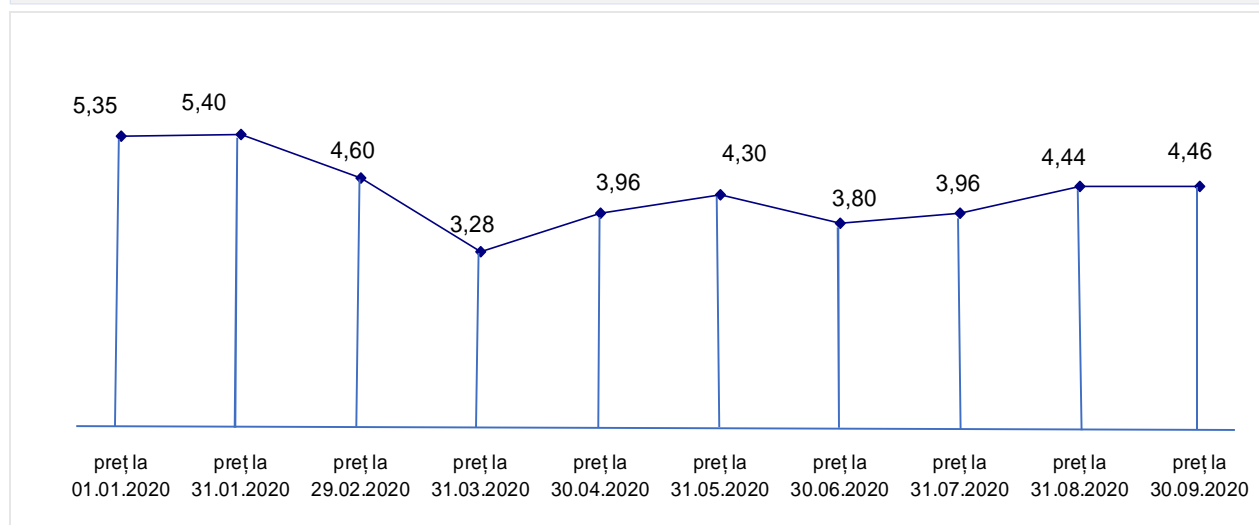
Aerostar Shares- in figures	30.09.2020	30.09.2019	30.09.2018
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Company equity (lei)	381.892.662	340.885.240	295.343.358
Price at the end of the period (lei) *)	4,46	5,15	5,20
Stock Exchange Capitalisation (lei)	679.157.427	784.228.868	791.842.740
Maximum price (lei)*)	5,70	5,15	5,36
Minimum Price (lei) *)	3,00	4,78	4,65
Result per share (lei)	0,263	0,278	0,393

source*): Monthly Bulletin of the Bucharest Stock Exchange

MBR Indicator (market to book ratio) (stock exchange market capitalization/ company capitals)	1,8	2,30	2,68
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The company Aerostar S.A. Bacău continues to be an attractive company for investors and other interested persons.

Monthly evolution of the reference price for ARS shares during the January- September period of 2020 (lei/share):



Source: *Monthly Bulletin of the Bucharest Stock Exchange*

During the first nine months of 2020 there was no company programme to buy its own shares.

During the first nine months of 2020 Aerostar did not issue bonds or other similar securities.

During the first nine months of 2020 no new subscriptions of shares were made, nor participation certificates, convertible bonds, options or similar rights.

MAIN EVENTS OF THE PERIOD JANUARY- SEPTEMBER 2020

- **At the date of 11 March 2020**, the World Health Organization declared the new coronavirus Covid-19 pandemic while starting with the date of 16 March 2020 the emergency state was set on Romania's territory by presidential decree. The alert status on Romania's territory and the expected relaxation were enstated by the termination of the emergency status at the date of 15 May 2020. The alert status was extended subsequently, the third quarter 2020 being under such incidence.
- **At the date of 16 March 2020** the yearly negotiation was concluded with reference to the employees benefits . The impact of the salaries increase on the costs of the year 2020 will exceed 8 million lei.
- **At the date of 21 April 2020** took place the Extraordinary General Meeting of the Shareholders and the Ordinary General Meeting of the Shareholders in accordance with the legal provisions applicable.

In the Extraordinary General Meeting of the Shareholders of 21 April 2020, Aerostar's shareholders approved the dissolution of the company ATF S.A., registered at the Trade Registry Office of Bacau under no J04/166/2005, single identification no CUI 17153254, where Aerostar is a shareholder with a stake of 45,75% of the registered capital.

In the Ordinary General Meeting of the Shareholders of 21 April 2020, Aerostar shareholders approved the distribution of the net profit of the financial year 2019.

- **At the date of 21 May 2020** Aerostar informed the company's shareholders by a press release, in connection with the coordinates for the payment of the dividends to the entitled shareholders, distributed from the profit of the year 2019.
- **At the date of 5 June 2020**, the updated forecast for the company results for the year 2020 was made through a press release which was transmitted to the Bucharest Stock Exchange and the Financial Supervisory Authority Bucharest and was posted also on the company's web page.

- **At the date of 9 July 2020** took place the Ordinary General Meeting of the Shareholders in accordance with the legal provisions applicable.

The Ordinary General Meeting of the Shareholders on the date of 9 July 2020 decided by secret voting the election- the mandate extension as members of the Board of Directors for a period of 4 years, starting with 11.07.2020 until 10.07.2024, of the following persons:

- **Grigore FILIP**
- **Doru DAMASCHIN**
- **Mihail-Nicolae TONCEA**
- **Liviu-Claudiu DOROȘ**
- **Daniel VÎRNĂ**

- **At the date of 7 August 2020**, the Ministry of National Defence of Romania released a press release regarding the signature of a collaboration protocol between the General Staff of the Romanian Air Force and the company Aerostar S.A., designated as Maintenance Centre for the F-16 aircraft.
- **At the date of 13 August 2020**, took place the Ordinary General Meeting of the Shareholders for appointing the Audit Committee, as per art. 65 of the Law no 162/2017 with reference to the statutory auditing of the annual financial statements and the consolidated annual financial statements.

The audit committee is appointed for the timeperiod between the date of 13 August 2020 and 12 August 2022 and comprises the following members:

- **Grigore HOROI**
- **Mihai DEJU**
- **Daniel BOTEZ**

- **At the date of 27 august 2020** was announced the finalization of AEROSTAR's investment for the civil aircraft maintenance hangar located in the area of the International Airport of Iasi.
- **At the date of 1 September 2020** AEROSTAR marked the beginning of the maintenance activity in the new hangar in Iasi. The event marked the finalization of the investment and the arrival of the first aircraft input for maintenance work at this new site.

The new hangar is part of AEROSTAR's maintenance base approved in accordance with the aeronautical regulations Part 145 of the Romanian Civil Aeronautical Authority/ EASA; at this site heavy maintenance work can be performed at three narrow-body aircraft type B737 or A320 simultaneously.

EVENTS AFTER THE REPORTING DATE

- At the date of 30 October 2020, SIF Moldova which is a significant shareholder of AEROSTAR S.A., holding 15,0514% of the company's shares, announced the change of its name into Evergent Investments.

The General Meeting of the Shareholders of SIF Moldova held on the date of 30 October this year, approved the change of its name into Evergent Investments.

Also, the shareholders approved the modification of the Constitutive Deed of SIF Moldova with a view to provide the correlation with the legal provisions applicable to the organization and functioning of the company in its dual position, as an Administrator of Alternative Investments Funds (AFIA- Ro abbreviation) and as an Alternative Investments Fund (FIA- Ro abbreviation).

The changes voted by the shareholders will come into force after the opinion advice from the Financial Supervisory Authority (ASF).

THE BUSINESS MODEL

In the context of the measures taken to secure and protect the health of the population and the emergency situation declared in Romania starting with the date of 16 March 2020, AEROSTAR's option was to implement the continuity plan and take all the necessary actions in order to prevent and control the effects of the Covid-19 infection.

AEROSTAR business is in the category of activities specific for the manufacturing industry, with a significant digital contribution in the administration of the company resources.

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

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

The finalization of the investment and start of the activity in the civil aircraft maintenance hangar in Iasi does not modify the company's business model, the new hangar being integral part of Aerostar's Part 145 maintenance base and acts as a secondary place of business.

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

AEROSTAR operates on the market as an independent company, totally respecting the national and international legislation applicable.

The production activities are performed based on commercial contracts agreed with the customers, these being final integrators and/or users/ final beneficiaries from the aeronautical and defence industry.

After 1990, during the years, and in 2020 as well, no significant modifications of the business model adopted were performed.

The Notes to the Financial Statements describe how the financial reporting reflects the business model adopted by the company in accordance with IFRS.

The context of the organization and interested parties for AEROSTAR

The impact made by the risks of Covid-19 infection on all the aspects of the social and economic life, as well as the unprecedented changes thus generated, require a systemic, preventive and proactive approach in relation to all the components and functions of the company

The external and internal relevant aspects which were identified can impact on fulfilling the mission and the strategic objectives, and can affect the company's ability to realise the results wanted for its management system.

The interested parties were identified based on the impact which their requirements could have on the company's ability to fulfil its objectives, as well as on its ability to fulfil the Customers' requirements and applicable regulations.

The elements of risk based management thinking, fundamented on understanding Aerostar as an organization and the context in which it operates.

The general framework for the risk treatment is based on understanding the needs and expectations of the interested parties for the achievement of the organization's planned results.

The risks are understood as uncertainties to satisfy the requirements and expectations of the interested parties, under the effect of certain factors which derive from the context in which the organization operates.

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

The aspects identified as part of the **internal context** of AEROSTAR are: **human resource, infrastructure, capabilities and authorizations, governance, but also the organizational performance.**

The relevant interested parties which were identified are: **customers, employees, investors, applicable technical and regulatory authorities, certification bodies, suppliers, educational establishments, trade unions, the local community and the state.**

INVESTMENTS FOR THE PERIOD JANUARY- SEPTEMBER 2020

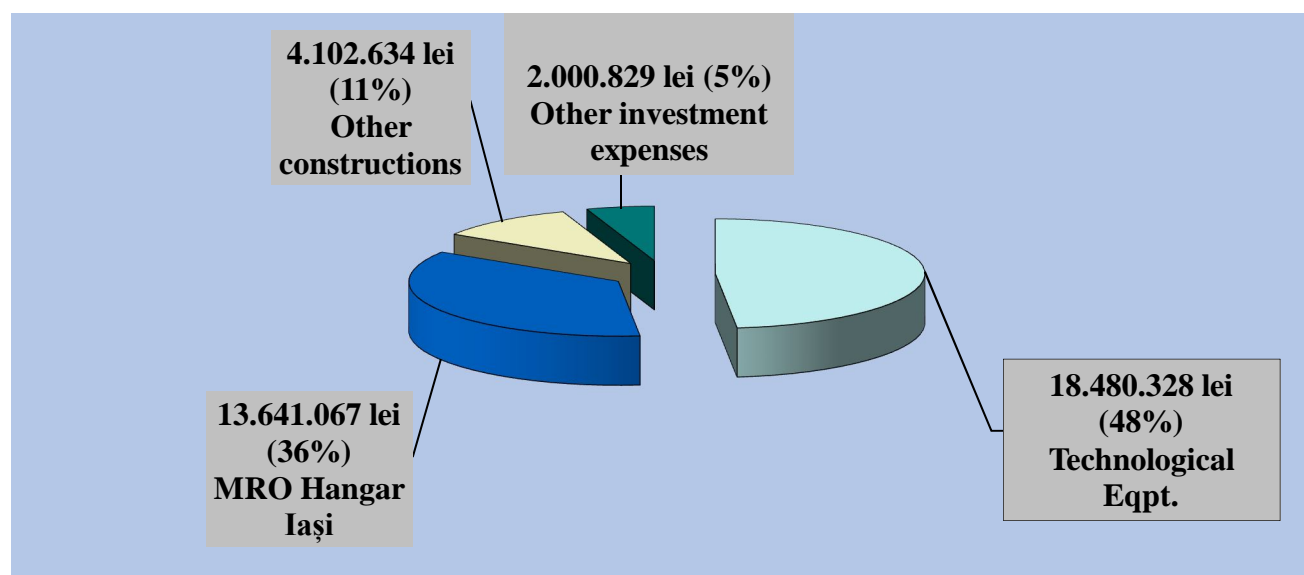
The total investment expenses made during the first nine months of this year are in amount of 38.225 thousand lei.

At the onset of the economic crisis in the aeronautical sector the option was made to continue the ongoing investments as giving up the orders launched would have generated immediate loss.

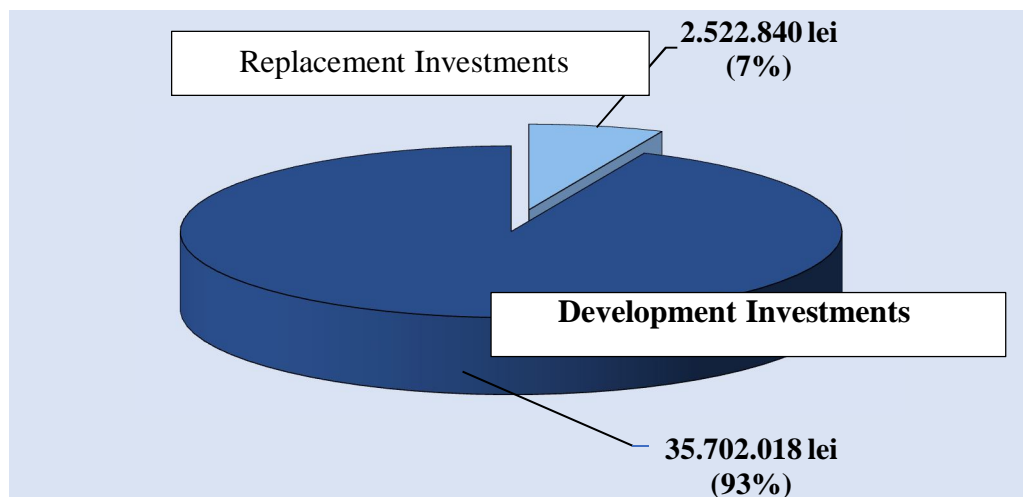
Significant aspects of the investments made during the first 9 months 2020

The synthetic situation of the investment expenses on categories of fixed assets is shown in the structure below:

Total investment expenses on first 9 months: 38.224.858 lei



Here below, the chart illustrating the development investments (93%) and the replacement investments (7%) in total investment expenses on first 9 months 2020:



The finalization of the investment for the civil aircraft maintenance hangar and the technical annex, installations, urban arrangement work of public importance and land fencing for the secondary place of business in the area of the International Airport Iasi was announced at the date of 27 August this year while the start-up of the actual maintenance work was on 1st September this year.

By the end of September 2020 the investments commissioned by the company were in total amount of 46.826 thousand lei, on several categories of fixed assets.

AEROSTAR BUSINESS

In the nine months period of 2020, AEROSTAR operated in continuity conditions.

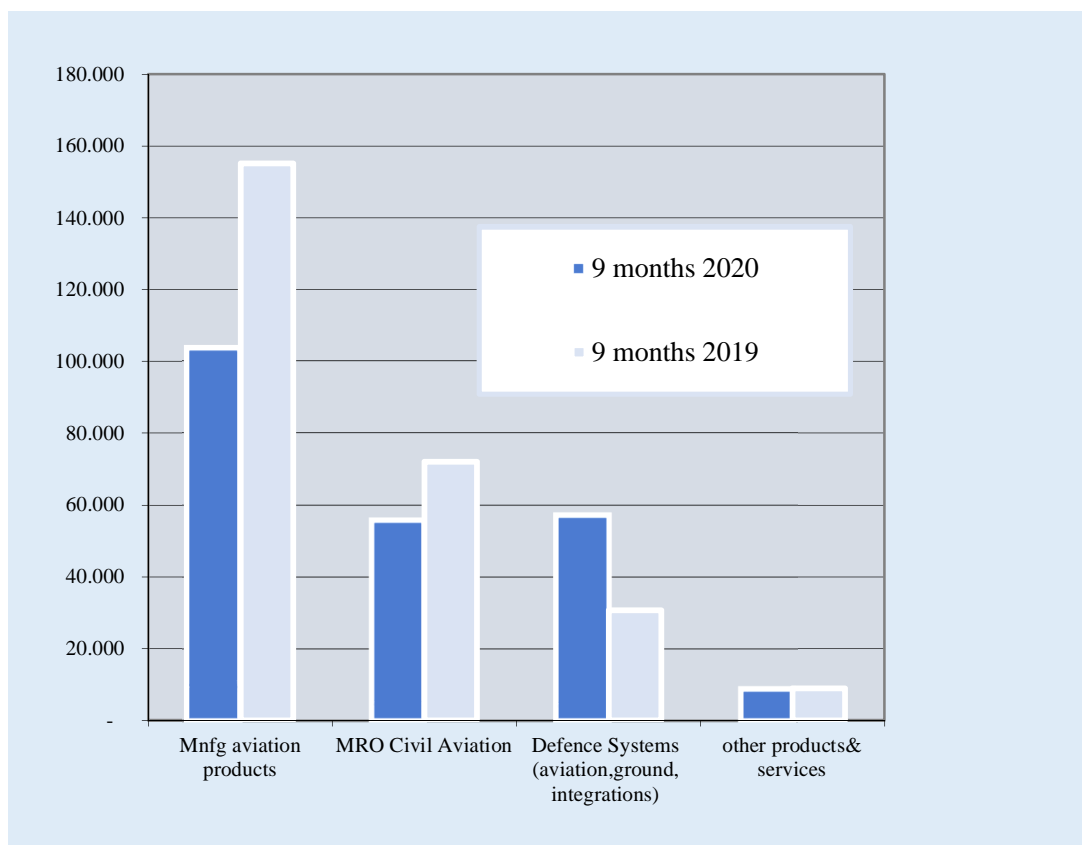
AEROSTAR Sales

The turnover made at 30.09.2020 was in amount of 224.812 thousand lei, of which the sales on the export market was the equivalent to 160.792 thousand lei, representing 72% of the total.

The sales on the domestic market were in amount of 64.020 thousand lei.

The comparative chart of the sales on products and services is indicated below:

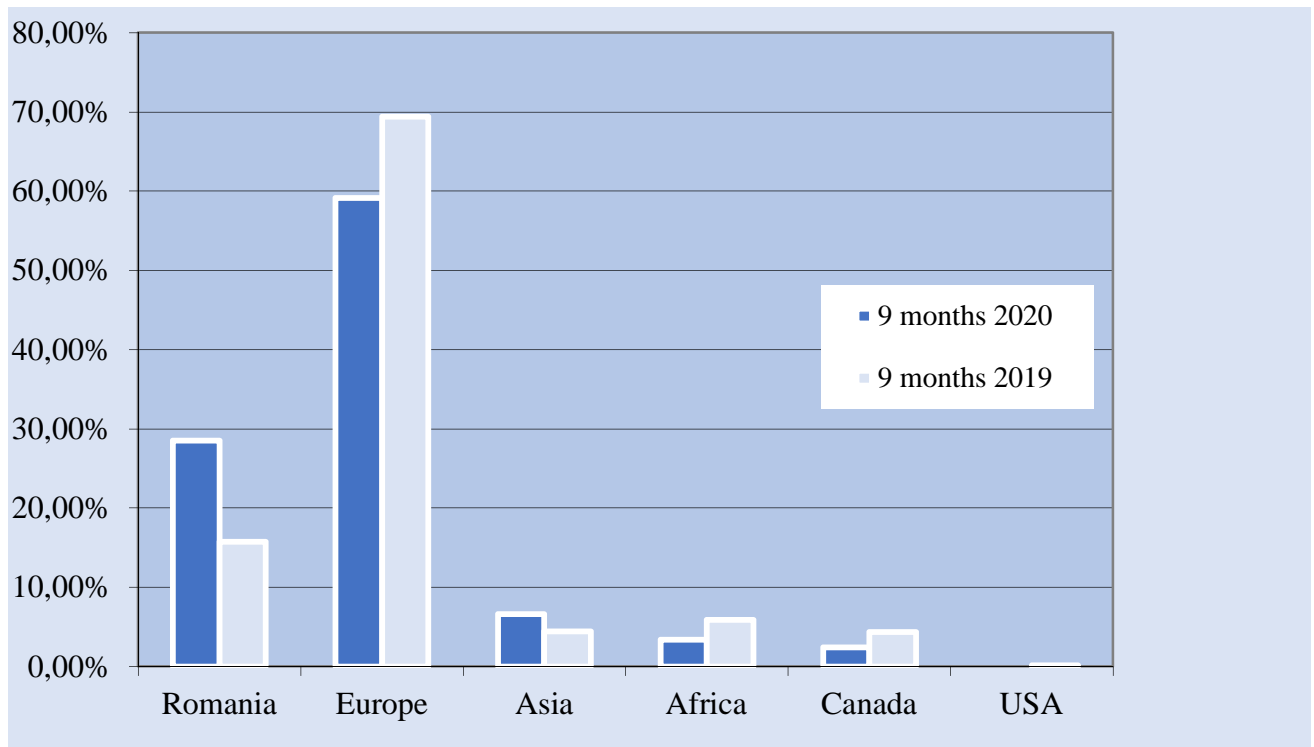
- **On products and services (comparative) – thousands lei:**



Aerostar's sales were made on a global market of a large geographic spread both in the civil and in the defence sector.

The evolution on the main sales market:

- **On geographic markets (comparative)- as percentage of total sales:**



The business environment, a context based review

As a major supplier of products and services in the aeronautical industry, AEROSTAR operates in a very sensitive, interconnected environment.

In this context, the viewpoints, decisions and actions of our interested parties have a significant impact on the success of our business.

- **Modifications of the external aspects in the organization's context**

With reference to the external aspects, the main evolutions during the interval January- September of 2020 are:

With reference to the international context:

The Brexit process was extended, the effective date being 31 January 2020.

From a commercial point of view, the situation remains the same until 31 December 2020, the negotiation term of the bilateral agreement.

The deadline for the free trade treaty between UK and EU is set for mid October.

The company's action is to monitor the negotiations' evolution in order to evaluate the real impact for Aerostar's activities from the viewpoint of the impact on the single market and customs union, but also from the viewpoint of the exposure to the UK segment of the supply chains.

The impact can be related to cost increases due to the customs duties and import taxes, an extended duration of the purchasing process due to the formalities, as well as due to shipment and transport.

The commercial measures implemented by the EU, especially in relation to USA, started in 2018, with the additional taxation of the semi-finished aluminium sheet imports from USA, and continued in 2019 with safeguard taxes for the imports of certain steel semi-finished goods. These measures directly lead to costs increase.

Aerostar's action is to search for European sources for materials.

The restrictive measures for the imports from Russia were maintained. Aerostar actions are to comply with the restrictions and search for alternative sources.

The USA's measure to implement taxes for the UE aircraft imports may lead to relocating a higher number of aircraft on the Airbus final assembly line in USA, consequently, a possible relocation of a part of the supply chain in USA, which may contribute to reduce Aerostar's market share access.

The impact of the Covid-19 pandemic already affects important sectors of the economy and global markets. Severe reductions of the activities and orders take place in the the global supply chains, most affected being Asia, Europe and North America.

In relation to the six months status, the main evolution is the considerable deferral of the relaunch perspective.

The existence of the aviation itself is at risk as the role of aviation to go beyond frontiers, to create bondings, connections, to support development and prosperity, to provide stability and communion of the people, this role is obviously weakened more and more and under debate as a result of the sanitary and economic crisis, to which add the environment impact considerations.

The near and mid-term forecasts in the aeronautical sector were smashed off by the realities associated to Covid-19, which already take the form of a predictable recession: important aircraft manufacturing orders are cancelled or deferred, production is stopped in multiple facilities around the world, quasi disappearance of the passengers air traffic.

The forecasts indicate a reduction of 55% of the global passengers numbers for the entire year 2020 as a result of how serious the travel restrictions are and the global recession, as well as due to the changes in the passengers conduct.

In accordance with the official reports from organizations, entities and the global supply chains in the aeronautical sector, the main impacts determined by the pandemic are:

- Cancellation of a significant number of passenger aircraft, shutdown of activities and factories
- All the suppliers in the supply chains are affected: slowdown of the activities, temporary shutdown but also business reorganizations, take-over or divestitures
- Complete or temporary shutdowns or on indefinite periods
- Both Airbus and Boeing announced significant reductions of the production rates in several commercial- passenger aircraft manufacturing programmes
- Loss of jobs either by furloughs or temporary unemployment, or voluntary leaves or forced by the economic situation
- It was announced by Airbus cutting 15.000 jobs within one year in order to be able to secure the company's future.
At Airbus wing centre at Broughton in Great Britain, layoffs were announced exceeding 3000 furloughs.
- Boeing announced personnel layoffs at the level of 10% of its manpower to 15% in the commercial aircraft manufacturing sector
- Job cuttings were announced on all segments of the aeronautical industry.
- Notifications of termination or deferral to receive parts and subassemblies, from several main customers/ the supply chains of the main aviation programmes

- The airlines suspend their activities as a result of the travel bans and of the lack of passengers; they also renounce the scheduled maintenance work. Massive interventions and state aid are urged for the salvation of the airline operators
- The state aid is largely perceived as a salvation solution for business survival

Air connectivity is critical for the sustainable economic development and the data on the stabilization of the situation are critical for planning the economic rebound and relaunch after Covid-19.

With reference to **the legislative context:**

The Ordinance no. 6/28.01.2020 was adopted; this comprises modifications and new requirements how to maintain the non-transfer register and the goods register, regarding the inventories at customers' disposition. Aerostar's action is to comply with the new requirements.

Aerostar's action is to comply with the new requirements.

The legal restrictions imposed by the emergency situation and the military ordinances lead to the reduction of the transport capacity and slowdown of the merchandise traffic.

Delays occurred in the movement of the goods both ways: from suppliers and towards the customers.

The stabilization of the situation is important for resuming the economic activities.

With reference to **the economic context:**

The minimum wage was increased, the EUR/RON and USD/RON exchange rate increased, the price of utilities as well. This may lead to an increase of the purchasing price from Romania, including the increase of the production costs.

Aerostar's action is to secure the prices on a term as long as possible, on a yearly or multi-annual basis.

The contract was signed and carried out for the modernization of the runway of George Enescu Airport of Bacau. It became operational during this October.

The launching of the maintenance activities in Iasi on 1st September was an effective countermeasure to reduce the effect on AEROSTAR's business in this field.

With reference to the economic crisis in the aviation industry the new evolutions are not encouraging at all while now there is more uncertainty further on as to the work load for the year 2021.

Aerostar's action is to reduce the effects of the lack of work orders.

The reduction of the global revenues of the commercial airlines as forecasted by IATA (International Air Transport Association) is 50% for the entire year 2020 as a result of how serious the travel restrictions are and the global recession, as well as due to the changes in the passengers conduct.

For the entire year 2020 IATA's forecast updated in June, as to the effectiveness of the investments (Return on Invested Capital), indicates losses of almost 17% globally and losses of 21,5 billion USD at European level.

The impact of the Covid-19 pandemic, the production reduction in the aeronautical sector affects the supply chains at global scale.

With reference to the global competitive environment:

- The certification and production of the 737MAX aircraft

At 1 July 2020, FAA and Boeing announced ending the certification flights for B737 MAX. The entry into service is a duration process and is no longer a priority preoccupation in the present market context while the coordination process by the international aeronautical authorities continues in Q4 2020.

- The A380 aircraft production was terminated.
- After giving up the F5X certification and launching of the F6X concept, Dassault announced the beginning of the flight test programme for the future aircraft in the year 2021 and maintaining the year 2022 as the milestone for the entry into service.
- Restructuring of the company Bombardier following the decision to renounce the C Series and shutting down 4 plants from Ireland and Morocco
- Airbus updated the perspective to reduce the production and deliveries with approximately 40% in the next two years, announcing a production rate of 40 aircraft per month for A320, the best seller of the Airbus aircraft. However, the recent declarations dated 14 July indicate the possibility to stop the production of narrow-body aircraft for two years. The 2019 rate of deliveries will not be reached probably earlier than 2023 to 2025, although the recovery at this category will possibly be quicker than for the wide-body aircraft.
- Boeing gave up the agreements initiated in the year 2018 for the acquisition of 80% of Embraer's commercial aircraft business.
- The lockout and the passenger traffic restrictions in whatever form affected profoundly all the global players.

With reference to the technical context:

The Covid-19 pandemic is associated with the alerts related to the risks of cyber attacks aiming to get advantages in the context of the entities focusing on the pandemic subject.

Focus on cybersecurity

The company's action on this line consists in the continuous improvement of the internal policies and procedures for securing the processes.

The computer network within Aerostar is formed from an assembly of hardware and software equipment, interconnected through the data network, with the purpose of data transmission, storing and sharing the resources between the internal users from the company.

The network infrastructure is permanently monitored in order to reduce production interruptions and provide for easy access to digital format data, including for the field equipment.

- **Modifications of the internal aspects in the organizations's context**

Regarding the internal aspects, the following evolutions occurred during Q3 2020:

From the point of view of human resources:

The impact of the Covid-19 pandemic is first of all of social essence, generating already profound changes in the mode of living but also in the temporary perception on the priorities and values hierarchy.

The health situation caused by the Covid-19 pandemic in Aerostar, as well as the economic situation impact are felt more and more strongly day by day.

The protection measures implemented in Aerostar helped us in most cases to eliminate the risk of occurrence and growing infection outbreaks in our work teams.

The educational and training, formation and professional training processes are also affected, as well as the operational processes at the level of their organization and management.

In the conditions where the production in the field of manufacturing aviation parts, subassemblies and equipment and in the field of MRO services, the decision of the company is to keep its production capabilities unaffected and maintain the manpower and their qualifications and partly use the legal furlows solution („technical unemployment”) or/and reduced workhours plan.

For the current year the management announced not to initiate restructuring and job cuts measures and before layoffs all the other measures would be taken, including hiring no new employees, freezing salaries, reduction of supplementary work hours, temporary work and reduction of several other types of expenses.

Actions are necessary for the integration and development of the organizational culture to ensure the inclusion of the young employees and provide the level of competences and qualifications for the execution of the contracts while keeping at the same time the relaunch and growth capacity when the effects of the pandemic cease.

In the field of work safety and health, AEROSTAR initiated its migration to the new ISO 45000: 2018 standard in parallel with full compliance with the legal requirements and those of the standard OHSAS 18001, in all work related aspects.

Detailed information can be found in the chapter **Our Employees**.

From the point of view of the infrastructure:

The sustainable use of the resources and the energy efficiency

The industrial water is entirely provided from company's own water wells. Detailed information can be found in the chapter **Investments** and in the chapter **Quality and Environment**.

From the point of view of the capabilities and authorizations:

All the authorizations, certifications and accreditations held were maintained. Detailed information can be found in the chapter **Quality and Environment**.

From the point of view of governance:

Multiple modifications occurred in the field of geopolitical, economic, legislative, fiscal, technical, in the competition global environment, with impact on the company's activities.

The action envisages the continuous adaptation of the management system to have effective actions in relation to these changes, the proper allocation of the responsibilities and roles in relation to the changes, but also provide an inclusive character of the organizational culture for the adherence to the necessary measures.

From the point of view of the organization's performance:

While the company cannot be outside of the evolutions which affect the entire industry and commercial aviation specifically, the performance of the organization is affected.

There are but few optimistic scenarios on the market conduct after the pandemic.

The action is to develop the company's footprint and act in order to determine and clarify the decision-making framework which relates to the strategic positioning in accordance with the mission statement of the company; at the same time, acting for the diversification of the aeronautical manufacturing programmes which the company can get access to, and involvement as well, in activities which are not specific for AEROSTAR.

The company's economic performance indicators are presented at **Key Figures**.

MAIN BUSINESS LINES

AEROSTAR has pursued a growth and development strategy of its core business in the field of the aviation and defence industry.

AEROSTAR's footprint is recognized in the aviation industry being a significant supplier in global manufacturing programmes but also in the field of heavy maintenance for commercial aircraft.

During the January- September timeframe of 2020, the activities were executed in conditions of continuity, the adaptation measures to the sanitary crisis and distancing restrictions being implemented as early as 25 February 2020.

Manufacturing aeronautical products

AEROSTAR is the leader in Romania for the manufacturing of aviation products, being a supplier recognized in the supply chain of multiple global programmes.

Aerostar is part of the supply chain of the main global programmes with a significant success rate. These programmes are affected by the crisis in aeronautics and air transport.

In the Airbus supply chain, Aerostar's current position is Tier 2 as an aerostructures supplier, having the Airbus supplier code as early as 2007, and subsequently also the supplier code from GKN Aerospace.

Following the assessment recently received from AIRBUS, for the timeframe since the last review in 2018, AEROSTAR is ranked in the highest position as ***Detail Parts Partner Challenger Supplier*** for outstanding performance and support for Airbus programmes.

Aerostar is a strategic Tier 1 supplier for SAFRAN Landing Systems for subassemblies, hydraulic systems and actuators, landing gears, for multiple aircraft programmes from Airbus, Boeing, Dassault or Gulfstream.

The parts, components and aggregates produced by Aerostar are fitted on various aircraft subassemblies or systems: wing, fuselage, hydraulic actuators and mechanical assemblies for the landing gears of the aircraft.

Aerostar also pursues to have a diversified portfolio of final programmes to supply for, with a good spread of the products and geographical markets.

Our final products are fitted on aircraft such as Airbus, Boeing, Bombardier, Dassault or Gulfstream.

Following the concentration of production in the large global aviation supply chains, growing the portfolio of customers, programmes and products, respectively, is the warrant of a solid market position and overcoming the difficulties arising from stopping certain programmes, as it happened with the Airbus A380 aircraft and with the cancellation of the F5X programme.

The production as a subcontractor for parts, aerostructures and equipment for the civil aviation by using modern technologies specific to metal processing: aluminium, titan, steel, a.o. is based on the partnership with our customers, being affected by the situation in the global industry.

A special attention is focused on the compliance with the European regulations in the field of environmental protection – regulation known under the name of REACH.

In the context of the crisis generated by the Covid-19 pandemic in the global supply chains, severe reductions of the activities and orders occurred, the most affected being the plants in Asia, North America and Europe.

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies from several main customers.

The production restructuring or the reduced delivery rates in the main programmes where Aerostar has a significant exposure impact on the production management. These aspects are related to the continuity for the capabilities, authorizations and certifications, competences and the key personnel, production on stock and the required economic balance levers.

MRO Civil Aviation

AEROSTAR has built a significant footprint as business volume in the field of MRO civil aviation, being the main independent supplier of heavy maintenance in Romania and in this geographical area for the commercial aircraft Airbus 320 and Boeing 737 family, with a significant impact on the local development.

Starting from the Part 145 approval from the Romanian Civil Aeronautical Authority, a full member of the European Aviation Safety Agency (EASA), Aerostar's maintenance base has consolidated and developed its market position and obtained a large range of approvals from the civil aviation authorities of multiple countries outside the European Union, including the USA authority FAA.

Obtaining the EASA certificate of authorisation as a Part 21J Design Organization, to perform minor repair and modifications projects for large civil aircraft, has the purpose to increase the added value for our customers.

The experience accumulated in heavy maintenance was the basis for the development of the civil aviation MRO Centre- Part 145 in Iasi.

At the same time, the profile as a regional Centre of Excellence in the field of civil aircraft maintenance has been consolidated and this is a pole of sustainable development.

The most significant investment is for the MRO Centre for civil aviation, in the area of the Iasi Airport.

With reference to the investment in manpower for the maintenance centre for commercial aircraft Boeing 737 and Airbus A320, the training of the technicians and engineers, is performed by coordinating with the training activities for the MRO Centre in Bacau.

As a consequence of the reductions in air transport activities, notifications were received from several air operators giving up the planned maintenance of their Boeing 737 and Airbus A320 aircraft.

Systems for Defence

The market positioning held by AEROSTAR in the field of defence systems in the aero, ground and navy category, is first of all in relation to the position of first rank supplier to the Romanian Ministry of National Defence.

In the category of defence systems, AEROSTAR is active in upgrade, integration and maintenance programmes for military aviation and defence systems, further on with focus on certain platform types for which it has expertise proven in traditional programmes, and new upgrades or integration programmes as well: military aircraft, launching systems and primary and secondary radar systems.

AEROSTAR is part of the national defence industry in accordance with the law 232/2016, having the status of an authorised economic operator registered in the Unique Registry of the economic operators and capacities for production and/or services for defence.

In accordance with this law, the Government of Romania designated Aerostar as early as December 2018 as the maintenance centre for the F-16 aircraft in the inventory of the Romanian army.

AEROSTAR entered into its role and initiated the investments in order to set the required capabilities. The maintenance centre for the F-16 aircraft develops progressively by allocating and training the personnel, manufacturing and acquisition of jigs and test benches and creating its own infrastructure for the maintenance of this aircraft type.

The market position in the field of the launching and radar systems

AEROSTAR has constantly developed the capabilities required to consolidate its position as a supplier and also its expertise in the field of the launching systems, platforms and the launching and fire command and control components –production of launchers, maintenance and logistic support, upgrades.

Starting with the manufacturing of 122 mm launchers, subsequently upgraded to NATO standards, this experience was gained during multiple programmes, manufacturing, repair and successive upgrades, integrations of artillery systems in service with the Romanian Army or for the platforms of other beneficiaries, or technological demonstrators financed from company's own sources, in the category of advanced launching and artillery systems.

AEROSTAR is part of Raytheon's global supply chain as an authorized supplier for the Patriot systems and operates to develop and consolidate this position.

During this year, Aerostar entered on the Preferred Suppliers List (PSL) and is approved to compete for Raytheon's new machining programmes.

Aerostar is the only company from Romania which has developed repair and upgrade technologies for primary and secondary radar systems, IFF type identification systems, and has its own infrastructure and capacities necessary to perform these activities.

As early as 2018 Aerostar went through the qualification process with Thales EURAM Spain and is key industrial partner in Romania for THALES Group.

QUALITY, A COMPETITIVE ADVANTAGE

Following the analysis of the quality and environment management system for the previous year, the quality policy and the environment policy were reconfirmed.

The objectives have been set for the quality and environment management system for the year 2020 since the first quarter of the year 2020.

Following the audit performed by the representatives of the Military Body for Certification, Accreditation and Surveillance (OMCAS) of the RoMoND, Aerostar recertified its quality management system.

Also, based on the follow-up audits – executed by the teams of auditors of the certification bodies, all the certifications of the integrated quality and environment management system were maintained.

Following the evaluations performed by the Romanian Civil Aeronautical Authority, the approvals were maintained for the PART 21 Production Organization and the PART 145 Maintenance Organization.

The activities with impact on the environment were kept under control by internal inspections and by the monitoring and measurements made in accordance with the provisions in the environment authorisation held.

During the first nine months of the year 2020 the current monitoring was performed for the waste water and subsoil water indicators, and the noise level monitoring respectively, no exceedings being on record.

Aerostar complied with all its obligations arising from its GHG Authorization:

- Prepared the monitoring report on the GHG emissions generated during the year 2019, the report being validated through the verification audit executed in January as to the number of GHG certificates for the emissions in 2019;
- Compliance into the sole European GHG Registry was completed in April when a number of 2382 certificates were returned.

Following the verification audit on the management of the greenhouse gas emissions (GHG) there was no nonconformity raised, the emissions related to the year 2019 being validated.

In March AEROSTAR made the proposal to return the GHG certificates with reference to the CO₂ emissions during 2019 - in the EU Registry for GHG.

The results of the inspections performed by the Environment Guard Bacau confirm AeroStar's compliance with the applicable legal and regulatory requirements.

With reference to the new site in Iasi, AeroStar obtained the environment authorization required for the activities.

From the viewpoint of social responsibility and sustainable development, AeroStar has set its objectives to improve its performance in the field of pollution prevention, sustainable use of the resources and climate change mitigation, following the guidelines of the standard SR ISO 26000 on social responsibility.

OUR EMPLOYEES

- **Evaluation of manpower aspects**

At 30.09.2020 AEROSTAR had an effective headcount of 1.852 employees, 6 of them employed through the temporary labour agent (AIRPRO CONSULT S.R.L.)

From the total 1.852 employees, 177 occupy management positions.

The average union membership rate in the company during the first nine months of 2020 is 65%.

At 30.09.2020, the average seniority in the workplace is 11 years according to the data in Revisal system, and the average age of Aerostar employees was 46 years on total Aerostar and Airpro.

AEROSTAR ended the third quarter of the year 2020 with a number of 1.852 employees, 6 of them employed through the temporary labour agent, with a total manpower fluctuation of 8,4%.

Compared to the end of the year 2019, the number of employees is 5 employees lower.

- **Labour relations and social dialogue**

AEROSTAR has in place the Collective Labour Agreement valid for the time period 2019 – 2021 concluded with its employees represented according to Law no. 62/2011 on the social dialogue.

In March the yearly negotiation was concluded with reference to salaries, working conditions, holiday vouchers while the newly established salary scales are applicable starting with 01.04.2020.

- At the date of 6.07.2020, the following message was addressed to all the company employees in connection with the situation for the year 2020.

[The contents of the communication dated 5 June 2020 In connection with the situation for the year 2020](#)

**For all AEROSTAR employees,
Dear colleagues,**

COVID-19 has triggered an unexpected economic situation, full of risks and uncertainty, practically affecting all the aviation sectors and all countries. The aviation industry was deeply affected and it is still difficult to predict the evolution of the impacts in the short and mid term.

We have practically no possibility to influence the storm of recession that is also affecting us and the only solution is to harden ourselves in order to resist, as if a hurricane were heading towards us. We continue to prepare for this challenge, to protect the company on short and medium term, by also preserving the re-launch capacity and grow again, when better times come.

The wise resource allocation policy over the last few years has helped us, so the storm of the economic recession finds us strong and firmly anchored in the globalized economic and production system. Yet, one never feels ready enough in front of the hurricane.

I decided to protect our production capacity, keeping as long as we can the company's personnel and the employees' qualifications.

We used and we shall use all the legal levers and instruments, but we have to admit that the state support is very small and starting with June and also in the following months, the technical unemployment payment shall be performed entirely from Aerostar's funds.

Of course, our resources are limited, but our plan is to initiate no restructuring measures and job cuts in 2020. Before we cut jobs, we will exhaust all the other measures, including to stop hiring new employees, freezing salaries, reduction of overtime work hours, of temporary work and of many other types of expenditure.

It is a difficult period for Aerostar and for each of our employees, but it is advisable to know that we are not seeing this year a return to a better situation.

We hope that the situation will get clarity and at the beginning of 2021 to have a better visibility on the future in order to take the adequate steps to consolidate our long-term future.

My recommendation is for you to carefully manage your personal resources so that you and your families suffer as little as possible from this crisis.

We have so far managed to deal well with this crisis, as a united team, serving the best interests of the company and its employees, and we need to find strength to overcome even more difficult challenges in the future.

Please take care of your families at home and your family at Aerostar and stay safe.

Grigore FILIP
President & General Director

- **Formation, training, professional development**

With reference to the work force, the main risk is represented by the lack of skilled work force as needed from the performance of the contracts agreed with the customers.

Practically, following the portfolio of agreements and orders and implicitly, of the work volume, personnel was reassigned, which permitted to cover the initially deficitary jobs, as well as sending a significant number of employees in furlow during the interval April- September 2020.

Also, the work schedule planned was reduced for a significant number of employees in September 2020, in accordance with the emergency ordinance OUG 132/2020.

AEROSTAR is authorized as a supplier of professional training by the Ministry of Education and Ministry of Work for aviation specific skills: fitters, aviation mechanic, aviation electromechanic and mechanic of aircraft engines.

During the first 9 months 2020 a number of 179 students from partner technical and technological high schools and 9 university students executed practice programmes in AEROSTAR.

In June 2020 an apprenticeship programme for aircraft mechanics was completed, its duration was 2years.

During the first nine months of 2020, professional training courses were organized for the company's employees, as a matter of priority being to cover the trainings needs in the fields of interest for the production activities.

- **Health and safety at work, labour conditions**

The company's health and safety management system is certified according to the standard OHSAS 18001: 2008.

The activities for the migration to the new standard ISO 45001: 2018, initiated in the year 2019, continued during the entire period January-September of the year 2020. The steps completed were putting the requirements of the standard ISO 45001 into internal procedures, instructions, other documents and prepare the presentation manual for the labour health and safety management system.

The strategic objective of the organization in the field of health and safety at work is „ZERO Accidents” and did not change.

During the first nine months of the year 2020, no work accident took place and implicitly no death accident.

The company has in place a risk assessment plan and a plan for the prevention and protection in case of the new coronavirus.

Measures were taken to reorganize the work and alternative protection measures.

Operators with high incidence or high risk of disease

In the COVID-19 context, considering the need to minimize the exposure of the employees and delegates/visitors at the work place, in connection with the SARS-CoV-2 infection and fight against the risks thus induced, AEROSTAR informed and made the employees and delegates/visitors aware of the new coronavirus COVID-19 infection risk through multiple internal communication actions: dispositions, notes, warning materials/ specific announcements, releases of information.

With a view to protect the employees against the new coronavirus COVID-19 infection, AEROSTAR implemented a general measures plan with specific regulations applicable which is integral part of the Prevention and Protection Plan for the improvement of the labour health and safety conditions in Aerostar for the year 2020.

In order to ensure the employees work in full health and safety conditions, the internal emissions measurements were made by Aerostar's Toxicology Laboratory with calibrated equipment, as well as by the Public Health Authority of Bacau.

As a result of these policies and practice in place, there was no professional disease personnel or dangerous incident during the first nine months of the year 2020 with the following indicators resulted:

- number of accidents per 100.000 work hours	0,000%
- time lost due to the work accidents per 100.000 work hours	0,0%

TANGIBLE ASSETS

The registered headquarter of the company is at 9 Condorilor Street, postal code 600302, Romania.

AEROSTAR's production facilities and capacities are located in Bacau and in Iasi. Aerostar has a secondary place of business, without legal personality at Iași, 25B Aeroportului Street.

It is AEROSTAR's first development outside the site in Bacau. There are production activities under way at this secondary place of business.

The company owns in its property the land surface of 47,24 ha, with direct access to the European road E85. Aerostar has direct access to the "George Enescu" airport's runway in Bacau.

AEROSTAR's production spaces comprise hangars, industrial buildings, technological testing benches, spaces for administrative and social activities. Also, the company holds spaces for office work such as technical and economical activities.

All these locations and facilities are maintained in good condition.

The built surface of the buildings is approximately 13,47 ha.

AEROSTAR assets are compliant with the health and safety and environment management system provisions, fully respecting the applicable legislation and occupational safety regulations, as well as the property protection and security requirements.

At 30 September 2020 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 310.845 thousand lei, comprising land, buildings, special constructions, installations, technological equipment, transport vehicles:

Category of tangible assets	Gross value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	29.230	N/A	N/A
Constructions	90.637	27,7%	30-50 years
Investment property	10.537	32,27%	25-50 years
Technical installations, of which:	177.171	58,2%	
technological equipment	171.163	57,9%	4-25 years
transport vehicles	6.008	66,6%	4-18 years
Other tangible assets	3.270	33,6%	2-18 years
TOTAL	310.845	42,47%	N/A

In the period January- September of 2020 no risks were identified related to the ownership over the tangible assets of the company.

MAIN SHAREHOLDERS

The main shareholders are IAROM S.A. Bucharest and SIF MOLDOVA S.A. Bacău.

Further to these, a large number of shareholders is added, natural and legal persons, under the significance threshold as specified in the regulations of the Financial Supervisory Authority and the Bucharest Stock Exchange.

According to the data from the Bucharest Stock Exchange, the shareholding structure (Source of the information updated for 30 June 2020: Depozitarul Central):

Shareholder	Number of shares held	Participation owned (% of the share capital)
IAROM S.A. Bucharest	108.672.786	71,3650
SIF MOLDOVA Bacău	22.919.887	15,0514
Other shareholders	20.684.777	13,5836
Total	152.277.450	100,0

There are no litigations with the persons mentioned earlier.

RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

AEROSTAR monitors the activity related to the evolution of ARS shares at Bucharest Stock Exchange without interfering in its operations with such activity.

In the relation with the shareholders, AEROSTAR took into account to protect and secure the rights of the shareholders, that is:

- to participate in the General Meetings directly or by representation– by providing them special proxy forms, voting bulletins by correspondence, other useful information;
- to have a fair treatment, no matter the stakeholdings;
- to receive dividends proportional with the holdings of each shareholder.

In the relation with the capital market, AEROSTAR fulfilled all the reporting obligations arising from the legal provisions by publishing the mandatory current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the internet page of the company and by press releases.

According to the provisions of the Corporate Governance Code, the continuous and periodical reports were simultaneously released, both in Romanian and English. The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro

Also, annual reports, as well as half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

Aspects regarding the capital and administration of the company

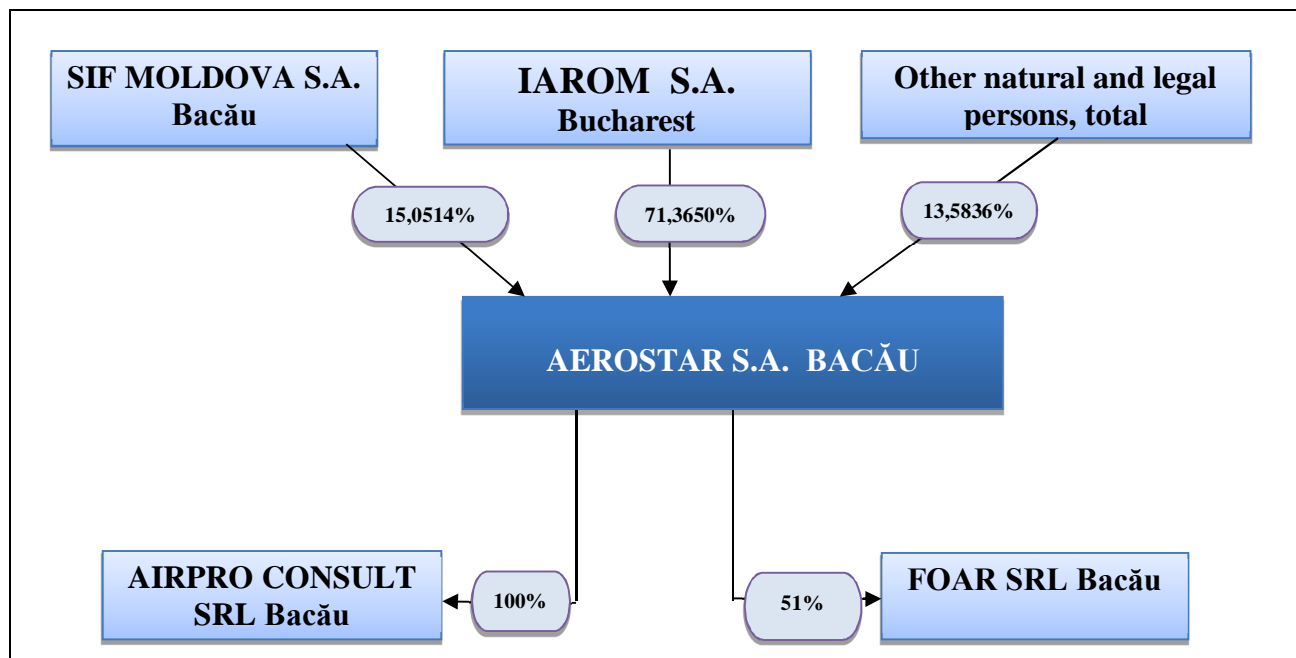
During the period January- September 2020, there were no modifications which affect the capital and administration of the company.

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 was no major transaction concluded by the company with the persons with which the company operates in collaboration or in which such persons were involved in the relevant period.

AEROSTAR's relation

with the parent company and AEROSTAR's related companies:



The Extraordinary General Meeting of AEROSTAR's Shareholders held on the date of 21 April 2020 adopted the resolution for the dissolution of the company ATF S.A. Bacău, where AEROSTAR held 45,75% of the registered capital.

In August 2020, Aerostar removed from accounts the titles held in ATF S.A. as a result of the liquidation thereof.

At 30 September 2020 the dissolution process was under way.

During the January- September period of 2020, AEROSTAR did not register modifications such as increase/decrease of its contribution percentage, AEROSTAR maintaining the same influence as in 2019 on the companies remained in its portfolio of contributions.

Both companies where Aerostar holds participations are registered in Romania.

RELATED PARTIES

At 30.09.2020, AEROSTAR participations in other companies are the following:

Name of the subsidiary/ related party	Basic Activity	No. of shares held by Aerostar	Voting Rights	Value of Aerostar shareholding (K lei)	Financial Info for latest financial year (2019) with approved financial statements of related company		
					Sales (K lei)	Company Equity (K lei)	Net Profit (K lei)
Airpro Consult S.R.L. Bacău	cod CAEN 7820	100	100%	10	8.051	162	65
Foar S.R.L. Bacău	cod CAEN 7739	408	51%	4	435	1.957	210
TOTAL				14	8.486	2.119	275

Aerostar's stake held in these companies are registered on a cost basis.

The transactions with the related parties can be found in the Financial Statements at **Note 26**.

AEROSTAR MANAGEMENT

▪ AEROSTAR's **Board of Directors** was reelected for a new mandate in the Ordinary General Meeting of the Shareholders from the date of 9 July 2020. The election was made through secret voting, the duration of the new 4 year mandate starting with the date of 11.07.2020 to 10.07.2024.

The Board of Directors has the following members:

Name and surname	Position	Background
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
DOROȘ LIVIU-CLAUDIU	Member of the Board of Directors	Economist
VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

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

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

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

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

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

- **Business Management**

The administration of the company is in a unitary system.

The President of the Board of Directors is also the General Director of the company. The executive management is provided by the General Director and the Financial Director.

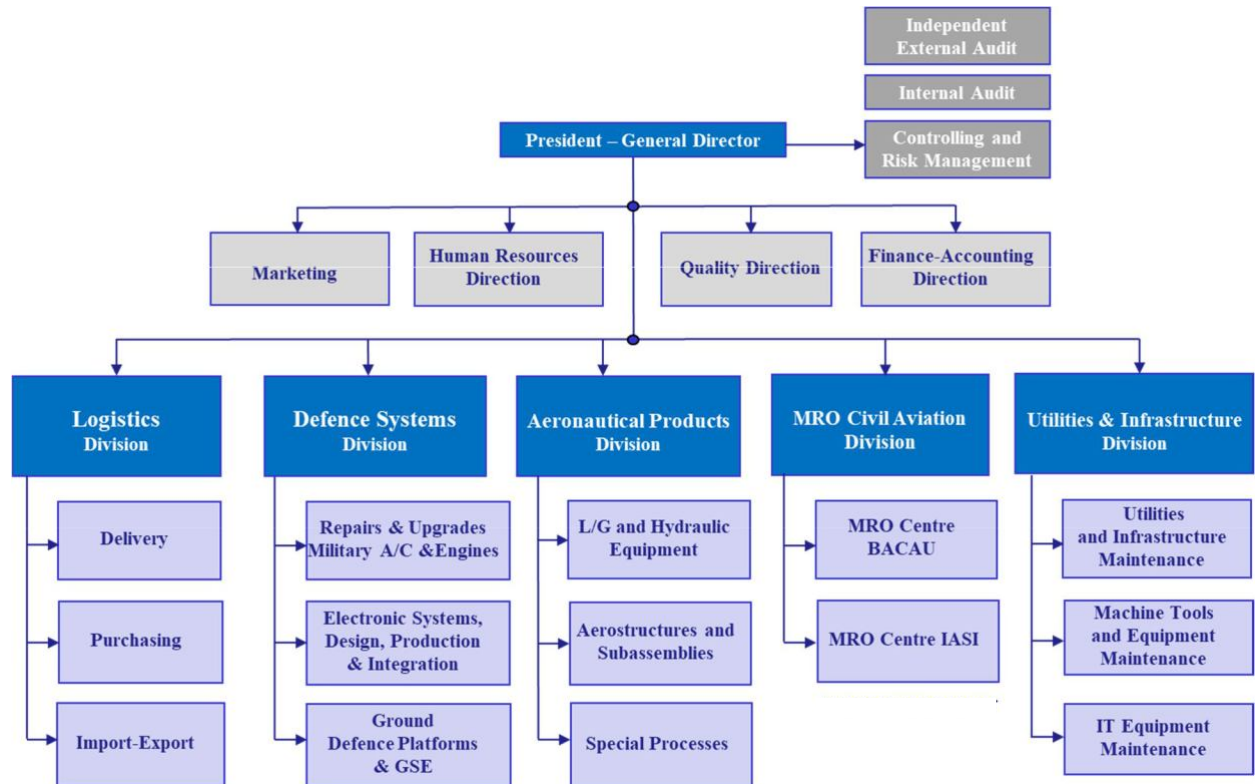
With reference to the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

The management structure at operational-executive level is completed with the other division and direction directors. There were no changes regarding this structure during the first nine months of 2020.

AEROSTAR carries out its object of activity using the common resources of the organization in an integrated mode. The organisational structure implemented since the start of 2018 in the company maintains the organisational principles and the use of resources in a unitary, competitive and integrated manner.

This organizational structure ensured the development of the capacities and capabilities in the field of civil aviation and defence, as well as the investments required in this purpose.

The organizational structure implemented is represented as follows:



At 30.09.2020 the management structure which provides the management of the company functions subject to the division type organisation is:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Director Finance-Accounting
ROGOZ VASILE-LAURENȚIU	Quality Director
POPA DAN PAUL MĂLIN	Director HR
FILIP ALEXANDRU	Director Logistics Division
BUHAI OVIDIU	Director Defence Systems Division
IOSIPESCU ȘERBAN	Director Aeronautical Products Division
VELEȘCU IOAN-DAN	Director MRO Civil Aviation
BRANCHE CĂTĂLIN BOGDAN	Director Utilities & Infrastructure Div.

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

There are no litigations with the persons mentioned above.

CORPORATE GOVERNANCE

As a company listed on the Bucharest Stock Exchange, AEROSTAR S.A. follows the compliance with the principles and recommendations provided in the **Code of Corporate Governance of the Bucharest Stock Exchange** adopted on 11 September 2015.

At the same time, AEROSTAR's Corporate Governance System is in accordance with the provisions of the constitutive deed of the company and respects the dispositions of the law no. 31/1990 and 24/2017, the Regulation no. 5/2018 of the Financial Supervisory Authority.

The implementation of the corporate governance rules provides a transparent decision-making process, founded on clear rules and objectives meant to lead to the growth of the shareholders' trust in the company. AEROSTAR focuses on corporate governance, reviewing the level of compliance with the provision of the Corporate Governance Code issued by the Bucharest Stock Exchange entered in force on 4 January 2016.

In the nomination and selection of the candidates, the present Board of Directors can create a nomination committee, which will consider at least the following criteria: the involvement of the significant shareholders; solid expertise and experience in aerospace engineering, economics, legal, environment and social aspects management; moral and professional integrity; independence.

The diversity policy applied in relation to the administrative, management and supervisory bodies of the entity, e.g.: age, gender, education, professional experience, has as a priority objective to provide performance.

The corporate governance structures are:

- Shareholders – the General Meeting of Shareholders
- The Board of Directors
- The Audit Committee
- The Executive Management

The General Meeting of the Shareholders

The General Meeting of Shareholders is the main corporate body, with decision-making attributes for all the aspects specified in the Constitutive Deed.

The shareholders exercise their rights during the General Meeting of the Shareholders („GMS” or „General Meeting”).

The procedure for the organization and conduct of the general meeting of the shareholders is published on the internet page [www.aerostar.ro/ Investors Relation / Reference Documents](http://www.aerostar.ro/Investors_Relation/Reference_Documents).

The shares of the company are indivisible and provide equal rights to their owners, any share entitles to one vote in the General Meeting of the Shareholders.

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

The General Meetings are ordinary and extraordinary. The Ordinary General Meeting is held at least once a year, no later than 4 months from the ending of the financial year, while the Extraordinary General Meeting is held whenever necessary.

During the period January- September 2020 there was a total number of 4 (four) GMS meetings of Aerostar shareholders.

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular communication system (national newspaper, reports to the Financial Supervisory Authority and BSE), as well as in the special section „Investors Relation” on company’s website, easily identifiable and accessible.

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

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

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

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

The General Meetings of the Shareholders took place in full compliance with the Law 31/21990 regarding the companies, the Law 24/2018 regarding the capital market and the applicable regulations issued by FSA, as well as any applicable provision.

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

In accordance with the legal provisions applicable, the claim to collect the dividends approved by the General Meeting of the Shareholders ceases to generate effects after the expiry of a period of three years calculated from the dividend’s “payment date” for each financial year.

In the first nine months of 2020 the company did not buy from its own shares and did not issue bonds or other securities.

No data or notifications are available with reference to exceeding the voting rights held by the shareholders in relation to attaining or exceeding the thresholds provided by law.

The Board of Directors

The election of the members of the Board of Directors is the exclusive attribute of the General Meeting of the Shareholders.

AEROSTAR's Board of Directors was elected for a period of 4 years, from 11.07.2020 until 10.07.2024, in the Ordinary General Meeting of the Shareholders on 9 July 2020. The resolution is published in the special section „Investors Relation” on the company's web page.

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed and in the BoD Internal Regulations posted on the company's website www.aerostar.ro/Investors Relation.

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

The Board of Directors establishes the strategic orientation of the company and ensures its implementation in order to achieve a sustainable growth of Aerostar's value.

The Board of Directors is also responsible for ensuring compliance with all the applicable legal provisions, internal regulations, as well as for the adequacy of the risk management and control.

Aerostar's activity is governed by responsible corporate governance principles aimed to create sustainable values in all areas of its activities.

In the timeperiod January- September of 2020, seven (7) meetings of the Board of Directors were held.

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

There is no litigation between the company and the directors regarding their activity. None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

The audit committee

Based on the provisions of the Corporate Governance Code in conjunction with the provisions of the Law no. 162/2017, an independent **audit committee** was established.

The Ordinary General Meeting of the Shareholders on 13 August 2020 nominated an audit committee made up of three (3) members for the period between the date of 13 August 2020 and 12 August 2022.

The audit committee comprises the following members:

- **Grigore HOROI**
- **Mihai DEJU**
- **Daniel BOTEZ**

The resolution is published in the special section „Investors Relation” on the company's web page.

The attributions of the independent audit committee are provided in the Internal Regulations of the audit committee, approved by the Board of Directors, completed with the provisions of the Law no. 162/2017 and the EU Regulation no. 537/2014, which is also on www.aerostar.ro/Investors Relation/Reference documents.

The audit committee meets regularly, at least four times per year, as well as exceptionally, if necessary.

The independent auditor appointed by the general meeting of shareholders is the company MAZARS Romania SRL, with headoffice in Bucharest, Pipera Business Tower, 5th floor, Dimitrie Pompeiu Boulevard no. 6E, code RO-020335, sector 2. Mazars' unique registration code is 6970597 and the registration number J40/756/1995 at the Bucharest Trade Register office.

As an audit company Mazar Romania SRL is registered in the electronic public register with the number 699/2007.

▪ AEROSTAR's Code of Business Conduct & Ethics

AEROSTAR pursues the company principles and values in an honest and fair way, with integrity, while consistently acting to comply with the highest ethical standards in business, by adopting voluntarily for many years already AEROSTAR's Code of business conduct and ethics. This code is posted on the internet page of the company www.aerostar.ro and is part of the provisions of the work contract.

To the extent in which this Code requires a higher standard than the one required by the commercial practice or by the applicable laws, rules or regulations, we adhere to these higher standards. This code is mandatory for the administrators, employees and is adopted in all the aspects related to the employees, as well as in relation to the investors, customers, suppliers, representatives of the local community, other business partners.

The Board of Directors pays special attention to respecting the corporate governance principles in order to provide:

- Achieve performance in terms of the sustainable development of the company;
- accuracy and transparency of the decision- making process of the company;
- respect of shareholders' rights and their fair treatment by protecting and implementing their prerogatives in practice;
- transparency and access to information by periodically publishing the relevant financial and operational information.

The details about the compliance with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are provided as integral part of this report.

▪ Management of the conflicts of interest

According to the accounting regulations, AEROSTAR is a subsidiary of IAROM S.A. Aerostar presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties.

Also, Aerostar complies on term with the requirements of law 129/2019 regarding the real beneficiaries.

In relation to the significance thresholds provided in the specific legislation on the capital markets, there is no data available on *cross board membership* or about shares held by suppliers and other interested parties in Aerostar shareholding structure.

The performance evaluation of the BoD members is made in accordance with the provisions of the Internal Regulations of the Board of Directors.

▪ **Executive Management**

AEROSTAR's management is a unitary system, with the delegation of the executive management of the company to the General Director and to the Financial Director.

▪ **The internal Control System**

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

▪ **Accounts Control**

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

The inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were registered in the company's accounting records.

No significant deviations were found compared to the scriptic records.

▪ **Budgetary Control**

The budgetary control is performed by the budget managers.

From the budgeting perspective, the company is organized in:

- profit centers
- cost centers.

There are budgets set in the company underlying activity programs, corresponding to the functions of the company.

The budgetary control provides:

- conformity with the values provided for each budgetary indicator
- fundamenting possible corrective actions

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

▪ **Controlling**

Controlling was implemented and constantly developed in AEROSTAR as a higher phase to the budgetary control.

Controlling also provides compliance with the mission statement and the strategic objectives of the company.

▪ **Internal Audit**

The company has organized the Internal Audit with members registered with the Chamber of Financial Auditors of Romania.

AEROSTAR's internal auditing activity is organized according to law, as a distinct compartment in the organizational structure, in accordance with the organizational chart.

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

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

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

The internal audit tasks confirmed the positive impact of the internal audit activity on the activities performed in the company.

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

▪ With reference to the non-financial reporting process

The Board of Directors has decided the compliance with the legislation by presenting the non-financial information in the form of a "**non-financial declaration**" included in the report of the Board of Directors and published at the same time with it.

The annual non-financial declaration is supported by collecting the data for review, evaluation, control and performance data of the organization throughout the year while the data reported in the quarterly report are relevant specifically for the respective period.

The global sanitary and economic crisis following the Covid-19 pandemic did not change AEROSTAR's commitment and did not determine any impact on on the company's compliance with reference to social responsibility, environment, social and manpower aspects, human rights and anti-cooreuption and bribery combat, promotion of diversity.

The regulatory framework established by Aerostar for the non-financial declaration takes into consideration the following:

- AEROSTAR's Development Strategy for the 2018-2022 period, updated annually, as well as the effective way of reporting these aspects provided in company's Internal Organizational and Functioning Regulations: "**The Context of the organization and interested parties for Aerostar**"
- The Management System in Aerostar, the Quality and Environmental Management System, the Occupational Health and Safety Management System respectively, certified in accordance with the requirements of ISO 9001, ISO 14001, AS EN 9100, AQAP 2110 and OHSAS 18001 respectively.
- The requirements of Aerostar's customers
- The orientations described in the international standard for social responsibility ISO 26000
- The regulatory framework provided by the Romanian legislation
- The orientations described in the Communication from the European Commission - "Guidelines on non-financial reporting (methodology for reporting non-financial information) - 2017/C215/01".
- The orientations described in the Global Reporting Initiative (GRI) standards, without registering and declaring compliance with these standards.

Guided by business responsibility and the spirit of the business in the aviation and defence industry, Aerostar is faithful to the best practices from this field, and in accordance with the best practice of our business partners, Aerostar has been providing information, explanations and data in this category of non-financial information for many years.

Aerostar systematically informed interested parties related to non-financial aspects, which was considered, may contribute to understanding the domain in which the company operates and the way how company's business is conducted and organized.

Contact details regarding the non-financial reporting process are the same as for the current and regular reports of the company.

Through its strategy of continuous and sustainable development, AEROSTAR has undertaken the sustainable development and social responsibility objectives for business growth, through the modernization of the production systems, of the management systems for operations and business, and the organizational development in accordance with the evolutions in the global aviation industry.

The aviation industry is a leader in the responsible approach of the aspects related to environment, social and manpower aspects, human rights, anticorruption and bribery combat. Through ICAO (International Civil Aviation Organization), the specialized agency of the United Nations, 15 of the 17 sustainable development goals, as part of the UN - 2030 Agenda for Sustainable Development, are supported and goals for 2050-2060 are planned.

ICAO, to which Romania has joined, brings together 193 state members and groups from the industry and shares the vision of achieving a sustainable growth of the global civil aviation system.

The European Green Deal, the new European growth strategy presented by the European Commission in December 2019, offers a roadmap with actions covering all economic sectors and supports through investments the established goals for 2050.

Starting with 2022, based on the sustainability criteria of the business, which will be established starting from the classification of economic activities (taxonomy), specific indicators for each activity will be regulated by law.

Aerostar fully complies with the applicable national and international standards and regulations regarding the environment, social and manpower aspects, human rights, anticorruption and bribery combat and the promotion of diversity.

The Board of Directors determines the strategic orientation of the company and ensures its implementation in order to achieve a sustainable growth of Aerostar's value.

The Board of Directors is also responsible for ensuring compliance with all applicable legal provisions, internal regulations as well as for the adequate risk management and control.

The executive management closely coordinates the activities of the departments in charge with the economic, environment and social aspects of the company, and duly informs the Board of Directors in order to ensure long term development.

Aerostar's management system provides the framework for company's functioning and growth in safety and sustainable conditions, setting the goals, allocating and planning the resources, measuring the performance and setting the improvement actions.

- The responsibilities regarding quality and environmental aspects, as well as the risk management, are allocated/delegated to the Quality & Environment Director.
- The responsibilities regarding social and manpower aspects, occupational health and safety, the fight against discrimination and the promotion of diversity are allocated/delegated to the Human Resources Director; as an area of interference, these responsibilities correlate with:
- The responsibilities regarding compliance with the legislation, respecting human rights, anticorruption and bribery combat, which are allocated/delegated to the Legal Department.
- The responsibilities regarding the sustainable use of resources and reducing energy consumption are allocated/delegated to the Utilities & Infrastructure Division Director.

- The responsibilities regarding the conformance measures in connection with avoidance of money laundering are allocated/delegated to the Finance-Accounting Director.
- The responsibilities regarding the corporate governance are allocated/delegated to the general secretariat of the company.

For each mentioned aspect, control functions are allocated and reporting is made in the quarterly management reviews.

We are deeply committed to the continuous improvement of our economic performance in relation to our goals regarding the natural resources, responsible use of water and energy, waste recycling, reducing carbon emissions and the use of dangerous chemicals, all these aspects are of fundamental importance in all our activities.

Aerostar undertakes to continue to apply sustainable development strategies and to continuously improve its work practice in this field.

Aerostar undertakes furthermore:

- To communicate its environmental policy and strategy to all interested parties and to raise awareness amongst these parties of their own responsibilities towards environment;
- To comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- To reduce energy consumption and GHG emissions
- To reduce water consumption;
- To reduce waste resulting from its activities;
- To improve and develop the entire company's sites in order to avoid negative environmental impact;
- To avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit such use.

The customers' satisfaction, full safety for the users of our products and services, the continuous improvement and improving our environmental performance, are our principles of guidance.

Aerostar is fundamentally committed to:

- Applying sustainable development strategies, and continuously improve its work practices in this area;
- Comply fully and where possible to exceed the requirements of applicable regulations and standards;
- Respect and promote the policies related to environmental aspects, social and manpower aspects, as well as respecting the human rights;
- Fight against discrimination and promote diversity;
- Fight corruption and bribery.

We are aware of our responsibilities towards the environment, the civil society and our employees.

We respect human rights and the highest standards of business ethics.

We take the undertaking to be honest, correct and open in all our activities both in relation to our employees, and to our investors, clients, suppliers, representatives of the local community and other business partners.

We are confident that we will be able to achieve further on our objectives and we rely for that on the support of our employees who, as always, with passion and devotion, helped us to build a successful past and a promising future.

THE MANAGEMENT OF RISKS AND OPPORTUNITIES

The Risk Management System

AEROSTAR's risk based thinking approach envisages :

- Governance improvement;
- Create a culture proactive for improvement;
- Steady quality for the products and services supplied.

The management of risks is based on their assessment and treatment.

The management of opportunities is based on determining the effects of the capitalization of the risks, the identification of the potential risks associated, respectively.

For the identification of the risks and opportunities related to quality and the environment risks, the internal context, the external context and the relevant requirements of the interested parties were taken into account.

With reference to the previous elements, in order to identify the environment risks, also considered were the activities with impact on the environment and the company's conformance obligations.

Taking into consideration the external context with reference to the company functioning in the alert status situation, in order to diminish the possible effects of the pandemic, continuity plans of the activities were set at all levels. The actions established are updated in accordance with the information related to this situation.

In AEROSTAR, the evaluation of risks is a permanent activity and envisages:

- To identify new risks which did not show previously;
- To re-assess persisting risks.

To decide how to treat the risks and opportunities the need was taken into account to balance the costs and efforts to implement the measures- in relation to the derived benefits- subject to compliance with the legal requirements, regulatory requirements or other undertakings assumed by the company.

Also, this takes into consideration the actions to treat the risks and opportunities to be proportional with the potential impact on the conformity of the products and services.

The plans to treat the risks are regularly monitored and the effectiveness of the measures is determined in relation to the results obtained following their implementation.

AEROSTAR is exposed to multiple risks and uncertainties which can impact on its financial performance.

In AEROSTAR, the risk and opportunities management is integrated in the management and decision-making processes and is part of the basic and support processes of the company.

The organizational framework for the risks and opportunities management is adequate in relation to the internal and external context of the company.

The risk management envisages to keep the risks under control so that the company's risk exposure is maintained at an acceptable level.

The risk management process provides the identification, analysis, assessment and administration of the risks with a view to minimize their effects down to an agreed level.

The risk management process in Aerostar involves the systematic application of the procedures and practice regarding the communication and consultancy activities, assessment, treatment, monitoring, analysis, registration and reporting of the risks.

How to treat the risks involves balancing the costs and the efforts to implement the established measures, in relation to the derived benefits, subject to the compliance with the legal, regulatory or other requirements undertaken by AEROSTAR.

The effectiveness of the risk treatment actions is shown when the expected results are obtained following the implementation of the respective measures.

The top management set the authority and responsibilities at the proper levels in the company and allocated, respectively, the necessary resources for the risk management.

The proper involvement of the interested parties in the risk management permits to take into account their knowledge and points of view.

The effectiveness of the risk and opportunity management process is under management review on a yearly basis.

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

By adopting an integrated approach for the risk management, AEROSTAR has in place a robust risk management system.

The Integrated Quality and Environment Management System in AEROSTAR reconfigured after the latest revisions of the standards SR EN ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, SR EN ISO 14001 of 2016, places a special focus on risk management.

The recertification obtained after the external audit for each of these certifications and authorisations confirms the preoccupation and good practice implemented in AEROSTAR for the risk management.

Aerostar's environmental management system is certified according to the standard ISO 14001 and the environmental aspects treated cover the entire lifecycle of the product, starting from the raw material acquisition, design, production, transport / delivery, use, treatment at the end of the life cycle and reintegration into nature.

In Aerostar there is a unified mode to identify, evaluate and treat the risks of failure to meet the targets, for all the processes involved, starting from purchasing to delivery. The risks and mitigation actions are monitored and reported.

The verification of the risks is also done through internal audits carried out throughout the organization. From an operational point of view, the environmental aspects are also verified by operational controls performed by company's own analysts for environmental protection.

Determining the significant environmental aspects is a continuous process and the life cycle perspective is applied in order to reduce the use of resources and reduce the pollution or reduce the waste in those stages of the product life cycle for which Aerostar has control or influence to the largest extent.

There are no risks regarding the production financing as the company operations are secured from its own funds.

The company has financial provisions for the risks which may arise.

Main risks and their management in the area of Human Resources in the context of the Covid-19 pandemic

The priority is to provide safety for our employees at the work place.

The company has in place a risk assessment plan and a plan for the prevention and protection in case of the new coronavirus.

Measures were taken to reorganize the work and alternative protection measures.

The persons responsible were designated for the implementation, follow-up, proposal of new measures and execution of the measures against the spreading of the new coronavirus infections. Such persons coordinate the implementation of the supplementary measures related to the Covid-19 transmission and verify their effectiveness.

The lists were made with the zones in the company regarding the measures implemented in order to prevent the contamination risks and to secure the continuity in the Covid-19 context.

The programme with the measures for the mode of action to protect the employees against Covid-19 is updated and completed whenever modifications arise and this is made by implementing additional measures and control measures.

Further details on the specific measures taken for the labour safety and security in the context of the Covid-19 pandemic are given in the chapter **Our Employees**.

Risk Treatment

The **Legal risk** is also associated to the **Operational risk**.

The highly varied range of AEROSTAR's suppliers and customers, covering multiple countries and continents, makes the legal risk extremely important, detailed and outlined by:

- **Risks regarding the geopolitical changes/ uncertainties due to the actions of the major global actors** (changes in the US Administration position in the field of economic trade and related commercial taxes, the Brexit Agreement execution and completion between Great Britain and the European Union with potential impact on the sales volume to UK companies, a.s.o.);
- **Risks regarding the tough commercial competitiveness**, in the competition contractual landscape in aviation, including the concentration of the customers;
- **Risks regarding the changes of the laws/ regulations regarding the legislation in force** (including anti-trust, anti-corruption, embargo/ sanctions legislation, etc).

The effects of the **legal risk** are monitored and eliminated by means of a permanent information update system about the legislative changes, as well as through a system for the review, endorsement and approval of the terms and conditions included in the commercial agreements.

We appreciate that currently the **operational risk** level in Aerostar is low.

Furthermore, AEROSTAR pursues to have available adequate capital, by setting provisions for risks and related expenses, company funds to cover its risks of exposure, also taking into account the possible **association/ partnerships risks**.

In this context, the emphasis is on the possible syncopes in the development and execution of certain programmes possible to be abandoned by the partners due to extraordinary events or to certain collaborations where additional delayed, postponed, unmaintainable Programmes may arise (**Risk of discontinuity of the Programmes' lifecycle**).

Also, by allocating adequate resources, the monitoring is focused on the mitigation of the possible dangers specific to cyber-attacks, including to minimize the resilience of the **Risk of failure of the computer system to operate in security and safety terms.**

With a strong and proactive organisational culture in the human resources area, with adequately budgeted programmes, AEROSTAR mitigates the **Risk related to the increased mobility of the manpower**, which leads to additional costs for the identification of skills and competences and for professional adaptation.

At the same time, the activity of the employees is monitored in order to react quickly and focused to the potential events related to **Psycho- social risks** (both stress, as well as harassment and/ or accusation of violence at work) and the Possible **Health and Occupational Safety Risks**, which are largely diminished because the company has an integrated management system (Quality – Environment- Occupational Health and Security), certified according to the standards in force.

In the context of Covid-19 pandemic, the company's continuity plan takes into account and is adequate in relation to the severity of the risks of public health situation.

By following the laws specific to work and social protection, AEROSTAR records no possible **Risks related to pension funds.**

Also, in order to minimize the **Operational risk**, AEROSTAR annually renews the liability insurance contract with first rank insurance-reinsurance companies in connection with its main business lines (aviation products manufacturing and maintenance of commercial aircraft), knowing and respecting the provisions specific to the **Insurance risk** while the possible signs of influence on the organisation's reputation, the **Risk of affecting the image** of the company, are attentively monitored and mitigated.

The **Risk of affecting the company reputation** is mitigated by a continuous set of fundamented and correlated actions, communicated according to the legal regulations in force, taking into account the stakeholders' requirements and based on AEROSTAR's results.

The Credit Risk

The cash flows and the status of the amounts collected and paid for each partner are permanently monitored and controlled, maintaining a close relation with them, so we appreciate that this risk is very low.

The cash and cash equivalents are placed only in first rank banking institutions, considered to have high solvency.

The **Credit risk**, including the **Country risk** where the customer carries out the activity, is managed on each business partner.

When deemed necessary, the company requires specific credit risk mitigation tools (prepaid expenses, letters of credit with bank guarantee, confirmed export letters of credit).

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

However, there is a significant exposure to the global market of the Airbus programmes, a large share of the company's products being embedded in Airbus aircraft.

The crisis generated by the Covid-19 pandemic severely affects the global aviation industry. AEROSTAR takes action by measures integrated at the level of the management system for the administration of all the impacts and mitigate the effects of the crisis in aviation on the company's results on short and mid term.

The Liquidity Risk

In this period, this risk is practically non-existent.

For the administration of the **liquidity risk**, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash.

Such reviews provide the basis for the financing decisions and for the capital undertakings.

For the administration of the **liquidity risk**, AEROSTAR keeps an annual cash reserve in the form of a Credit Line usable as a bank overdraft in amount of 2.500.000 USD.

During the reporting period, AEROSTAR did not use the Credit Line, all the activities being financed from company's own funds.

The Market Risk

The market risk is relevant subject to the **price risk**, **currency risk** and **interest rate risk**.

AEROSTAR is mainly exposed to the **price risk** determined by the fluctuations of the price of raw materials and materials used in the production processes, due to some extraordinary events (the Brexit Agreement with an impact on the purchasing of materials from Great Britain, implementation of certain international sanctions with consequences on the limitation of the possibility to provide the necessary parts and materials, etc.), as well as the increase of the costs of specific duties for the import/export of metallic products (steel and/ or aluminium) to and from USA.

This risk is significantly manifest in the conditions of the economic recession in the aeronautical industry produced by the Covid-19 pandemic.

AEROSTAR is exposed to the **currency risk** as over **72% of the turnover at 30.09.2020** is related to USD and EUR, while a considerable amount of the operational expenses is denominated in LEI.

As such, AEROSTAR is exposed to the risk of the exchange rate fluctuations, affecting both its net revenues and its financial position, as they are both 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 during the reporting period, the cash revenues and flows are independent from the interest rate variation on the banking market.

The trend for the main risks and uncertainties for the following period

The impact of the Covid-19 pandemic already affects important sectors of the economy and global markets. Severe reductions of the activities and orders, in headcount employment as well, take place in the the global supply chains, most affected being Asia, Europe and North America.

In a short while all the short and mid-term forecasts in the aeronautical sector were smashed off by the realities associated to Covid-19, which already take the form of a predictable recession: important aircraft manufacturing orders are cancelled or quantities reduced, production is stopped in multiple facilities around the world, quasi extinct passengers air traffic.

The already installed symptoms of the economic and financial degradation add to this situation at a rapid pace: a severe lack of liquidities, unemployment and uncertainty, the absence of a perspective on the duration of this crisis.

If initially the evaluation of the crisis in aviation did not indicate a stabilization before the end of the year 2020 at the earliest while there were scenarios projecting the deferred stabilization as late as until 2021-2022, now the expectations based on updated figures do not provide a recovery of the 2019 production rates earlier of the years 2023-2025.

There are scenarios which predict a demand of new civil aircraft down to 30-50% in the following decade, differentiated on programmes and major OEMs.

On short and mid term, the re-start perspective is based on the recent profile of the aviation market but currently there is only a limited visibility on the effects of the crisis and the timing to start the economic re-launch measures.

Due to the long production cycles in the field of aeronautical manufacturing, the effects of the crisis occur with a significant delay.

A detailed description of these trends is available in the chapter **AEROSTAR Business / Modifications of the external aspects in the organization's context.**

For the following period, AEROSTAR does not foresee other significant risks, additional to the ones managed in the current period and presented as following:

The operational risk: the risk of registration of loss or failure to make the estimated profits is carefully monitored through the accounts management system applied. In the context of the crisis generated by the Covid-19 pandemic in the global supply chains, severe reductions of the activities and orders occurred, the most affected being the plants in Asia, North America and Europe.

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies, from several main customers such as GKN Aerospace, Avcorp, Safran, all all these arising from a significant reduction of the production rates for the Airbus and Boeing programmes.

As a consequence of the reductions in air transport activities notifications were received from several air operators giving up the planned maintenance of their Boeing 737 și Airbus A320 aircraft.

However, there may be risks and uncertainties in addition to those presented here, which are not currently known or are considered insignificant, but which in the future may affect Aerostar's business lines.

FINANCIAL SITUATION- SUMMARY

	Thousands lei	
Summary of assets, company equity, debts and provisions	30 Sept.2020	31 Dec. 2019
Immobilized Assets	188.509	168.023
Circulating Assets	349.003	372.879
Prepaid Expenses and Receivables related to deferred profit	16.860	15.413
Total Assets	554.372	556.315
Company Equity	381.893	363.332
Provisions	114.393	119.019
Prepaid Revenues	6.368	9.047
Debts	51.718	64.917
Total company equity, prepaid revenues, debts and provisions	554.372	556.315

	Thousands lei	
Summary of Revenues, Expenses, Results	30 Sept. 2020	30 Sept. 2019
Revenues from Operations, of which:	251.289	283.966
– revenues from sales	224.812	266.779
Operational Expenses	(210.162)	(238.368)
Profit/loss from Operations	41.127	45.598
Financial Revenues	8.633	8.306
Financial Expenses	(3.856)	(3.275)
Financial Profit/Loss	4.777	5.031
Profit before tax	45.904	50.629
Tax on current and deferred profit	(5.856)	(8.222)
Net Profit of the period	40.048	42.407

AEROSTAR WILL PROVIDE THE CONTINUITY!

With reference to the economic crisis in the aviation industry the new evolutions are not encouraging at all while now there is even more uncertainty as to the work load for the year 2021.

At this time we have to overcome both the sanitary crisis and the economic crisis.

All our endeavours are directed to diminish the effects of the lack of orders on the employees, but if there are insufficient support measures for the economy we will have to reduce the headcount. As said several times previously during the year, we will not downsize the number of employees this year and in the timeframe to follow, we are to make a decision in this respect with reference to the year 2021.

Before any layoffs, rest assured that we will take all measures in order to avoid or to reduce the jobs permanently cut.

On short and mid term we focus to keep our capabilities active and ready for relaunch.

We rely on the success of our adaptation efforts and we will pursue to our strategy step by step to preserve our significant capabilities in order to capitalize on them on long term.

We are ready to preserve our resources for a significant timeperiod and to use all our own resources, as well as the support resources which we can get access to.

Our continuity plan in the situation of the Covid-19 pandemic provides the continuity of the development while the mission and objectives set are maintained.

We have the capacity to overcome this situation, we have a strong vision for the future and an experienced team in using the available resources with effectiveness.

We rely that we will be able to access sufficient measures supporting the economy, which can be made available for our future programmes. Thus we will be able to have more certainty in order to provide the success further on for AEROSTAR's development on mid and long term.

On behalf of the Board of Directors,

Grigore FILIP
President & General Director

AEROSTAR S.A. BACĂU
INDIVIDUAL FINANCIAL STATEMENTS
FOR SEPTEMBER 30, 2020

UNAUDITED

The financial statements on 30.09.2020 were audited by the internal auditor of the company Aerostar.

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AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30 September 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	178.910	157.545
Intangible assets	5	643	888
Investment property	6	7.147	7.681
Rights of use on assets under lease	32	1.757	1.765
Financial assets	7	52	144
Total non-current assets		188.509	168.023
Current assets			
Inventories	10	106.611	86.866
Trade receivables and other receivables	8;9	37.422	78.651
Cash and cash equivalents	11	204.970	207.362
Total current assets		349.003	372.879
Receivables regarding deferred profit tax	17	15.088	13.984
Prepaid expenses	31	1.772	1.429
Total assets		554.372	556.315
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	40.048	65.979
Result carried forward	12	59.240	58.931
Other reserves	12	262.088	215.507
Deferred income tax recognized based on own equity	17	(16.130)	(14.140)
Distribution of profit for legal reserves	12	(12.082)	(11.674)
Total prepaid income	12	381.893	363.332
Long-term liabilities			
Subsidies for investments	14	6.368	7.935
Deferred income	31	0	1.112
Total prepaid income		6.368	9.047
Long-term liabilities			
Liabilities regarding deferred income tax	17	18.949	17.316
Other long-term liabilities	16	2.335	2.325
Total long-term liabilities		21.284	19.641
Long-term provisions	13	92.848	97.451
Current liabilities			
Trade liabilities	15	17.530	26.769
Liability with current income tax	23	1.148	2.446
Other current liabilities	16	11.756	16.061
Total current liabilities		30.434	45.276
Short-term provisions	13	21.545	21.568
Total provisions		114.393	119.019
Total liabilities		51.718	64.917
Total company equity, prepaid income, liabilities and provisions		554.372	556.315

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
ON 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30 September 2020	30 September 2019
Operating income			
Income from sales	19	224.812	266.779
Other income	19	1.687	2.233
Income related to the inventories of finished goods and work in progress	19	21.523	14.178
Income from production of assets	19	1.321	601
Income from operating subsidiaries	19	1.946	175
Total operating income		251.289	283.966
Operating expenses			
Material expenses	20	(73.485)	(92.507)
Expenses with employees' benefits	20	(87.445)	(91.383)
Expenses regarding amortization of assets	20	(18.497)	(19.393)
Influence of adjustments regarding current assets	20	(11.463)	(14.390)
Influence of adjustments regarding provisions	20	4.626	3.553
Expenses regarding external services	20	(22.172)	(21.924)
Other expenses	20	(1.726)	(2.324)
Total operating expenses		(210.162)	(238.368)
Profit/loss from operating activity		41.127	45.598
Financial income	21	8.633	8.306
Financial expenses	22	(3.856)	(3.275)
Financial profit/loss		4.777	5.031
Profit before tax		45.904	50.629
Tax on current and deferred profit	17;23	(5.856)	(8.222)
Net profit of the period		40.048	42.407

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF
THE GLOBAL RESULT ON 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	30 September 2020	30 September 2019
Net profit of the financial year	40.048	42.407
Deferred income tax recognized on company equity	(1.691)	(211)
Profit not distributed corresponding to year 2019	9	
Other elements of the global result	(1.682)	(211)
Total global result of the period	38.366	42.196

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE MODIFICATIONS OF COMPANY EQUITY
FOR 30 SEPTEMBER 2020

(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 1 January 2020	48.729	215.506	(14.139)	58.931	54.305*)	363.332
Profit of the period					40.048	40.048
Other elements of global result						
Deferred income tax recognized on the account of equity			(1.991)	300	-	(1.691)
Distribution of the profit of 2019 on the destinations decided by the shareholders in OGMS held on 21 April 2020 (Note 12)				54.305	(54.296)	9
Distribution of the profit after 9 months of 2020 for legal reserves in gross amounts		12.082			(12.082)	-
Total global result relating to the period		12.082	(1.991)	54.605	(26.330)	38.366
Reserves distributed from the profit of 2019		34.500		(34.500)		-
Distributed dividends related to 2019				(19.796)		(19.796)
Profit not distributed related to 2019					(9)	(9)
Transactions with the shareholders directly recognized in equity		34.500		(54.296)	(9)	(19.805)
B. Balance on 30 September 2020	48.729	262.088	(16.130)	59.240	27.966**)	381.893
C. Modifications on own equity (NOTE 12)	0	46.582	(1.991)	309	(26.339)	18.561

*) The result of the prior period is 65.979 thousand lei and is influenced by the allocation of the profit on the legal reserves in amount of 11.674 thousand lei.

***) The result on 30.09.2020 is 40.048 thousand lei and is influenced by the distribution of the profit on legal reserves in amount of 12.082 thousand lei.

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE CASH FLOWS (direct method)
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30.09.2020	30.09.2020
CASH FLOWS FROM OPERATIONS			
collected from customers		270.898	275.830
taxes and excises recovered from State Budget		12.624	4.993
payments to suppliers and employees		(177.790)	(193.202)
payment of taxes, contributions and dues to State Budget		(48.314)	(39.957)
payment of profit tax		(8.296)	(8.443)
NET CASH FROM OPERATIONS	27	49.122	39.221
CASH FLOWS FROM INVESTMENTS			
interest collected from bank deposits set		3.612	2.608
dividends received from affiliated entities		537	137
collected from sales of property, plant and equipment		125	0
interest collected from loans granted		0	13
payments for purchasing property, plant and equipment and intangible assets		(37.365)	(16.337)
NET CASH FROM INVESTMENTS	27	(33.091)	(13.579)
CASH FLOWS FROM FINANCING ACTIVITIES			
dividends paid but unclaimed		0	99
gross dividends paid		(18.844)	(15.787)
NET CASH FROM FINANCING ACTIVITIES	27	(18.844)	(15.688)
Net increase/decrease of cash and cash equivalents		(2.813)	9.954
Cash and cash equivalents at the beginning of the period		207.362	167.545
Effect of the exchange rate variation over the cash and cash equivalents	27	421	755
Cash and cash equivalents at the end of the period	11	204.970	178.254

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 1 - DESCRIPTION OF THE COMPANY

The company AEROSTAR was established in 1953 and acts in accordance with the Romanian law. AEROSTAR S.A. carries out its activity at its registered headquarters located in Bacau, 9 Condorilor St, code 600302. In accordance with the Decision no. 2/14.12.2017 of the Board of Directors, a secondary place of business without legal personality (work site) has been approved in Iasi, at 25B, Aeroportului Street.

The main field of activity of AEROSTAR S.A. 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 “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 Depozitarul Central S.A. Bucharest.

During the first nine months of the year 2020, there were no records of subscriptions of new shares, nor 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 Blvd. The consolidated financial statements for the financial year 2019 were filed with A.N.A.F. under registration number 221497794-2020/27.08.2020184767215/26.08.2019. 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 to end on 31.12.2020.

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

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 the maintenance of its production capabilities unaffected in the context of the impact of the COVID-19 pandemic on the aviation industrion.

Throughout the nine months of the year 2020, the Company did not use loan capital, neither equity contribution from the shareholders, but it was granted technical unemployment as provided by law.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(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 involve 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 recognized within the time frame when the estimate was reviewed.

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

- of the period during which the change occurs, if it affects only the respective time frame; 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 collaterals 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 in order 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 the 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).

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:

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

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

In case an error is identified, the company shall disclose the following information:

- the nature of the error for the prior period;
- the value of the correction for each of the previous period presented, to the extent possible:
 - for each item - row affected from the financial statement;
 - for the basic results and diluted per share.
- the amount of the correction at the beginning of the first previous period presented;
- if retrospective restatement is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of the manner in which and time since 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 explanatory 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

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, which 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 explanatory 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;

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

- for the current period and for each prior period as presented, the estimative 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
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of the 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 amended and supplemented subsequently;
- O.M.F.P. no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted for trade on a regular market;
- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards, as amended and supplemented subsequently;
- 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 equity;
- O.M.F.P. no. 1.826/2003 on the approval of the explanatory notes regarding some measures for the accounts management and control;
- O.M.F.P. no. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

Accounting is kept in Romanian and in the national currency.

The accounting of foreign currency transactions 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 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.

Compared to the statements presented at the end of the financial year 2019 there are no significant changes to the applied principles, methods, policies and accounting procedures.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 4 - TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers the Romanian LEU as the 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.

On the day 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 day:

Currency	30.09.2020
EUR (Euro)	4,8698
USD (American Dollar)	4,1617
GBP (British pound)	5,3406

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

Taking into account that 72 % 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 expressed in the functional currency.

In the reporting period the net currency exposure resulted as a difference between the amounts collected from the financial assets and the payment of the financial liabilities denominated in that currency are presented as follows:

Jan.-Sept. 2020	thousand EUR	thousand USD	thousand GBP
Collected from financial assets	10.070	32.229	0
Payments of financial liabilities	(7.035)	(11.380)	(340)
Net foreign currency exposure	3.035	20.849	(340)

In the reporting period, the quartely variation of the foreign exchange rate USD/LEU:

+2,10% in 1st quarter of 2020 compared with 31.12.2019

-0,10% in 2nd quarter of 2020 compared with 31.03.2020

-4,09% in 3rd quarter of 2020 compared with 30.06.2020

and

EUR/LEU:

+0,30% in 1st quarter of 2020 compared with 31.12.2019

+0,20% in 2nd quarter of 2020 compared with 31.03.2020

+0,04% in 3rd quarter of 2020 compared with 30.06.2020

has determined the registration of a financial profit from favorable exchange rate differences of 557 thousand LEI.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 5 - INTANGIBLE ASSETS

	30 September 2020			01 January 2020		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	41	(41)	0	152	(152)	0
Licences	5.308	(4.597)	711	4.902	(3.926)	976
Other intangible assets (software)	1.808	(1.631)	177	1.413	(1.346)	67
Total	7.157	(6.269)	888	6.467	(5.424)	1.043

Net accounting value

	Balance on 1 January 2020	Increase	Depreciation/ Impairment during the period	Balance on 30 September 2020
Licenses	711	298	(475)	534
Other intangible assets	177	102	(170)	109
Total	888	400	(645)	643

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

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

- Development expenses
- Licences
- Other intangible assets

The software applications are registered under other intangible assets.

The estimated useful lifetimes of intangible assets are determined 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 30.09.2020 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 licenses on 30 September 2020 and which are still in use is 2.577 thousand lei.

All the intangible assets recorded in the balance sheet account as on 30 September 2020 are the property of AEROSTAR.

Increases in gross values of intangible assets were:	<u>400 thousand lei</u>
• development of the IT management system of production – version 3	102 thousand lei
• purchasing of software licences	298 thousand lei

In the reporting period there were no entries 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.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The Property, Plant and Equipment on 30 September 2020 and 01 January 2020 comprise the following:

	30 September 2020			01 January 2020		
	Gross amount	Depreciation	Net accounting value	Gross amount	Depreciation	Net accounting value
Land	29.230	-	29.230	28.401	0	28.401
Constructions	90.637	(25.116)	65.521	58.880	(21.429)	37.451
Technological equipment and transport	177.171	(103.170)	74.001	163.101	(89.875)	73.226
Other equipment and office equipment	3.270	(1.099)	2.171	2.239	(758)	1.481
Investment property	10.537	(3.389)	7.148	10.644	(2.963)	7.681
Property, plant and eqpt under construction	7.986	-	7.986	16.986	0	16.986
Total	318.831	(132.774)	186.057	280.251	(115.025)	165.226

Net accounting value

	Balance on 1 January 2020	Increase	Reclassification	Disposals/ Transfer	Depreciation	Balance on 30 September 2020
Land	28.401	829	0	0	0	29.230
Constructions	37.451	31.649	108	0	(3.687)	65.521
Technological equipment and vehicles	73.226	14.133	0		(13.358)	74.001
Other equipment and office equipment	1.481	1.044	0	0	(354)	2.171
Investment property	7.681	0	(108)	0	(425)	7.148
Property, plant and eqpt under construction	16.986	37.826	0	(46.826)	0	7.986
Total	165.226	85.481	16	0	(17.824)	186.057

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

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

These items are amortized using the linear method.

Depreciation expenses are recognized in the profit and loss account.

The following useful lifetimes 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 lifetimes are established by committees made up of Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed in September 2020.

The fiscal useful lifetimes 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 units – buildings which are rented to third parties based on renting contracts.

The value of renting income for this category of immobilizations, as recorded in the first 9 months of 2020 was 1.739 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 for their decommissioning at the end of the useful lifetime.

These costs were reflected in the set-up of a provision, which is recorded in the profit and loss account throughout the lifetime of the Property, Plant and Equipment, by inclusion in the depreciation expense.

The depreciation 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 required by the management) and ends on the day when the asset is reclassified in another category or when it is de-recognized.

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

In accordance with the provisions of IAS 36 (Impairment of assets), the company proceeded to the identification of any signs of impairment of the Property, Plant and Equipment, taking into consideration external and internal sources of information.

Internal source of information:

The economic performance of the assets is good, all the immobilizations in operation bring benefits to the Company

External source of information

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 the Company equity (MBR).

<u>indicator MBR-Market to book ratio</u>	<u>30.09.2020</u>	<u>31.12.2019</u>
Stock exchange capitalization/ Company equity	1,8	2,2

The Property, Plant and Equipment in the balance sheet on 30.09.2020 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated Property, Plant and Equipment which are still in operation on 30 September 2020 is 21.281 thousand lei.

On 30.09.2020 no mortgages were set on property assets in AEROSTAR S.A. ownership.

Value increases of Property, Plant and Equipment: 85.481 thousand lei
achieved by

- acquisition of technical equipment, hardware equipment, measuring and control equipment, transportation and lifting vehicles, finalization MRO hangar, place of business Iasi etc 46.826 thousand lei
- acquisition of 19.450 m² of land 829 thousand lei
- expenses on investments made in 9 months of 2020 37.826 thousand lei

Reclassifications, by:

- the transfer of a building from investment property to Property, Plant and Equipment – constructions as a result of the use thereof 108 thousand lei

Decreases in values of Property, Plant and Equipment, achieved by: 46.826 thousand lei

- the transfer of the immobilizations in progress into Property, Plant and Equipment following the commissioning thereof; 46.826 thousand lei

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020

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

NOTE 7- FINANCIAL FIXED ASSETS

	Shares held in affiliated entities	Other immobilized securities	Other immobilized receivables - supplier bonds	Total
On 1 January 2020	14	92	38	144
Increases/Decreases	-	(92)	-	(92)
On 31 September 2020	14	-	38	52

Details of the entity's investments on 30.09.2020 in other companies are as follows:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (thousand lei)	Financial Information Related to 2019				
					Company's Share capital (thousand lei)	Reserves (thousand lei)	Net profit (thou- sand lei)	Nominal value/ share	Net assets/ share
Airpro Consult SRL Bacau 9 Condorilor St.	- main activity according to CAEN code 7820	100	100%	10	10	97	65	0,10	1,5
Foar SRL Bacau 9 Condorilor St.	- main activity according to CAEN code 7739	800	51%	4	8	1.739	210	0,01	2,4
TOTAL	x	x	x	14	18	1.836	275	x	x

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

AEROSTAR's contribution in these companies is registered on a cost basis.

The General Extraordinary Meeting of Aerostar Shareholders held on April 21, 2020 adopted the decision to dissolve the company ATF S.A in which Aerostar S.A. Bacau owned 45,75% of the share capital.

In august 2020, Aerostar cleared from its accounting records the securities owned at ATF.S.A. in the wake of the dissolution of this company. On September 30, 2020 the action to dissolve the company was underway.

Between January and September 2020, the company contribution percentage did not change, i.e. no increases/decreases of as to the shareholding percentage were recorded, maintaining the same influence as in 2019 on the companies kept in the shareholding portfolio.

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 SEPTEMBER 2020
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 8 - TRADE RECEIVABLES

	30 September 2020	31 December 2019
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	22.131	61.938
Customers from Romania	8.338	15.880
Customers from outside Romania	13.793	44.734
Customers – invoices to be prepared	-	1.324
Effects to receive from customers	-	-
Uncertain customers	1.223	1.343
Adjustments for impairment of receivables - customers	(747)	(807)
Suppliers – debtors	9.823	10.895
Adjustments for the impairment of receivables - advances granted to suppliers	(43)	(57)
TOTAL TRADE RECEIVABLES	32.387	73.312

In accordance with the provisions from the accounting policies manual, to cover the risk of non-recovery of the amounts representing uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers as follows:

- in a percentage of 50% from the value of the receivables not collected on time if the due date is between 30 days and 180 days. On 30 September 2020, the company registered adjustments for depreciation of this nature in amount of 507 thousand lei;
- in a percentage of 100% from the value of the receivables not collected on time, if the due date exceeds 180 days. On 30 September 2020, the company registered adjustments for depreciation of this nature in amount of 240 thousand lei.

Also, the company registered adjustments for depreciation of the advances granted to the suppliers in amount of 43 thousand lei.

When determining the recoverability of a trade receivable, the changes considered were those occurred in the customer's credit rating from the date when the credit was granted till the reporting date.

Debtors-suppliers have a settlement deadline in the year 2020, except for some paid advances in the amount of 1.406 thousand lei for repairs of avionics equipment for which the settlement deadline is December 2021.

At the end of each period, the receivables in foreign currency and the receivables expressed in lei that are settled according to the currency exchange rate were evaluated at the market exchange rate communicated by the National Bank of Romania in the last banking day of the month underway.

The favourable and unfavourable exchange rates differences between the exchange market rate at which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of September 2020 were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	30 September 2020	31 December 2019
Receivables related to manpower and similar accounts	158	21
Receivables related to the budget of social insurance and the state budget, of which:	4.410	4.937
- VAT to be recovered	361	3.908
- Non-chargeable VAT	33	48
- Amounts to recover from the National Health System (allowances on medical leaves)	747	467
- Amounts to recover from A.J.O.F.M. representing the reduced working time benefits	1.548	-
- Excise duty to recover related to the fuel used	540	427
- Subsidies to collect as per OUG 92/2020, representing 41.5% of the salary for August, supported from the budget of insurances for unemployment and subsidies for employing graduates	1.091	61
- Other taxes	13	14
- Other receivables related to social insurance budget and the State budget	77	12
Interest to receive from bank deposits	393	324
Various debtors	216	170
Adjustments for the depreciation of the receivables – various debtors	(142)	(113)
Dividends to collect from affiliated entities	-	-
TOTAL OTHER RECEIVABLES	5.035	5.339

To cover the risk of non-recovery of certain categories of receivables – various debtors, the company registered adjustments for impairment of various debtors in amount of 142 thousand lei.

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NOTE 10 – INVENTORIES	30 September 2020	31 December 2019
of which:		
Raw material *	38.299	27.088
Consumable material **	38.951	35.847
Other material	537	147
Semi-finished material/blanks	1.510	1.907
Packaging	2	26
Finished products	17.403	19.993
Products and services in progress	53.950	34.392
Gross value of the inventories (unadjusted)	<u>150.652</u>	<u>119.400</u>

Adjustments for impairment of inventories and production in progress

	31 December 2019	Increases/ Set-ups/	Decreases/ Resumptions/	30 September 2020
Total adjustments	<u>32.534</u>	<u>23.496</u>	<u>11.989</u>	<u>44.041</u>
Adjustments for impairment of raw material	10.920	8.512	95	19.337
Adjustments for impairment of consumable material	12.925	4.291	706	16.510
Adjustments for impairment of other expendables	7	20	7	20
Adjustments for impairment of production in progress	6.196	10.671	10.563	6.304
Adjustments for impairment of semi- finished material	1.907	-	397	1.510
Adjustments for impairment of finished products	568	2	210	360
Adjustments for impairment of packaging	11	-	11	-

Note:

* The raw material directly participates in the manufacturing of the products and is found in the semi-finished or finished product, either in the original state, or transformed (bars, pipes, plates, profiles, wires etc);

** The consumable material participates in or contributes to the manufacturing or operating process, usually without being used in the finished product (auxiliary material, fuels, spare parts, tools, fixtures, checkers and other consumable material).

The inventories are assessed at the lowest value between the cost and the net achievable value. The net achievable value is the estimated sale price for inventories minus all estimated costs for completion and the estimated costs needed for sale.

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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 located.

Value adjustments are made regularly based on the findings of the inventory commissions and/ or the managers of the production modules in order to present them at the lowest value between the cost and the net achievable value.

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

The total value of inventories recognized as an expense during that period is 66.087 thousand lei.

AEROSTAR S.A. holds inventories of finished products (buffer stocks) at the levels contractually agreed with the customers.

AEROSTAR S.A. has no pledged inventories.

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NOTE 11 - CASH AND CASH EQUIVALENTS

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

	30.09.2020	30.09.2019
Cash	17.776	13.593
Bank deposits	187.194	164.661
Cheques and trade effects to collect	0	0
Cash and cash equivalents in the cash-flow statement	204.970	178.254

The cash contains the current cash available at cashier's desk and in banks;

The cash equivalents comprise:

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

The treasury balance is influenced by the prepaid amounts received from the customers.

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

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NOTE 12 – COMPANY EQUITY

The Company equity on 30 September 2020 is 381.893 thousand lei.

The net increase of the equity in the interval January – September 2020 compared with 2019 was 18.561 thousand lei.

The modifications of the main elements of the company equity incurred in 2020 compared with 2019 are as follows:

- **The share capital remained unchanged**

On 30 September 2020, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares, each having a nominal value of 0,32 lei.

- **The reserves increased by 46.582 thousand lei on account of:**

- the distribution to reserves of the reinvested profit related to the first nine months of 2020 in a gross amount of 12.082 thousand lei;
- the distribution to reserves of the amount of 34.500 thousand lei related to the financial year 2019.

- **Other capital elements have increased with the amount of 1.991 thousand lei** on account of the deferred income tax recognized in company equity.

- **The result carried-forward:**

- **increased by:**

- 300 thousand lei on account of the deferred income tax recognized in company equity;
- 54.305 thousand lei, representing the profit to distribute related to the financial year 2019, as registered in the result carried forward until distributed to the destinations approved by shareholders in the ordinary general meeting held on April 21, 2020.

- **and decreased by** the profit of the financial year 2019, distributed as follows:

- to reserves in amount of 34.500 thousand lei;
- for dividends in amount of 19.796 thousand lei.

the net increase of the result carried forward in the interval January - September 2020 being 309 thousand lei.

- The balance of the result carried-forward account on 30 September 2020 is 59.240 thousand lei, comprising:
 - the result carried forward arising from the use, on the date of transition to IFRS, of the fair value as presumed cost = 32.523 thousand lei;
 - the result carried-forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 26.708 thousand lei;
 - the result carried forward representing the profit for the year 2019, not distributed = 9 thousand lei.
- **The result of the period was 40.048 thousand lei.**

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NOTE 13 - PROVISIONS

	31 December 2019	Increases/ Set-ups/ Reclassification of provisions	Reductions/ Resumptions/ Reclassification of provisions	Differences from revaluation	31 September 2020
Total provisions	119.019	12.389	(17.420)	405	114.393
Provisions for bonds granted to customers	44.389	8.929	(8.576)	(492)	44.250
Provisions for decommissioning of the Property, Plant and Equipment	16.384	0	0	0	16.384
Provisions for the employee Benefits	5.177	0	(5.022)	0	155
Provisions for litigations	5.229	0	0	91	5.320
Other provisions	47.840	3.460	(3.822)	806	48.284
Long-term provisions	97.451	2.886	(7.861)	372	92.848
Provisions for bonds granted to customers	27.998	2.886	(4.039)	(459)	26.386
Provisions for decommissioning of the Property, Plant and Equipment	16.384	0	0	0	16.384
Provisions for litigations	5.229	0	0	91	5.320
Other provisions	47.840	0	(3.822)	740	44.758
Short-term provisions	21.568	9.503	(9.559)	33	21.545
Provisions for bonds granted to customers	16.391	6.043	(4.537)	(33)	17.864
Provisions for employee benefits	5.177	0	(5.022)	0	155
Other provisions	0	3.460	0	66	3.526

Provisions set up for bonds granted to customers

The provisions set up for bonds granted to customers are made to cover the non-conformance risks of the products sold and the services performed, in accordance with the contractual provisions.

Provisions for decommissioning of the Property, Plant and Equipment

The provisions for decommissioning of the property, especially buildings, are made to cover the disassembly costs of removal of the elements and restoration of the locations where they are placed and they are included in the cost thereof. The value was estimated using an update annual rate of 4,5%.

Provisions for benefits granted to employees

The provisions for benefits granted to employees are set for the bonuses granted according to the clauses of the applicable Collective Labour Agreement (bonuses for the end of the financial year, for performance) and for the annual holidays leave not taken by the employees in the previous year. The provisions related to the bonus for the annual holidays leave not taken by the employees during 2019 are found in the balance.

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Provisions for litigations

The provisions for litigations recorded on 30.09.2020 are set for probable indemnities payable by the company to a former employee.

The provisions are reviewed at the end of each reporting period and adjusted so as to reflect the best estimation of the probable payments.

Other provisions

In *Other provisions* category are found the provisions set for:

- covering of risks specific to the aviation industry, such as: risk of hidden defects, risk of discovering quality incidents which can incur claims.
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., based on O.U.G. 95/2002.

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NOTE 14 - SUBSIDIES

Subsidies related to assets

AEROSTAR recognizes the subsidies related to assets as deferred income.

	30.09.2020	30.09.2019
Balance on 1 January , of which:	7.935	10.239
Subsidies related to assets received	7.914	10.214
Surplus in inventories in the category of immobilizations	21	25
Subsidies registered under income corresponding to the calculated amortization	(1.567)	(1.740)
Balance on 30 September, of which:	6.368	8.499
Subsidies related to assets received	6.349	8.477
Surplus in inventories in the category of immobilizations	19	22

The subsidies related to the immobilized assets were received for the implementation of 3 investment projects under 3 non-reimbursable financing agreements:

1. Contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being 5.468 thousand lei;
2. Contract no. 229226/14.06.2012: 'Set-up of a new manufacturing capacity for diversifying production and export growth', carried out between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being 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', carried out between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being 8.299 thousand lei;

All the investment projects in immobilized assets were implemented and finalized in accordance with the contractual provisions undertaken

The balance of 6.349 thousand lei registered on 30 September 2020 represents the subsidies related to investments in immobilized assets which are to be recorded under revenues as the calculated amortization is registered under costs, split on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 1.253 thousand lei
2. contract no. 229226/14.06.2012: 1.055 thousand lei
3. contract no. 5IM/013/24.03.2015: 4.041 thousand lei

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NOTE 15 - COMMERCIAL DEBTS

	30 September 2020	31 December 2019
Prepaid amounts collected on customers' account, of which:	1.792	6.709
Domestic customers-creditors	174	69
Foreign customers-creditors	1.618	6.640
Suppliers, of which:	15.738	19.805
Domestic suppliers of material and services	3.332	6.792
Foreign suppliers of material and services	6.850	10.874
Suppliers-invoices not arrived	354	1.436
Suppliers of non-current assets	5.202	703
Commercial effects to pay	-	255
Total commercial debts	17.530	26.769

The payments in advance collected from foreign customers are for maintenance and aircraft repairs (97,65%) and for other services provided (2,35%).

For the debts registered no mortgages were established.

The favourable or unfavourable exchange rate differences between the market exchange rate to which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for closing the month of December 2019, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 – OTHER LIABILITIES

	30 September 2020	31 December 2019
Other current liabilities, of which:	11.756	16.061
• <i>Liabilities related to manpower and similar accounts</i>	<i>2.755</i>	<i>3.174</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>4.544</i>	<i>9.687</i>
- VAT payable	504	5.506
- social insurance	3.047	3.064
- Labour safety contribution	193	194
- tax on salary type revenues	580	582
- contribution for disabled people, unemployed	135	142
- other taxes	49	157
- other social liabilities	36	42
• <i>Other liabilities, of which:</i>	<i>4.457</i>	<i>3.200</i>
- dividends	2.837	1.848
- various creditors	208	554
- warranties received	1.412	748
- liabilities and tax related to the right of use leasing assets	-	50
Other long-term liabilities	2.335	2.325

The category *Other long-term liabilities* includes:

- the liability regarding the right to use the land leased for the Maintenance Hangar from Iasi (1.522 thousand lei) and the tax related to the right of use (813 thousand lei); and

The dividends in balance on 30 September 2020, in amount of 2.837 thousand lei represent:

- 1.044 thousand lei, amount to be paid by AEROSTAR for the payment of dividends related to 2019;
- 694 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2018;
- 563 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2017;
- 536 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2016.

All the amounts remaining in the balance are dividends for the shareholders who did not show up at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

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NOTE 17 - DEFERRED PROFIT TAX

The deferred tax is determined for the temporary differences occurring between the tax base of the assets and liabilities and their accounting base. The deferred tax is calculated at a tax rate of 16% applicable to the temporary differences when resumed.

The Company estimated and registered liabilities regarding the deferred tax related to non-current assets (which derive from the differences between the accounting and fiscal values, the various useful lifetimes, etc.) and to the reserves and recognized receivables regarding the deferred tax related to inventories and trade receivables that were adjusted for depreciation, provisions for customer bonds, provisions for benefits granted to the employees and other provisions.

The deferred income tax registered on 30.09.2020 is structured as follows:

Liabilities from deferred tax

1. Liabilities related to deferred tax generated by differences between the accounting bases (higher) and the fiscal ones (lower) of the non-current assets	1.967
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from fiscal facilities	15.362
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
Total liabilities from deferred tax	18.949

Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	791
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2019	7.080
3. Receivables on deferred tax related to provisions for manpower benefits	25
4. Receivables on deferred tax related to adjustments for depreciation of the inventories	7.043
5. Receivables on deferred tax related to adjustments for depreciation of the trade receivables	149
Total receivables on deferred tax	15.088

The Company did not recognize receivables on deferred tax related to other provisions for risks specific to the aviation industry due to an uncertainty regarding the fiscal deductibility of the expenses which may occur from the settlement of the obligations arising in the future periods. Therefore, the differences between the tax base and the accounting base would be null.

Between 01 January 2020 and 30 September 2020, the Company has registered income from tax on deferred profit in the amount of 4.084 thousand lei and expenses with the tax on deferred profit in amount of 2.922 thousand lei.

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NOTE 18 - FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial 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.

As of the reporting date AEROSTAR S.A. does not hold:

- financial instruments retained for making transactions (including derived instruments);
- financial instruments retained till due date;
- financial instruments available for sale.

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents;
- trade receivables;
- trade effects received;
- immobilized receivables (bonds for third parties);

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities;
- trade effects payable.

As of the reporting date AEROSTAR does not have any financial liabilities concerning 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 a 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 are requested to reduce the credit risk (receipts in advance, letters of payment bank security, confirmed export credentials).

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

Exposure to credit risk

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

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The maximum exposure to the credit risk on the date of reporting is presented in the table below:

	30.09.2020	30.09.2019
Cash and cash equivalents	204.970	178.254
Trade receivables, net of adjustments for depreciation	21.509	58.257
Trade effects received	0	8
Immobilized receivables	38	51
Total	226.517	236.570

The maximum exposure to credit risk in various geographical areas for trade receivables net of depreciation adjustments is presented in the table below:

	30.09.2020	30.09.2019
Domestic market	8.731	18.815
Euro zone countries	8.007	19.298
Great Britain	2.863	14.404
Other European countries	543	840
Other regions	1.365	4.900
Total	21.509	58.257

Depreciation adjustments

The timeframe structure of gross trade receivables on the date of reporting is presented in the table below:

	Adjustments for depreciation 30.09.2020		Adjustments for depreciation 30.09.2019	
	Gross value		Gross value	
In due time	20.914		54.379	
Overdue, total of which:	1.342	747	5.442	1.564
1-30 days	0	0	0	0
31-60 days	249	101	1.712	855
61-90 days	773	386	2.855	155
91-120 days	83	42	141	58
Over 120 days	197	178	734	496
Over 1 year	40	40	0	0
Total	22.256	747	59.821	1.564

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

	30.09.2020	30.09.2019
Balance on 1 January	807	16
Adjustments set for depreciation	2.044	2.852
Adjustments for depreciations resumed as revenues	(2.104)	(1.304)
Balance on 30 September	747	1.564

On 30.09.2020, 97 % of the balance of trade receivables are related to customers with a good payment record.

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b) Liquidity risk

The liquidity risk is the risk that AEROSTAR encounters difficulties in meeting its obligations associated to the financial liabilities that are settled by cash payments.

The AEROSTAR policy regarding the liquidity risk is to maintain an optimum level of liquidity so as to be able to pay its 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 reviewed monthly (general liquidity, immediate liquidity and rate of general solvency) against the budgeted levels.

Furthermore, in order to reduce the liquidity risk, AEROSTAR maintains yearly 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 review the contractual due dates of the financial liabilities, with a view to registering the timeframe for the cash flows are shown in the table below:

	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
30.09. 2020	Trade liabilities	11.698	(11.698)	(7.469)	(3.755)	(474)
	Trade effects	0	0	0	0	0
30.09. 2019	Trade liabilities	23.521	(23.521)	(19.305)	(3.843)	(373)
	Trade effects	0	0	0	0	0

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

On 30.09.2020 AEROSTAR has no records of overdue financial liabilities.

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 currency risk

AEROSTAR is exposed to a foreign currency risk, as 72% of 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 exposed to the risk that the currency exchange rate variations will affect both its net income and its financial position as expressed in lei.

The net exposure to currency exchange rate of the assets and financial liabilities is presented below based on accounting values denominated in foreign currency recorded at the end of the reporting period:

30.09.2020	Thousand EUR	Thousand USD	Thousand GBP
Cash and cash equivalents	2.768	5.115	6
Trade receivables	644	2.316	1
Trade liabilities	(576)	(1.158)	(17)
Net exposure in original currency	2.836	6.273	(10)

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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/LEU.

Taking into consideration the evolution of the exchange rates USD/LEU and EUR/LEU in the previous years, a relatively high volatility of USD/LEU (+/- 10%) and a moderate volatility of EUR/LEU (+/-2%) can be noticed.

Thus, a reasonably possible variation of the foreign exchange rates of +/- 10% USD/LEU and +/- 2% EUR/LEU may be envisaged at the end of the reporting period.

The effect of the reasonably possible variation of the exchange rate EUR/LEU and USD/LEU over the financial result of AEROSTAR is calculated in the following table:

30.09.2020	EUR/LEU	USD/LEU
Net exposure in the currency of origin	2.836 THOUSAND EUR	6.273 THOUSAND USD
Exchange rates	4,87	4,16
Net exposure in functional currency	13.811 THOUSAND LEI	26.096 THOUSAND LEI
Possible reasonable variation of exchange rate	+/- 2%	+/- 10%
Effect of variation on the financial result	+/- 276 THOUSAND LEI	+/- 2.610 THOUSAND LEI

d) Interest rate risk

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

- 1) Product A: in amount of 2.500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in amount of maximum 7.000 thousand USD (provided that the aggregate amount used from Product A and product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility to issue bonds as instruments to ensure collateral for the commercial contractual obligations by issuing bank bond letters and import Letters of Credit.

The bank interest is applicable only for the overdraft utilized from Product A in amount of 2,500 thousand USD.

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

On 30.09.2020, the level of bonds granted by AEROSTAR under commercial agreements, by issuing bank bond letters and import Letters of Credit amounts to 1.804 thousand USD (equivalent 7.505 thousand LEI).

On 30.09.2020 no mortgages are set on the property assets in AEROSTAR ownership.

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NOTE 19 - OPERATING INCOME

	30 September 2020	30 September 2019
Revenues from sales, of which:	224.812	266.779
Revenues from product sales	111.632	156.307
Revenues from services provided	111.101	107.413
Revenues from selling goods	8	985
Revenues from rents	1.739	1.782
Trade discounts granted	(24)	(38)
Revenues from other activities	356	330
Revenues related to inventories of products finished and in progress	21.523	14.178
Revenues from production of fixed assets	1.321	601
Revenues from operating subsidies	1.946	175
Other revenues from operations	1.687	2.233
Total operating income	251.289	283.966

Between January 2019 and September 2020 the Company obtained incomes from operating subsidies received for:

- drawing up apprenticeship agreements in amount of 76 thousand lei;
- employment of an unemployed person in the NEET youth category (Not in Education, Employment or Training) in amount of 48 thousand lei;
- employment of graduates who failed to get a job suitable for their educational background within 60 days since graduation, in amount of 56 thousand lei;
- paying benefits to the employees who were granted days off for child surveillance in case the educational establishments are closed temporarily, in amount of 51 thousand lei;
- settling the amount of 1.715 thousand lei paid from the unemployment insurance budget, representing 41,5% of the base pay corresponding to the job filled, but not more than 41.5% of the average gross salary provided by the Law of State Social Insurance Budget for 2020, facility granted in the social protection area against the backdrop of the epidemiological situation created by the spreading of the coronavirus SARS-CoV-2.

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NOTE 20 – OPERATING EXPENSES

	30 September 2020	30 September 2019
Expenses with employee benefits*, of which:	87.445	91.383
Salaries and allowances	79.696	82.113
Expenses with benefits in kind and expenses with ticket meals granted to employees	3.968	5.259
Expenses with social security	3.781	4.011
Expenses with raw materials and materials	59.524	77.287
Energy, water and gas	6.247	6.989
Other material expenses, of which:	7.714	8.231
Expenses with non-inventory materials	1.151	1.378
Expenses with goods	5	846
Expenses with packing	195	341
Expenses with other materials	6.363	5.666
Expenses with external services, of which:	22.172	21.924
Repairs	11.182	9.143
Transport costs	1.693	2.366
Commissions and fees	1.830	2.260
Travels, deployments	670	828
Renting expenses	428	615
Other expenses with services supplied by third parties	5.113	5.415
Trade discounts received	(72)	(32)
Amortizations	18.497	19.393
Increase/decrease of adjustments regarding provisions	(4.626)	(3.553)
Increase/decrease of adjustments regarding depreciation of current assets	11.463	14.390
Other operational expenses	1.798	2.356
Total operating expenses	210.162	238.368

* The expenses with the employees' benefits are diminished by the amount of 4.261 thousand lei as a result of the indemnities granted to the employees during the temporary suspension of their individual labor agreement, at the initiative of the employer that reduced or halted temporarily its activity in the wake of the effects of the SARS-CoV-2 pandemic.

In accordance with the provisions of the International Financial Reporting Standards and of the Accounting Policies Manual, the company registers adjustments regarding provisions (Note 13) and adjustments for the impairment of the current assets, respectively of inventories, production in progress and receivables (Note 8, Note 9 and Note 10).

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Between January and September 2020, AEROSTAR registered increases/set-ups and decreases/resumed adjustments, as follows:

Adjustments regarding provisions	30 September 2020	30 September 2019
<i>Increases / set-ups</i>	<i>10.512</i>	<i>10.562</i>
<i>Decreases / resumptions</i>	<i>15.138</i>	<i>14.115</i>
Increase/Decrease of adjustments regarding provisions	(4.626)	(3.553)

Between January and September 2020, the impact of increases (set-ups)/ decreases (resumptions) of adjustments regarding provisions was a reduction of the operating expenses by the amount of 4.626 thousand lei.

Adjustments regarding impairment of current assets	30 September 2020	30 September 2019
<i>Adjustment increases/set-ups</i>		
Adjustments for impairment of inventories	23.496	14.694
Adjustments for impairment of receivables	2.084	2.976
<i>Total adjustment increases / set up</i>	<i>25.580</i>	<i>17.670</i>
<i>Adjustment decreases/resumptions</i>		
Adjustments for the impairment of inventories	11.989	2.043
Adjustments for impairment of receivables	2.128	1.316
<i>Total adjustment decreases/resumptions</i>	<i>14.117</i>	<i>3.359</i>
Increase/ decrease of adjustments regarding the impairment of current assets	11.463	14.311

Between January and September 2020, the impact of the increase (set-up)/decrease (resumption) of adjustments regarding the impairment of current assets was an increase of the operating expenses by the amount of 11.463 thousand lei.

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NOTE 21 - FINANCIAL INCOME

	30 September 2020	30 September 2019
Income from foreign currency exchange differences	4.382	5.510
Income from interest	3.681	2.659
Income from shares held in affiliated entities	536	137
Income from relinquished financial fixed assets	34	-
Total financial income	8.633	8.306

Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented under *Note 18 Financial Instruments*.

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NOTE 22- FINANCIAL EXPENSES

	30 September 2020	30 September 2019
Expenses from exchange rate differences	3.826	3.275
Expenses with interests related to leasing contract	30	-
Total financial expenses	3.856	3.275

Between 01 January 2020 and 30 September 2020 the Company registered the following expenses:

- expenses from unfavourable exchange rate differences;
- expenses with interests related to the right to use the land leased for the Maintenance Hangar Iasi.

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NOTE 23 - TAX ON PROFIT

Tax on profit

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

The tax on profit is the tax payable relating to the profit made during the current period, as determined in accordance with the fiscal regulations applicable upon the reporting date.

The profit tax rate applicable for 30.09.2020 was 16% (the same rate was applied for the financial year 2019, too).

30 September 2020

Gross accounting profit **45.904**
Expenses with current tax on profit **6.998**

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	256.475	Fiscal income	226.966	– 29.509
Accounting expenses*	210.134	Fiscal expenses	169.822	– 40.312
Gross accounting profit, restated*	46.341	Fiscal profit	57.144	+ 10.803
Accounting tax (16%)	7.415	Fiscal tax (16%)	9.143	+ 1.728
Tax rebates	-	<i>Tax rebates, of which:</i>	2.145	+ 2.145
		• related to investments made acc.to Art. 22 Fiscal Code	1.845	+ 1.845
		• sponsoring	172	+ 172
		• bonus for third Quarter of 2020	128	+ 128
Tax on final profit	7.415	Tax on final profit	6.998	– 417
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		15,10%		

* *The above revenues and expenses are obtained after deducting from the total revenues and total expenses, respectively, the revenues and expenses related to the activities taxed accordingly.*

The main factors that affected the effective tax rate:

- non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions and value adjustments regarding the current assets which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization a.o.).
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art. 22 of the Fiscal Code and sponsorship;
- non-taxable income obtained from the recovery of certain non-deductible expenses.

As of 30 September 2020, the Company registered a debt related to the tax on current profit in amount of 1.148 thousand lei corresponding to Quarter III of 2020 and had a bonus in the amount of 128 thousand lei, 10% respectively, calculated on the tax on the profit owed by the large taxpayers for the advance payment of the tax before the due date, October 25, 2020.

Tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. is a payer of specific taxes, applicable to restaurant and public food service activities. The specific tax related to Semester I of 2020 was in the amount of 19 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 assigned to the ordinary shareholders and 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>30.09.2020</u>	<u>30.09.2019</u>
Profit assignable to ordinary shareholders	40.047.898	42.407.032
Number of ordinary shares	152.277.450	152.277.450
Profit per share	<u>0,263</u>	<u>0,278</u>

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.743 for 9 months of the year 2020 and 1.732 for 9 months of the year 2019.

Furthermore, there is an additional average number of employees hired through the temporary employment agent and used in the production process of Aerostar.

The total personnel employed in the activity of the Company Aerostar was:

	9 months 2020	9 months 2019
Total number of employees	1.852	1.941

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NOTE 26 - TRANSACTIONS WITH AFFILIATED PARTIES

<u>Acquisitions of goods and services</u>	<u>9 months of 2020</u>	<u>9 months of 2019</u>
Airpro Consult SRL Bacău	3.723	5.187
Foar SRL Bacău	215	462
TOTAL	3.938	5.649
<u>Sales of goods and services</u>	<u>9 months of 2020</u>	<u>9 months of 2019</u>
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	1	14
TOTAL	1	14
<u>Liabilities</u>	<u>Balance at 30.09.2020</u>	<u>Balance at 30.09.2019</u>
Airpro Consult SRL Bacău	36	541
Foar SRL Bacău	24	76
TOTAL	60	617
<u>Dividends collected by Aerostar</u>	<u>9 months of 2020</u>	<u>9 months of 2019</u>
Airpro Consult SRL Bacău	50	50
Foar SRL Bacău	487	87
TOTAL	537	137
<u>Amounts to be collected by Aerostar from liquidation</u>	<u>9 months of 2020</u>	<u>9 months of 2019</u>
ATF SA	125	0
TOTAL	125	0

The transactions with the affiliated parties in the first quarter of 2020 consisted in:

- Services provided by Airpro Consult SRL Bacau to AEROSTAR SA for temporary manpower;
- Machinery rental services provided by Foar SRL Bacau to AEROSTAR SA Bacau;
- Services provided by AEROSTAR SA Bacau to AIRPRO CONSULT SRL and Foar SRL Bacau for space rental.
- Dividends collected by AEROSTAR SA from Airpro Consult SRL and from Foar SRL Bacău (NOTE 7).
- Collecting from the company ATF SA, after the liquidation thereof, the equivalent value of the shareholdings held in the amount of 92 thousand lei as well as the revenues from liquidation, in the amount of 33 thousand lei.

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NOTE 27 - INFORMATION REGARDING THE CASH FLOW

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

The cash flows Statement presents the cash flows and cash equivalents classified by operating activities, investments and financing, thus indicating how AEROSTAR generates and uses the cash and cash equivalents.

In the context of the Cash Flows Statement:

- the cash flows are the amounts collected and paid in cash and cash equivalents;
- the cash means the amounts available in banks and cashier's desk.
- the cash equivalents comprise the deposits made at banks, cheques and promissory notes deposited with banks in order to be collected.

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying to this value the exchange rate between the functional currency (LEU) and the foreign currency as on the date when the treasury cash flow was generated (date of making payments and collections).

The earnings and losses resulting from the exchange rate variation are not treasury cash flows. Nevertheless, the effect of the exchange rate variation on the cash and cash equivalents held or due in foreign currency is reported in the treasury cash flows statement, but separately from the treasury cash flows resulting from operation, investments and financing, 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.

Thus, from January to September 2020:

- the amounts collected from the customers were 270.898 thousand LEI;
- the payments to the suppliers and employees were in the amount of 177.790 thousand LEI, of which 122.379 thousand LEI were payments to the suppliers and 55.411 thousand LEI payments to employees;
- tax payments to the State Budget were in the amount of 56.610 thousand LEI, of which 8.296 thousand LEI tax on profit.

The operating activity generated in January-September 2020 a net cash of 49.122 thousand LEI, i.e. an increase by 9.901 thousand LEI compared with the previous year.

The payments to purchase tangible and intangible assets were in the amount of 37.365 thousand LEI.

The value of the treasury cash flows allocated to increase the operating capacity represents 13% from the aggregate value of the cash used during the operating, investment and financing activities.

As part of the financing activity, an amount of 18.844 thousand LEI was paid, representing the dividends due to the shareholders.

The level of cash and cash equivalents registered at 30.09.2020 is in the amount of 204.970 thousand LEI, decreasing by 2.392 thousand LEI compared with the beginning of the year.

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NOTE 28 - LIABILITIES AND OTHER OFF-BALANCE ITEMS

AEROSTAR S.A. registers as off-balance items, the rights, liabilities and goods which are not recognized in the company assets and liabilities, i.e.:

	30 September 2020	31 December 2019
• Liabilities:		
○ Guarantees granted to customers as letters of bank guarantee	281	3.465
○ Guarantees received from suppliers – as letters of bank guarantees	35.469	35.664
• Goods, of which:		
inventories of other material released for use (tooling, jigs, fixtures, safety equipment, measuring and control equipment, technical library etc.)	33.448	30.947
○ material values received in custody	1.826	1.826
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	4.151	4.151
○ material values received for machining/repair	3.584	2.463
• Other values off-balance:		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	4.943	5.304
○ fees, commercial leasing, rents and other assimilated liabilities	-	-
○ debtors removed from accounts, monitored further on	139	139
• Greenhouse Gas Emission Certificates	2.387	2.038

At 30 September 2020, AEROSTAR S.A. had a number of 18.356 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was 26,70 Euro, according to the TDR Energy market journal (in December 2019: 26,10 Euro).

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NOTE 29 - REMUNERATION OF THE DIRECTORS

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	Vicepresident of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	DOROȘ LIVIU-CLAUDIU	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

In the first 9 months of 2020, Aerostar did not grant advances or credits to the members of the Board of Directors and they didn't make any commitments on their behalf with collaterals of any kind.

In the Ordinary General Meeting of 9 July 2020 the shareholders of Aerostar approved:

- ✓ establishing a Board of Directors comprising 5 (five) natural persons and the election (extension of the mandate), as members of Board of Directors, for a period of 4 years, starting with 11.07.2020 until 10.07.2024, of the following persons:
 1. FILIP Grigore
 2. DAMASCHIN Doru
 3. TONCEA Mihail-Nicolae
 4. DOROȘ Liviu-Claudiu
 5. VÎRNĂ Daniel
- ✓ maintaining for each member of the Board of Directors a monthly net, fixed compensation of 4.750 lei for the financial year 2020, starting with July 2020;
- ✓ a maximum level of additional compensations for the Board of Directors members who also have executive attributions of a monthly fixed amount of maximum 10 (ten) times (inclusively) the fixed compensation of 4.750 lei, applied individually, as applicable.
- ✓ empowering the Board of Directors to negotiate the above within the ceiling approved.

The amount of gross allowances granted to the members of the Boar of Directors in the first 9 months of 2020, by virtue of their responsibilities, was 1.271 thousand lei.

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NOTE 30 – RISK MANAGEMENT

AEROSTAR is exposed to multiple risks and uncertainties that 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 below.

AEROSTAR aims at securing the average and long-term sustainability and at reducing the uncertainty associated with its strategic and financial objectives.

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

However, there may be risks and uncertainties additional to the ones presented below that 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 incurring losses or of a failure to generate the estimated sales and profits, determined by:

- The use of processes, systems and manpower that are either inadequate or failed to fulfill their function properly
- external events and actions: deterioration of the global economic conditions, natural catastrophes or other events that can affect the assets of AEROSTAR.

Therefore, the occurrence of COVID-19 impacts important fields of the global economy and markets.

Within the global supply chain of the aeronautical industry, the aircraft manufacturing orders are cancelled or reduced significantly, the passengers air traffic is quasi extinct, which is why for 2020 a 55% decrease of the global number of passengers is forecasted, due to travel restrictions, a change in passenger behavior and global economic recession.

As a result, all suppliers in the supply chains on a global scale are affected, causing reductions in activities, temporary or permanent closures of production facilities, temporary or permanent loss of jobs in all segments of the aviation industry.

From a human resource point of view, the impact of the COVID-19 pandemic causes profound changes in the way of life and in our perception of priorities and value hierarchies. The safety measures applied in AEROSTAR have helped us in the majority of cases to eliminate the risks of occurrence and development of infection outbreaks among our employees.

For 2020, considering that the production in the field of manufacturing parts, aviation equipment and maintenance services in the MRO civil aviation field has diminished, AEROSTAR has decided to keep production capabilities unaffected and maintain existing personnel by resorting to the legal solution of reduced working time and/or technical unemployment.

AEROSTAR will take action to ensure the level of competence and qualifications for the performance of the existing contracts while maintaining the capacity for recovery and growth when the pandemic effect is over.

A **legal risk** is assimilated to the operational risk. The legal risk is defined as the risk of loss incurred by the fines, penalties and sanctions that AEROSTAR may face in case of non-observance or faulty application of the legal or contractual dispositions or regulations, as well as by the fact that

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the rights and contractual obligations of AEROSTAR and/or of its business partner are not properly established.

The effects of the legal risks are monitored and disposed of through a permanent information system regarding the legislative modifications, as well as by setting up a review, advisory and approval system for the terms and conditions included in the commercial agreements.

AEROSTAR allocates and will continue to allocate funds for investments and other operational expenses with a view to preventing and managing the operational risk.

Furthermore, AEROSTAR aims, by setting up provisions for risks and related expenses, at having its own funding to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with first-rate 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 for AEROSTAR to incur a financial loss as a result of a partner's default, being determined mainly by cash, cash equivalents (bank deposits) and trade receivables.

Cash and cash equivalents are placed only in first-rate bank institutions, considered as having a high solvency rating.

The credit risk, including the country risk in which the customer operates its activity, is managed for each business partner. When necessary, specific instruments of credit risk mitigation are requested (advance payments, letters of bank guarantee, confirmed letters of credit for export).

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 detailed in Note 18 (Financial Instruments) to the Financial Statements.

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

To manage the liquidity risk, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net cash modifications. 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 as an overdraft granted by banks, in the amount of 2.500 thousand 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 fluctuations of the market prices.

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

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

This risk is managed through:

- a diversification of the portfolio of suppliers, which offers a larger leverage in negotiations in case the price of raw materials is increased by certain suppliers.
- long-term contract agreements, with provisions on fixed prices.

AEROSTAR is exposed to the exchange rate risk because 72% of its 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 will affect both its net income and its financial position, as they are expressed in LEI.

A sensitivity analysis of AEROSTAR to the foreign exchange rate's variations is detailed in Note 18 (Financial Instruments) to the Financial Statements.

During the reporting period, Aerostar did not register financial losses.

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 income and cash flows are independent from the interest rate variation on the banking market.

Other aspects regarding the risk management are presented in the chapter RISK AND OPPORTUNITY MANAGEMENT of the Board of Directors' Report.

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NOTE 31 – PREPAID EXPENSES AND INCOME

	30 September 2020	31 December 2019
Expenses registered in advance, of which:	1.772	1.429
Amounts to resume in a period of up to one year	959	600
Amounts to resume in a period of over one year	813	829
Income registered in advance	0	1.112

The expenses made and income obtained in the current period, but which relate to the future periods or financial years are registered distinctly in accounting, as prepaid expenses or prepaid income, as applicable.

In the category **Prepaid Expenses** as recorded at 30.09.2020 the following amounts are found:

- amounts to resume within a year, representing subscriptions, insurance policy, fees, participation at trade fairs and conferences, taxes and dues, on-line services, maintenance of IT systems, etc.
- amounts to resume in over one year, representing the interest related to the right to use the land leased for the Maintenance Hangar in Iasi.

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NOTE 32 - ASSETS REGARDING THE RIGHTS TO USE THE LEASED ASSETS

Account 251	30 September 2020			01 January 2020		
	Gross amount	Amortization	Net accounting value	Gross amount	Amortization	Net accounting value
Asset related to the right to use the land for the Hangar MRO Iasi	1.823	(66)	1.757	1.803	(38)	1.765
Total	1.823	(66)	1.757	1.803	(38)	1.765

Net accounting value

	Balance on 1 January 2020	Increases by re-evaluation on 30.06.2020	Amortization	Balance on 30 September 2020
Asset related to the right to use the land for the Hangar MRO Iasi	1.765	20	(28)	1.757
Total	1.765	20	(28)	1.757

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NOTE 33 - EVENTS AFTER THE REPORTING PERIOD

AEROSTAR S.A. had no events after the reporting date which may have an impact on the financial statements for the first 9 months of 2020.

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the individual statement of the company equity modifications, the individual statement of the cash flows and the explanatory notes to the financial statements were approved by the Board of Directors on 11 November 2020 and signed on behalf of the Board of Directors by:

Grigore FILIP
President & General Director

Doru DAMASCHIN
Vice-president & Financial Director