

AEROSTAR S.A.

AEROSTAR S.A.
QUATERLY REPORT ON 31.03.2019

Quarterly report on 31.03.2019

according to Annex 13 from the Regulation no. 5/2018 regarding the issuers and operations with the securities, with the subsequent amendments

Date of the report: 31.03.2019

Name of the issuer: AEROSTAR S.A. BACAU

Registered headquarter: 9, Condorilor Street, Bacău, România

Telephone number: 0234 575070

Individual Identification Number: RO 950531

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

LEI Code of identification: 315700G9KRN3B7XDBB73

Registered capital, subscribed and paid: 48.728.784 lei

The regular market on which the securities/shares issued are traded:
Bucharest Stock Exchange (“ARS” indicator) – Standard Category

AEROSTAR S.A.

REPORT OF THE BOARD OF DIRECTORS

The current Report of the Board of Directors is established in accordance with Annex 13 from Regulation no. 5/2018 of the Financial Supervisory Authority (FSA), as well as with Law no. 24/2017 from 21.03.2017 regarding the issuers of financial instruments and market operations.

REPORT OF AEROSTAR'S BUSINESS FOR THE FIRST QUARTER OF 2019

INTRODUCTION

The purpose of this quarterly report of the Board of Directors of AEROSTAR S.A Bacau is to inform the investors regarding the modifications of the company's position and performance, which took place during January-March 2019, as well as regarding the predicted evolutions on the aviation and defence industry's market and regarding the growth and development opportunities of the company.

According to the usual practices, the financial statements established on 31 March 2019 are not accompanied by the statutory financial audit's report.

The individual financial statements for 31 March 2019 were audited by the internal auditor of AEROSTAR SA Bacau.

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.

The main field of activity is production.

DATA SUMMARY ON 3 MONTHS 2019, IN COMPARISON WITH 3 MONTHS 2018

AEROSTAR S.A. establishes the financial statements in accordance with the international financial reporting standards (IFRS).

	UM	31.03.2019	31.03.2018
Share capital	thousand lei	48.729	48.729
Turnover	thousand lei	96.039	81.774
o Export sales	thousand lei	85.609	69.155
Number of personnel, from which:	no.	1.833	2.074
- own employees	no.	1.693	1.928
- employees attracted through temporary labour agent	no.	140	146
Net profit	thousand lei	16.420	21.105
Cash - flow	thousand lei	190.108	159.397
General liquidity	-	7,14	6,08
Expenses for investments from own sources	thousand lei	3.080	10.693

AEROSTAR SHARES ('ARS')

The main characteristics of the real estates issued: 152.277.450 actions issued are nominative, ordinary, of equal value, integrally paid, issued in dematerialized form and highlighted through registration in the Register of shareholders. The register of shareholders AEROSTAR is managed by the Depozitarul Central S.A. Bucuresti.

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

'ARS' shares

	31.03.2019	31.03.2018	31.03.2017
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Equity (lei)	331.427.693	273.132.288	225.099.611
Price at the end of the period ¹ (lei)	5,00	5,26	3,44
Stock exchange capitalization ¹ (lei)	761.387.250	800.979.387	523.834.428
Maximum price ¹ (lei)	5,08	5,36	3,56
Minimum price ¹ (lei)	4,78	4,65	3,25
Result per share (lei)	0,108	0,139	0,073
Indicator MBR (market to book ratio) (stock exchange capitalization / equity).	2,30	2,93	2,33

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

The sales of the company are expressed in lei.

Exchange rates of the national currency for the first quarter have evolved as following:

	UM	31.03.2019	31.03.2018
Medium exchange course EURO/12 months	lei/EURO	4,7335	4,6553
Medium exchange course USD/12 months	lei/USD	4,1654	3,7885
Medium exchange course GBP/12 months	lei/GBP	5,4226	5,2699
Inflation	%	2,13	1,37

AEROSTAR'S PROFILE, GENERAL ELEMENTS

The main field of activity of AEROSTAR is production.

The main object of activity of the company is “Manufacture of aircrafts and spaceships” – code CAEN 3030.

In the first quarter from 2019, AEROSTAR consolidated its position as a leader in Romania in the field of aviation and defence industry.

The main business lines of AEROSTAR are:

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

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

During this period, the company operated in conditions of continuity.

The successive names held were URA-1953, Intreprinderea de Reparatii Avioane-IRAv (Aircraft Repair Enterprise)-1970, Intreprinderea de Avioane-IAv (Aircraft Enterprise)-1978 and with the current name Aerostar S.A. operates since 1991, when the company was registered as a shareholding company with fully state-owned capital at the Bacau Trade Register under the name J04/1137/1991.

AEROSTAR shares are traded at the Bucharest Stock Exchange since 1998, with the ARS indicator and since 2000 is a fully private company.

AEROSTAR is part of the national industry of defence in compliance with 232/2016 law and owns the Authorization no. 232/2016 from the Direction of Defence Industry from the Ministry of Economy.

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

EVENTS OF THE FIRST QUARTER OF 2019

- On 14 February 2019 AEROSTAR presented the preliminary financial results of 2018 in accordance with the legal regulations applicable.
- On 22.03.2019 was published the Current Report of Convening the Ordinary General Meeting of the Shareholders for the date of 24 April 2019 in accordance with the legal regulations applicable. The convening note, agenda, projects of agreements, materials subject to OGMS's approval and the forms requested by AEROSTAR were posted on the company website www.aerostar.ro on the field Investors Relation.

EVENTS AFTER REPORTING DATE

- On 9 April 2019, a request of completion of the documents for the Ordinary General Meeting of the Shareholders from 24 April 2019 was forwarded by the Societatea de Investiții Financiare Moldova S.A. (Financial Investment Company SIF Moldova) as a shareholder with 15,05% from the share capital of AEROSTAR.

The request of completion was published in accordance with the legal regulations applicable and posted on the company website www.aerostar.ro on the field Investors relation.

The request of completion comprises the proposals of SIF Moldova for another two alternative variants of approval of the net profit distribution of 2018.

Variant II proposed by the SIF Moldova of net profit distribution for 2018 provides the distribution of the net profit of 2018 and conducting of a program to buy-back company's shares with the purpose to reduce the share capital, as well as the convening of the Extraordinary General Meeting of the

Shareholders to approve to perform the program of company's shares buy-back.

- On 24 April 2019 was conducted the Ordinary General Meeting of the shareholders in accordance with the legal regulations applicable.

In the Ordinary General Meeting of the Shareholders from 24 April 2019, AEROSTAR shareholders approved the following:

- the distribution of the net profit related to the financial year 2018, respectively the amount of 79.920.849,23 lei, such as:
 - distributions to the legal reserve of the reinvested profit in the amount of 26.034.996,79 lei;
 - distributions to the statutory reserves in the amount of 37.436.793,44 lei;
 - distribution for dividends of the amount of 16.449.059,00 lei and establishment of a gross dividend per share of 0,108 lei, corresponding to each action with the nominal value of 0,32 lei;
- Date of 26 June 2019 as the **Payment date** of the dividends related to the financial year 2018. The distribution of the dividends due to shareholders of AEROSTAR related to 2018 shall be made in accordance with the legal provisions applicable.

AEROSTAR S.A. has not identified events after the reporting date which may have an impact over the financial statements related to the first quarter of 2019.

BUSINESS MODEL

The value proposed by Aerostar on market is created in the basic 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 management has adopted an integrated model of business, based on the systemic and process-based approach and on RISK.

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 from OEM category programs such as Airbus, Safran (Messier-Dowty), GKN Aerospace, Fokker, Boeing, Bombardier, Raytheon and Ariane Group.

AEROSTAR does not conduct activities of manufacturing exchange parts under licence for any client and neither under manufacturing authorization type PMA (Parts Manufacturer Approval). AEROSTAR does not conduct activities as distributor, representative, dealer for any customer and does not conduct activities of distribution network type, retail etc.

After 1990, during the years, and neither in 2019, no significant modifications of the business model adopted were performed.

Context of organization and interested parties for AEROSTAR

Achieving AEROSTAR objectives presumes to be aware and to assume the factors from the decisional process, of certain multiple aspects which manifest both in the internal environment, as well as in the external environment of the company, as problems, situations, events which may occur in the future and which can have impact in obtaining the wanted results.

The elements of the risk-based management thinking, founded on the Aerostar agreement as an organisation and of the context in which it operates, as well as on the agreements of the necessities and expectations of the parties interested to obtain the provided results of the organisation, establish the general frame to treat risks, to the extent that the risks are understood as uncertainties to satisfy the requests/expectations of the interested parties, under the effect of certain factors which derive from the context in which the organization operates.

Aspects identified that are part of the external context of AEROSTAR are: political, economical, social, technical, legal and environmental.

Aspects identified that are part of the internal context of AEROSTAR are from the following categories: human resource, infrastructure, capabilities and authorizations, from the field of governance, but also of the company's performance.

The relevant interested parties which were identified are: the customers, employees, investors, technical authorities and of applicable regulation, bodies of certifications, suppliers, educational establishments, union organizations, local and state community.

Significant aspects of the investment activity in the first quarter of 2019

The expenses for the investment program realised in the first quarter of 2019 was 3.080 thousand lei.

From this amount, for the investments in the Property, Plant and Equipment were spent 2.928 thousand lei and for investments in the Intangible assets were spent 152 thousand lei (for acquisition of software licences and for additional developments of the IT system of production management).

For the work point in Iasi, the „MRO Civil Aviation Centre”, were obtained most of the approvals required to obtain the Construction Authorization for this objective.

Workings related to the Construction Authorization were started for the operations of levelling the ground on which the hangar will be built.

In the first quarter of 2019, the following investments have started and are in progress of being completed:

- to upgrade certain infrastructure objectives;
- investments with social and environment character;
- in the field of safety and securing the electric power supply;
- setting up spaces to develop a new production program;
- completing the fire warning system at the level of certain modules which did not benefit from this measure in 2018.

AEROSTAR BUSINESS IN THE FIRST QUARTER FROM 2019

Context of AEROSTAR business

After the company's relaunching which happened in the early 2000, actions to reposition the company on the market were consistently performed, following two main directions:

- Production of aerostructure and landing gears
- Maintenance of industrial level for large aircrafts (commercial),

as well as the continuity and development of the technologies specific for the industry market from the military and defence field.

This ongoing process implied upgrading the production capacities with modern equipment, digitalization of the processes (management, design), assimilation and qualification of the special processes of production after the west standards.

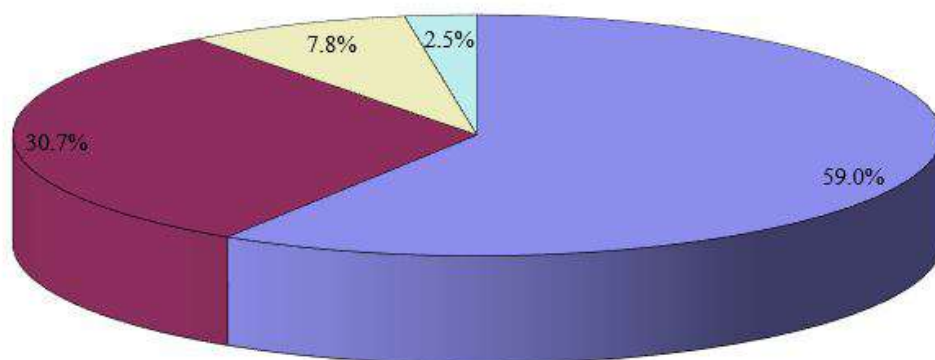
An essential component is the training and qualification of the personnel in order to adapt to the new technologies.

AEROSTAR sales

From the turnover realised in the first quarter of 2019, of 96.033 thousand lei, the company sold products and services on the internal market of 10.430 thousand lei, and on the external market 85.609 thousand lei, representing 89,1% from total sales.

	3 months 2019	3 months 2018
Manufacturing of aircraft products	59,0%	58,1%
MRO civil aviation	30,7%	26,7%
Defence systems (air, ground, naval)	7,8%	10,4%
Other products and services	2,5%	4,8%

percentage of AEROSTAR business in total sales in the first quarter of 2019

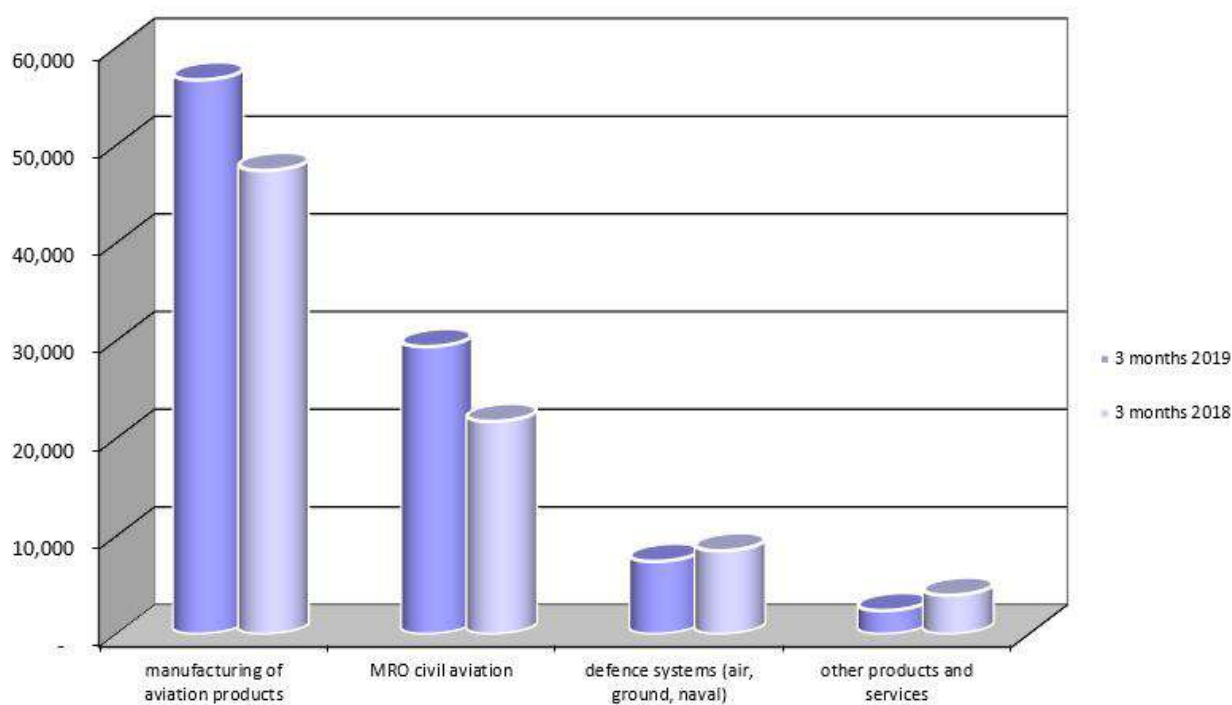


■ manufacturing of aviation products ■ MRO civil aviation □ defence systems (air, ground, naval) □ other products and services

Comparative evolution of the sales on products and services:

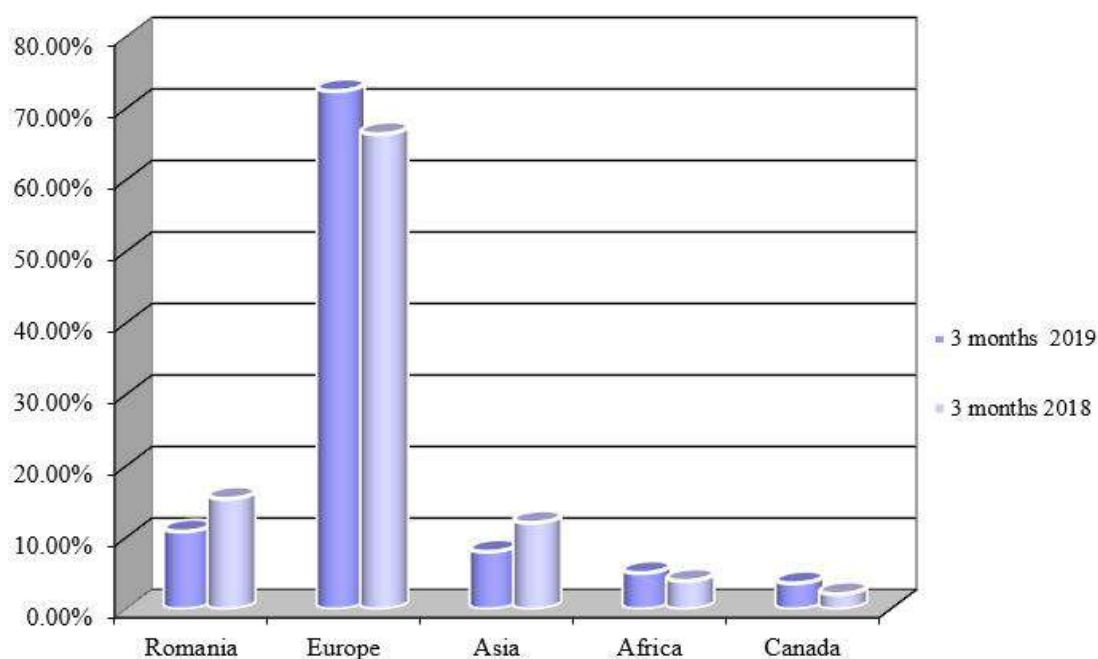
- thousand lei

	3 months 2019	3 months 2018
manufacturing of aviation products	56.737	47.465
MRO civil aviation	29.435	21.779
defence systems (air, ground, naval)	7.455	8.541
other products and services	2.412	3.989



Aerostar sales were realised on a large global market both in the civil field, as well as in defence.

	3 months 2019	3 months 2018
Romania	10,86%	15,43%
Europa	72,46%	66,43%
Asia	8,03%	12,07%
Africa	5,05%	3,95%
Canada	3,60%	2,12%



Safety of deliveries

With an export percentage of 89,1% from the total sales in the first quarter of 2019, with a high number of different ongoing programs, the safety of deliveries is confirmed by the KPI indicators which are stable at an excellence level.

The business practices from the company are in accordance with all the applicable regulations which are the basis of the export and import of parts, components and technical data, supplying accurate information and obtaining licences and/or export agreements, or import, as applicable.

AEROSTAR BUSINESS IN THE FIELD OF AVIATION

AEROSTAR followed a strategy of growth and development in the field of the basic business from the aviation and defence industry.

As a consequence of the strategy adopted and of the actions currently performed in Aerostar SA is a presence recognised in the aviation industry from Europe but not only, being one of the significant suppliers in Airbus programs, but also in the field of maintenance at an industrial level for commercial aircraft.

The average added value realised by AEROSTAR is around 60%.

The market positioning achieved on the civil aircraft market can be exemplified with prizes and diplomas received from the European main leaders, such as Airbus, GKN, Safran.

AEROSTAR is firmly rooted in the global supply chains from the aviation field, being a significant partner in the aeronautical manufacturing programs.

The two main players, Airbus and Boeing, are continuing the intensive actions to secure the production capacity capable to realise a combined number of 120 airplanes A320 and B737 per month, until the end of this decade.

Nevertheless, both companies have programs to reduce the number of sub-suppliers.

The evolution of the supply chain of the large companies from the OEM category indicates the way to maintain the competitiveness and to increase the value which AEROSTAR brings on medium and long term.

AEROSTAR business is on the growth path in the aeronautical and defence industry. The operational performance of AEROSTAR, confirmed by performance indicators highly recognized, is sustained through an intensive management, based on the leading through budgets and projects and on a participative management, which highlights in an integrated manner the operations and resources available in their totality.

A percentage of 97% from AEROSTAR production in the first quarter is in the aeronautical field.

Aerostar realizes a significant volume of small parts and subassemblies from aluminium sheeting, in a large diversity of types and dimensions, manufacturing technologies and methods of delivery.

AEROSTAR is part of the supply chain of the main global programs with a significant success rate. The potential impact of embrittlement of the Brexit or of other manufacturing programs already terminated or in progress of being terminated, such as F5X and A380, is carefully tracked to identify solutions to diminish the decreasing effects.

Aerostar is a „Tier 1” supplier in the manufacturing of landing gears, subassemblies, equipment or hydraulic systems.

Increasing the production volume as a sub-supplier of parts, aerostructures and equipment for civil aviation in modern technologies specific to the metal working: aluminium, titan, steel a.o. has at its base the partnership with customers.

A pillar of the competitive advantage is the **Centre for Special Processes** and the introduction of the most modern practice and standards related to environment protection.

AEROSTAR is qualified as supplier for Airbus, Safran (Messier-Dowty), Boeing, Bombardier, GKN Aerospace, Fokker, Premium Aerotec, Raytheon, Ariane Group.

More than 94 special processes of physics, metallurgical, chemical, electrochemical etc. basis are qualified after western norms and standards.

The growth objective of the competitiveness is sustained through investments implemented in an integrated manner for the upgrade and extension of production capacity, actions of improvement of agility on reduced production time and minimal risks on production increase.

AEROSTAR is the main independent supplier of maintenance services at an industrial level from this geographical region for commercial aircraft from the Airbus 320 family and Boeing 737.

After realising in 2018, for the first time in Europe, the first workings of basic maintenance for several A320 neo-LEAP-1A aircrafts, the MRO Centre for civil aviation from Aerostar has successfully completed, in the first quarter of 2019, to implement certain upgrades, including the prototype, for the installation of the Internet Connectivity (Wi-Fi) in the Airbus A320.

Aerostar has extended its customers base from the Europe Union while successfully maintaining the trust of all its customers.

The same as in civil aviation manufacturing, Aerostar's MRO business for commercial aircraft is anchored in the sector market defined as the growth core, the Airbus 320 and Boeing 737; this is also the most competitive and competition.

Starting with the Part-145 approval, Aerostar's maintenance base developed its market position by obtaining a large range of approvals from civil aviation authorities of many countries in the European Union and beyond.

The experience accumulated in this domain is the base for the development of the future civil aviation MRO Centre Part 145 in Iasi.

The training of the technicians and engineers for the future Civil MRO Centre in Iasi is coordinated with training activities for the Centre in Bacau.

The target is to complete this investment in 2019.

Obtaining the authorization from the FAA, the American Aeronautical Authority, increases the market potential, allowing Aerostar to compete for work from customers whose aircraft are under this jurisdiction.

At the same extent, the profile of the regional centre of excellence in the field of MRO civil aircraft was consolidated and it's a pole of sustainable development with a significant growth.

SYSTEMS FOR DEFENCE

AEROSTAR is active in programs of upgrades, integration and maintenance of military and defence aviation systems.

AEROSTAR is part of the national defence industry in accordance with Act 232/2016 and the Authorization no. 23/2018 from the Direction of the Defence Industry of the Ministry of Economy, having the status of an authorized economic operator registered in the Unique Register of the economic operators and production capacities and/or defence services, having the responsibility to maintain the physical and functional integrity of the assets in the inventory.

In December 2018, Aerostar was nominated by the Romania Government as the Maintenance Centre for the F-16 aircraft in the inventory of the Romanian army.

The F-16 Maintenance Centre will gradually develop by assigning and training the personnel, the manufacturing and acquisition of the jigs, fixtures and tooling and test equipment and create the company's specific maintenance infrastructure for these aircraft.

As to the radar technologies, the innovative solutions for repairs and upgrades of three-dimensional radars provide the compatibility with the present reconnaissance - secondary radar (IFF) systems, as well as the compatibility with the air data transmitting and processing systems.

Nominated and agreed as sole supplier for the IFF systems installed on the operational platforms of the army, AEROSTAR is ready to proceed with the implementation of Mode 5, in accordance with the requirements and needs of the RoMoND.

The status obtained by AEROSTAR in 2018 as an approved Raytheon supplier, the qualification of certain specific processes and procedures, resulted in the first part of 2019 in the order placed for manufacturing of components and mechanical assemblies for the installation and support of the electronics inside the radar shelter.

This way, AEROSTAR will enter in Raytheon's global supply chain.

QUALITY, COMPETITIVE ADVANTAGE

Aspects referring to the Quality and Environment Management System

In the first three months of this year, the certifications and authorizations obtained by Aerostar from the certification bodies, customers or other regulation authorities were maintained.

On the quality line, in Aerostar was performed the surveillance audit of the Quality and Management System according to the requirements of standard SR EN ISO 9001, performed by AROQ and evaluations of certain customers from the civil aircraft domain (for production and maintenance).

On the environment line were performed two controls from the Environmental Protection Agency Bacau and the validation audit of the GES certification number related to year 2018.

All the evaluations performed had favourable results which have permitted to maintain the certifications and authorizations issued.

From the social responsibility and sustainable development point of view, as to environment, Aerostar has set the objectives to improve its performance in the field of the pollution prevention, sustainable use of the resources and the climate changes mitigation, following the guidelines of SR ISO 26000.

OUR EMPLOYEES

AEROSTAR is authorized as 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.

Evaluation of the aspects related to the employees/personnel of the company

On 31.03.2019 AEROSTAR had an effective number of **1.833** employees, from which 582 with university education, 179 in position of management.

The medium degree of unionizing on the first 3 months from 2019 is **69,05%**.

Other indicators of personnel on 31.03.2019:

The average employment years in AEROSTAR is 17 years, the average age of the employees is 46 years.

The number of personnel employed through the temporary work agent (AIRPRO CONSULT S.R.L.) is 140.

In the first quarter of 2019 a series of preoccupations were materialized, such as:

- the negociation of a new collective agreement for the period: 01.04.2019 – 31.03.2021;
- the professional development of the employees, by including them in training programs and by applying an annual process evaluation of the individual performances;
- non-pecuniary motivation of the employees designated at module level, of the month employee;
- non-discrimination both at the employment as well as at the work place;
- facilitating the integration of the new employees, especially the young employees by including them in dedicated professional training programs and by initiating meetings with them together with the executive management of the company;
- assuring optimal conditions regarding the security and health at work for all the employees, as well as the proceedings in case of emergency situations;
- conducting 35 processes of personnel selection to occupy 157 vacant posts, hence 157 persons selected;
- conducting traineeships for 92 highschool students from technical highschools with wich are concluded partnership agreements.

In the first quarter of 2019 were organized professional training courses for the employees of the company, prioritising the covering of the training required in the field of interest for the conducting of the production activities, such as:

- 17 courses (training) with external suppliers, with 92 participants;
- Trainings/certificates/internal certificates from the field of „Training. Awareness” with 1.550 participants, from which 721 participants to the „The aviation industry and raising awareness on the importance of human factor in the aviation safety”.

In the MRO Civil Aviation there is conducting a training program for the profession of aircraft mechanic where 9 trainees are included.

The costs registered in this period on the annual budget of professional training was of: **125.431** lei.

TANGIBLE ASSETS

The company operations take place at its registered headquarters located in Bacau, 9, Condorilor Street, postal code 600302.

AEROSTAR has a second site without legal personality, a secondary place of business, in Iasi, 25B Aeroportului Street.

Currently, AEROSTAR does not perform economic activities at this secondary place of business.

Aerostar's production facilities and capacities are found at the site in Bacau, where there is also the registered headquarter of the company.

The company owns in its property the land surface of 45,29 ha, with direct access to the European road E85.

Aerostar has direct access to the "George Enescu" airport's runway in Bacau.

At the registered headquarter are build all the types of facilities required for the proper performance of the production activities according to the object of activity.

The production space comprises 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 spaces are maintained in good condition.

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

AEROSTAR assets are compliant with the health, 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 31 December 2018 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 245.346 thousand lei, which comprise the 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	28.401	N/A	N/A
Constructions	55.736	30,4%	30-50 years
Investment property	10.260	22,7%	25-50 years
Technical installations, of which:	149.601	47,2%	
• technological equipment	144.757	46,9%	4-25 years
• transport vehicles	4.844	56,6%	4-18 years
Other tangible assets	1.348	34,5%	2-18 years
TOTAL	245.346	N/A	N/A

There were no issues related to the ownership right over the tangible assets of the company.

MAIN SHAREHOLDERS

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

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 at 31 December 2018 is presented below:

Shareholder	Number of shares held	Participation owned (%of the share capital)
IAROM S.A. București	108.585.664	71,3078
SIF MOLDOVA Bacău	22.919.887	15,0514
Other shareholders	20.771.899	13,6408
Total	152.277.450	100,0

There are no litigations with the persons mentioned earlier.

In 2018, there were no subscriptions of new shares, nor participation certificates, convertible bonds, options or similar rights.

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 in 2018 as well, to protect and secure the rights of the shareholders, that is:

- to participate in the Ordinary 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 in 2018 as well, 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

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.

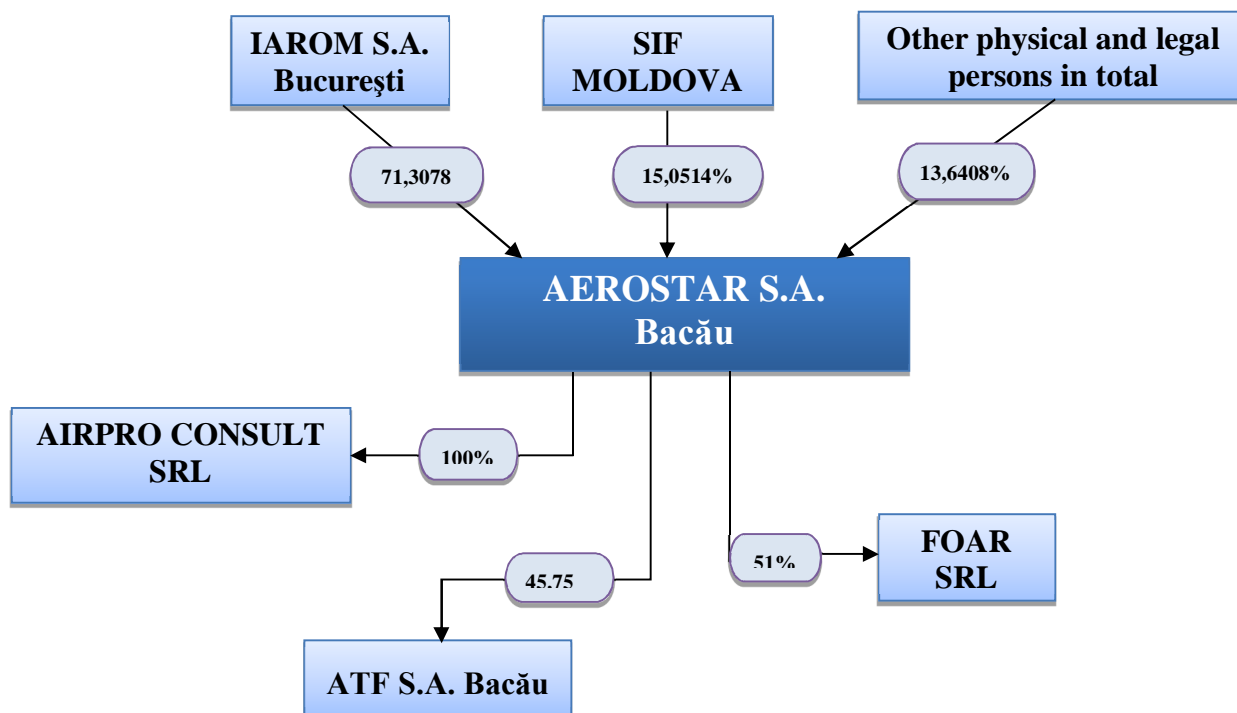
There are no modifications regarding the rights of the shareholders. There were no major transactions concluded by the company with the persons with which the

company operates in collaboration or in which such persons were involved in the relevant period.

No data or information or any prospect for a public offer for sale, documents of public offer for purchasing, voluntary take-over or of any other nature is available. No notifications are available regarding reaching or exceeding the thresholds for holding the voting rights of AEROSTAR's shareholders are available.

AEROSTAR'S RELATION

with the parent company and with the related companies



In the first quarter of 2019 there was no merger or significant reorganization, neither in AEROSTAR nor of the companies controlled by AEROSTAR.

The General Meeting of the Shareholders of “AEROSTAR TRANSPORTURI FERROVIARE” S.A. Bacau, held in statutory conditions at 08.11.2018, decided in unanimity the modification of art. no. 1 of the constitutive deed, that is to change the company name from “AEROSTAR TRANSPORTURI FERROVIARE S.A.” to “ATF” S.A., while maintaining the organization of the company as a shareholding company.

RELATED PARTIES

On 31.03.2019, AEROSTAR participations in other companies are the following:

Name of the subsidiary/related company	Basic activity	No. of shares held	Voting rights	Value of the holding (thousand lei)	Financial information for the last financial year (for 2017) for which the financial statements of the related companies were approved		
					Sales (thousand lei)	Company capitals (thousand lei)	Net profit (thousand lei)
SC Airpro Consult S.R.L.	Basic activity according to CAEN code 7820	100	100%	10	9.138	171	106
SC Foar S.R.L.	Basic activity according to CAEN code 7739	408	51%	4	479	1.966	219
ATF S.A.	Basic activity according to CAEN code 2822	9150	45,75%	92	-	273	1
Total				106	9.617	2.410	326

The transactions with the related parties in the first quarter of 2019 consisted in:

- Supply by Airpro Consult to AEROSTAR of services with temporary manpower;
- Supply by FOAR to AEROSTAR of equipment renting services;
- Supply by AEROSTAR to Foar of services for space and utilities renting;

In the first quarter of 2019, no transactions were made with the company Aerostar ATF S.A., its activity being suspended since the year 2016.

The contributions of AEROSTAR in these companies are registered on cost.

During the first quarter of 2019, the company did not register modifications such as increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2018.

All the companies where Aerostar holds participations are registered in Romania.

AEROSTAR MANAGEMENT

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

Name and surname	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

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

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

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

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

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

BUSINESS MANAGEMENT

AEROSTAR is under unitary administration.

AEROSTAR management is delegated to the General Director, Mr. Grigore FILIP, and to the Financial Director, Mr. Doru DAMASCHIN.

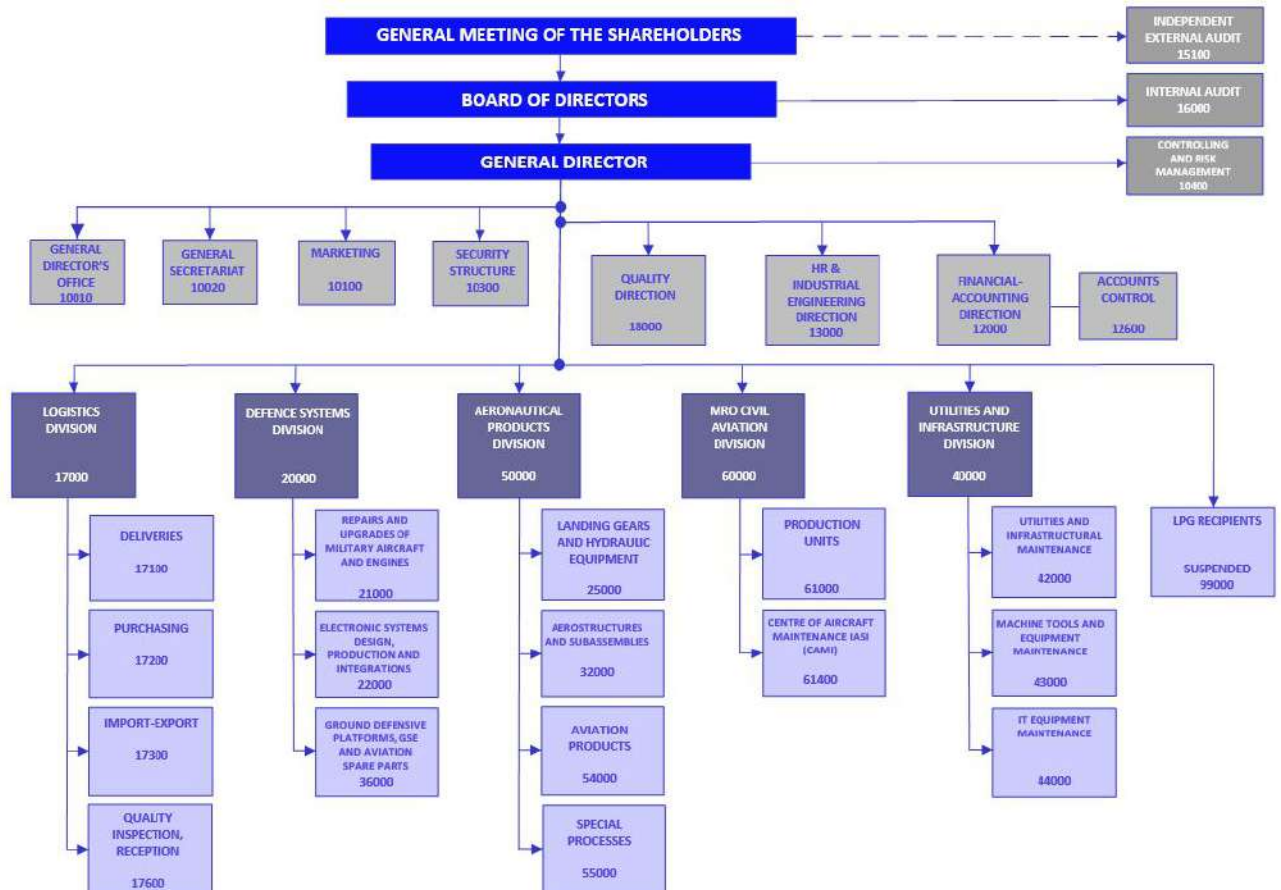
As for the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

AEROSTAR performs its object of activity using the common resources of the organization in an integrated mode.

The organizational structure implemented since the beginning of 2018 generated the results envisaged while maintaining the principles for the organization and utilization of the resources in a unitary, competitive and integrated mode.

This organization provides the development of the capacities in order to realise the new programmes for defence as well as the necessary investments in this purpose.

The organizational structure implemented is represented as follows:



At the level of the entire company were established structures, operating mode and the corresponding responsibilities to develop the business in the new programs from the defence field, as well as the new programs from the civil aviation field.

At 31.03.2019 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 & Industrial Engineering
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 Division

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 act 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 provide 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. The annex to the Report herein presents the current stage of implementation of the Bucharest Stock Exchange corporate governance code.

The administration of the company is in 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.

THE CORPORATE GOVERNANCE STRUCTURES

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 performance 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 one share entitles to one vote in the General Meeting of the Shareholders.

The General Meeting is 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 is necessary.

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular 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, 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 share of the company held by a shareholder on the “record date” gives the right to receive dividends for the previous financial year, in the amount and terms set by the General Meeting of 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 Shareholders took place with full compliance of the Law 31/1990 regarding the companies, the Law 297/2004 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 cease to generate effects after the expiry of a period of three years calculated from the dividend’s “payment date” for each financial year.

During the first quarter of 2019 the company did not purchase its own shares and did not issue bonds or other securities as receivables.

No data or notices are available regarding the percentage of the voting rights held by the shareholders in relation to reaching or exceeding the shareholding thresholds provided by law.

The Board of Directors

AEROSTAR's Board of Directors was elected for a period of 4 years (from 11.07.2016 until 10.07.2020) in the General Meeting of the Shareholders from 5 July 2016.

In 2019 two meetings of the BOD were organized: on a meeting all the members were present and on the second one was present three members, two being absent.

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed and in the Internal Regulation of the Board of Directors on [www.aerostar.ro/Investors Relation](http://www.aerostar.ro/Investors_Relation).

The direct participation of the administrators to the share capital of the company is under 1%.

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

There is no litigation between the company and the Directors (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.

The Audit Committee

Based on the provisions of Corporate Governance's Code in conjunction with the provisions of the Law no. 162/2017, an independent **committee audit** was established, formed from two members named by the General Meeting of the Shareholders on 19 April 2018.

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 found also on www.aerostar.ro/Investors Relation/Reference documents.

Since 2018, an Audit Committee is acting in Aerostar in accordance with the provisions of the Law no. 162/2017 regarding the statutory audit of the annual financial statements and of the consolidated financial statements.

The **Audit Committee** has the role to assist the Board of Directors in realizing its attributes regarding the financial reporting process, the effectiveness of the internal quality control system and of the risk management system and of the internal audit regarding the financial reporting.

The Audit Committee has the goals to:

- monitor the financial reporting process;
- monitor the statutory audit of the financial statements;
- monitor and evaluate the independence of the statutory audit;
- monitor the effectiveness of the risk management activity;
- monitor the internal audit's activity regarding the financial reporting.

The Audit Committee meets the legal attributions provided in art. 65 from the Law no. 162/2017 regarding the statutory audit of the consolidated annual financial statements, respectively:

a) monitors the financial reporting process and transmits recommendations or proposals to ensure its integrity;

b) monitors the effectiveness of the internal quality control system and of the risk management systems of the entity and, as applicable, of the internal audit regarding the financial reporting of the audited entity, without infringement of its independence;

c) monitors the statutory audit of the annual financial statements and of the consolidated annual financial statements, especially its execution, taking into consideration the findings and conclusions of the competent bodies, in accordance with art. 26 paragraph (6) from (EU) Regulation no. 537/2014;

d) evaluates and monitors the independence of the financial auditors or of the audit companies in accordance with art. 21-25, 28 and 29 and Law no. 162/2017 and with art. 6 from the (EU) Regulation no. 537/2014 and, especially, the opportunity to perform certain non-audit services to the entity audited in accordance with art. 5 from such regulation.

The audit committee shall meet on a regular basis, at least 4 times a year, as well as exceptionally, as applicable.

In the execution of its attributions and the improvement of the activities which they review, endorse, monitor, the committee collaborates with:

- a) The economic direction, including its related structure;
- b) The internal audit;
- c) The internal accounts management control;
- d) The management, with the representatives of the functional structures in AEROSTAR.

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 ethic 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 requested 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 for 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:

- obtaining performance in long-term sustainable development conditions of the company;
- accuracy and transparency of the decision-making process of the company;
- respecting the laws and fair treatment of the shareholders 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 the current report.

Management of the conflict of interest

The members of the Board of Directors must notify the Board of Directors regarding any conflicts of interest which occurred or may arise and must refrain from participating in any discussions (including by non-attendance, except when the non-attendance would prevent the quorum set-up) or casting such votes for the adoption of any decision regarding the matter at the origin of the conflict of interest.

Respecting the requirement of the Internal Regulations of the Board of Directors, art. 3.5, all the members of the Board filled in and signed a Declaration regarding the Conflicts of Interest, for the year 2018.

Following the assessment, based on these declarations, the following were observed:

- no member of the Board of Directors is independent;
- no member is in conflict of interests regarding the position held in the Board of Directors;
- no measures or changes are required in the Board of Directors.

Executive management

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

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.

Throughout 2018, 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 persons in charge with the budget.

From the budgeting perspective, the company is organised in:

- profit centres
- cost centres.

There are 19 budgets set in the company underlying activity programmes, 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 centres and the cost centres 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 of the budgetary control.

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

Also, it provides conformity with the planned treasury cash flows, while making the periodic review of the necessity, opportunity and legality of the amounts collected and paid by the company.

Internal Audit

The company has organised 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 organisational structure, in accordance with the organizational chart.

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

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

The internal audit activity is structured in:

- effectiveness audit;
- management audit;
- operational audit;
- conformance audit;
- financial audit.

The internal auditing activity is conducted based on the annual activity programme 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.

RISK MANAGEMENT

AEROSTAR is exposed to multiple risks and uncertainties which may affect its financial performances.

The business lines followed by AEROSTAR, the operational results or the financial situation of the company, could be affected by the materialization of the risks presented as follows.

With a significant proportion of the export and import operations in the company's transactions, the internal control programme is a major component of the risk management activities.

About the coordination of the Internal Control Programme

Aerostar entirely respects Romania's laws and regulations.

Aerostar respects all the policies, laws, regulations and procedures in the export control field issued by the competent authorities, namely the Ministry of Foreign Affairs – the Export Control Department.

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

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

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

The reconfiguration of the Management System and of the Quality Management System in AEROSTAR compliant with the latest editions of the standards ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, ISO 14001 of 2016 places a particular emphasis on the 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.

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

The risks are structured as follows:

Operational risk, Credit Risk, Liquidity Risk and Market Risk.

The **Operational risk** is monitored through the intensive Management System actions applied at all levels, and this process is supported by the used applications and implemented through the digitisation programme.

Associated to the **Operational risk** is the **Risk connected to reaching the turnover value**, for which the management and the mitigation of the possible consequences are based on actions specific to the phases of the P-D-C-A (strategic planning on the business lines, diversification and scheduling on divisions, component subunits and on products, regular reviews at each management level, updating the scheduling if relevant aspects are identified given the organisational context).

These actions lead to the achievement of the production under contract and maintaining a low level of the **risk related to immobilizations of inventories** and of the **business' discontinuity risk**; a defining positive factor is the fact that the company has implemented a robust production management system assisted by adequate IT systems.

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.

Also associated to the **Operational risk** is the **Legal risk**.

The highly varied spectrum of AEROSTAR's suppliers and customers, at multi-continental level, 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 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.

AEROSTAR allocates and will continue to allocate funds for investment expenses, development and other operational expenses in order to prevent and administrate the **operational risk**, including for the **Lease risk** possible to arise.

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

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

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 **Risk 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.

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 image** is mitigated by a continuous set of founded and conjugated 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 statement 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** in which 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 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**, 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 sources.

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.

The management of this risk is made by:

- diversification of the range of suppliers, which provides increased negotiation levers in case of price increase for the materials from certain suppliers.
- long term contracts, with fixed price clauses.

AEROSTAR is exposed to the **currency risk** as **89,1% of the turnover is related to the first quarter of 2019** is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency 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.

Description of the trends for the main risks and uncertainties for the following period

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 management system applied.

The legal risk: the risk of loss due to fines, penalties and sanctions chargeable to AEROSTAR in case of failure to apply or misapplication of the dispositions, legal or contractual regulations. The internal control systems provide an effective management of these risks.

The credit risk: the risk that AEROSTAR suffers a financial loss as a result of a partner's failure to meet the contractual obligations is monitored by the methods of the management by programmes.

Still, there may be additional risks and uncertainties, which currently are not known or are considered insignificant, but which can affect the business lines performed by AEROSTAR in the future.

FINANCIAL STATEMENTS, SUMMARY

Elements of financial statement

(thousand lei)	31.03.2019	31.12.2018
TOTAL ASSETS, from which:	516.854	486.801
Total non-current assets	153.369	156.876
Current assets – total, from which:	350.775	318.289
- inventories	86.210	82.368
- trade receivables and other receivables	74.457	68.376
- cash and cash equivalents	190.108	167.545
Other elements of assets	12.710	11.636
TOTAL EQUITY, SUBVENTIONS FOR INVESTMENTS, LIABILITIES AND PROVISIONS, from which:	516.854	486.801
Total liabilities	65.364	48.872
Total provisions	110.423	112.551
Subventions for investments	9.639	10.239
Total equity, from which:	331.428	315.139
- share capital	48.729	48.729
- result carried-forward	112.395	58.324
- reserves	168.264	166.395
- other capital elements (tax on deferred profit recognized on equity)	(12.512)	(12.195)
- distribution of the profit to legal reserves	(1.868)	(26.035)
- result of the period (profit)	16.420	79.921

Income and expenses elements

(thousand lei)	31.03.2019	31.03.2018
TOTAL INCOME	102.245	95.716
Operating income , from which:	98.804	94.393
– Turnover	96.039	81.774
– Income related to inventories of finite products and in progress of execution	1.557	11.830
Financial income	3.441	1.323
TOTAL EXPENSES	(82.435)	(71.870)
Operating expenses , from which:	(81.438)	(70.310)
– Material expenses	(34.983)	(33.337)
– Expenses with employees' benefits	(30.329)	(28.844)
– Expenses with the assets' depreciation	(6.587)	(6.062)
– Influence of adjustments regarding current assets	(5.817)	1.407
– Influence of adjustments regarding provisions	2.128	4.565
– Expenses regarding external benefits	(5.107)	(7.233)
– Other expenses	(743)	(806)
Financial expenses	(997)	(1.560)
Profit from operating	17.366	24.083
Financial profit / loss	2.444	(237)
<i>PROFIT BEFORE TAX</i>	19.810	23.846
<i>TAX ON CURRENT AND DEFERRED PROFIT</i>	(3.390)	(2.741)
NET PROFIT OF THE PERIOD	16.420	21.105

MAIN ECONOMIC-FINANCIAL INDICATORS ON 3 MONTHS 2019

	Name of the indicator	Calculation mode	Result
1	Indicator of the current liquidity	Current assets /Current liabilities	7,14
2	Indebtedness indicator	Loan capital /Equity x 100	0
3	Rotation speed of debits-customers	Average balances of customers /Turnover x 90	55
4	Rotation speed of non-current assets	Turnover /Non- current assets	0,63

On behalf of the Board of Directors,

Grigore FILIP
President-General Director

AEROSTAR S.A. BACĂU
INDIVIDUAL FINANCIAL STATEMENTS
FOR 31 MARCH 2019
UNAUDITED

CUPRINS

INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION

INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS

OTHER ELEMENTS OF THE GLOBAL RESULT

**INDIVIDUAL STATEMENT OF THE COMPANY EQUITY
MODIFICATIONS**

INDIVIDUAL STATEMENT OF THE CASH FLOWS

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 March 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	144.420	147.763
Intangible assets	5	948	1.043
Investment property	6	7.861	7.930
Long-term financial assets	7	140	140
Total non-current assets		153.369	156.876
Current assets			
Inventories	10	86.210	82.368
Trade receivables and other receivables	8;9	74.457	68.376
Cash and cash equivalents	11	190.108	167.545
Total current assets		350.775	318.289
Receivables regarding deferred profit tax	17	11.419	11.132
Prepaid expenses	31	1.291	504
Total assets		516.854	486.801
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	16.420	79.921
Result carried-forward	12	112.395	58.324
Other reserves	12	168.264	166.395
Deferred income tax recognized based on own equity	17	(12.512)	(12.195)
Distribution of profit for legal reserve	12	(1.868)	(26.035)
Total company equity	12	331.428	315.139
Subsidies for investments	14	9.639	10.239
Long-term liabilities			
Liabilities regarding deferred income tax	17	16.170	16.055
Other long-term liabilities	16	50	45
Total long-term liabilities		16.220	16.100
Long-term provisions	13	96.368	95.796
Current liabilities			
Trade liabilities	15	34.571	21.197
Liability with current income tax	23	3.681	2.357
Other current liabilities	16	10.892	9.218
Total current liabilities		49.144	32.772
Short-term provisions	13	14.055	16.755
Total provisions		110.423	112.551
Total liabilities		65.364	48.872
Total company equity, prepaid income, liabilities and provisions		516.854	486.801

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 March 2019	31 March 2018
Operating income			
Income from sales	19	96.039	81.774
Other income	19	948	628
Income related to the inventories of finished goods and work in progress	19	1.557	11.830
Income from production of assets	19	198	161
Income from operating subsidies	19	62	-
Total operating income		98.804	94.393
Operating expenses			
Material expenses	20	(34.983)	(33.337)
Expenses with employees' benefits	20	(30.329)	(28.844)
Expenses regarding amortization of assets	20	(6.587)	(6.062)
Adjustments regarding current assets	20	(5.817)	1.407
Adjustments regarding provisions	20	2.128	4.565
Expenses regarding external services	20	(5.107)	(7.233)
Other expenses	20	(743)	(806)
Total operating expenses		(81.438)	(70.310)
Profit/loss from operating activity		17.366	24.083
Financial income	21	3.441	1.323
Financial expenses	22	(997)	(1.560)
Financial profit/loss		2.444	(237)
Profit before tax		19.810	23.846
Tax on current and deferred profit	17;23	(3.390)	(2.741)
Net profit of the period		16.420	21.105

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

	31 March 2019	31 March 2018
Net profit of the period	16.420	21.105
Deferred income tax recognized on equity	(131)	(940)
Other elements on the global result	(131)	(940)
Total global result of the period	16.289	20.165

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE COMPANY EQUITY MODIFICATIONS
ON 31 MARCH 2019

(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 2019	48.729	166.396	(12.196)	58.324	53.886 *)	315.139
Profit of the period					16.420	16.420
Other elements of global result						
Setting up deferred income tax recognized on the account of company equity			(316)	185		(131)
Distribution of the profit of the financial year 2018 on the destinations decided by the shareholders in OGMS from the 24 April 2019 (Note 12)				53.886	(53.886)	-
Distribution of the profit for the legal reserves in gross amount		1.868			(1.868)	-
Total global result relating to the period		1.868	(316)	54.071	(39.334)	16.289
B. Balance on 31 March 2019	48.729	168.264	(12.512)	112.395	14.552	331.428
C. Modifications on own equity (NOTE 12)	0	1.868	(316)	54.071	(39.334)	16.289

*) The result of the prior period is 79.921 thousand lei and is influenced by the distribution of the profit on the legal reserves in amount of 26.035 thousand lei.

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE CASH FLOWS
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 March 2019	31 March 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
collected from customers		101.637	76.640
taxes and excises recovered from State Budget		1.016	1.009
payments to suppliers and employees		(61.008)	(60.225)
payment of taxes, contributions and dues to State Budget		(14.113)	(11.811)
payment of profit tax		(2.383)	(1.522)
NET CASH FROM OPERATING ACTIVITIES	27	25.149	4.091
CASH FLOWS FROM INVESTMENT ACTIVITIES			
interest collected from bank deposits formed		920	469
collected from sales of property, plant and equipment		0	9
instalments collected from loans granted		0	1
interest collected from loans granted		0	1
payments for purchasing property, plant and equipment		(3.969)	(8.455)
NET CASH FROM INVESTMENT ACTIVITIES	27	(3.049)	(7.975)
CASH FLOWS FROM FINANCING ACTIVITIES			
gross dividends paid		(93)	(34)
NET CASH USED IN FINANCING ACTIVITIES	27	(93)	(34)
Net increase of the cash and of cash equivalents		22.007	(3.918)
Cash and cash equivalents at the beginning of the period		167.545	163.886
Effect of the exchange rate variation over the cash and cash equivalents	27	556	(571)
Cash and cash equivalents at the end of the period	11	190.108	159.397

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 1 - DESCRIPTION OF THE COMPANY

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

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

The main activity field of AEROSTAR is production.

The main object of activity of the company is “Manufacture of aircraft and spaceships” - code 3030. The company was registered as a shareholding company at the Bacau Trade Register (under number J04/1137/1991), with the current name S.C. “AEROSTAR S.A.” and the individual identification code 950531, the European Unique Identifier (EUID) code ROONRC J04/1137/1991.

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

During the first quarter of 2019, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and, therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, no. 39 Aerogarii Boulevard. The consolidated financial statements for the financial year 2017 were submitted to A.N.A.F. under registration number 150489860/22.08.2018. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2018.

The company has a sole 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 business growth.

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

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

During the first quarter of 2018, the company did not use loan capital and neither equity contribution from the shareholders.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 2 - ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1. Estimates

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

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

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

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

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

The company uses estimates in order to determine:

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

Presentation of information

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

2.2. Errors

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

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

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

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

- the nature of the error for the prior period;
- the value of the adjustment for each of the previously presented period, to the possible extent:
 - for each item - row affected from the financial statement;
 - for the basic result and diluted per share.

- the amount of the correction at the beginning of the first period, previously presented;
- if retrospective reprocessing is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of how and when such error was corrected.

2.3. Changes in the accounting policies

Modificarea politicilor contabile este permisă doar dacă este cerută de IFRS sau are ca rezultat informații mai relevante sau mai credibile referitoare la operațiunile societății.

Societatea modifică o politică contabilă doar dacă modificarea:

- este impusă de un IFRS; sau
- are drept rezultat situații financiare care oferă informații fiabile și mai relevante cu privire la efectele tranzacțiilor, ale altor evenimente sau condiții asupra poziției financiare, performanței financiare sau fluxurilor de trezorerie ale entității.

Aplicarea modificărilor în politicile contabile:

- Entitatea contabilizează o modificare de politică contabilă care rezultă din aplicarea inițială a unui IFRS în conformitate cu prevederile tranzitorii specifice, dacă acestea există, din acel IFRS; și
- Atunci când entitatea modifică o politică contabilă la aplicarea inițială a unui IFRS care nu include prevederi tranzitorii specifice.

Presentation of the information

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

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

When it is impossible to determine the specific effects for one or more accounting prior periods, the Company will apply the new accounting policy of assets and liabilities for the first period for which retrospective application is possible, that may also be the current period.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019
(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 financial statements

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

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

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

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

3.2. Accounting Policies Applied

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

The most significant accounting policies are presented below:

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

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be valued after deduction of dismantling, disassembly and sales expenses.

The impairment methods and useful life are reviewed at least at the end of each financial year and are appropriately adjusted. The useful lifetimes are determined by the commission made up of company's specialists. Any changes are accounted prospectively.

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

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

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

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

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

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

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

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

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

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

- *The research phase.* The research costs are treated as expenses of the period;
- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

- the technical feasibility of completing the asset, so that it is available for use or sell;
- the availability of adequate resources - financial, human, financial - to complete the development;
- the intention to complete and use or sell the intangible asset;
- the ability to use or sell the asset;
- how the asset will generate future economic value;
- the ability to assess costs.

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

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

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

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

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

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

In the category of **financial assets**, are highlighted:

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

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

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

- **Accounting policies on inventory items**

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

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

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

Periodically, the management of the company approves the level of the normal technological losses. The inventory is kept according to quantity and value, by applying the permanent inventory method.

The value adjustments are made for the current assets of the inventory, upon each reporting period, based on the age of inventories, of the resolutions given by the inventory commissions and/or by the management of the business modules, for the presentation of assets at the lowest value between cost and net achievable value.

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

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

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

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

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

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

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

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

All other liabilities are classified as long-term liabilities.

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

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

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

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

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

Receivables include:

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

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

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

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

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

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

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

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

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

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

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

- **Accounting Policies for Revenue Recognition**

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

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on an accrual basis.

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

Revenues from operations include:

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

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

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

Specifically, the income from the sale of goods are recognized when the company transferred to the buyer the control on the goods in question.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

Revenues from rendering of services

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

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

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

If the result cannot be estimated, the revenue is recognized up to the recoverable amount.

The **rental revenues** from real estate investments are recognized in the income statement on a straight-line basis over the period of the lease.

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

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

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

- **Politici contabile privind provizioanele**

- **Accounting policies for provisions**

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

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

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

Provisions for collateral

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

The amount of the provision for the collateral granted is based on historical or contractual information or reasonable estimations for the products/ services executed for the first time in the company.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2019

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

Provisions for Risk and Expense

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

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

Provisions for the decommissioning of property, plant and equipment

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

These consequential costs are reflected by the constitution of a provision that is recorded in the income statement during the lifetime of the property, plant and equipment, by including it in the impairment expense.

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

Provisions for the employees' benefits

Are recognised for the benefits of the employees granted in accordance with the applicable Collective Labour Agreement, only if:

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

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

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

The subsidies are distinctly reflected:

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

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

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

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

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

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

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

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

The management accounting consists of:

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

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

According to the accounts regulations, the following items are recognized in the cost of goods, works and services that are recognized as expenses of the period in which they occurred:

a) material losses, labour or other production costs related to scrap and undercapacity load work costs;

b) general administration expenses.

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

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

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

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

The orders are launched at a planned price, as applicable.

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

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

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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.

At the end of the Financial Position Statement, the assets and financial liabilities denominated in foreign currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid on that date:

Currency	31.03.2019
EUR (Euro)	4.7628
USD (American Dollar)	4.2434
GBP (British pound)	5.5401

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.

Considering that 89% 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:

The first quarter of 2019	thousand EUR	thousand USD	thousand GBP
Collected from financial assets	6.619	12.046	0
Payments of financial liabilities	(2.648)	(4.028)	(144)
Foreign Currency Net Exposure	3.971	8.018	(144)

In the reporting period, the quarterly variation of the foreign exchange rate USD/LEU with +2,25% and EUR/LEU with +1,50% in comparison with the beginning of 2019, has determined the registration of a financial profit from the unfavourable exchange rates differences of 1.570 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	31 March 2019			01 January 2019		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	0	0	0	152	(152)	0
Licences	4.985	(4.108)	877	4.902	(3.926)	976
Other intangible assets	1.482	(1.411)	71	1.413	(1.346)	67
Total	6.467	(5.519)	948	6.467	(5.424)	1.043

Net accounting value

	Balance on 1 January 2019	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 31 March 2018
Capitalized development costs	0	0	0	0	0	0
Licenses	976	83	0	0	(182)	877
Other intangible assets	67	69	0	0	(65)	71
Total	1.043	152	0	0	(247)	948

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

- Development expenses
- Licences
- Other intangible assets

The software programmes are registered in other intangible assets.

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

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

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

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

The intangible assets in the balance sheet account as on 31.03.2019 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 31 March 2019 and which are still in use is 1.985 thousand lei.

All the outstanding intangible assets on 31 March 2019 are property of AROSTAR.

Increases in gross values of intangible assets were obtained by:

	<u>152</u>
• development of the IT management system of production-AEROPROD	69
• purchasing software licences	83

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

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

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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment on 31 March 2019 and 01 January 2019 contains the following:

	31 March 2019			01 January 2019		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Land	28.401	0	28.401	28.401	0	28.401
Constructions	55.640	(18.084)	37.556	55.736	(16.922)	38.814
Technological equipment and transport	151.778	(75.553)	76.225	149.601	(70.623)	78.978
Other equipment and office equipment	1.498	(504)	994	1.348	(466)	882
Investment property	10.367	(2.506)	7.861	10.260	(2.330)	7.930
Property, plant and equipment under construction	1.244	0	1.244	687	-	687
Total	248.928	(96.647)	152.281	246.033	(90.341)	155.692

Net accounting value

	Balance on 1 January 2019	Increase	Reclassification	Disposal/Transfer	Depreciation	Balance on 31 March 2019
Land	28.401	0	0	0	0	28.401
Constructions	38.814	12	(108)	0	(1.162)	37.556
Technological equipment and vehicles	78.978	2.210	0	0	(4.963)	76.225
Other equipment and office equipment	882	150	0	0	(38)	994
Investment property	7.930	0	108	0	(177)	7.861
Property, plant and equipment under construction	687	2.929	0	(2.372)	0	1.244
Total	155.692	5.301	0	(2.372)	(6.340)	152.281

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

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

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

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

The fiscal useful lives of the Property, Plant and Equipment are stipulated by the fiscal legislation on assets.

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

The investment property contains a number of 12 real estate – buildings and related lands which are rented to third parties based on renting contracts.

The value of renting incomes in the first quarter of 2019 was of 510 thousand lei (first quarter of 2018: 298 thousand lei).

At the date of transition to IFRS, the Company has estimated and included in the cost of the Property, Plant and Equipment the costs estimated with their decommissioning at the end of a useful lifetime.

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

The 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 wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

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 submitted to amortization.

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

External source of information

Market value (market capitalization) has registered a growth of 3 % on 31 March 2019 compared to 31 December 2018.

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

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AEROSTAR continues to register a very good value of the indicator, obtained by the top-rated companies on the capital market which present interest from the investors.

<u>MBR-Market indicator to book ratio</u>	<u>31.03.2019</u>	<u>31.12.2018</u>
Stock exchange capitalization/ company equity	2,3	2,3

Internal source of information:

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company
- in the reporting period no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of immobilizations (Turnover/Property, Plant and Equipment – indicator monthly monitored) was of 0,63 rotations, over the level registered in the similar prior period (0,52 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 31.03.2019 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated Property, Plant and Equipment which were still in operation on 31 March 2019 is of 7.232 thousand lei.

On 31.03.2019 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

Increases in gross values of the Property, Plant and Equipment, achieved by: **5.301**

- acquisition on technical equipment, hardware equipment, equipment of measuring and control etc. 2.372
- investments made in the first quarter of 2019 2.929

Reclassifications, through:

- the transfer of a building from Property, Plant and Equipment in intangible assets 107

Reductions of values of the Property, Plant and Equipment, were through: **2.372**

- the transfer of the immobilizations in production progress into Property, Plant and Equipment following their commissioning 2.372

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NOTE 7- FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Other immobilized receivables – supply warranties	Total
On 1 January 2019	14	92	34	140
Increases/ Decreases	-	-	-	-
On 31 March 2019	14	92	34	140

Details of the entity's investments on 31.03.2019 in other companies are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%)	Value of shares held by Aerostar (thousand lei)	Financial Information Related to 2017				
					Company 's Share capital	Reserves	Net profit	Nominal value/sha re	Net asset/sha re
Airpro Consult SRL Bacau Condorilor Street no.9	- main activity according to CAEN code 7820	100	100%	10	10	55	106	0,1	1,7
Foar SRL Bacau Condorilor Street no.9	- main activity according to CAEN code 7739	800	51%	4	8	1.739	219	0,01	2,5
ATF S.A Bacau Condorilor Street no.9	- main activity according to CAEN code 2822	20.000	45,75%	92	200	38	1	0,01	0,013
TOTAL	x	x	x	106	218	1.832	326	x	x

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AEROSTAR's share contribution in these companies is registered based on cost.

In the first quarter of 2019, the company recorded no modifications i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2018.

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

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NOTE 8 - TRADE RECEIVABLES

	31 March 2019	31 December 2018
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	55.653	54.909
Domestic customers	2.146	9.735
Foreign customers	53.507	45.174
Uncertain customers	1.825	32
Adjustments for impairment of receivables - customers	(917)	(16)
Suppliers – debtors	13.173	10.559
Effects to receive from customers	13	161
TOTAL TRADE RECEIVABLES	69.747	65.645

In accordance with the provisions from the Accounting Policies Manual, to cover the non-recovery risk of the amounts that represent the uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers as following:

- in percentage of 50% from the value of the receivables not collected on time, if the delay period is between 30 days and 180 days. On 31 March 2019, the company registered adjustments for depreciation of this nature in the amount of 907 thousand lei;
- in percentage of 100% from the nature of the receivables not collected on time, if the period of delay is longer than 180 days. On 31 March 2019, the company registered adjustments for depreciation of this nature in the amount of 10 thousand lei.

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

Debtors-suppliers have a discount limit in the year 2019.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of March 2019.

Diferențele de curs valutar favorabile sau nefavorabile între cursul pieței valutare la care sunt înregistrate creanțele în valută și cursul pieței valutare comunicat de Banca Națională a României valabil pentru închiderea lunii martie 2019 s-au înregistrat în conturile corespunzătoare de venituri sau cheltuieli.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of March 2019, were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	31 March 2019	31 December 2018
Receivables relating to manpower and similar accounts	36	8
Receivables related to the budget of social insurance and the state budget, of which:	4.467	2.416
- VAT to be recovered	3.268	958
- Non-chargeable VAT	40	49
- amounts to be recovered from the National Health System (allowances on medical leaves)	660	488
- Excise duty to be recovered related to the fuel used	437	826
- Operating subsidies to be collected	43	72
Interest to receive from bank deposits	111	156
Diverse debtors	221	252
Adjustments for the depreciation of the receivables – diverse debtors	(125)	(102)
Other receivables	-	1
TOTAL, OTHER RECEIVABLES	4.710	2.731

To cover the risk of non-recovery of the amounts representing certain categories of receivables–diverse debtors, the company registered adjustments for impairment of diverse debtors in amount of 125 thousand lei.

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NOTE 10 – INVENTORIES	31 March 2019	31 December 2018
of which:		
Raw materials*	23.216	18.446
Consumables**	33.774	32.621
Other materials	328	78
Semi-finished/ Forgings	1.907	1.907
Packaging	12	19
Finished products	16.996	25.624
Products and services in progress	34.642	23.446
Goods	-	-
Adjustments for impairment of inventories	(24.665)	(19.774)
TOTAL	86.210	82.367
<i>Gross value of the inventory (unadjusted)</i>	<i>110.875</i>	<i>102.141</i>

Note:

* The raw materials directly participates to the manufacturing of the products and are found in the finished product integrally or partially, either in their initial form, or transformed (bars, pipes, plates, profiles, wires etc.);

** The consumables participates or helps the manufacturing process or operating, without being usually founded, in the finished product (auxilliary materials, combustibles, exchange parts, tools, GSE and other consumables).

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 required for the sale.

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

Adjustments of their value 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 which are considered to be depreciated are those that are older than the storage period established by internal decision of the Board of Directors.

The total value of inventories recognized as an expense during the period is of 30.757 thousand lei.

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

AEROSTAR 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:

	31.03.2019	31.03.2018
Cash	7.982	11.787
Bank deposits	182.113	147.605
Exchange bills and trade effects to collect	13	5
Cash and cash equivalents in the cash-flow statement	190.108	159.397

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

The cash equivalents comprise:

- short-terms bank deposits
- exchange bills 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.

The value of bank Credit facilities, usable as an overdraft, available for future operations, is of 2.500 thousand USD (10.600 thousand lei).

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NOTE 12 – COMPANY EQUITY

The company equity on 31 March 2019 are 331.428 thousand lei.

The net increase of the equity in the first quarter of 2019 in comparison with 2018 was 16.289 thousand lei.

The modifications of the main elements of the company equity incurred in the first quarter of 2019 in comparison with 2018 are the following:

- **The share capital remained unchanged**

On 31 March 2019, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares having each a nominal value of 0,32 lei.

- **The reserves increased with 1.868 thousand lei on the account of the reinveste profit related to the first quarter of 2019.**

- **Other capital elements have increased with the amount of 316 thousand lei on the account of the deferred income tax recognized in the company equity.**

- **Result carried-forward has increased with:**

- 185 thousand lei on the account of the deferred profit tax recognized on the account of the company equity;
- 53.886 thousand lei representing the profit to be distributed related to the financial year 2018, registered in the result carried forward until its distribution on the categories approved by the shareholders in the ordinary general meeting from 24 April 2019.

the net increase of the result carried-forward in the first quarter of 2019 being of 54.071 thousand lei.

The balance of the result carried-forward account on 31 March 2019, is of 112.395 thousand lei, comprising:

- the result carried forward coming from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 34.744 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 = 23.765 thousand lei;
- the result carried-forward representing the undistributed profit related to the financial year 2018 = 53.886 thousand lei.

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- **The result of the period was of 16.420 thousand lei.**

The amount of 39.334 thousand lei which influenced the company equity at 31.03.2019 represents the arithmetical difference between the result of the period (16.420 thousand lei) and the distributions of the period (55.754 thousand lei).

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NOTE 13 - PROVISIONS

	31 December 2018	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from revaluation	31 March 2019
Total provisions	112.551	2.218	(6.205)	1.859	110.423
Provisions for bonds granted to customers	39.584	2.218	(3.551)	880	39.131
Provisions for decommissioning property, plant and equipment	16.115	0	0	0	16.115
Provisions for the employee benefits	4.438	0	(2.535)	0	1.903
Provisions for litigations	5.123	0	(9)	99	5.213
Other provisions	47.291	0	(110)	880	48.061
- of which:					
Long-term provisions	95.796	981	(2.234)	1.825	96.368
Provisions for bonds granted to customers	27.267	981	(2.115)	846	26.979
Provisions for decommissioning property, plant and equipment	16.115	0	0	0	16.115
Provisions for litigations	5.123	0	(9)	99	5.213
Other provisions	47.291	0	(110)	880	48.061
Short-term provisions	16.755	1.237	(3.971)	34	14.055
Provisions for bonds granted to customers	12.317	1.237	(1.436)	34	12.152
Provisions for employee benefits	4.438	0	(2.535)	0	1.903

Provisions set up for bonds granted to customers

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 the Property, Plant and Equipment

Provision for decommissioning of property, especially buildings, are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 4,5%.

Provisions for benefits granted to employees

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

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Provisions for litigations

Provisions for litigations are set for probable indemnities payable by the company to a former employee, or to a commercial partner respectively.

The provisions are reanalysed at the end of each reporting period and are adjusted in order 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 deffects, risk of discovering quality incidents which can cause damage.
- 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 as deferred income the subsidies related to assets.

	31.03.2019	31.03.2018
Balance on 1 January	10.214	12.649
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization	(599)	(608)
Balance on 31 March	9.615	12.041

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

1. Contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5.468 thousand lei;
2. Contract no. 229226/14.06.2012: 'Set-up of a new manufacturing capacity for diversifying production and export growth', performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand lei;
3. Contract no. 5IM/013/24.03.2015: 'Consolidation and sustainable development of the mechanical processing and painting sectors by high performance investments', carried out between March to December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8.299 thousand lei;

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

The balance registered on 31 March 2019 in amount of 9.615 thousand lei represents the subsidies related to investments in immobilized assets which are to be recorded as income while the calculated amortization is registered as a cost, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 1.932 thousand lei
2. contract no. 229226/14.06.2012: 2.314 thousand lei
3. contract no. 5IM/013/24.03.2015: 5.369 thousand lei

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NOTE 15 - COMMERCIAL LIABILITIES

	31 March 2019	31 December 2018
Prepaid amounts collected on customers' account	6.236	2.264
Domestic customers-creditors	109	69
Foreign customers-creditors	6.127	2.195
Supplier, of which:	28.335	18.933
Domestic suppliers	8.218	5.545
Foreign suppliers	17.125	10.023
Suppliers-invoices not arrived	1.541	1.956
Suppliers of non-current assets	1.451	1.409
Total commercial liabilities	34.571	21.197

The payments in advance collected from the customers are for maintenance and aircraft work, with settlement date in 2019.

For the liabilities registered no mortgages were established.

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

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NOTE 16 - OTHER LIABILITIES

	31 March 2019	31 December 2018
Other current liabilities, of which:	10.892	9.218
• <i>Liabilities related to manpower and similar accounts</i>	<i>4.117</i>	<i>2.566</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>4.805</i>	<i>4.709</i>
– VAT payable	-	1.165
– social insurance	3.632	2.604
– Labour safety contribution	231	166
– tax on salary type revenues	713	488
– contribution for disabled people, unemployed	138	128
• <i>Other liabilities, of which:</i>	<i>1.970</i>	<i>1.943</i>
– dividends	1.618	1.711
– diverse creditors	267	147
Other long-term liabilities	50	45

Dividends in balance at 31 March 2018, in amount of 1.618 thousand lei represent:

- 563 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 557 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 498 thousand lei, amount to be paid by AEROSTAR for the dividends from 2015 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

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NOTE 17 - THE DEFERRED PROFIT TAX

The **deferred tax** is determined for the temporary differences which occur between the tax base of the assets and liabilities and their accounting basis. 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 results from differences between accounting and fiscal values, the different useful life, s.o.) and of the reserves and recognized receivables regarding the deferred tax related to the inventories, which were adjusted for depreciation, provisions for customer bonds, provisions for benefits granted to the employees and other provisions.

The structure of deferred income tax registered on 31.03.2019 is:

Liabilities from deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (bigger) and the fiscal ones (smaller) of the non-current assets	2.690
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	11.860
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
Total liabilities from deferred tax	16.170

Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	908
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2019	6.261
3. Receivables on deferred tax related to provisions for manpower benefits	304
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	3.946
Total receivables on deferred tax	11.419

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

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NOTE 18 - FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial liability or an equity instrument for another entity.

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

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

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

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- trade receivables
- trade effects received
- immobilized receivables (bonds for third parties)
- loans granted with interest

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade effects payable

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

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

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

a) Credit risk

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

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

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

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

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Exposure to credit risk

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

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

	31.03.2019	31.03.2018
Cash and cash equivalents	190.108	159.397
Trade receivables, net of adjustments for depreciation	54.413	46.937
Trade effects received	13	25
Immobilized receivables	34	167
Loans granted with interest	0	85
Total	244.568	206.611

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

	31.03.2019	31.03.2018
Domestic market	2.366	6.005
Euro zone countries	19.128	22.390
Great Britain	22.580	12.273
Other European countries	2.412	1.778
Other regions	7.927	4.491
Total	54.413	46.937

Depreciation adjustments

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

	Gross value 31.03.2019	Adjustments for depreciation 31.03.2019	Gross value 31.03.2018	Adjustments for depreciation 31.03.2018
In due time	52.779		46.691	
Past due, total of which:	2.551	917	428	182
1-30 days	5	5	0	0
31-60 days	2.103	727	255	86
61-90 days	226	110	68	0
91-120 days	214	74	18	9
Over 120 days	3	1	87	87
Over 1 year	0	0	0	0
Total	55.330	917	47.119	182

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

	31.03.2019	31.03.2018
Balance on 1 January	16	1.162
Adjustments set for depreciation	916	95
Adjustments for depreciations resumed as revenues	(15)	(1.075)
Balance on 31 December	917	182

On 31.03.2019, a percentage of 98,34% from the balance of trade receivables are related to customers which have a payment history.

b) Liquidity risk

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

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

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

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

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

The time intervals used to review the contractual due dates of the financial liabilities, with a view to show the timeframe for the cash flows in due time, are shown in the table below:

	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
31.03. 2019	Trade liabilities payable	25.859	(25.859)	(18.983)	(6.042)	(834)
	Trade effects	0	0	0	0	0
31.03. 2018	Trade liabilities	30.260	(30.260)	(24.371)	(4.464)	(1.425)
	Trade effects	0	0	0	0	0

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

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

On 31.03.2019 AEROSTAR has no records of overdue financial liabilities.

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c) Foreign currency risk

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 89% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in lei.

So, 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 the foreign currency risks of the financial assets and liabilities is presented on the basis of the accounting values denominated in foreign currency registered at the end of the reporting period:

31.03.2019	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalents	1.355	1.252	8
Trade receivables	1.648	10.416	0
Trade liabilities	(1.210)	(2.581)	(62)
Net exposure in original currency	1.793	9.087	(54)

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 USD/LEU exchange rate from the last 3 years (2016-2018), a relatively high volatility of (+/- 10%) can be observed.

Thus, a reasonably possible variation of the foreign exchange rate of +/- 10% may be envisaged to calculate at the end of the reporting period.

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

31.03.2019	
Net exposure in the currency of origin (thousand USD)	9.087
USD/LEU exchange rates	4,24
Net exposure in functional currency	38.529
Possible reasonable variation of exchange rate	+/- 10%
Effect of the variation on the financial result	+/- 3.853 MII LEI

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d) Interest rate risk

For the reporting period AEROSTAR contracted 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 7.000 thousand USD (subject to 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 of issuing 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.

As 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 31.03.2019, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 698 thousand USD (equivalent to 2.960 thousand lei).

On 31.03.2019 no mortgages are set on the property assets in AEROSTAR ownership.

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NOTE 19 - OPERATING INCOME

	31 March 2019	31 March 2018
Revenues from sales, from which:	96.039	81.774
Revenues from product sales	57.038	48.275
Revenues from services supplied	37.697	31.974
Revenues from selling goods	632	856
Revenues from renting	559	530
Trade discounts granted	(38)	(1)
Revenues from other activities	151	140
Revenues related to inventories of products finished and in progress	1.557	11.830
Revenues from the production of fixed assets	198	161
Revenues from operating subsidies	62	-
Other revenues from operations	948	628
Total operating income	98.804	94.393

The company obtained in the first quarter of 2019 incomes from subsidies received to conclude the apprenticeship contracts in the amount of 62 thousand lei.

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NOTE 20 – OPERATING EXPENSES

	31 March 2019	31 March 2018
Expenses with employee benefits , from which:	30.329	28.844
Salaries and allowances	27.051	25.611
Expenses with benefits in kind and expenses with ticket meals granted to employees	1.914	2.012
Expenses with social security	1.364	1.221
Expenses with raw materials and materials	28.275	26.894
Energy, water and gas	3.701	3.445
Other material expenses , of which:	3.007	2.998
Expenses with non-inventory materials	525	413
Expenses with goods	538	650
Expenses with packing	155	147
Expenses with other materials	1.789	1.788
Expenses with external services , from which:	5.107	7.233
Repairs	1.479	3.173
Transport costs	797	792
Commissions and fees	505	718
Travels, deployments	203	123
Renting expenses	236	201
Other expenses with services supplied by third parties	1.541	1.880
Trade discounts received	(1)	(11)
Amortizations	6.587	6.062
Increase/decrease of adjustments regarding provisions	(2.128)	(4.565)
Increase/decrease of adjustments regarding depreciation of current assets	5.817	(1.407)
Other operational expenses	744	817
Total operating expenses	81.438	70.310

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NOTE 21 - FINANCIAL INCOME

	31 March 2019	31 March 2018
Income from foreign currency exchange differences	2.567	789
Income from interest	874	534
Total financial income	3.441	1.323

The company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result.

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

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NOTE 22- FINANCIAL EXPENSES

	31 March 2019	31 March 2018
Expenses from exchange rate differences	997	1.560
Total financial expenses	997	1.560

In the financial expenses category the company only registers expenses from unfavourable exchange rates differences, it does not register expenses regarding financial investments assigned, with the interests or other financial expenses.

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NOTE 23 - TAX ON PROFIT

Tax on profit

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

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

The profit tax rate applicable for 31.03.2019 was of 16% (the same rate was applied also for the financial year 2018).

31 March 2019

Gross accounting profit	19.810
Expenses with current tax on profit	3.681

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	101.963	Fiscal incomes	95.567	-6.396
Accounting expenses*	82.157	Fiscal expenses	70.663	-11.494
Gross accounting profit, restated*	19.806	Fiscal profit	24.904	+5.098
Accounting tax (16%)	3.169	Fiscal tax (16%)	3.985	+816
Tax reductions	-	<i>Tax reductions, from which:</i>	304	+304
		• related to investments made acc.to Art. 22 Fiscal Code	299	+299
		• sponsoring	5	+5
Tax on final profit	3.169	Tax on final profit	3.681	+512
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		18,58%		

* *Veniturile și cheltuielile sunt cele obținute după deducerea din total venituri respectiv total cheltuieli a veniturilor și cheltuielilor aferente activităților supuse impozitului specific.*

The main factors which have affected the actual 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).
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art.22 of the Fiscal Code and sponsoring
- the non-taxable income obtained from the recovery of certain non-deductible expenses

The company has registered at 31 March 2018 a liability regarding tax on current profit in the amount of 3.681 thousand lei related to first quarter of 2019.

The tax specific to some activities

Începând cu 01.01.2017 Aerostar S.A. a devenit plătitoare de impozit specific aplicabil activităților de restaurant și alimentație publică. Impozitul specific aferent trimestrului I 2019 este în cuantum de 13 mii lei.

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Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public food supply activities. The specific tax related to the first quarter of 2019 was in the amount of 13 thousand lei.

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NOTE 24 – RESULT PER SHARE

The profit per basic share was calculated based on the profit which can be distributed to the ordinary shareholders and on the number of ordinary shares:

The diluted result per share is equal to the result per basic share, as the company did not register any potential ordinary shares.

IN LEI	31.03.2019	31.03.2018
Profit distributable to ordinary shareholders	16.420.438	21.104.504
Number of ordinary shares	152.277.450	152.277.450
Profit per share	0,108	0,139

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.751 for the first quarter of 2019 and 1.827 for the first quarter of 2018.

To these is added an average number of employees attracted through the temporary employment agent and used in the production process of AEROSTAR.

The total personnel employed in the activity of AEROSTAR was:

	The first quarter of 2019	The first quarter of 2018
Total personal	1.884	1.973

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NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

	First quarter of 2019	First quarter of 2018
Acquisitions of goods and services		
Airpro Consult SRL Bacău	1.981	2.070
Foar SRL Bacău	156	132
TOTAL	2.137	2.202
	First quarter of 2019	First quarter of 2018
Sales of goods and services		
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	1	1
TOTAL	1	1
	Balance at 31.03.2019	Balance at 31.03.2018
Liabilities		
Airpro Consult SRL Bacău	772	741
Foar SRL Bacău	55	84
TOTAL	827	825
	First quarter of 2019	First quarter of 2018
Dividends collected by Aerostar		
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	-	-
TOTAL	-	-

The transactions with the affiliated parties in 2019 consisted in:

- Services provided by AIRPRO CONSULT SRL Bacau to AEROSTAR SA Bacau for temporary manpower;
- Machinery rental services provided by FOAR SRL Bacau to AEROSTAR SA Bacau
- Services provided by AEROSTAR SA Bacau to AIRPRO CONSULT SRL Bacau and FOAR SRL Bacau for space rental and supply of utilities

In the first quarter of 2019 no transactions were made with the company ATF SA, its activity being suspended from 2016.

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NOTE 27 – INFORMATION REGARDING CASH FLOW

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

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment 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 formed in banks, bills and promissory notes filed in banks to be collected.

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying over 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 coming from the exchange rate variation are not treasury cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent held or due in foreign currency is reported in the treasury cash flows statement, but separately from the treasury cash flows coming from operations, 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.

Therefore, in the first quarter of 2019 the amounts collected from the customers were 101.637 thousand LEI, from which 14.037 thousand LEI represent the prepaid amounts from the customers, while the payments to the suppliers and employees were in the amount of 61.008 thousand LEI.

The operating activity generated a net cash of 25.149 thousand LEI.

To increase the operational capacity, through the acquisition of tangible and intangible immobilizations, an amount of 3.969 thousand lei was used from company's own sources.

The value of the treasury cash flows allocated in the first quarter of 2019 to increase the operating capacity represents 5% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

As part of the financing activity, the amount of 93 thousand lei was paid, representing the dividends granted to the shareholders.

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NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

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

	31 March 2019	31 December 2018
• Liabilities:		
○ Bonds granted to customers as letters of bank bonds	0	1.520
○ Bonds received from suppliers – as letters of bank bonds	30.002	11.636
• Goods, from which:		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	27.794	26.552
○ material values received in consignment	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 processing/repairs	2.141	2.116
• 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	5.672	5.782
○ Royalties, tenant activities, rents and other similar liabilities	2.286	2.335
○ debtors removed from accounts, yet still monitored	586	586
• Greenhouse Gas Emission Certificates	1.956	1.678

At the date of 31 March 2018, AEROSTAR had a number of 19.093 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was of 21,51 Euro, according to the TDR Energy market journal (in December 2018: 24,63 Euro).

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NOTE 29 – REMUNERATION OF THE DIRECTORS

On the date of 31 March 2018, the structure of AEROSTAR’s Board of Directors remained unchanged in comparison with the one from 31 December 2018.

The Board of Directors of AEROSTAR S.A.:

	Surname and first name	Position	Profession
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vice-president of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	LIVIU-CLAUDIU DOROȘ	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

In the first quarter of 2018 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any liabilities on their account as a collateral of any kind.

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

In the Ordinary General Meeting from 13 December 2018 the shareholders of the company approved, to freeze the administrators’ compensation for the year 2019 at the level agreed in the Ordinary General Meeting of Shareholders from 14 December 2017, of each Directors’ allowance **for year 2019**, namely:

- a net compensation for the BOD members of 4.500 lei;
- a maximum level of the additional compensations for the executive members of the Board of Directors, of maximum 10 (ten)times the net remuneration, inclusively;
- empower the Board of Directors to negotiate the additional compensation with the executive members, within the maximum limit approved by the Ordinary General Meeting.

The amount of the gross compensations for the members of the Board of Directors in the first quarter of 2019, by virtue of their responsibilities, was of 408 thousand lei.

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NOTE 30 –RISK MANAGEMENT

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

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

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

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

Operational Risk

It is the risk to incur losses or of failure to make the estimated profits determined by:

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

To the **Operational Risk** it is also assimilated the **Legal Risk**, defined as the risk of loss, resulting from the fines, penalties and sanctions which can be in charge of AEROSTAR in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly established.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding the legislative modifications, as well as by organizing a review, endorsement and approval system of the terms and conditions included in the commercial agreements.

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

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

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

The **Credit Risk** is the risk of AEROSTAR bearing a financial loss as a result of the failure to meet the contractual obligations by a partner, being determined mainly by cash, cash equivalents (bank

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deposits) and trade receivables.

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

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

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

A presentation of the quantitative information regarding AEROSTAR's exposure 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 liabilities-related obligations as they become due.

To manage the liquidity risk, the cash flows are monitored and analysed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital expenditures.

In order to reduce the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500 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 modifications of the market price.

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

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

The management of this risk is realised through:

- 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 89% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

Thus, AEROSTAR is exposed to the risk that the exchange rate variations shall affect both its net income, as well as 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) in the Financial Statements.

In 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

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Credit Line in the reported period, the income and cash flows are independent from the interest rate variation on the banking market.

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NOTE 31- EXPENSES AND INCOME IN ADVANCE

	31 March 2019	31 December 2018
Incomes registered in advance	1.291	504

The expenses made and income realized in the current period, but which relate to the future periods or financial exercises, are recorded distinctively in accounts, as prepaid expenses or income in advance, as applicable.

In the category **prepaid expenses**, the Company registered the amounts related to the periods or financial years to follow, representing: subscriptions, insurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which are allocated on expenses, according to the due dates.

The company did not register **income in advance** during the first quarter of 2019.

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NOTE 32- EVENTS AFTER THE REPORTING PERIOD

The agreements of the Ordinary General Meeting of the Shareholders from 24 April 2019

In the meeting of the Ordinary General Meeting from 24 April 2019 of AEROSTAR's shareholders have approved the following:

- The distribution of the net profit of the financial year 2018, respectively the amount of 79.920.849,23, so that:
 - distributions to the legal reserve of the reinvested profit in the amount of 26.034.996,79 lei;
 - the distributions to the statutory reserves in the amount of 37.436.793,44 lei;
 - distribution for dividends of the amount of 16.449.059,00 lei and establishment of a gross dividend per share of 0,108 lei, corresponding to each share with the nominal value of 0,32 lei;
- Date of 26 June 2019 as **Payment Date** of the dividends related to the financial year 2018. Distributions of the dividends due to the shareholders of AEROSTAR related to the year 2018 shall be performed in accordance with the legal provisions applicable.

The financial calendar 2019 – the following events that will follow:

Presenting the financial results of the first semester of 2019	16.08.2019
Meeting with the press and investors interested to present the financial results of the first semester of 2019	16.08.2019
Presenting the financial results on 30 September 2019	08.11.2019

AEROSTAR S.A. has not identified events after the reporting date which would have an impact on the financial statements related to the first quarter of 2019.

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 statement of the company equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors and signed on the behalf of the Board of Directors by:

Grigore FILIP
President and General Director

Doru DAMASCHIN
Vicepresident and Financial Director